



**Report to: Audit and Governance Committee 29<sup>th</sup> July 2019**

**Report of: Head of Internal Audit Shared Service, Worcestershire Internal Audit Shared Service**

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**Subject: INTERNAL AUDIT 2018/2019 ANNUAL REPORT INCLUDING THE AUDIT OPINION AND COMMENTARY.**

**1. Recommendation**

**1.1 That the Committee notes the report contents.**

**2. Background**

2.1 The Council is required under Regulation 5 of the Accounts and Audit Regulations 2015 to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".

2.2 The Internal Audit (IA) plan was approved by the Audit and Governance Committee on the 21<sup>st</sup> March 2018. WIASS has delivered the audit programme in conformance with the UK Public Sector Internal Audit Standards, as amended, published by the Institute of Internal Auditors.

2.3 This report summarises Internal Audit activity during 2018/19 and provides an overall Internal Audit Opinion (**Appendix 5**).

**3. Summary of Activity**

**2018/2019 Key Internal Audit Inputs**

3.1 A summary of the position is provided at **Appendix 1** which shows 326 days were delivered against a budget of 327. The days used to complete these reviews are accounted for in the 2018/19 plan.

**2018/2019 Key Internal Audit Planned Outputs**

3.2 During 2018/19 Internal Audit were required to:-

- complete a minimum of 12 full systems audits, of which 5 were needed to suitably assist the External Auditor reach their "opinion" in regard to the corporate financial systems
- provide sufficient audit resources for other operational areas which assist the Council maintaining and improving its control systems and risk management processes or implementing and reinforcing its oversight of such systems, i.e.

- provide an on-going consultancy to managers on internal control, for example where system changes are being made;
- carry out investigations into any suspected instances of fraud;
- service the Audit and Governance Committee and any other Committee requiring input from Internal Audit on internal audit and value for money matters;
- meet Internal Audit's external work requirements;
- achieve an anticipated benchmark delivery target for 2018/2019 of 90% of operational days over the year as a whole.

### **2018/2019 Internal Audit Actual Outputs**

- 3.3 Internal Audit has carefully managed its resources and worked with Partners to deliver a full audit programme for Worcester City Council for 2018/19 including any amendments agreed with the s151 Officer as well as delivering a lengthy investigation for another partner. The Head of Worcester Internal Audit Shared Service has also had direct involvement in the investigation of several stage 2 complaint investigations and a disciplinary hearing.
- 3.4 There was steady progress throughout the year in regard to plan delivery, culminating in the required coverage to allow the s151 as well as the Head of Internal Audit Shared Service to form an overall opinion in respect of the Annual Governance Statement. 2018/19 was a very demanding year for the internal audit team with four new members starting in April 2018 and settling in during the year. Revisions to the plan during the year were made in full consultation with the s151 Officer, including an extra piece of work in regard to Health and Safety BS18001.
- 3.5 As can be seen in **Appendix 1** the annual budget was 327 audit days of which the actual days delivered were 326. Regular updates have been brought before committee throughout the year to keep it informed along with regular updates to the Governance Board and s151 Officer.
- 3.6 The internal audit service delivered above the minimum number requirement of audit reviews for the year. A figure of 100% (rounded) was achieved reflecting any revisions to the plan to take into consideration a changing environment. Other key performance indicators are provided in **Appendix 2**.
- 3.7 **Appendix 3** sets out audit report 'follow up' summary results that have been compiled during the 2018/2019 financial year. Any exceptions arising from audit 'follow up' are reported to Audit and Governance Committee. During the 2018/2019 financial year there was one exception (i.e. where no action was taken and the implementation date had been exceeded) reported to Audit and Governance Committee but this was satisfied within the financial year.
- 3.8 Due to the careful management of resource availability during the year all audit areas identified in the revised plan were covered.

- 3.9 At 2018/19 year end, 18 reviews had been completed, including 4 audits awaiting management response for final completion; all at draft report stage. The audits which have been reported to this Committee prior to this report were as follows:
- the summary details of 7 finalised 2017/18 audits were reported to this Committee on 19<sup>th</sup> September 2018 along with an update in respect of the 2018/19 audits progressing at the time; 4 in progress;
  - the detail of 2 finalised 2018/19 audit reports were reported to this Committee on the 19<sup>th</sup> December 2018 along with summary details of 2 at draft report stage and progress in regard to 6 further audits progressing at the time;
  - audit progress was reported to this Committee on the 20<sup>th</sup> March 2019 in respect of 3 finalised reviews, 5 at completion and 6 reviews progressing at the time.

3.10 **Appendix 4** sets out a summary of all the audit reports for the year.

3.11 Consultancy, Investigations/NFI and Accounts Panel work are demand-led activities and can fluctuate from year to year. Time has also been allocated to work as the key contact for this Council for the National Fraud Initiative (the data matching exercise now carried out by the Cabinet Office, formerly by the Audit Commission). During 2018/2019 a large biennial data capture and upload exercise took place with WIASS operating in a coordinating role. The next data capture and upload is programmed for December 2019.

3.12 Work is continuing in respect of the NFI exercise. Appropriate action is being taken and work is progressing to identify any potential fraudulent activity for example overpayment for housing benefits, income support, etc.

3.13 Corporate issues have continued to feature in audit work, in particular risk management, National Fraud Initiative (NFI) and the provision of audit advice, for example, on the implementation of business improvement work streams along with good practice internal controls.

3.14 Risk Management features as part of the audit programme for the year with reports brought before the Audit and Governance Committee for consideration.

3.15 We recognise there are other review functions providing other sources of assurance (both internally and externally) over aspects of the Council's operations. Where possible we will seek to place reliance on such work, thus reducing the internal audit coverage as required.

### **Audit Opinion**

3.16 The Annual Audit Opinion is provided at **Appendix 5** which is a requirement of the Head of Internal Audit Shared Service. The opinion is compiled using a combination of elements throughout the year but is based primarily on the results of the internal audit work undertaken over the past twelve months.

3.17 Based on the audits performed in accordance with the revised audit plan, the Head of Internal Audit Shared Service has concluded that:

- the internal control arrangements for 2018/19 managed the principal risks identified in the audit plan and can be reasonably relied upon to ensure that the Council's corporate purposes have been met.
- risk management needs to continue to be embedded throughout the whole of the organisation. Further development of the 'Covalent' system will assist in this process with automatic monitoring and more informed reporting.

### **Follow Up Audits**

- 3.18 Follow up audit work has been undertaken throughout the year and reported to Committee on areas including core financials, economic engagement, Use of Council Assets, and Safeguarding, the results of which are compiled on an on-going basis and provided in summary form for information at **Appendix 3**. Any material exceptions (no action by the implementation date) arising from audit 'follow up' are reported to the Audit and Governance Committee. There was one exception reported to Committee but this was actioned during the 2018/19 financial year.

### **Work of interest to the External Auditor**

- 3.19 The audit plan was shared with the external auditors for information and helped avoid duplication of audit work. The results of the work we performed in regard to eight systems audits, including shared services, was of direct interest to External Audit and reports were passed to them for information on request. Internal Audit is continuing to develop the relationship with Ernst Young for the future.

### **External Work**

- 3.20 The work to deliver the Place Partnership Ltd internal audit contract was completed during 2018/19 with only management responses awaited in order to finalise audits. The working arrangement came to a natural end of contract and has not been renewed.

### **Quality Measures - Internal**

- 3.21 Managers are asked to provide feedback on reviews by completing a questionnaire on completion. At the conclusion of each review a feedback questionnaire is sent to the Responsible Manager. During the year three were received and along with anecdotal evidence showed full satisfaction with the audit product (**Appendix 2**).
- 3.22 WIASS internal audit activity is organisationally independent. Internal Audit reports to the s151 Officer but has a direct and unrestricted access to senior management and the Audit and Governance Committee Chair.
- 3.23 Further quality control measures embedded in the service include individual audit reviews and regular Client Officer feedback. All staff work to a given methodology and have access to the internal audit material and Charter which continue to be updated to reflect changing requirements of the Audit Service and Standards. A copy of the Audit Charter is reported at **Appendix 6**.
- 3.24 The Client Officer group made up of the Partner s151 Officers, met on a regular basis and considered the performance of the Shared Service including progress against the

Service Plan. They continue to actively promote continuous improvement in the Service.

- 3.25 WIASS has delivered the audit programme in conformance with the UK Public Sector Internal Audit Standards as published by the Institute of Internal Auditors. The outcome has confirmed that there is a sound basis from which the shared service continues to work and will be enhanced as a process of continuous improvement is implemented. Further improvement has been identified through the self assessment process which was carried out in April 2019 and a quality assurance improvement plan (QAIP) has been formulated and is reported at **Appendix 7**.

|                           |                                      |
|---------------------------|--------------------------------------|
| <b>Ward(s):</b>           | <b>N/A</b>                           |
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| <b>Background Papers:</b> | <b>None</b>                          |

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## APPENDIX 1

### Delivery against Internal Audit Plan for 2018/19

| <b>Audit Area</b>                                    | <b>Original<br/>2018/19 Plan Days</b> | <b>2018/19 Plan Days<br/>Delivered</b> |
|------------------------------------------------------|---------------------------------------|----------------------------------------|
| Core Financial Systems<br>(See note 1)               | 98                                    | 98                                     |
| Corporate Audits                                     | 6                                     | 6                                      |
| Other Systems Audits<br>(See note 2)                 | 150                                   | 164                                    |
| <b>Sub Total</b>                                     | <b>254</b>                            | <b>268</b>                             |
|                                                      |                                       |                                        |
| Audit Management Meetings                            | 30                                    | 22                                     |
| Corporate Meetings /<br>Reading                      | 25                                    | 24                                     |
| Annual Plans, Reports and<br>Audit Committee support | 18                                    | 12                                     |
| Other chargeable (See note 3)                        | 0                                     | 0                                      |
| <b>Sub Total</b>                                     | <b>73</b>                             | <b>58</b>                              |
|                                                      |                                       |                                        |
| <b>Total</b>                                         | <b>327</b>                            | <b>326</b>                             |
|                                                      |                                       |                                        |

#### Note:

Days are rounded to the nearest whole.

Note 1: This figure includes Quality Assurance monitoring work and the Revenues and Benefits Shared Service audit work undertaken. A rolling programme of testing was introduced during 2018/19 for a number of the core financial systems which has provided better coverage.

Note 2: Other Systems Audits' include budgets which are used throughout the year as well as those budgets which are used for specific events (e.g. investigations ) on a draw down basis therefore the amount of days used can fluctuate across the quarters. Over the last two quarters there has been a significant demand in regard to investigatory days for stage 2 complaints and other work.

Note 3: IT issues which have led to interruptions in delivery and required resource to rectify are reflected in this figure.

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## APPENDIX 2

### Performance against Key Performance Indicators 2018-2019

The success or otherwise of the Internal Audit Shared Service will be measured against some of the following key performance indicators for 2018/19. Other key performance indicators link to overall governance requirements of Worcester City Council e.g. KPI 4 to 6.

|                                    | <b>KPI</b>                                             | <b>Trend/Target requirement</b>                           | <b>2017/18 Year End Position</b>               | <b>2018/19 Year End Position</b>                                 | <b>Frequency of Reporting</b> |
|------------------------------------|--------------------------------------------------------|-----------------------------------------------------------|------------------------------------------------|------------------------------------------------------------------|-------------------------------|
| <b>Operational</b>                 |                                                        |                                                           |                                                |                                                                  |                               |
| 1                                  | No. of audits achieved during the year                 | Per target                                                | Target = 14 (minimum)<br><br>Delivered 15      | Target = 12 (minimum)<br><br>Delivered 18 (including 4 in draft) | When Audit Committee convene  |
| 2                                  | Percentage of Plan delivered                           | >90% of agreed annual plan                                | 82%                                            | 100%                                                             | When Audit Committee convene  |
| 3                                  | Service productivity                                   | Positive direction year on year (Annual target 74%)       | 74%                                            | 67%                                                              | When Audit Committee convene  |
| <b>Monitoring &amp; Governance</b> |                                                        |                                                           |                                                |                                                                  |                               |
| 4                                  | No. of 'high' priority recommendations                 | Downward (minimal)                                        | 1                                              | 10                                                               | When Audit Committee convene  |
| 5                                  | No. of moderate or below assurances                    | Downward (minimal)                                        | 8                                              | 6                                                                | When Audit Committee convene  |
| 6                                  | 'Follow Up' results (Using 2017/18 reviews onwards)    | Management action plan implementation date exceeded (nil) | Nil to report                                  | 1                                                                | When Audit Committee convene  |
| <b>Customer Satisfaction</b>       |                                                        |                                                           |                                                |                                                                  |                               |
| 7                                  | No. of customers who assess the service as 'excellent' | Upward (increasing)                                       | 8x issued with 6x returned<br><br>6x excellent | 3x issued with 3x returned<br><br>1x excellent                   | When Audit Committee convene  |

\* Below target figure due to 4 new starters in April 2018 therefore settling in and training requirements in the early part of the year but showing a positive trend increasing from a revised 60% Q1 to 76% at the end of Q4 providing an average of 67% for the year.

WAISS operates within, and conforms to, the Public Sector Internal Audit Standards as amended.

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**Conclusion:**

During 2018/2019 IA considers, overall, reasonable progress was made by the respective managers and services with regard to the implementation of their action plans against reported Internal Audit recommendations. During the past twelve months there was one exception in regard to Debtors which was reported to the Audit and Governance Committee in December 2018. The outstanding recommendations were satisfied before financial year end. In regard to critical friend audit e.g. ICT GDPR there has been a positive direction of travel.

In 2019/20 follow up on 'high' and 'medium' priority recommendations will continue to be reported to the Audit and Governance Committee on a quarterly basis for all audits as they fall due for review/follow up.

## Audit Opinion Summary Analysis

### Audits completed during financial year 2018/19 and used to inform the overall audit opinion:

| <b>Audit Report / Title</b>                                                    | <b>Final Report issued</b>      | <b>Assurance</b> |
|--------------------------------------------------------------------------------|---------------------------------|------------------|
| Treasury Management                                                            | 28 <sup>th</sup> March 2019     | Full             |
| Leisure Contract                                                               | 27 <sup>th</sup> November 2018  | Significant      |
| Health and Safety BS18001 Consultancy                                          | 17 <sup>th</sup> December 2018  | Significant      |
| Main Ledger                                                                    | 9 <sup>th</sup> March 2019      | Significant      |
| Welfare Assistance                                                             | 13 <sup>th</sup> June 2019      | Significant      |
| Tourism Strategy                                                               | 7 <sup>th</sup> November 2018   | Moderate         |
| Cemeteries and Crematorium                                                     | 26 <sup>th</sup> April 2019     | Moderate         |
| Health and Safety (Record Keeping)                                             | 20 <sup>th</sup> December 2018  | Limited          |
| GDPR                                                                           | 14 <sup>th</sup> January 2019   | Critical Friend  |
|                                                                                |                                 |                  |
| <b>Shared Service:</b>                                                         |                                 |                  |
| Debtors                                                                        | 25 <sup>th</sup> March 2019     | Full             |
| Creditors                                                                      | 25 <sup>th</sup> March 2019     | Significant      |
| Non Domestic Rates<br>(Revenues and Benefits Shared Service)                   | 5 <sup>th</sup> April 2019      | Significant      |
| Council Tax<br>(Revenues and Benefits Shared Service)                          | 11 <sup>th</sup> April 2019     | Significant      |
| Payroll                                                                        | 3 <sup>rd</sup> May 2019        | Moderate         |
|                                                                                |                                 |                  |
|                                                                                |                                 |                  |
| Council Tax and Housing Benefits (D)<br>(Revenues and Benefits Shared Service) | 16 <sup>th</sup> April 2019 (D) | Moderate (D)     |
| ICT<br>(ICT Shared Service)                                                    | 3 <sup>rd</sup> May 2019 (D)    | Significant (D)  |
| Regulatory Services                                                            | 10 <sup>th</sup> May 2019 (D)   | Significant (D)  |
| Homelessness Reduction Act                                                     | 3 <sup>rd</sup> June 2019 (D)   | Limited (D)      |

Note: (D) denotes draft report and assurance issued; no variation is expected.

## Summary of 2018/19 Audit Assurance Levels from 18 Audits

It is unlikely that the draft assurance levels will change therefore due to the number awaiting management response they have been included in the summary figures.

| <b>Number of Audits</b> | <b>Assurance</b> | <b>Overall %<br/>(Rounded)</b> |
|-------------------------|------------------|--------------------------------|
| 2                       | Full             | 11%                            |
| 9                       | Significant      | 50%                            |
| 4                       | Moderate         | 22%                            |
| 2                       | Limited          | 11%                            |
| 0                       | No               | 0%                             |
| 1                       | Critical Friend  | 6%                             |
| 0                       | To be confirmed  | 0%                             |

**WORCESTER CITY COUNCIL  
Commentary and Audit Opinion 2018/19**

**Internal Audit:** Worcester City Council's responsibility for maintaining an adequate and effective internal audit function is set out in Regulation 5 of the Accounts and Audit (Amendment) (England) Regulations 2015.

The Internal Audit function has operated as a shared service since 2010/11 and is hosted by Worcester City Council for 5 district councils and Worcester Fire and Rescue Authority. The shared service conforms to CIPFA guidance and the Institute of Internal Auditors International Standards for the UK Public Sector, as amended, and objectively reviews on a continuous basis the extent to which the internal control environment supports and promotes the achievement of the Council's objectives and contributes to the proper, economic and effective use of its resources.

The Internal Audit Plan for 2018/2019 was risk based (assessing audit and assurance factors, materiality risk, impact of failure, system risk, resource risk fraud risk, and external risk) using a predefined scoring system which is embedded in the methodology, and was approved by the Audit and Governance Committee at its meeting of 21st March 2018. The Plan included proposed reviews of:

- a number of core systems in order to assist the external auditor to reach their 'opinion'
- other corporate systems, such as governance arrangements, and a number of operational systems, such as Leisure Contract, Welfare Assistance, Tourism Strategy, Health and Safety (Record Keeping), to help maintain and improve control systems and risk management processes or reinforce oversight of such systems.

**Overall conclusion:**

Based on the audits performed in accordance with the revised audit plan, the Head of Internal Audit Shared Service has concluded that the internal control arrangements for 2018/19 managed the principal risks identified in the audit plan and can be reasonably relied upon to ensure that the Council's corporate purposes have been met.

**Risk Assessment Conclusion:**

Risk management needs to continue to be embedded throughout the whole of the organisation. Further development of the 'Covalent' system will assist in this process with automatic monitoring and more informed reporting.

## **Findings**

1. The 2018-2019 internal audit plan, and any revision thereto, was delivered providing sufficient coverage to assist in arriving at the audit opinion. Audits across the corporate spectrum have been undertaken and the outcomes have been reported to Audit and Governance Committee where appropriate. Core financial audits provided overall reasonable assurance. The work that has been undertaken in regard to Shared Services has also been considered. All of the individual internal audit assignments ensure that every auditor gives an assurance statement on the level of controls in place for each audit assignment of full, significant, moderate, limited or no assurance. This provides a significant contribution to form an overall audit opinion on the control environment within the Council at the end of the year.
2. The link between risk identification and control is of fundamental interest to internal auditors, although the responsibility for controlling the risk itself rests firmly with line managers, who must ensure that appropriate controls are considered to help manage the identified risks. All internal audit recommendations made during the year were discussed with line managers at draft report stage and agreed. It is in the managers' own interests to ensure that agreed audit recommendations are actioned and this can be facilitated by the action plan in each internal audit report. The Audit and Governance Committee can thus take assurance from the opinion given.
3. Of the audit reviews that took place, 16 of 18 have been allocated an overall assurance of 'moderate' or above. 'Moderate' or above indicates that there is generally a sound system of internal control in place, no significant control issues have been encountered and no material losses have been identified. 2 reviews (Health and Safety Record Keeping and Homelessness Reduction Act 2018) were given a statement of 'limited' assurance. Management are committed to robust actions plans to mitigate any potential risk identified by these reviews as part of the continuous service improvement. Assurance is limited to the few areas of the system where controls are in place and are operating effectively.
4. There was a low level fraud identified during the year which was dealt with through internal procedures and policy. There was no material loss identified in regard to this action.
5. Based on the 18 audits performed in accordance with the revised audit plan and inclusive of Shared Services, the Head of Internal Audit

concludes that the Council's governance framework arrangements during 2018/2019 have not always provided full assurance but outstanding issues were being addressed as part of the transitional process and continuous improvement. Risk Management continues to develop and evolve throughout the Authority but further work is required to completely embed it. Although 'limited assurance' was applied to two reviews and a low level fraud was identified a clear management action plan was agreed and put in place to tackle the risk areas. The lack of serious shortcomings found in the rest of audits carried out during the 2018/19 year indicates that the Council's internal control arrangements are generally adequate and that the principal risks identified in the audit plan are effectively managed. The internal control system can be reasonably relied upon to ensure that the Council's corporate objectives can be met.

6. WIASS acknowledges that no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance based on the audits performed in accordance with the approved plan, and any revision thereto, and the scoping therein.

Andy Bromage  
Head of Worcestershire Internal Audit Shared Service  
July 2019

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# **Worcestershire Internal Audit Shared Service (WIASS)**

## **Internal Audit Charter**

### **Worcester City Council**

#### **Definitions**

1. Management refers to the Managing Director, Directors, Deputy Directors , Heads of Service and Team Leaders
2. Board refers to the Audit and Governance Committee.

This Charter was last reviewed September 2018 and approved by the Audit and Governance Committee on 19<sup>th</sup> September 2018.

## **1. Introduction**

### **Purpose**

- 1.1 The purpose of this charter is to define what Internal Audit is and explain its purpose, role and responsibilities.

### **Provision of Internal Audit Services**

- 1.2 WIASS covers five district authorities Wychavon, Malvern Hills, Bromsgrove, Redditch and Worcester and one Fire Service, Hereford and Worcester Fire and Rescue Authority. WIASS will provide internal audit services to third parties under contractual arrangements.

Worcester City Council hosts the Shared Service provision under an on-going Administrative Collaborative Agreement. It is governed by a Client Officer Group (COG) which is made up of the district and Fire Service s151 officers each having an 'equal say'. The Client Officer Group meets approximately 4 times a year.

- 1.3 For line management matters internal audit will report to the Corporate Director of Resources (s151 Officer within Worcester City Council) and the Monitoring Officer in their prolonged absence.

## **2. Mission and Definition**

- 2.1 Mission:

"To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight".

Additional information can be found on the local intranet site:

<https://staffroom.worcester.gov.uk/internal-audit>

- 2.2 Definition:

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bring a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## **3. Scope and Authority of Internal Audit Work**

- 3.1 Under the Accounts and Audit Regulations 2015 No. 234 Part 2 Regulation 5:

*(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*

*(2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—*

*(a) make available such documents and records; and*

*(b) supply such information and explanations;*

*as are considered necessary by those conducting the internal audit.*

*(3) In this regulation "documents and records" includes information recorded in an electronic form.*

To aid compliance with Regulation 5 of the Accounts and Audit Regulations 2015, the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 details that "Internal Audit should work in partnership with management to improve the control environment and assist the organisation in achieving its objectives".

Internal Audit work should be planned, controlled and recorded in order to determine priorities, establish and achieve objectives.

3.2 In the course of their reviews internal audit staff, under the direction of the Head of Service, shall have authority in all partner organisations to:-

- at all reasonable times after taking account of audit requirements, enter on any partners' premises or land;
- have access to, and where internal audit deem necessary take into their possession, any records, documents and correspondence relating to any matter that is the subject of an audit;
- require and receive such explanations as may be considered necessary from any officer of the Partner regardless of their position;
- require any officer of the Partner to produce forthwith cash, stores or any other property under their control.

for the Partner in which the internal audit service is being provided.

3.3 Internal Audit work will normally include, but is not restricted to:

- review and assess the soundness, adequacy, integrity and reliability of financial and non-financial management and performance systems, and quality of data;
- reviewing the means of safeguarding assets;
- examine, evaluate and report on compliance with legislation, plans, policies, procedures, laws and regulations;
- promote and assist the Partner in the effective use of resources
- examine, evaluate and report on the adequacy and effectiveness of internal control and risk management across the Partner and recommend arrangements to address weaknesses as appropriate;
- advise upon the control and risk implications of new systems or other organisational changes.
- provide a 'critical friend' to assist services to achieve value for money
- undertake independent investigations into allegations of fraud and irregularity in accordance with the Partner's policies and procedures and relevant legislation
- at the specific request of management<sup>1</sup>, internal audit may provide consultancy services provided:
  - the internal auditors independence is not compromised

- the internal audit service has the necessary skills to carry out the assignment, or can obtain skills without undue cost or delay
- the scope of the consultancy assignment is clearly defined and management<sup>1</sup> have made proper provision for resources within the annual plan
- management understands that the work being undertaken is not internal audit work.

3.4 IA's remit extends across the entire control environment of the organisation and is not limited to certain aspects or elements.

#### **4. Responsibility of Management<sup>1</sup> and of Internal Audit.**

4.1 At all times internal audit will operate in accordance with the partner's Constitution and legal requirements and all internal audit staff will adhere to recognised Professional Standards and Codes of Conduct and Ethics e.g. the Institute of Internal Auditors' and/or CIPFA as well as the Partner's Codes of Conduct and Anti-Fraud and Corruption Policies.

4.2 It is the responsibility of Management to put in place adequate controls to ensure systems meet their objectives and that they are notified without delay of any instances where systems are failing to operate properly. However, where there has been, or there are grounds to suspect that there is risk of a serious breakdown in a significant system, the Head of Service should be informed of the problem and any counter measures already in hand or proposed, as quickly as possible, in order that the Head of Internal Audit Shared Service can decide whether audit involvement is needed.

4.3 Similarly, it is the responsibility of Management to put in place adequate controls to prevent and detect fraud, irregularities, waste of resource, etc. Internal Audit will assist Management to effectively manage these risks. However, no level of controls can guarantee that fraud and the like will not occur even when the controls are performed diligently with due professional care. As a consequence all cases of actual or suspected fraud should be reported to the Head of Internal Audit Shared Service forthwith. The Head of Internal Audit Shared Service will then decide the course of action to be taken with due regard to the Partner's Constitution, e.g. Whistleblower's Charter, Stopping Fraud and Corruption Strategy, etc.

4.4 Any officer of a partner organisation who has genuine concerns at raising a suspected instance of fraud or malpractice through their normal reporting channels can raise the matter under the Partner's Whistleblower's Charter directly with any of the persons named in the policy document, including the Head of Internal Audit Shared Service. Head of Internal Audit Shared Service will then pursue the matter in accordance with the provisions of the policy document.

4.5 Internal audit is not responsible for any of the activities which it audits. WIASS will not assume responsibility for the design, installation, operation or control of procedures. However should any partner/client contract for specialist services within an area then the WIASS staff member assigned will not be asked to review any aspect of the work undertaken until two years have passed from the completion of the assignment.

4.6 The Head of Internal Audit Shared Service will ensure that the relevant Head of Service and/or Section 151 Officer is briefed on any matter coming to the attention of internal audit, either through a review or otherwise, that could have a material impact on the finances, create an unacceptable risk or be fraudulent for the Partner as quickly as possible, and will ensure the appropriate Officer of the Authority e.g. Director, Monitoring Officer is regularly

briefed on the progress of audits having a corporate aspect. Matters involving fraud or malpractice are to be reported in line with the anti-fraud and corruption policy. The most appropriate action/engagement of the relevant Head of Service will be determined by the HoWIASS depending on the circumstances.

4.7 In order to (1) maintain a broad skills base within Internal Audit and (2) maximise the ability of the team to offset the cost of providing the internal audit function to the Partner, the strategic plan will include a commitment that internal audit obtains income to the Partner from external work either from partnership working and/or selling its expertise. Such activities will be governed by targets set out in the Collaborative Administrative Agreement and will be approved and reported on to the Client Officer Group.

## **5. Planning and Reporting**

5.1 To meet the objectives above, the Head of Internal Audit Shared Service shall:-

- a) prior to the beginning of each financial year, following consultation with Management<sup>1</sup> and after taking into account comments from Members arising from the reporting process set out below, provide the Committee with:
  - a risk based audit plan forecasting which of the Partner's activities are due to receive audit attention in the next 12 months. The risk based plan will take into consideration a number of risk factors including corporate risk register, service risk register, local knowledge, corporate promises or objectives, key strategic documents e.g. five year plan and any external audit guidance. Where there is a potential difference between strategy/plan and resource this is reported to the Board<sup>2</sup>;
  - a detailed operational plan using a risk based assessment methodology showing how/what resources will be required/allocated in the coming financial year in order to meet the requirements of the Partners strategic plans. The Plans will be flexible and include a small contingency contained as part of the consultancy budget to allow for changes in priorities, emerging risks, ad hoc projects, fraud and irregularity, etc. The Head of Internal Audit Shared Service will bring to the attention of the s151 Officer if this budget is depleted so an additional contingency can be agreed. 'Consultancy', for the purposes of WIASS activity, is defined as work that is of a specialist nature and commissioned/requested in regard to an area of work activity within a service area that is in addition to the agreed partners audit plan. The work can be financial or governance based and the output will provide management<sup>1</sup> with challenges to consider depending on its nature. The approach to the assignment can be flexible but follow a similar path in regard to the methodology.
- b) during the course and at the close of each financial year provide the Board<sup>2</sup> with:
  - quarterly progress reports on actual progress compared to the plan and performance indicators. Such reports to highlight serious problems, either affecting the implementation of the plan, or, in the take up of audit recommendations;

- an annual report summarising the overall results for the year compared to the plan and pointing out any matters that will impact on internal audit's ability to meet the requirements in the strategic plan;
- c) during the course and close of each full systems/risk audit provide the client manager<sup>1</sup> with:
- a copy of an audit brief and audit information request setting out the objectives and scope of the audit prior to commencement of the audit and a confirmation of resource requirements for the audit.
  - draft recommendations, which will be discussed with the responsible manager<sup>1</sup> prior to sending the draft audit report. The manager<sup>1</sup> is responsible for confirming the accuracy of the audit findings and is invited to discuss the report during the 'clearance' meeting prior to the issue of the draft report.
  - an audit report containing an overview of the quality of the control system, an opinion as to the level of system assurance and detailed findings and recommendations including priority. 'Assurance', for WIASS purposes, is defined as the determination of an overall outcome against a predetermined criteria leading to an applied level giving an overall summary for the work audited.
- d) shortly after the close of each financial year provide for the purposes of the Annual Governance Statement:
- an annual audit opinion of the Partner's system of controls based on the audit work performed during the year in accordance with the plans at 5.1(a) above and reported in accordance with 5.1(b) and (c) above and on the assurance methodology adopted, and, a statement of conformance with the Public Sector Internal Audit Standards and the results of quality assurance and improvement programme.

## 5.2 Expectations of Clients:

Managers and staff should co-operate with the Auditors, and responses should be made to draft reports as outlined at 3 above. Responses should include an action plan, dates for action and responsibility where actions are delegated. The final 'High' and 'Medium' recommendations will be reported to the Board<sup>2</sup>.

5.3 Audit reports will be drawn up following the internal audit report framework. A matrix type report displaying audit findings, risks and recommendations along with a column for management comments, as per 5.1(c), will be provided to management<sup>1</sup>. The report will also contain an introduction and priority categories for each of the recommendations. A covering report will be attached to the matrix providing details of the partner organisation, circulation, audit scope and objectives, an audit opinion, an executive summary and an audit assurance rating as well as a clear indication of what action is required by management.

5.4 Upon completion of audits, the audit exceptions will be discussed with the relevant line manager and will form the basis of the draft audit reports. The draft audit reports are issued to the relevant line managers for them to confirm the accuracy of the audit findings and content. Managers are invited to contact the Auditor if they wish to discuss the report and asked to show their response in the form of an action plan to each recommendation on the draft report. For accepted recommendations, dates for action or implementation are

recorded. The managers' responses are recorded in the final reports that are issued to the appropriate Management<sup>1</sup> officers as deemed relevant for the audit.

- 5.5 In accordance with professional standards, after three/six months from the date of issue of the final report, follow-up audits are undertaken to ensure that the agreed recommendations and action plans have been implemented, or, are in the process of being implemented. A formal follow up procedure / methodology is used to follow up audit reports and reported on an exceptions basis.
- 5.6 Internal Audit works to the reporting quality standards of:
- draft audit reports to be issued within 5 working days of the clearance meeting;
  - management responses received within 10 working days;
  - final audit reports to be issued within 5 working days of the final discussions of the draft audit report and receipt of management responses;
  - final reports to be followed-up initially within 3 to 6 months of the date issue of the final audit report depending on the recommendation priority and residual risk, to ensure that the accepted recommendations due for implementation have been established.
- 5.7 Escalation for late or non return of audit reports will be instigated when after two requests the reports have not been provided by management. The escalation will commence with the s151 Officer being informed of the late return. If the report remains outstanding then the Board<sup>2</sup> will be informed of the inaction with a view to them calling in the Officer to justify the late return.

## **6. 7 Principles of Public Life and how WIASS interprets and applies them.**

1. Selflessness - protecting the public purse and ensuring all actions taken are solely in the public interest.

2. Integrity - completely independent and above undue bias or influence in the work that we do.

3. Objectivity – demonstrate impartiality and fairness in all aspects of our work and when reporting uses only the best evidence without discrimination or bias.

4. Accountability – provide transparency and assurance holding people to account in regard to decisions and actions and provide assurance to those in governance roles.

5. Openness – to promote and ensure through good governance that decisions are taken in an open and transparent manner and no information is withheld from the public unless there are clear and lawful reasons for so doing

6. Honesty – to provide independent assurance to those in governance of confirmation of truthfulness

7. Leadership – through the audit work actively promotes and robustly supports the principles and shows a willingness to challenge poor behaviour wherever it occurs.

For further information on the principles of public life:

## **7. Core Principles for Professional Practice and how WIIASS interprets and applies them.**

### **1. Demonstrates integrity:**

WIIASS works independently, without influence or undue bias. The audit plan is created so that there are no conflicts of interest between the officer and the audit. Potential conflicts of interest are formally checked annually with all members of the WIIASS team. Areas of risk for WIIASS are identified and mitigated. Potential areas of risk include, but are not limited to, auditors re-auditing Risk Management, NFI, and Regulatory Services in consecutive years and Services that they have transferred from. Officers that have conflicts of interest, or if they are / have been working in the area of audit, will not undertake any audits in the conflicting area for a minimum of three years, safeguarding the officers and WIIASS' integrity. Further protection is in place by using randomly selected testing samples and a series of independent review stages. All audit working papers, reports and findings are reviewed and if necessary challenged before being issued to the client by either the Head of Service or Team Leader.

### **2. Demonstrates competence and due professional care:**

All reports are reviewed and signed off by either the WIIASS Head of Service or Team Leader both of which are highly qualified and governed by professional institution standards. Regular 1-2-1 meetings are held with each officer to ensure progress and personal development. An "open door" culture is adopted throughout WIIASS allowing all team members to ask for assistance advice and support at any time. Training (both in-house and external) is available and is provided should it be deemed relevant and appropriate by Head of Worcestershire Internal Audit Shared Service (HoWIIASS) / Team Leader.

### **3. Is objective and free from undue influence:**

Independence and safeguarding is a key element of internal audit provision. All WIIASS staff are vetted via the Basic Disclosure Check, as well as making a Declaration of Interest on an annual basis declaring any potential conflicts of interest with upcoming audit programme and the partners that WIIASS work with. No auditor, who has transferred from a Service, will audit that Service for a minimum of three years. The Service is organisationally independent for all Partners. Although the HoWIIASS reports directly to the s151 Officers of the Partner organisations the role has direct and unrestricted access to the senior management team and Committee Chair. The Client Officer Group, who governs the Service, meets on a quarterly basis and is made up of the Partner s151 Officers. They each have an equal vote and consider the strategic direction of the Service as well as progress and performance. Further independence and safeguard checks are reported throughout this Charter in the form of checks, actions and process.

### **4. Aligns with the strategies, objectives, and risks of the organisation:**

The audit plan and it's content is discussed with Management<sup>1</sup>and s151 Officers to ensure that risks are identified; appropriate processes, systems and strategies are tested and that areas of risk are monitored and mitigated. Corporate and service risk registers are used along with corporate knowledge and the promises and objectives. Five year plans are also considered as part of the risk profiling and plan definition.

5. Is appropriately positioned and adequately resourced:  
As a shared service, WIASS is hosted by Worcester City Council, but audit allocations ensure a presence in all authorities that it serves across the year. Resources are monitored and tracked throughout the annual audit plan, with forecasting used as often as possible to prevent resources becoming too stretched resulting in reduced coverage. WIASS is governed by a Client Officer Group made up from the Partner s151 Officers but also has direct access to Management<sup>1</sup> and the Board<sup>2</sup> Chairs. Delegated powers are used should there be any resourcing issues.
6. Demonstrates quality and continuous improvement:  
Continuous monitoring of the teams performance via trackers is conducted. Quarterly and annual reports are issued to committee and board members demonstrating trends in productivity and value. Individual reviews via 1-2-1 meetings are held monthly with the Team Leader, and include personal development plans for all team members. Improvements and changes will also be made using external assessment as well as internally generated client feedback forms. A self assessment will be completed each municipal year to further provide assurance of quality and improvement. The Service is working with partners to ensure that it continues to provide a 'fit for purpose' Service by developing techniques that will complement requirements, continue to add value and work in a changing environment e.g. critical friend reviews. There is a continuous desire to ensure that the Service changes and adopts best practice methods as identified by the professional institutions e.g. IIA, CIPFA.
7. Communicates effectively  
Various forms of communication are adopted (verbal, written, diagram / graph) throughout the review process by all members of the WIASS team. Continued monitoring and improvements to the methodology are conducted, making the report and testing documents clearer for all users. Findings are discussed verbally with management<sup>1</sup> prior to the issue of a formal report. Reports are issued to Officers and Committee<sup>1</sup> on a regular basis.
8. Provides risk-based assurance  
The audit plans are risk based with reviews being classified from high to low risk. The review scope is risk based which drives the review without creating restrictions on the areas covered. All findings are rated high, medium or low risk. Risks associated with the findings are linked directly to the recommendation and the management action to mitigate it. The review risk is combined to create the overall assurance level of the audit, which will be presented to the client with explanation and reasoning in the form of a report.
9. Is insightful, proactive and future-focused  
Insightful – where possible WIASS officers with relevant background experience will be assigned to conduct audits in similar fields. Continued monitoring of current "audit and fraud affairs" is distributed to all WIASS team members. A sharing of knowledge is encouraged in the Service and pre engagement research. Identification of best practice is shared amongst the authorities. Reports identify areas that are working well as well as those that require improvement. Reviews look for efficiencies and better ways of working.  
Proactive – scoping meetings are held for all audits allowing for changes to the audit scope in line with changes in service delivery and legislation between annual planning and audits starting. There is also an ability to vary the plan should an emerging risk present itself using delegated powers so the audit service can be proactive is providing assurance to those in

governance. Consultancy days are built into the plans to allow for pre implementation of new system/process advice.

Future-focused – The Service will scan the horizon for risks and issues that are emerging. Networking using, for example, the Midlands Audit Group is used to help inform the audit plans and consultancy assignments to provide information to the partners before it becomes a potential issue for them. Monitoring of the next generation initiatives from Central Government and having a team of auditors aware of the potential risks and impact along with environmental control issues will assist in adding value for our partners.

#### 10. Promotes organisational improvement

Ethics and culture are key aspects to organisation improvement. WIASS reviews consider ethical and cultural aspects and the potential impact and associated risk. Liaison with s151 Officers, Senior Management Teams and governance boards where applicable to promote continuous organisational development. Audit Reports are issued to management<sup>1</sup> to ensure oversight of the organisation and areas of concern including common themes are looked at and improved on. High and Medium priority findings are followed up after a 3 or 6 month period respectively using an established methodology to ensure that potential risks are being mitigated and there is continuous improvement. Findings will be followed up until such time that they are satisfied. Follow up on findings will be documented and reported to Management, Heads of Service and or the appropriate s151 to give assurance of action and risk mitigation.

For further information please reference:

<https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Core-Principles-for-the-Professional-Practice-of-Internal-Auditing.aspx>

## **8. External Relationships**

### 8.1 The main contacts are with:

- Institute of Internal Auditors
- External Auditors
- Local Authorities in the Worcestershire area
- Local Authorities in the Midlands area
- Organisations within the Exeter Benchmarking Group
- CIPFA (publishers of the systems based auditing control matrices written by Exeter IA section)
- National Fraud Initiative via DCLG and Cabinet Office

But may include other external parties as necessary.

### 8.2 Assurance will be accepted and reported from 3<sup>rd</sup> parties as long as WIASS can rely on their work and they are suitably qualified to carry out the assessment. The relevance of the work will also be a consideration in using a 3<sup>rd</sup> party certification e.g. IT integrity testing.

8.3 Where work is undertaken on a contractual basis assurance will be provided to 3<sup>rd</sup> parties outside of the partnership as appropriately agreed. The methodology applied to audit 3<sup>rd</sup> party organisations will be the same as the methodology used for the members of the partnership. All of the safeguards used to protect the integrity of the audits carried out for the partnership will be extended to 3<sup>rd</sup> parties as well and appropriate reporting protocols established as part of any contractual agreement. These will be established as part of the engagement with a clearly identified engagement officer and requirements. No contract will be entered into if it is considered that the independence or integrity of the Service will be compromised. If, during the delivery of a contract, it becomes apparent that there is undue influence being brought to bare and/or that the actions of the client is undermining the ethos of internal audit the HoWIASS will inform the Client Officer Group without delay so a strategic decision can be made to avoid any potential reputational damage or compromised independence. Any assurances provided to 3<sup>rd</sup> Parties will be based on the established internal methodology and the defined definitions of the different levels and priorities.

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### **Notes**

- a) In the absence of the Head of Internal Audit Shared Service all provisions relating to him/her above will apply to the relevant Team Leader in accordance with the duties allocated by the Head of Internal Audit Shared Service.

| Version Control: | Date of Change               | Action                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Updated by |
|------------------|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| 1.0              | 2 <sup>nd</sup> March 2012   | Charter for WIASS                                                                                                                                                                                                                                                                                                                                                                                                                                                | AB         |
| 2.0              | 9 <sup>th</sup> August 2012  | Update to Charter                                                                                                                                                                                                                                                                                                                                                                                                                                                | AB         |
| 3.0              | 23 <sup>rd</sup> April 2013  | Update to Charter re. International Standards                                                                                                                                                                                                                                                                                                                                                                                                                    | AB         |
| 4.0              | 21 <sup>st</sup> Janaury2016 | Update to Charter re. legislative requirements & title changes                                                                                                                                                                                                                                                                                                                                                                                                   | AB         |
| 5.0              | 1 <sup>st</sup> July 2016    | Update re. titles and definition of 'consultancy' and 'assurance'.                                                                                                                                                                                                                                                                                                                                                                                               | AB         |
| 6.0              | April 2017                   | Full review in line with Standards                                                                                                                                                                                                                                                                                                                                                                                                                               | HT         |
| 7.0              | May 2017                     | COG suggestion: Update of H&WFRS name to reflect legal entity & 'Council's' to 'Partners'.                                                                                                                                                                                                                                                                                                                                                                       | HT         |
| 8.0              | June/July 2018               | External Assessment recommendations:<br>Update to Mission & Definition<br>Inclusion of 3.4, IA remit<br>Update to 4.6 regarding HIASS responsibility on briefing<br>Inclusion of 5.7, escalation for late and non return audit reports<br>Inclusion of 6 – Principle of Public Life<br>Inclusion of 7 – Core Principles of Public Practice<br>Inclusion of 8.2, assurance from 3 <sup>rd</sup> Parties<br>Inclusion of 8.3, assurance to 3 <sup>rd</sup> Parties | HG, AB, HT |

## APPENDIX 7

### Quality Assurance Improvement Plan for 2019/20.

| <b>Action No.</b> | <b>Area to be actioned</b>                 | <b>Outcome required</b>                                                                                                                                                                                                                  | <b>Action</b>                                                                                                                                         | <b>To be undertaken by:</b> | <b>Date to be completed</b>                                          | <b>Completed</b> | <b>Further Action Required</b> |
|-------------------|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|----------------------------------------------------------------------|------------------|--------------------------------|
| <b>1</b>          | 1112 - Safeguarding Independence           | Formal reporting to Client Officer Group (COG) confirming if there are, or are not, any conflicts of interest with the plan. This is to be done on an annual basis following the annual 'Declaration of Interest' (DOI) from WIASS Staff | Inform COG of DOI on the 2019/20 Plan                                                                                                                 | Head of Internal Audit      | 4 <sup>th</sup> July 2019 due to postponed COG meeting in June 2019. |                  |                                |
| <b>2</b>          | 1320 - Inclusion of QAIP in Annual Reports | Following the development of the QAIP, this needs to be added to the annual reports for all partners                                                                                                                                     | Update annual reports to include QAIP                                                                                                                 | Head of Internal Audit      | Approx. August 2019 (dependent on Partner Committee date)            |                  |                                |
| <b>3</b>          | 2240 - Approving Work prior to starting    | Develop a process where by we can QA the testing programme prior to testing being undertaken, and to ensure that a formal sign off has taken place by either Head of Internal Audit or Team Leader                                       | Engage with staff via Team Meetings to agree a process and to adjust the methodology to reflect the initial sign off prior to the testing commencing. | Audit Team Leader           | Dec-19                                                               |                  |                                |

|   |                                                                                                                                          |                                                                                                                      |                                                                                                                                                              |                        |                                                                      |  |  |
|---|------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|----------------------------------------------------------------------|--|--|
| 4 | 2420 - Timely Completion of Stages                                                                                                       | To make improvements in line with completing all stages of audits in a timely manner.                                | Stage monitoring will be picked up via 1-2-1's and the report monitoring will be picked up with the Audit Tracker "Response" tab (and discussed in 1-2-1's). | Audit Team Leader      | Immediate implementation with ongoing monitoring throughout the year |  |  |
| 5 | 2430 / 2450 – Use of 'Conducted in Conformance with International Standards for the Professional Practice of Internal Auditing (ISPPIA). | Include the QAIP in the annual report for all patterns, which will then allow us to quote the conformance to ISPPIA. | Include the QAIP in the partner annual reports.                                                                                                              | Head of Internal Audit | Approx. August 2019 (dependent on Partner committee dates)           |  |  |

