

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

6th July 2017

INTERNAL AUDIT - ANNUAL REPORT 2016/17

Relevant Portfolio Holder	Councillor John Fisher
Portfolio Holder Consulted	Yes
Relevant Head of Service	Paul Field ~ Financial Services Manager
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non–Key Decision

1. SUMMARY OF PROPOSALS

1.1 To present:

- the Internal Audit Annual Report for 2016/17;
- the 2016/17 Worcestershire Internal Audit Shared Services Manager’s annual opinion on the overall adequacy of the Council’s internal control environment (Appendix 3), and,
- Internal Audit Charter

2. RECOMMENDATIONS

2.1 **The Committee is asked to RESOLVE that the report be noted, and, the Internal Audit Charter is approved.**

3. KEY ISSUES

Financial Implications

3.1 There are no direct financial implications arising out of this report.

Legal Implications

3.2 The Council is required under Regulation 5 of the Accounts and Audit Regulations 2015 to “undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.

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Service/Operational Implications

- 3.3 This report provides an overview of the utilisation of Internal Audit resources during 2016/17.
- 3.4 Appendix 1 shows during 2016/2017 there were 460 productive audit days used against a budget of 400.
- 3.5 Appendix 2 provides a breakdown of the audits completed and the overall assurance.
- 3.6 The Worcestershire Internal Audit Shared Service has achieved and delivered the 2016/2017 audit plan with some minor revisions.
- 3.7 For 2016/17 the Annual Audit Plan was approved by the Audit, Governance and Standards Committee on 21st April 2016. The Internal Audit Plan 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. It included:
- a number of core systems which were designed to suitably assist the external auditor to reach their 'opinion' and other corporate systems for example governance and
 - a number of operational systems, for example, Community Centre, Planning Enforcement, Development Control, Bereavement Services, Community Transport, were looked at to maintain and improve control systems and risk management processes or reinforce oversight of such systems.
- 3.8 In accordance with best practice the plan is subject to review each year to ensure that identified changes, for example, external influences, risk assessment, process re-engineering and transformation are taken into consideration within the annual plan.
- 3.9 The purpose of the 2016/17 Annual Plan was to aid the effectiveness of the Internal Audit function and ensure that:
- Internal Audit assisted the Authority in meeting its objectives by reviewing the high risk areas, systems and processes,
 - The audit plan delivery was monitored, appropriate action taken and performance reports issued on a regular basis,
 - The key financial systems are reviewed annually, enabling the Authority's external auditors to place reliance on the work completed by Internal Audit,
 - An opinion can be formed on the adequacy of the Authority's system of internal control (reported in Appendix 3), which feeds into

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the Annual Governance Statement which is presented with the statement of accounts.

- 3.10 2016/17 was a very demanding year for the internal audit team with a significant churn of team members during the early part of the year and replacements arriving over a 6 month period. To further compound the pressure on resource the new starters needed to take some time to understand the working practices and methodology the Service uses. Due to the settling down period required audits took longer to deliver than budgeted which is indicated in Appendix 1. The Service has carefully managed its resource and worked with partners to deliver the full audit programme for Redditch Borough Council for 2016/17 with regular updates of progress reported before Committee. The s151 Officer was kept briefed during the year in regard to overall progress and in regard to a long running investigation that was undertaken.

Quality Measures

- 3.11 Managers are asked to provide feedback on systems audits by completing a questionnaire. At the conclusion of each audit a feedback questionnaire is sent to the Responsible Manager and an analysis of those returned along with anecdotal evidence during the year shows a very high satisfaction with the audit product – see Appendix 2.
- 3.12 To further assist the Committee with their assurance of the overall delivery the Worcestershire Internal Audit Shared Service conforms to Public Sector Internal Audit Standards 2013.
- 3.13 During 2016/17, 26 final audit reports and 1 draft report have been issued, and, a substantial and lengthy investigation was also undertaken. Summaries of the audit reports, plus the Auditors opinion on the effectiveness of the controls operating within those areas and an action plan containing recommendations to address the identified control weakness, have either been reported to the Audit, Governance and Standards Committee on an on going basis throughout the year or will be reported on finalisation.
- 3.14 Based on the audits performed in accordance with the audit plan the Worcestershire Internal Audit Shared Services Manager has concluded that the internal control arrangements during 2016/17 effectively managed the principal risks identified in the audit plan.
- 3.15 Worcestershire Internal Audit Shared Service 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, Governance and Standards Committee.

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- 3.16 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 manual and Charter. The Charter (Appendix 4) is brought before Committee for consideration as it has been recently reviewed and updated.
- 3.17 The shared service management board, the Client Officer Group, meet on a regular basis and consider the performance of the Shared Service including progress against the Service Plan, and, actively promote continuous improvement.
- 3.18 Heads of Service provide regular Risk Management updates before the Audit Committee for consideration along with verbal updates from the Financial Services Manager to provide assurance.
- 3.19 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. The amount of fraudulent activity identified by the 2014/15 exercise for Redditch Borough Council was circa £16,549 which all related to housing benefit. This is a biennial exercise. The last significant data extract was during 2016/17 and continues to be worked on. The next is scheduled for 2018/19.
- 3.20 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 seek to place reliance on such work thus reducing the internal audit coverage as required

Annual Governance Statement ~ Assurance Checklist Statements 2016/17

- 3.21 It is the responsibility of management to maintain the Authority's internal control framework and ensure that controls are being complied with.
- 3.22 In order to ascertain management's view on this and in order to identify any areas where current or emerging risks in relation to internal controls may exist all Fourth Tier Managers were asked to complete an internal control checklist covering Strategic and Operational, Human Resources, Corporate Procedure Documents, Service Specific Procedures, Risk Management and Anti Fraud, Performance Management and Data Quality, Inventories and independent recommendations from outside bodies including audit.

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- 3.23 Officers were required to acknowledge their responsibilities for establishing and maintaining adequate and effective systems of internal control in the services for which they are responsible and confirming that those controls were operating effectively except where reported otherwise.
- 3.24 All of the Annual Governance Statement Assurance Checklist Statements have been returned. Review of the returned statements indicates that although work continues to strengthen some control requirements they did not identify any areas that present a significant and material risk.

Work of interest to the External Auditor

- 3.25 To try to reduce duplication of effort we understand the importance of working with the External Auditors. The audit plan is shared with the external auditors for information. The results of the work that we perform on eight systems audits will be of direct interest to External Audit. Audit reports are passed to the external auditor on request for their information.

External Work

- 3.26 The work to deliver the Place Partnership Ltd internal audit contract was predominantly completed during 2016/17 with only management responses awaited in order to finalise one audit.

Follow Up Work

- 3.27 An on going programme of 'follow up' in regard to the implementation of audit report recommendations continued during 2016/17. The outcome of the 'follow up' work is reported to the Committee on an exception basis as part of the progress reports. During 2016/17 there have been no exceptions to report however there have been a number of occasions where additional follow up visits have been required as the recommendations have not been completed but remain on-going. The 'follow up' audit work undertaken during 2016/17 has been reported in Appendix 2.

Customer / Equalities and Diversity Implications

- 3.28 There are no implications arising out of this report.

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4. RISK MANAGEMENT

4.1 The main risks associated with the details included in this report are:

- Non-compliance with statutory requirements

5. APPENDICES

Appendix 1 Delivery against plan 2016/17

Appendix 2 Audits completed with Assurance 2016/17

Appendix 3 Head of Internal Audit Shared Service Audit Opinion and
Commentary

Appendix 4 Internal Audit Charter 2017

6. BACKGROUND PAPERS

None

7. KEY

N/a

AUTHOR OF REPORT

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APPENDIX 1

Delivery against Internal Audit Plan for 2016/17
1st April 2016 to 31st March 2017

Audit Area	2016/17 Plan Days	2016/17 Plan Days Used
Core Financial Systems (Note 1)	104	116
Corporate Audits(Note 2)	66	112
Other Systems Audits	176	185
TOTAL	346	413
Audit Management Meetings	20	18
Corporate Meetings / Reading	9	6
Annual Plans and Reports	12	12
Audit Committee support	13	11
Other chargeable	0	0
TOTAL	54	47
GRAND TOTAL (Note 2)	400	460

Note 1

Core Financial Systems are audited in quarters 3 and 4 in order to maximise the assurance provided for the Annual Governance Statement and Statement of Accounts.

Note 2

The additional 60 days that were required occurred as a result of reduced service productivity throughout the year due to factors including the arrival of three new auditors in the first quarter along with a further auditor towards the end of quarter 2 and the time they required to familiarise themselves with Partner and Service requirements. As a result audits took longer to deliver resulting in an increase in the required days to deliver the plan. Also included in this figure was the budget for a substantial investigation (45 days). There was no financial implication to Redditch Borough Council as a result of this as the partnership absorbed the over runs.

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Performance Indicators (KPIs) for 01st April 2016 to 31st March 2017

The success or otherwise of the Internal Audit Shared Service can be measured the following performance indicators for 2016/17.

	PI	Trend / Target requirement	2014/15 Year End Position	2015/16 Year End Position	2016/17 Year End Position	Frequency of Reporting
1	No. of customers who assess the service as 'excellent'.	Target = >85% of returns	4 (7 returns; 4 excellent and 3 good)	1 (2 returns; 1 excellent & 1 good)	6 (14 issued; 6x returned & 6x excellent)	Quarterly
2	No. of audits achieved during the year	Per identified target	Target = 24 (minimum) Delivered = 29 Reports	Target = 16 (minimum) Delivered = 23	Target = 17 (minimum) Delivered = 27 (Inclusive of 1 at draft stage)	Quarterly
3	Percentage of Plan Delivery	>90% of agreed annual plan	N/A	99%	100%	Quarterly
4	Service Productivity	Annual target >70%	N/A	81%	* 62%	Quarterly

*As previously reported as part of the performance indicators Service productivity has been down due to a combination of factors during the financial year. It is starting to show signs of recovery after the arrival of three new auditors in the first quarter along with a further auditor towards the end of quarter 2. Expectation is that productivity will continue to increase into 2017/18 as they become more familiar with Partner and Service requirements but the result of the reduced productivity during 2016/17 is that audits have taken longer to deliver resulting in an increase in the required days, however, the 2016/17 plan has been delivered.

WIASS operates within and seeks to conform to the Public Sector Internal Audit Standards.

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Appendix 2

**Audit Opinion Analysis ~
Audits completed during financial year 2016/2017:**

Audit Report / Title 2016 - 2017	Final Report Issued	Assurance Level
Grants to Voluntary Bodies	16 th June 2016	Significant
Shop Mobility	1 st September 2016	Significant
Rent Verification	12 th September 2016	Significant
One Stop Shop/Customer Services	28 th September 2016	Significant
Charity Fund Accounts	26 th October 2016	Significant
Debtors	13 th December 2016	Significant
Treasury Management	13 th December 2016	Significant
Cash Collection	3 rd January 2017	Significant
Planning Enforcement	16 th February 2017	Significant
Main Ledger	6 th March 2017	Significant
Bereavement Services	17 th March 2017	Significant
Benefits	12 th May 2017	Significant
Planning Application & Fees	16 th February 2017	Moderate
Creditors	3 rd April 2017	Moderate
Council Tax	1 st June 2017	Moderate
NNDR	1 st June 2017	Moderate
Fees and Charges (D)	29 th March 2017 (D)	Moderate (D)
Allotments	16 th August 2016	Limited
Community Centres	6 th February 2017	Limited
Contracts – Post Contract Appraisal	17 th March 2017	Limited
Housing Capital Programme	30 th March 2017	Limited
Performance Measures	3 rd May 2017	Limited
Risk Management	24 th May 2017	Limited
Insurance	17 th February 2017	Critical Review
Shared Service		
ICT: Freedom of Information	24 th October 2016	Significant
Payroll	5 th June 2017	Significant
Worcestershire Regulatory Services	26 th May 2017	Moderate
Note: (D) denotes audit is currently in draft but unlikely the assurance level will change.		

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Follow Up		
2013/14		
Corporate Fraud 2013/14	December 2016	On going Anti Fraud & Corruption Policy going through Cttee June 2017
2014/15		
Procurement	October 2016	2 in progress
Forge Mill	November 2016	All implemented
Cash Receipting	January 2017	All implemented
Corporate Governance – appointments to outside bodies	February 2017	All implemented
Reddicards	February 2017	Satisfied
Budget Setting (Critical Review)	February 2017	Positive Direction of Travel
2015/16		
Corporate Governance – AGS	September 2016	On going - 3 recommendations
Consultancy and Agency	December 2016	On going – 4 recommendations
Housing Right to Buy	February 2017	On going – 1 recommendation
Member Allowances	June 2016 & February 2017	All implemented
Leisure – Banking	June 2016 & February 2017	All implemented
Leisure – Consumables (Critical Review)	November 2016 & March 2017	Positive Direction of Travel
S106 Planning Obligations (Critical Review)	September 2016	Positive Direction of Travel
CCTV (Critical Review)	September 2016	Positive Direction of Travel
Worcestershire Regulatory Services (Critical Review)	December 2016	Positive Direction of Travel
Accounts Reconciliation (Critical Review)	January 2017	Positive Direction of Travel
2016/17		
Allotments	February 2017	On going – 1 recommendation
One Stop Shop/Customer Services	February 2017	On going – 2 recommendations
Community Transport	February 2017	All implemented
Rent Verification	February 2017	All implemented
Freedom of Information	March 2017	All implemented
Cash Collection	March 2017	All implemented
All core financials		

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Summary of 2016/17 Audit Assurance Levels.

2016/17	Number of Audits	Assurance	Overall % (Rounded)
From 27 audits (including those at draft stage)	0	Full	0%
	14	Significant	52%
	6	Moderate	22%
	6	Limited	22%
	0	No	0%
	0	To be confirmed	0%
	1	Critical Review	4%

Client Feedback Analysis ~ IA Reporting

Feedback is sought after the issue of the final audit report either verbally or via a feedback questionnaire. The feedback is used to assess the effectiveness of internal audit and to help improve and enhance the internal audit function. Feedback during the 2016/17 financial year indicated that of those who responded:

- The Managers were happy with the process and format of the reviews. This continues to be further developed.
- Two Managers commented, "All work around this audit was relevant and concise making the whole process quick and efficient" , and, "Audit work was very clear and met the expectations set out of the scope. Report comprehensive and recommendations valued".
- Anecdotal evidence also indicates there is a high satisfaction rate with the audit product.

Of the 14 questionnaires issued 6 were returned all marked as 'excellent' .

Overall Conclusions:

- 78% of the audits undertaken for 2016/17 which have received an assurance allocated returned an assurance of 'moderate' or above. This figure is inclusive of the critical reviews.
- Clients are satisfied with the audit process and service from the data received.

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Appendix 3

Head of Worcestershire Internal Audit Shared Service Opinion on the Effectiveness of the System of Internal Control at Redditch Borough Council (the Council) for the Year Ended 31st March 2017.

1. Audit Opinion

- 1.1 The internal audit of Redditch Borough Council's systems and operations during 2016/17 was conducted in accordance with the Internal Audit Annual plan which was approved by the Audit, Governance and Standards Committee on 21st April 2016 and any subsequent revision.

- 1.2 The Internal Audit function was set up as a shared service in 2010/11 and hosted by Worcester City for 5 district councils and increased to 6 partners with the inclusion of Hereford and Worcester Fire and Rescue Authority from April 2016. The shared service conforms with CIPFA guidance and the Institute of Internal Auditors Public Sector Internal Audit Standards 2013 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 resources.

- 1.3 The Internal Audit Plan for 2016/2017 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. It included:
 - a number of core systems which were designed to suitably assist the external auditor to reach their 'opinion' and other corporate systems for example governance, and,
 - a number of operational systems, for example, allotments, bereavement services, planning enforcement, grants to voluntary bodies were looked at to maintain and improve control systems and risk management processes or reinforce oversight of such systems.

- 1.4 The 2016/17 internal audit plan and any revision thereto, was delivered in full providing sufficient coverage for the Head of Internal Audit Shared Service to form an overall audit opinion.

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- 1.5 In relation to the 27 reviews that have been undertaken, 26 have been finalised and 1 is at draft report stage. Areas which returned an assurance level of 'limited' were Contracts – post contract appraisals, Performance Measures, Risk Management, Housing Capital Programme, Community Centres and Allotments. Due to the nature of the findings in regard to the Contracts – post contract appraisals a further piece of work was commissioned after discussions between Senior Management Team and the Head of Internal Audit which focussed on the Housing Capital Programme. This was a significant piece of work for internal audit lasting approximately three months culminating in a number of high risk areas being identified that required immediate attention. A key outcome of this review was a decision by Senior Management Team to employ a Senior Contracts Manager who is now working on developing as well as delivering a robust action plan to address the identified risks. The Manager is reporting directly to the Senior Management Team and internal audit have worked with the team sharing information.
- 1.6 A clear management action plan has been formulated to address the issues identified in all the other audit areas where 'limited' assurance was identified to mitigate the risk. Where audits are to be finalised a comprehensive management action plan will be required and agreed by the s151 Officer. Further work is required to embed risk management throughout the organisation with the outcomes now being monitored by the Executive Director - Finance and Resource. Where audits are to be finalised a comprehensive management action plan will be required and agreed by the s151 Officer from the relevant Service Manager.
- 1.7 As part of the process of assessing the Council's control environment, senior officers within the Council are required to complete an annual "Internal Control Assurance Statement" to confirm that the controls in the areas for which they are responsible are operating effectively. Officers were required to acknowledge their responsibilities for establishing and maintaining adequate and effective systems of internal control in the services for which they are responsible and confirming that those controls were operating effectively except where reported otherwise. No areas of significant risk have been identified in addition to those already identified in the audit work completed. Any concerns raised by managers will be assessed and addressed by the Corporate Management Team.
- 1.8 The majority of the completed audits have been allocated an audit assurance of either 'moderate' or above meaning 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 during a time of significant transformation and change.

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However, there were 6 audits allocated a 'limited' assurance which indicates weaknesses in the design and / or inconsistent application of controls potentially putting the achievement of the organisation's objectives at risk in those areas reviewed. Any assurance provided is limited to the few areas of the system where controls are in place and are operating effectively.

- 1.9 WIASS can conclude 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 the scoping therein. Based on the audits performed in accordance with the approved plan, the Head of Internal Audit Shared Service has concluded that the internal control arrangements during 2016/17 effectively managed the principal risks in a number of areas, but not all, and can be reasonably relied upon to ensure that the Council's corporate objectives have been met in the main. However, there remains a significant risk which could jeopardise this in the future in regard to the Housing Capital Programme and Risk Management. Close monitoring of deployed measures are set to continue but the need to reduce the overall risk and work towards a better approach beyond 2016/17 will be critical to create better transparency, expectation and accountability. This will be necessary in order to ensure the Borough can deliver a satisfactory housing capital programme, manage it's risk management effectively, and, ensure other areas which attracted a 'limited' assurance develop and deploy a sound control environment.

Andy Bromage
Head of Internal Audit Shared Service
Worcestershire Internal Audit Shared Service
June 2017



Worcestershire Internal Audit Shared Service (WIASS)

Internal Audit Charter

Redditch Borough Council

Definitions

1. Management refers to the Chief Executive, Executive Directors, Heads of Service and Service Managers
2. Board refers to the Audit, Governance & Standards Committee

This Charter was last reviewed April 2017 and was approved by the Audit Governance and Standards Committee on

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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 also provides internal audit services to Place Partnership Limited.

Worcester City Council hosts the Shared Service provision under an on-going Administrative Collaborative Agreement. It is governed by a Client Officer Group 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. Definition

- 2.1 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.

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(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 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

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- at the specific request of management¹, 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 management¹ have made proper provision for resources within the annual plan
 - management understand that the work being undertaken is not internal audit work.

4. Responsibility of Management¹ 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

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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 Section 151 Officer is briefed on any matter coming to the attention of internal audit that could have a material impact on the finances of 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 should be reported to an appropriate Officer of the Authority e.g. Managing Director, Chief Executive, Director, Monitoring Officer and Section 151 Officer (except where the latter may involve the Managing Director, Chief Executive, Director, Monitoring Officer and/or the Section 151 Officer when the Head of Internal Audit Shared Service for the Worcestershire Internal Audit Shared Service will brief the Chairman of the Board¹ and/or Leader of the Partner on the position and agree the way forward in accordance with Financial Regulations).
- 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 Management¹ 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 and provide a basis of a three year strategic plan. A key responsibility of the Head of Internal Audit

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Shared Service is to ensure all core activities receive attention at least once every 3 years with higher risk areas receiving more frequent attention, at the same time meeting the requirements of the latest appointed External Auditor guidance, whereby internal and external audit should work in partnership. Also, where there is a potential difference between strategy/plan and resource that this is reported to the Board²;

- 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 management¹ with challenges to consider depending on it's 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 Board² 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 manager¹ 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.

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- draft recommendations, which will be discussed with the responsible manager¹ prior to sending the draft audit report. The manager¹ 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 Board².

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 management¹. 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 organization, circulation, audit scope and objectives, an audit opinion and executive summary and an audit assurance rating as well as a clear indication of what action is required by management. Also included in the report will be the definition of audit opinion levels of assurance and definitions of priority of recommendations.

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

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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 Management¹ 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. A follow up is then undertaken every three months to coincide with the Board² cycle so progress reporting is timely.

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.

6. External Relationships

6.1 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

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- 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.

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 nd March 2012	Charter for WIASS	AB
2.0	9 th August 2012	Update to Charter	AB
3.0	23 rd April 2013	Update to Charter re. International Standards	AB
4.0	21 st Janaury2016	Update to Charter re. legislative requirements & title changes	AB
5.0	1 st 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