



**FINAL**

**Review of**

**Worcestershire Internal Audit Shared Service**

**20 October 2017**

**Elizabeth Humphrey CPFA**

## Review of Worcestershire Internal Audit Shared Service (October 2017)

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013, were revised on 1 April 2016 and have been further revised on 1 April 2017. The standards require periodic self-assessments and an assessment by an external person every five years. Now that Worcestershire Internal Audit Shared Service (WAISS) has been operating under the standards for over four years this was deemed a good time for the first external review. The review also included checking compliance with the Local Government Advisory Note (LGAN) where this has requirements in addition to those in the PSIAS.

The review was carried out through a process of interview and document review. A list of interviewees is included at appendix 2. I should like to thank all those who took the time to talk to me for their help. I reviewed seven audits carried out during the 2016/17 and 2017/18 financial years and I examined key documents including the Charter and reports to the various Audit Committees.

I identified no areas of non-compliance with the standards that would affect the overall scope of the internal audit activity. However, the approach taken to performing risk-based audits needs rethinking. Planning audit assignments using the risk appraisal used to determine if audits should be included on the annual audit plan is insufficient: the risks to the activity itself should also be identified and audited against. In addition, the head of the shared service should liaise with and report to the broader senior management teams at each organisation rather than the majority of liaison being with the directors of finance who make up the Client Officer Group (CoG). There are also some medium-priority actions needed to ensure full compliance with the standards and I have made some best practice suggestions for consideration by the service, the CoG and Audit Committees. The Head of the Internal Audit Shared Service (HAISS) will need to take action to implement my recommendations (R), compliance actions (C) and suggestions (S). An action plan detailing the essential recommendations is included as appendix 1.

### Summary findings and recommendations

Standard	Compliance	Findings	Recommendations	Rec no
<b>Mission and Core principles of internal audit</b>	Partial	The Service complies with the majority of the core principles, but improvements are needed in the planning of individual audits and reporting to senior management that will support delivery of the remaining principles. These are addressed in detail below		R4 R8
<b>Code of Ethics</b>	Full	All interviewees stressed the emphasis placed on ethics by the audit team and their independence and objectivity		

Standard	Compliance	Findings	Recommendations	Rec no
<b>Attribute standards</b>				
<b>1000</b> Purpose, authority and responsibility	Partial	<p><b>Standard 1010</b> Because the HIASS does not routinely meet with senior management teams at any of the authorities, none of the key aspects of the Charter are discussed with them See also Standard 1112 regarding safeguards to be included in the Charter for non-audit work</p> <p><b>LGAN p8</b> Anti-fraud and corruption policies do not require the HIASS to be informed of all suspected frauds</p>	<p>See recommendation below regarding reporting to senior management</p> <p>Include a requirement in each anti-fraud and corruption policy to inform the HIASS of all suspected frauds</p>	<p>R8</p> <p>R2</p> <p>R1</p>
<b>1100</b> Independence and objectivity	Partial	<p><b>Standards 1010, 1112 and 1130.A2</b> The audit service has roles beyond internal audit at a number of the organisations, including risk management, fraud investigations and revenues and benefits quality assurance. These activities can, potentially, compromise audit's independence and objectivity and the audit team cannot undertake audit activities in these areas. Safeguards are required to manage audit activity in these areas</p>	<p>Safeguards, including independent audit arrangements, should be put in place to manage audit's independence and objectivity where they carry out non-audit activities and these should be discussed with and approved by the relevant audit committees. They should be included in the Audit Charter</p>	R2
<b>1200</b> Proficiency and due professional care	Partial	<p><b>Standard 1210.A2 and 2120.A2</b> Although consideration of fraud risks is a routine part of audit planning, I saw little evidence of any detailed thinking regarding possible frauds</p>	<p>Ensure fraud risks are considered more extensively in planning audits and give audit staff support to enable them to do this</p>	R3

Standard	Compliance	Findings	Recommendations	Rec no
		<p><b>Standards 1220.A1 and A3 and 2210 A1</b>            Planning for individual audits does not consider the risks faced by that activity other than any that might be recorded in the risk register. In addition, audits do not routinely consider governance, risk management and control processes or the risk of fraud</p>	In discussion with the auditee, broaden individual audit planning to cover the matters indicated and record this on the audit brief	R4
<p><b>1300</b>            Quality assurance and improvement programme (QAIP)</p>	Partial	<p><b>Standard 1310 and 1311 and LGAN p12 and p13</b>            Quality assurance activities are undertaken but recent self-assessments have been against the 2006 Code, which has been superseded by the PSIAS and LGAN</p>	Undertake self-assessments against the LGAN and PSIAS	R5
		<p><b>Standard 1320, 2450 and LGAN p13</b>            Results of the QAIP are reported to CoG and the audit committees but not to the broader senior management teams</p>	See recommendation below regarding reporting to senior management	R8
		<p>Self-assessments have identified areas for improvement but the annual reports to audit committees state that the service is fully compliant with the PSIAS and no action plan is presented</p>	Ensure that the results of self-assessments against PSIAS are reported to audit committees and CoG, together with the action planned so that these bodies can monitor progress	R6
<b>Performance standards</b>				
<p><b>2000</b>            Managing the internal audit activity</p>	Non-compliant	<p><b>Standard 2010, A1 and A2, 2020 and LGAN p15</b>            The current annual audit plans are service driven rather than strategic and do not refer to several of the required areas, in particular organisational objectives and priorities.</p>	Ensure audit plans are driven by each client's strategic objectives and priorities and refer to all the required areas	R7

Standard	Compliance	Findings	Recommendations	Rec no
		<p>While audit committees are engaged in the audit planning process, senior management are not routinely consulted about items for inclusion in annual audit plans nor informed about progress against those plans. See also Standard 2450 regarding planning and the annual audit opinion</p> <p><b>Standard 2060 and LGAN p17</b></p> <p>Internal audit is expected to report both to audit committees and to senior management. Reporting to audit committees meets the requirements, but the majority of reporting to senior management is undertaken via the CoG, potentially compromising audit's independence</p>	<p>See recommendations below regarding senior management</p> <p>See recommendations regarding the opinion below</p> <p>The HIASS should have regular meetings with senior management teams to consult on items for inclusion in the annual plan, activities against the plan, any significant issues (fraud, risks, governance etc) that may have wider relevance and year-end outcomes</p>	<p>R8</p> <p>R14</p> <p>R8</p>
<p><b>2100</b> Nature of work</p>	<p>Non-compliant</p>	<p><b>Standard 2110</b> Audit planning does not consider governance arrangements for:</p> <ul style="list-style-type: none"> <li>• Making decisions</li> <li>• Risk management</li> <li>• Ethics and values</li> <li>• Performance</li> <li>• Sharing risk and control information</li> </ul> <p><b>Standard 2110.A1</b> There have been no audits of ethical arrangements</p> <p><b>Standard 2110.A2</b> IT audit does not currently consider IT governance arrangements but focuses on operational IT risks</p>	<p>Revise the audit planning and brief as indicated</p> <p>Include examination of ethical issues in all relevant audits, bringing this work together at the year end to form an opinion on ethical activities</p> <p>Include work on IT governance in the audit plan, buying in expertise if necessary</p>	<p>R4</p> <p>R9</p> <p>R10</p>

Standard	Compliance	Findings	Recommendations	Rec no
		<p><b>Standard 2120.A1 and 2130.A1</b> Most audits are currently planned around control objectives rather than considering the risks to that activity and the controls that are needed to respond to those risks</p> <p><b>Standard 2120.A2</b> See above regarding fraud risks</p>	<p>Revise the audit brief to focus on risks and their mitigation</p>	<p>R4</p> <p>R3</p>
2200 Engagement planning	Partial	<p><b>Standards 2201 and 2210.A1</b> The audit brief does not always cover:</p> <ul style="list-style-type: none"> <li>• Strategies and objectives of the activity being reviewed</li> <li>• How the activity controls its performance</li> <li>• The framework used by the activity to manage its governance, risk and control processes</li> <li>• The probability of errors and non-compliance</li> <li>• Opportunities to add value</li> </ul> <p><b>Standard 2201.A1</b> When audits are carried out for external parties, there should be a written understanding with them about the process of the audit. The Place Partnership agreement is incomplete</p> <p><b>Standard 2210.A2 and A3</b> Audit planning does not consider the probability of errors, fraud and non-compliance. Nor does it identify opportunities to add value</p>	<p>Expand the audit brief as indicated</p> <p>Finalise the Place Partnership agreement as a matter of urgency</p> <p>Expand the audit planning and brief to address these aspects</p>	<p>R4</p> <p>R11</p> <p>R4 R3</p>

Standard	Compliance	Findings	Recommendations	Rec no
		<p><b>Standard 2240.A1</b> No audit work programme is produced to set out the procedures for identifying, analysing, evaluating and documenting audit work although the audit justification and internal control questionnaire cover some of these aspects</p>	Combine the current planning documents and broaden them to create a work programme specifying the tests to be undertaken. Ensure that the work programme is approved before testing starts	R12
<p><b>2300</b> Performing the engagement</p>	Complies	<p>The review showed that audits are well-performed. Documentation is thorough but can be difficult to follow for those not familiar with the process</p>		
<p><b>2400</b> Communicating the results</p>	Partial	<p><b>Standard 2420</b> Audit reports generally meet the required standards but there can be lengthy delays between the draft and final report as auditees do not respond promptly</p> <p><b>Standard 2450</b> The annual internal audit opinion is included as appendix to the main report (except for WDC) and is narrative in form. Not all versions of the opinion obviously conclude on the organisation's governance, risk and control arrangements</p> <p>The opinion or performance report (MHDC and WDC) state that the service conforms to CIPFA guidance and PSIAS although the review indicates that further actions are needed</p> <p>See also Standards 1320 and 2010</p>	<p>Address the reasons for the lengthy delays in finalising reports, incentivising auditees to respond promptly</p> <p>The annual audit opinion should be succinct and stand out. It should cover risk management, controls and governance. If no conclusion can be drawn on a specific area, then that should be identified. The form of the opinion should be discussed and agreed with audit committees and senior management</p> <p>See recommendations above</p>	<p>R13</p> <p>R14</p> <p>R6</p>

Standard	Compliance	Findings	Recommendations	Rec no
		<b>LGAN p20</b> There are currently no formal arrangements at all organisations to share information and risks that emerge from audits	Report information and risks that have wider implications to senior managers	R8
<b>2500</b> Monitoring progress	Complies	The follow-up process as set out in the manual complies with the standards		
<b>2600</b> Communicating the acceptance of risks	Complies	There was no evidence that risks have been left unmitigated following an audit, highlighting the importance placed by the officers at each organisation on audit findings		

The Head of Internal Audit Shared Service has details of the findings, standard by standard.

Elizabeth Humphrey CPFA



## Appendix I: action plan

### Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Include a requirement in each anti-fraud and corruption policy to inform the HIASS of all suspected frauds	Anti-fraud and corruption policies to be updated as appropriate. Request to be made to update policies.	Andy Bromage HIASS	By Dec 2017
R2	Safeguards, including independent audit arrangements, should be put in place to manage audit's independence and objectivity where they carry out non-audit activities and these should be discussed with and approved by the relevant audit committees. They should be included in the Audit Charter	Independence is managed closely within the team e.g. different people working on areas and not auditing those areas, annual conflict of interest checks, quality assurance, quality assurance in process and Team Leader & HIA consideration. Charter will be updated and discussion can take place with Cttee on an annual basis with safeguards specifically identified.	Andy Bromage HIASS & Helen Tiffney Team Leader	Circa June 2018. To be included in the annual reporting cycle for all Partners.
R3	Ensure fraud risks are considered more extensively in planning audits and give audit staff support to enable them to do this	<p>The planning area of audit work as well as the annual plan was identified as an area that required transforming in May 2017 and a paper was placed before COG setting out how we were planning to improve this. We will indicate clearly the potential fraud risks and include in the brief. There will also be a greater emphasis on risk focus.</p> <p>Currently holding workshops re. Service transformation and methodology impact therefore part of consideration.</p>	Andy Bromage HIASS & Helen Tiffney- Team Leader	April 2018

No	Recommendation	Response	Responsible officer	Action date
R4	<p>In discussion with the auditee, broaden individual audit planning to cover the matters indicated and record the relevant matters on the audit brief:</p> <ul style="list-style-type: none"> <li>• Achievement of the organisation's strategic objectives</li> <li>• Strategies and objectives of the activity under review</li> <li>• Reliability and integrity of financial and operational information</li> <li>• Risks to the activity under review</li> <li>• Risk management arrangements</li> <li>• Governance arrangements for: <ul style="list-style-type: none"> <li>○ Making strategic and operational decisions</li> <li>○ Overseeing risk management and control</li> <li>○ Promoting appropriate ethics and values</li> <li>○ Ensuring effective organisational performance management and accountability</li> <li>○ Communicating risk and control information to appropriate areas of the organisation</li> </ul> </li> <li>• Effectiveness and efficiency of operations and programmes</li> <li>• Safeguarding of assets</li> <li>• Compliance with laws, regulations, policies, procedures and contracts</li> <li>• Potential errors and non-compliance</li> <li>• Opportunities for value for money and to make improvements in the activity's processes</li> </ul>	<p>The planning area of audit work as well as the annual plan was identified as an area that required transforming in May 2017 and a paper was placed before COG setting out how we were planning to improve this. We will look at broadening the audit brief to make it more succinct and linked in to corporate priorities and strategic objectives. There will also be a greater emphasis on risk focus.</p> <p>Currently holding workshops re. Service transformation and methodology impact therefore part of consideration.</p>	Andy Bromage HIASS & Helen Tiffney- Team Leader	Circa June 2018

No	Recommendation	Response	Responsible officer	Action date
R5	Undertake self-assessments against the LGAN and PSIAS	To be undertaken annually. To commence at the end of 2018/19.	Andy Bromage HIASS	Self Assessment towards end of 2018/19 after transformation has taken place
R6	Ensure that the results of self-assessments against PSIAS are reported to audit committees and CoG, together with the action planned so that these bodies can monitor progress	Self-assessment results to be reported to COG and Cttee as part of annual reporting. To commence at the end of 2018/19 financial year and for reporting 2019/20.	Andy Bromage HIASS	Circa July 2019
R7	Ensure audit plans are driven by each client's strategic objectives and priorities and refer to all the required areas	See recommendation response at 4.		
R8	The HIASS should have regular meetings with senior management teams to consult on items for inclusion in the annual plan, activities against the plan, any significant issues (fraud, risks, governance etc) that may have wider relevance and year-end outcomes	Although HiASS has engaged in the past in regard to the annual plans with HoS, s151's, arrangements to attend Senior Management Team meetings as part of the process will be arranged.	Andy Bromage HIASS & Helen Tiffney- Team Leader	Immediate action i.e. for 18/19 Plan and ongoing
R9	Include examination of ethical issues in all relevant audits, bringing this work together at the year end to form an opinion on ethical activities	To become part of the brief and then report outcomes in annual report.	Helen Tiffney- Team Leader & Andy Bromage HIASS	During 2018/19 & circa June 2019 opinions.
R10	Include work on IT governance in the audit plan, buying in expertise if necessary	To seek assurance on this from other work undertaken within IT (i.e. third-party assurances), along with external audit work and consider whether it is sufficient. Buying in a resource will have resource implications.	Andy Bromage HIASS & COG	Nov 17 COG.

No	Recommendation	Response	Responsible officer	Action date
R11	Finalise the Place Partnership agreement as a matter of urgency	Agreed. Currently with WCC Legal who are continuing to work on Agreement.	Andy Bromage HIASS, & WCC Legal Services and PPL.	Draft to be available w/c 13/11/17 for PPL consideration. Finalisation Circa end Dec 2017.
R12	Combine the current planning documents and broaden them to create a work programme specifying the tests to be undertaken. Ensure that the work programme is approved before testing starts	Currently holding workshops re. Service transformation and methodology impact therefore part of consideration. This directly links with R3 and R4.	Andy Bromage HIASS & Helen Tiffney- Team Leader	April 2018
R13	Address the reasons for the lengthy delays in finalising reports, incentivising auditees to respond promptly	Delay can be due to 'good cause' and will be managed accordingly to circumstances. Where there is unjustified and undue delay then escalation to be instigated using the senior management team at the Partners.	Andy Bromage HIASS, Helen Tiffney- Team Leader & COG	Immediate action
R14	The annual audit opinion should be succinct and stand out. It should cover risk management, controls and governance. If no conclusion can be drawn on a specific area, then that should be identified. The form of the opinion should be discussed and agreed with audit committees and senior management	The current annual audit opinion, along with other Audit Cttee reports are shared with senior management teams as part of the reporting process. However, format to be changed to give more emphasis and clarity in regard to the opinion and outcomes.	Andy Bromage HIASS, & COG	Nov 17 COG & Circa June 2018. To be included in the annual reporting cycle for all Partners.

## Appendix 2: interviewees

Person	Position	Organisation
Vic Allison	Deputy Managing Director & s151 Officer	Wychavon District Council
Cllr Alan Amos	Audit Committee Chair	Worcester City Council
Andy Baldwin	Deputy Chief Executive & s151 Officer	Malvern Hills District Council
Mark Baldwin	Head of Finance	Worcester City Council
David Blake	Managing Director	Worcester City Council
Andy Bromage	Head of Internal Audit Shared Service	Worcestershire Internal Audit Shared Service
Lauren Colclough	Auditor	Worcestershire Internal Audit Shared Service
Kevin Dicks	Chief Executive	Bromsgrove District and Redditch Borough Councils
John Fidoe	Senior Auditor	Worcestershire Internal Audit Shared Service
Shane Flynn	Director of Finance & Resources	Worcester City Council
Sue Garrett	Licensing and Support Service Manager	Worcestershire Regulatory Services
Michelle Gasser	QA Officer	Worcestershire Internal Audit Shared Service
Cllr Douglas Godwin	Audit Committee Chair	Malvern Hills District Council
Philip Griffiths	Auditor	Worcestershire Internal Audit Shared Service
Cllr Marcus Hart	Audit Committee Chair	Hereford and Worcestershire Fire and Rescue Service
Jack Hegarty	Managing Director and Chief Executive	Wychavon District Council and Malvern Hills District Council
Chris Lawrence	Auditor	Worcestershire Internal Audit Shared Service
Vicki Lee	Human Resources Manager	Wychavon District Council
Tim O'Gara	Deputy Director of Governance	Worcester City Council
Richard Percival	External Audit	Grant Thornton
Jayne Pickering	Executive Director Finance & Resource & s151 Officer	Bromsgrove District and Redditch Borough Councils
Cllr Jayne Potter	Audit Committee Chair	Redditch Borough Council

<b>Person</b>	<b>Position</b>	<b>Organisation</b>
Mark Preece	Area Commander - Community Risk	Hereford and Worcestershire Fire and Rescue Service
Martin Reohorn	Treasurer	Hereford and Worcestershire Fire and Rescue Service
Ben Schiffman	WCC Facilities Manager	Worcester City Council
Becky Spencer	Auditor	Worcestershire Internal Audit Shared Service
Mark Surridge	External Audit	Ernst Young
Helen Tiffney	Team Leader	Worcestershire Internal Audit Shared Service
Catherine Turnock	Performance and Risk Management Officer	Malvern Hills District Council
Cllr Mike Webb	Audit Committee Chair	Bromsgrove District Council
Alison Williams	Head of Finance	Wychavon District Council
Nigel Winters	IT Shared Services Manager	Wychavon District Council