worcestershire
county council

Internal Audit Strategy 2017/18

"Providing assurance on the management of risks"

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This document sets out the Internal Audit Strategy 2017/2018 for Worcestershire County Council. These services are provided by the Risk and Assurance Service of Warwickshire County Council under an administrative delegation of internal audit functions from Worcestershire to Warwickshire. This document complements the Audit Charter and the formal agreement with Warwickshire. The Chief Risk and Assurance Manager of Warwickshire is the Council's designated Head of Internal Audit.

The Role of Internal Audit

All organisations face risks in every aspect of their work: policy making, decision taking, action and implementation, regulation and spending, and making the most of their opportunities. The different types of risk are varied and commonly include financial risks, IT risks, supply chain failure, physical risks to people, and damage to the organisation's reputation. The key to the Council's success is to manage these risks effectively.

The Council has a statutory responsibility to have in place arrangements for managing risks; The Accounts and Audit Regulations 2015 state that a local authority is responsible for ensuring that its financial and operational management is effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk. The Regulations require accounting systems to include measures to ensure that risk is appropriately managed.

The requirement for an internal audit function is also contained in the Regulations which require the Authority 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."

The Council has delegated its responsibilities for internal audit to the Chief Financial Officer.

Definition of Internal Auditing

"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 bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

The key word in the definition is assurance, the role of audit is not to identify or investigate alleged irregularities it is to provide assurance to the organisation (managers, heads of services and the Audit and Governance Committee) and ultimately the taxpayers that the authority maintains an effective control environment that enables it to manage its significant business risks. We do this by **providing risk-based and objective assurance, advice and insight**. The assurance work culminates in an annual opinion on the adequacy of the Authority's control environment which feeds into the Annual Governance Statement.

Different parts and levels of an organisation play different roles in managing risk, and the interplay between them determines how effective the organisation as a whole is in dealing with risk. The Institute of Internal Auditors uses a three lines of defence model to explain Internal Audit's unique role in providing assurance about the controls in place to manage risk:
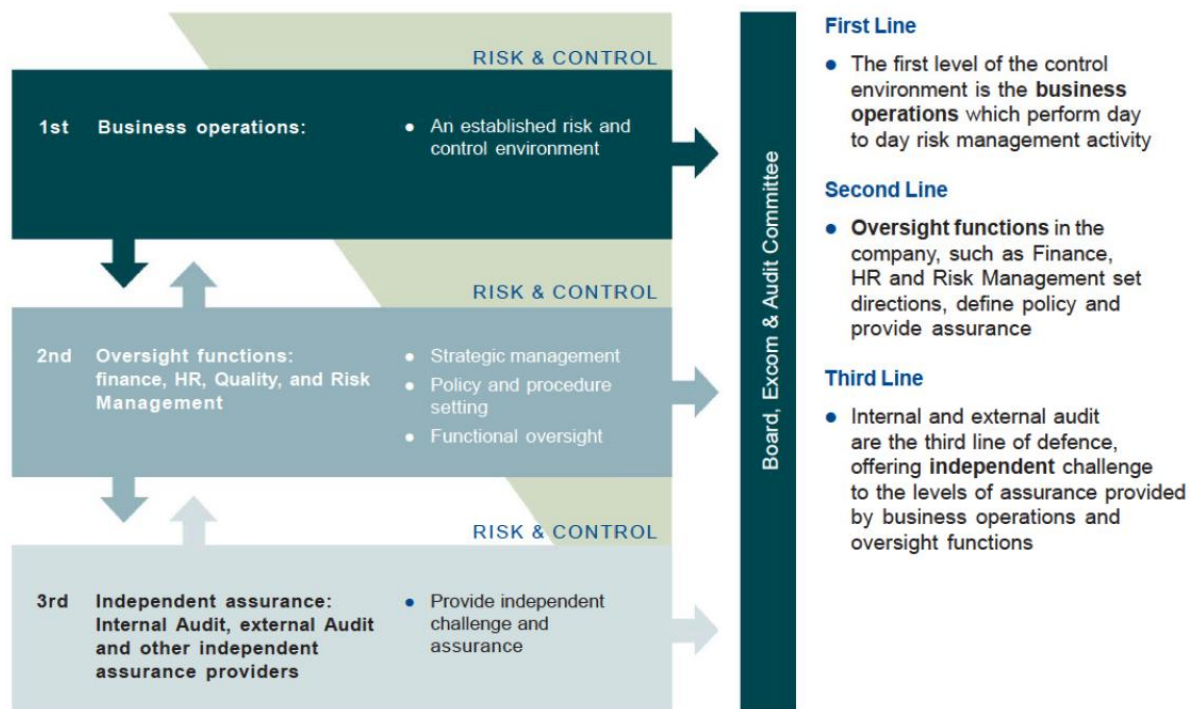
The management of risks is the responsibility of every manager. Sitting outside the processes of the first two lines of defence, audit's main roles are to ensure that the first two lines of defence are operating effectively and advise how they could be

improved. Blurring audit's role by undertaking roles that are properly the responsibility of the first or second line of defence should be avoided.

We develop and then deliver a programme of internal audits to provide independent reasonable assurance to senior management and members that significant risks are being addressed. To do this, we will evaluate the quality of risk management processes, systems of financial and management control and governance processes and report this directly and independently to the most senior level of management. In accordance with regulatory requirements most individual assurance assignments are undertaken using the risk based systems audit approach and are not usually designed to identify potential frauds.

We give an opinion on how much assurance systems give that significant risks are addressed. We use four categories of opinion: Full, Substantial, Moderate and Limited assurance.

A report, incorporating an agreed action plan, will usually be issued for every audit. The results of audits are also reported to the Council's Audit and Governance Committee. To assist managers in addressing areas for improvement, recommendations are classified as: Fundamental, Significant and Merits Attention

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Vision, purpose and values

A professional, independent and objective internal audit service is one of the key elements of good governance in local government.

As a modern effective risk and assurance service we:
- Act as a catalyst for improvement at the heart of the organisation
- Influence and promote the ethics, behaviour and standards of the organisation
- Develop a risk aware culture that enables customers to make informed decisions
- Are forward looking
- Continually improve the quality of our services

A key driver of this strategy is the need to meet all our customer's needs. Our customers will continue to be affected by a variety of local and national issues:

- Funding pressures faced by local government;
- Increased growth in partnerships, for example with health and the private sector;
- Ever increasing use of technology to deliver services;
- Flexible working arrangements to make more effective use of accommodation;
- The introduction of new ways for customers and the public to access services; and
- Pressure to reduce the cost of administrative / support functions while improving quality / effectiveness.

These, and other developments, will mean increased pressure on the service to review existing systems and provide advice on new and complex initiatives within reducing resources. To respond to the demands on us we will:

- Continue to develop our staff to ensure we are fully equipped to respond to our customer's demands.
- Continue to invest in modern technology to improve efficiency and effectiveness.
- Add value and make best use of our resources by focussing on key risks facing our customers.
- Increasingly work in partnership with clients to improve controls and performance generally. We must add value and help deliver innovations in service delivery.
- Continue to buy in specialist help – particularly in IT.

Services

In addition to undertaking audits the Service is able to support the organisation by also providing the following services:

Consultancy / Advice

The Council will face major changes in systems and procedures over the coming years and we are able to provide advice on the control implications of these changes. The service will act as a critical friend. Particular emphasis is put on project governance and process design.

Our knowledge of the management of risk enables us to *challenge* current practice, *champion* best practice and be a *catalyst* for improvement, so that the Council as a whole achieves its strategic objectives.

So, for example if a line manager is concerned about a particular area of his/her responsibility, working with us could help to identify improvements. Or perhaps a major new project is being undertaken - we can help to ensure that project risks are clearly identified and that controls are put in place to manage them.

Challenge

Champion

Catalyst for improvement

It is more constructive for us to advise on design of processes during the currency of a change project rather than identify problems after the event when often it is too late to make a difference - timely advice adds more value than untimely criticism.

Irregularities

As a publicly funded organisation the Council must be able to demonstrate the proper use of public funds. It is the responsibility of every manager to have systems in place to prevent and detect irregularities. However, if an irregularity is identified or

suspected managers are required to notify the Service and may need professional support to investigate the matter.

All significant investigations will be undertaken by the Service but more minor matters will be referred back to the service manager to progress with support from the audit team. The decision on which cases will be investigated will be made by the Head of Internal Audit in conjunction with the Chief Financial Officer.

Counter fraud

Although responsibility for operating sound controls and detecting fraud is the responsibility of management the Service has a key supporting role. In particular, we are responsible for maintaining and publicising the Council's anti-fraud policy and coordinating the Council's participation in the National Fraud Initiative.

Our approach for 2017 / 2018

As in previous years the plan covers one year. This is now accepted best professional practice. The focus of our work continues to be primarily on the high risk areas and change programmes and key corporate processes. Audits of this nature are a more effective use of limited resources and are key to providing the appropriate assurance to the Council that its overall governance arrangements remain effective.

Figure 1: Key corporate processes
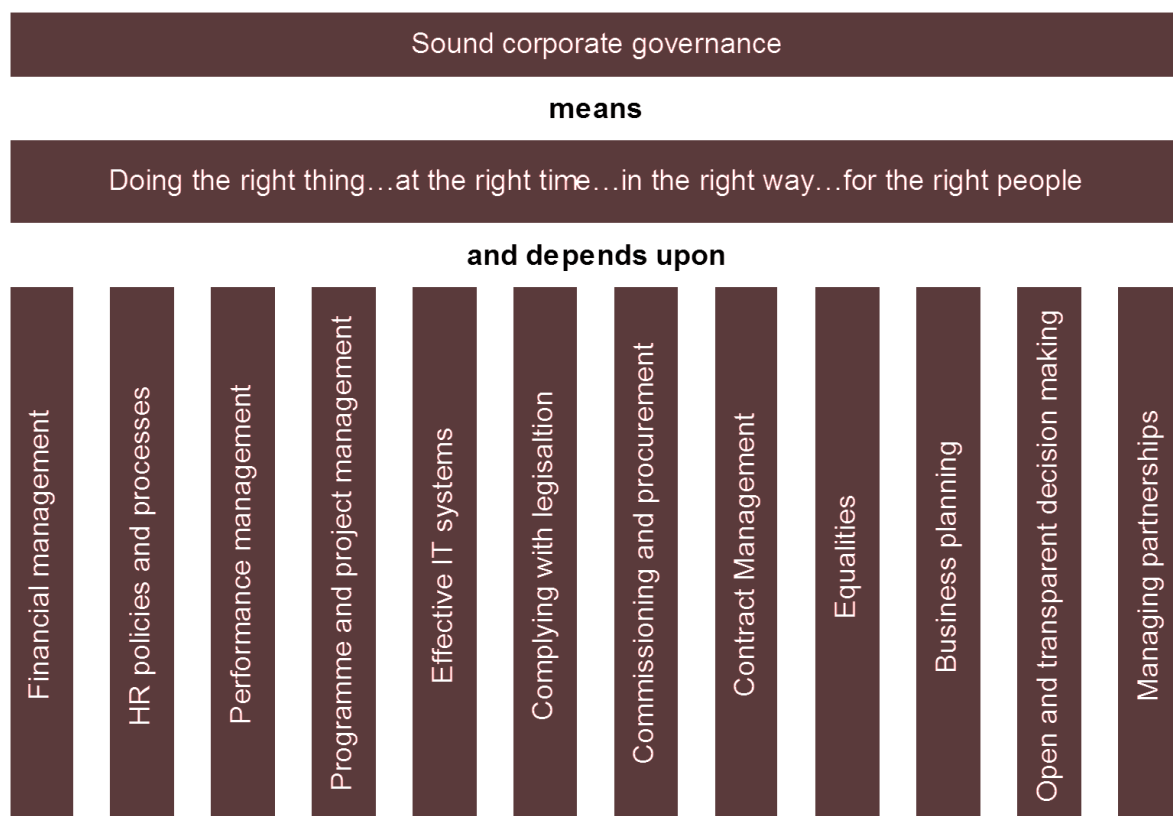
The resource available for county council work in 2017/18 is expected to be the equivalent of about 7 staff which means that we have to continue to focus on the really key issues.

To make the best use of limited resources audit work needs to be carefully planned. We have sought to align our work with the Council's risk base again this year, by liaising extensively with senior management and taking into account the organisation's aims, strategies, key objectives, associated risks, and risk management processes. Our plan also takes into account those topics which have not recently been audited or which feature in the corporate risk register or which when last audited received a low opinion. In addition, auditors regularly attend various professional networking meetings which highlight wider issues affecting public sector internal audit which need to be reflected in the programme of work.

The risk of potential fraud forms part of the risk assessment process and national surveys and intelligence on risk areas is taken into account along with data on actual frauds at Worcestershire.

Based upon the discussions to date and our professional judgement an indicative priority and an estimated number of days have been allocated to each potential topic. This takes into account a range of factors including: when the topic was last audited, complexity of the topic and level of change. The Council's strategic risks and the key planned work to provide assurance on these risks are shown in Annex 1.

In addition to the assurance and advisory work listed, provision has been made in our work plan to undertake the certification of a small number of grant claims and miscellaneous funds, undertake investigations, to complete outstanding 2016/17 jobs and a limited amount of counter fraud work (e.g. update of the anti-fraud policy and publicity).

The aim is to give a high-level overview of audit areas. The Committee will note that whilst we are able to cover key aspects of very high risk areas, these and other risks are not covered comprehensively. The Council is able to accept a plan on this basis, provided this matches its "risk appetite" for independent assurance, also recognising that management have the prime accountability for managing processes and risks (and therefore assurances can be obtained directly from them where necessary). Annex 2 shows those topics that we are planning to audit together with an illustrative list of topics that we are not planning to audit based upon existing level of resources. This annex reflects the continued upward trend in suggestions / requests for audit and particularly advisory work which in turn reflects the very high level of change and hence risks facing the organisation.

Demonstrating the assurances planned on each strategic risk and being transparent about auditable topics that cannot be audited are key requirements of internal audit professional standards and we are increasingly moving to a top down approach with the plan being driven by key risks. We have always undertaken a risk assessment exercise each year but changes to standards require plans to be more explicit on these matters.

In developing the list of planned topics we have taken into account existing management processes and oversight by support functions such as Finance, HR, Health & Safety and Legal. The internal audit service therefore builds upon the work on other assurance providers and allows us to reduce the resource required for some advisory topics. This approach will be further refined in future plans. Similarly, although our roles and responsibilities are different the service continues to liaise closely with the Authority's external auditors.

The majority of assurance services will be provided directly by the Risk and Assurance Service. External parties may be employed to provide support in specialist areas for example the provision of IT audit expertise. External support may also be called upon to cope with peaks in demand.

There will inevitably be circumstances where the Chief Risk and Assurance Manager will have to amend the programme, e.g. when risks change or a specific project becomes a matter of priority. There may be cases where individual lower priority audits have to be rescheduled because of competing priorities. Throughout the year the plan will be updated to ensure it remains relevant. In year changes to the plan to reflect such changes are accepted as best practice. This plan, therefore, is not set in stone. It will need revising as circumstances change.

Quality Assurance and Improvement Programme

The PSIAS require the Head of Internal Audit to develop and maintain a quality assurance and improvement programme (QAIP) covering all aspects of the internal audit activity.

The QAIP includes internal assessments, periodic self-assessments and external assessments and is not only designed to assess the efficiency and effectiveness of Internal Audit, but also to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the PSIAS and an evaluation of whether internal auditors apply the Code of Ethics. The Service operates a quality management system compliant with the internationally accepted ISO 9001 standard. As part of this we have an Audit Manual based on accepted professional practice which as well being compliant with PSIAS builds quality into every stage of the audit process. A summary of the QAIP is shown in Annex 3.

G Rollason
Head of Internal Audit

Strategic Risks

	Risk	Gross Risk Rating	Net Risk Rating	Examples of past internal audit coverage[1]	Examples of proposed internal audit role / planned assignments
1	Failure to maintain business as usual / appropriate levels of service at the same time as transformation			• Performance Management (Substantial 2015/6) • Audits on specific topics (commissioning placement process)	• Risk management (advisory) • Highways contract • Liberata contract • Contract management • Learning and Achievement contract
2	Failure to deliver financial savings identified in MTFP			• Children's Recovery Plan (Full 2016/7)	• Contract management • Transformation and savings plans • Budget management
3	Failure to deliver a major project leading to increased costs, reputational damage to the Council and/or failure to realise savings			• Learning and achievement contract (Substantial 2016/7) • Design Services (Limited 2015/6)	• Project management • Liberata contract • Evesham Abbey Bridge • Design Services
4	Serious harm or death due to a failure on the part of the Council			• Adults Safeguarding (Substantial 2016/7) • Child academic improvement (Substantial 2015/6)	• Hospital discharges • Case file audits • Schools themed - safeguarding

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[1] Only audits completed in last 2 years are shown

	Risk	Gross Risk Rating	Net Risk Rating	Examples of past internal audit coverage[1]	Examples of proposed internal audit role / planned assignments
5	Failure to comply with legislation and statutory duties	RED	AMBER	• Safeguarding (Substantial 2016/7)	• Health and safety • DOLS • Ofsted improvement plan
6	Failure to effectively store, manage and process information and maintain the security of the personal data we hold, (or our partner agencies and commissioned providers hold on our behalf). in compliance with the Data Protection Act	RED	AMBER	• Information Governance ICO follow up (draft issued – Moderate 2016/17) • Specialist IT audits	• Information governance (advisory) • Specialist IT audits
7	Demographic changes lead to changed demand for Services	RED	RED		• Panel process • Brokerage • Continuing health care • Social work practice • Hospital discharges
8	Failure to safely, securely and effectively manage the Council's premises	RED	AMBER		• Place partnership
9	Ineffective emergency Response arrangements	RED	AMBER	• Flood management (Moderate 2015/6)	• Emergency planning
10	Ineffective Business Continuity arrangements – Business Continuity arrangements need to keep pace with transformation and assurances in place for the arrangements of commissioned services	RED	AMBER	• Disaster recovery (in progress) • Business continuity (draft issued – Substantial 2016/17)	

Workplan 2017/2018

1. Planned Work

Service	Topic	Priority H/M/L	Assurance	Advice
Adults	Panel process	H	✓	
	Direct Payments	H	✓	
	Hospital discharges	H	✓	
	Brokerage	H	✓	
	Continuing health care	H	✓	
	Mental Health s75 agreement	H	✓	
	Case file audits	H	✓	
	Learning disability services	H	✓	
	Domiciliary care - billing and charging	H	✓	
	Framework i	H	✓	
	Social work practice	H	✓	
	DOLS	H	✓	
	E-Market Place	H		✓
Childrens	Direct payments	H	✓	
	Learning and achievement contract	H	✓	
	High needs review / SEN	H		✓
	Ofsted improvement plan	H	✓	
	Regional adoption agency	H	✓	
	Apprentiship levy	H		✓
	School visits	H	✓	
	School themed - Safeguarding	H	✓	
COACH	Business ownership of systems	H	✓	
	IT audit	H	✓	
	Review of Contracts	H		✓
	Agency staffing	H	✓	
	Information Governance	H		✓
	Performance management	H	✓	
	Risk Management	H		✓
	Place partnership	H	✓	
	Starters and leavers	H	✓	
Cross cutting	Corporate project management	H	✓	
	Contract management	H	✓	
	Emergency planning	H	✓	
	Transformation & savings plans	H	✓	
	Health and safety	H	✓	
E&I	Transport	H	✓	
	Highways Contract	H	✓	
	Evesham Abbey Bridge	H	✓	

Service	Topic	Priority H/M/L	Assurance	Advice
	Development / highways relationship	H	✓	
	Worcester Parkway	H		✓
	Economic growth	H	✓	
	Design Services	H	✓	
Finance	Accounts payable	H	✓	✓
	Accounts receivable	H	✓	
	Procurement	H	✓	
	BACS releasing	H	✓	
	Budget management	H	✓	
	Liberata contract	H	✓	
	Payroll & HR function	H	✓	
	VAT	H	✓	
	Pensions Investment	H	✓	

# 2. Illustration of auditable topics not planned for 2017/2018

In addition to the coverage of key risks areas discussed at Annex 1 and above, the PSIAS requires the strategy to be open about those audit areas not covered in 2017/2018. Based upon the planning discussions with senior management, our professional judgement, the results of previous audits and extent of other assurances the following topics are not planned for 2017/18. However, should planned audits not take place, topics from this list will be substituted.

Directorate	Area	Latest coverage	Priority H/M/L	Type
Adults	Domiciliary care contracts		H	Assurance
	Safeguarding	Substantial 2016/7	H	Assurance
	Transitions - children to adults		H	Assurance
Children	Frameworki		H	Assurance
	School Music Service		H	Assurance
	School Procurement - Themed		H	Assurance
COACH	Apprentiship levy		H	Assurance
E&I	Waste		H	Assurance
Finance	Bank reconciliation		H	Assurance
	Strategic and Financial Planning		H	Assurance
Public Health	Public Health grant funding		H	Assurance
Adults	Appointees		M	Assurance
Children	School balances - themed audit	Substantial 2016/7	M	Assurance
	Governor support		M	Assurance
	Short break provision		M	Assurance
	Virtual school		M	Assurance
	Case file audit		M	Assurance
	Libraries and museums		M	Assurance
	Connecting families		M	Assurance
	Starting Well / early help		M	Assurance
	NEETS		M	Assurance
	Child academic improvement	Substantial 2015/6	M	Assurance
	Foster Payments	Substantial 2015/6	M	Assurance
	Schools Themed - Budgetary control	Substantial 2015/6	M	Assurance
	Schools Themed - Staffing	Substantial 2015/6	M	Assurance
	Placements in residential care (Out of County)	Moderate 2016/7	M	Assurance
	Children's recovery plan	Full 2016/7	M	Assurance
COACH	Medical examiners		M	Assurance
	Use of consultants	Substantial 2016/7	M	Assurance
	Divisional funds		M	Assurance
	Disaster recovery & Business	In progress	M	Assurance

Directorate	Area	Latest coverage	Priority H/M/L	Type
	Continuity			
	Corporate Governance		M	Assurance
	Risk Management		M	Assurance
	Job Evaluation	Moderate 2015/6	M	Assurance
	Procurement		M	Assurance
	Commissioning	Substantial 2016/7	M	Assurance
E & I	Trading standards	In progress	M	Assurance
	Malvern Hills Science Park		M	Assurance
	Flood management	Moderate 2015/6	M	Assurance
	s106 & s38, etc	Moderate 2016/7	M	Assurance
Finance	Insurance		M	Assurance
	Pensions Admin	Substantial 2015/6	M	Assurance
	Treasury Management	Substantial 2016/7	M	Assurance
Public Health	Contracting		M	Assurance
Adults	Pre-payment Cards		L	Assurance
	Deferred Payments Scheme	Substantial 2015/6	L	Assurance
	Care Plans	Substantial 2016/7	L	Assurance
	Reviewing	Substantial 2016/7	L	Assurance
	Commissioning and Placement Process	Substantial 2016/7	L	Assurance
	Financial Assessments	Substantial 2016/7	L	Assurance
Children	Countryside Services		L	Assurance
	School themed - Procurement cards		L	Assurance
	Primary School Sports Grant		L	Assurance
	Foster carer's journey	Moderate 2015/6	L	Assurance
	Edge of care	Substantial 2016/7	L	Assurance
COACH	Councillors ICT Allowance		L	Assurance
	Travel and Subsistence - Officers		L	Assurance
	Travel and Subsistence - Cllrs		L	Assurance
	Information Management (ICO Follow up)	Draft issued - Moderate 2016/7	L	Assurance
E & I	Scientific Services / county enterprises		L	Assurance
	Archives & Arch	Substantial 2015/6	L	Assurance
	Capital programme		L	Assurance
Finance	Income collection (cash)		L	Assurance
	Business Rates Pool		L	Assurance
	Pensions Governance	Substantial 2015/6	L	Assurance

Annex 3: QAIP

Internal Audit Service – Quality Assurance and Improvement Programme
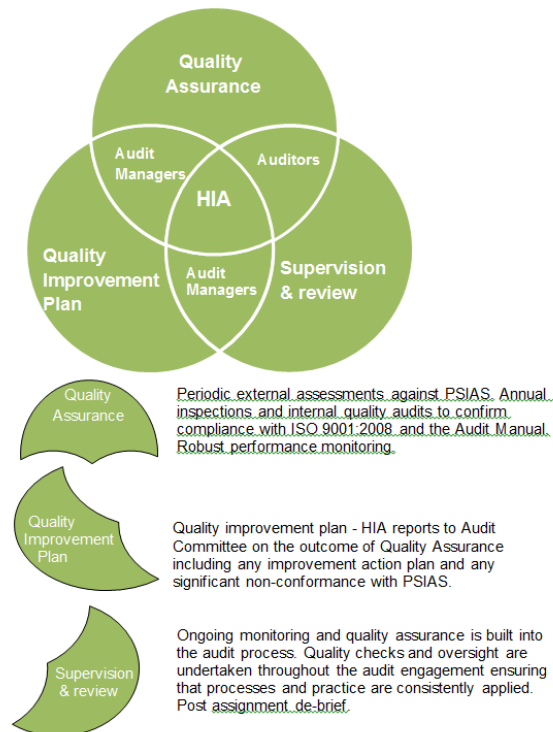
Head of Internal Audit

- Undertake an annual self-assessment against the requirements of PSIAS
- Develop and maintain a Quality Assurance Improvement Programme (QAIP) & improvement action plan
- Focus on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards
- Arrange an External Assessment in accordance with PSIAS requirements

Audit Managers

- Undertake supervision and review audit engagements
- Obtain assurance from supervision and review processes that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit manual / PSIAS
- Provide HIA with regular reports on outcome of reviews, performance against key service measures etc
- Provide feedback to auditors on quality of their work
- Promote high professional standards and compliance with audit manual / PSIAS
- Continually develop their team members

Auditors

- Conduct audit engagements in accordance with audit manual PSIAS
- Deliver all assignments on time and within budget

All

- Comply with the Code of Ethics / Code of Conduct
- Promote the standards and their use throughout the Internal Audit activity
- Committed to delivering high quality services and continuous improvement
- Promote the internal audit service
- Committed to continuing professional development

Periodic external assessments against PSIAS. Annual inspections and internal quality audits to confirm compliance with ISO 9001:2008 and the Audit Manual. Robust performance monitoring.

Quality improvement plan - HIA reports to Audit Committee on the outcome of Quality Assurance including any improvement action plan and any significant non-conformance with PSIAS.

Ongoing monitoring and quality assurance is built into the audit process. Quality checks and oversight are undertaken throughout the audit engagement ensuring that processes and practice are consistently applied. Post assignment de-brief.