

# Internal Audit Charter

March 2020



**worcestershire**  
county council

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## Internal Audit Charter

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### 1. Key Contacts

The key contacts in connection with this Charter are:

|  |   |  |
|--|---|--|
| <b>Jenni Morris</b><br>Chief Internal Auditor<br>Tel: 01905 844405<br><a href="mailto:JMorris4@worcestershire.gov.uk">JMorris4@worcestershire.gov.uk</a> | <b>Rachel Hallam</b><br>Risk & Assurance Manager<br>Tel: 01905 844463<br><a href="mailto:rhallam2@worcestershire.gov.uk">rhallam2@worcestershire.gov.uk</a> | <b>John MacDonald</b><br>Interim Audit & Compliance Manager<br>Tel: 01905 845341<br><a href="mailto:Jmacdonald2@worcestershire.gov.uk">Jmacdonald2@worcestershire.gov.uk</a> |
|--|---|--|

### 2. Change Control

| Version | Date   | Updated By | Comments                               |
|---------|--------|------------|--|
| 1.0     | 3/3/20 | Jen Morris | Initial version for Committee approval |
|         |        |            |  |

### 3. Introduction

The Council has committed to set up and maintain a permanent, independent and objective internal audit function to operate across the Council. This Charter defines the purpose, objectives and authority of the function.

### 4. Mission

The mission of Internal Audit is to assist the Council, the Councillors, Strategic Directors, and Officers to appropriately manage the key risks to which the Council is exposed, and help improve the effectiveness of the Council's governance, risk management and internal control processes.

### 5. Objectives

The Internal Audit service:

- Provides independent and objective assurance and advisory activity.
- Adds value to the Council's operations and governance.
- Helps the Council to accomplish its activities by evaluating and improving the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.
- Ensures outcomes of the audit programme are designed to provide senior management, elected members and the WCF Board with assurance that the Council is effectively governed and to provide guidance on improvements where required.
- Follows an identical audit approach for Worcestershire Children First (WCF) and maintain a separate audit plan reportable to their Board.
- Delivers audit activity as required by the Accounts and Audit (England) Regulations 2015.

### 6. Independence and Authority

It is vital that the Internal Audit service remains independent. We ensure this by providing advisory rather than decision making services, remaining independent of the activities we audit and rotating staff across audits.

- The audit function is headed by the Chief Internal Auditor.
- The Chief Internal Auditor reports directly to the Chief Financial Officer.
- The Chief Internal Auditor maintains regular contact with Leadership Team, including regular meetings with the Chief Executive, Strategic Directors and the Leader of the Council.
- The Chief Internal Auditor attends and reports to the Audit and Governance Committee, and Strategic Leadership Team.
- The independence of the role is further supported by the arrangements for appointment and dismissal being confirmed by the Chief Executive and Chairman of the Audit and Governance Committee.

## Internal Audit Charter

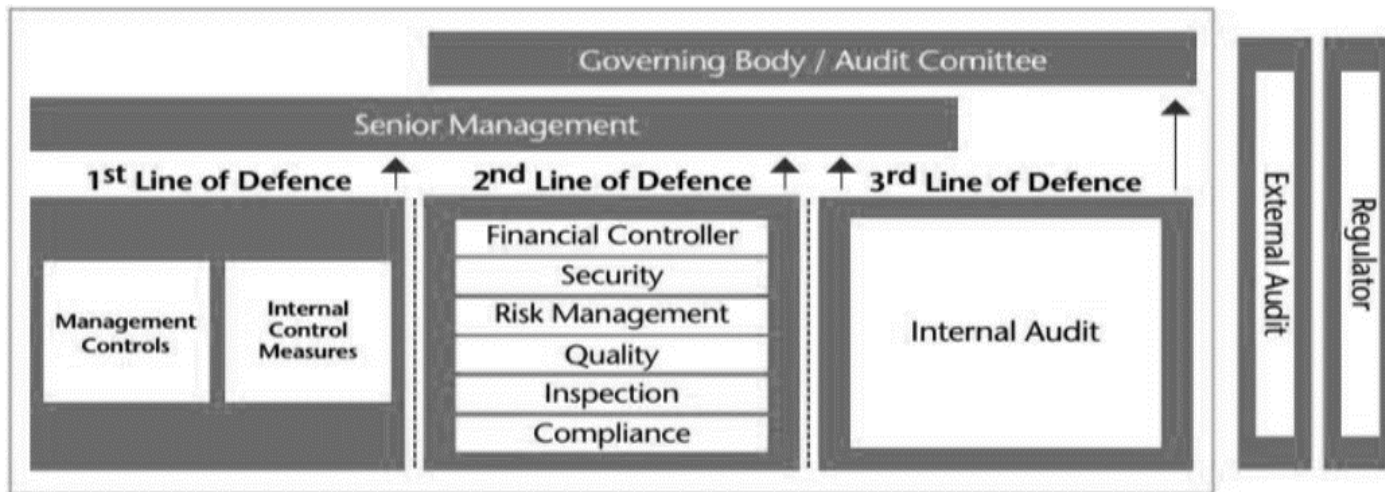
The Council cannot place any restrictions on the work of Internal Audit and staff engaged on audit work, either directly by the Council or by one of our partners, are entitled to receive and have access to whatever information or explanations they require to fulfil their responsibilities to the Council. Internal Audit may have access to records, personnel or property of the Council; relevant security and privacy arrangements will be complied with.

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

- Compliance and assurance audits to establish the effectiveness of the Council's governance and control framework;
- Consultancy and advisory services designed to add value and offer insights to improve the effectiveness of risk management, control and governance processes; and
- Fraud prevention and detection investigations to assist managers with their responsibilities.

### 7. Organisational Status

The assurance levels are considered in conjunction with the Three Lines of Defence model.



The Three Lines of Defence model explains the relationship between the functions involved in assurance:

- 1<sup>st</sup> line of defence are the functions that own and manage risks
- 2<sup>nd</sup> line are the functions that oversee or specialise in the compliance or management of risk
- 3<sup>rd</sup> line are the functions that provide independent assurance.

### 8. Audit Approach

Our audit approach ensures that we carry out assurance activity in accordance with our Internal Audit Engagement Standards:

- To ensure that actions from limited assurance audits from previous years have been completed and the controls have improved.

- Likewise, having policies over additional staff payments provides greater assurance and reduced risk, but if they are applied differently across the organisation then this could point to a lack of clarity, awareness or training in the policy that needs to be addressed corporately.

### 10. Responsibilities of Internal Audit and Officers

Internal Audit is responsible for operating under the policies established by the Council in line with professional standards and best practice. We conduct our work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by the Public Sector Internal Audit Standards (PSIAS). We ensure that any documentation and evidence provided is secured and confidentiality is always maintained.

Officers are responsible for agreeing the scope of internal audit work and for implementing agreed actions. The Strategic Leadership Team supports Internal Audit and ensures there is direct access and freedom to report findings and actions. Management will notify Internal Audit of any changes to key systems, legislation, processes or staff to enable us to consider any potential impact on the audit plan.

### 11. Planning and reporting

Internal Audit work is planned at all levels of operation to establish priorities, achieve objectives and ensure the efficient and effective use of resources. We produce an annual plan in consultation with senior managers and considering the Council's aims, strategies, key objectives and associated risks. The strategic plan gives a three-year overview of activity and enables forward planning for identified changes and is supported by an annual plan which includes contingency allocation to allow us to respond to changing conditions and requests from managers. The plan is approved annually by the Audit and Governance Committee. The plan is reviewed regularly, and any changes discussed with the Chief Financial Officer. These changes are reported to the Audit and Governance Committee as part of our reporting schedule.

Delivery of Internal Audit activity is governed by our Internal Audit Engagement Standards, which ensures:

- Terms of reference are agreed in advance for each audit to ensure that all parties agree what the audit will cover. Reasonable notice is given about the start and process of each audit and we will work to minimise disruption to operational teams. We reserve the right to make unannounced visits if significant control risks are identified.
- Audit reports include an opinion on the adequacy of controls in the area reviewed, detail actions for improvement and agree the allocation of management responsibility and timeline for delivery with the relevant manager. Reports are agreed with the manager, usually following a presentation of findings to assistant director and copied to the Strategic Director. Reports with financial implications are sent to the Chief Financial Officer. Audits resulting in a limited assurance opinion are reported to the Strategic Leadership Team and Leader of the Council.

- Where there are changes to the risk base, e.g. changes to systems, key staff, financial position, legislation.
- There is an amber or red assessment as part of control framework (red will give annual review, amber bi-annual).
- To carry out sample testing to support our overall assurance assessment.

## 9. Delivery of Audit Approach

As part of the development and continuous improvement of the function the Strategy introduces a new concept and approach to the County Council audits, that is the ‘healthy organisation’ assessment. The purpose of the Healthy Organisation Review is to provide an objective assessment of the management control framework or "health" of the Council that supports the way we work. The framework comprises eight corporate themes:

| Risk management  | Financial management   | Performance management   | Decision making  | IT environment   | HR management   | Business planning   | Asset Management   |
|--|--|--|--|--|---|---|--|
| <ul style="list-style-type: none"> <li>• A structured and active risk management approach enables the Council to focus on key priorities and outcomes</li> </ul> | <ul style="list-style-type: none"> <li>• Effective financial management is key to the Council being able to deliver the services required by the public</li> </ul> | <ul style="list-style-type: none"> <li>• Accountability of service provision and delivery of objectives</li> </ul> | <ul style="list-style-type: none"> <li>• A robust governance process supporting the Council in delivering its objectives and upholding its values and beliefs</li> </ul> | <ul style="list-style-type: none"> <li>• Effective infrastructure and systems, with a clear forward plan to ensure resilience</li> </ul> | <ul style="list-style-type: none"> <li>• Ensuring that one of the Council's key resources is supported and developed</li> </ul> | <ul style="list-style-type: none"> <li>• The process by which the objectives of the Council are translated into deliverables</li> </ul> | <ul style="list-style-type: none"> <li>• The process by which the Council manages its estate and equipment to maintain effective and efficient services</li> </ul> |

- The focus is to review and develop a high-level controls assurance framework in quarter 1 of 2020/21 to enable the plan, assessing the compliance and best practice in each of the eight themes, from which we will develop ongoing detailed audit and assurance work.
- We will review the audit plan quarterly to ensure that we are addressing key risks arising and continually sense checking the organisation’s health at a corporate and service level.
- For example, budget monitoring reports being produced is positive, but if they are not read or understood the risk of poor financial control increases.

### 12. Audit Opinion

Audit assurance levels are:

|                       |  |
|-----------------------|--|
| Full assurance        | The system of internal control meets the Council's objectives. All the expected system controls tested are in place and are operating effectively. Future audits are undertaken in line with standard planning.  |
| Substantial assurance | There is a generally sound system of internal control in place designed to meet the Council's objectives. Weaknesses in the design of controls or inconsistent application of controls in a small number of low risk areas put the achievement of a limited number of system objectives at risk. The resulting risk is not significant. Future audits are undertaken in line with standard planning. |
| Moderate assurance    | The system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively, increasing the risk that the system does not meet the Council's objectives. An improvement review audit is undertaken within 3 years.  |
| Limited assurance     | Weaknesses in the design and / or inconsistent application of controls puts the achievement of the Council's objectives at risk in many areas reviewed. The resulting risk is significant. An improvement review audit is undertaken within 12-18 months.  |

The Chief Internal Auditor reports progress on the audit plan and action implementation to the Audit and Governance Committee. An annual report is provided giving an opinion on the Council's system of internal control. This opinion forms part of the Annual Governance Statement.

### 13. Performance Measures

It is important as part of their ongoing assessment of the governance arrangements for the Council that the Strategic Leadership Team, Members and WCF Board can assess the quality and performance of both the Internal Audit Service and the improvement output and response from the services audited. Performance will be subject to quarterly monitoring and review by both the Audit and Governance Committee and the WCF Board.

The following are proposed indicators and targets, and will develop and refine as the Internal Audit function matures:

| Performance Indicator   | Target |
|---|--------|
| All individual audit assignments to include a final report with agreed recommendations and action plan. | 100%   |
| Draft reports to be issued within a maximum of 15 working days following the completion of the audit.   | 95%    |



| Performance Indicator   | Target |
|---|--------|
| Final reports to be issued within 5 working days of the report being approved by the Head of Service. | 100%   |
| Achievement of the Annual Internal Audit Plan by 30 April following the year end.                     | 95%    |
| Attendance at planned meetings with officers, councillors and external audit where required.          | 100%   |

### 14. Quality assurance

All audit documentation is subject to internal review, to ensure consistency and clarity of reporting.

Internal Audit are subject to quality standards in line with PSIAS standards. We will carry out External Quality Assessment every 3 years to ensure that these standards are met. As part of our preparation for our next review, which is likely to be at the end of 2020/21, we have had an informal assessment, by the South West Audit Partnership, which has identified actions for us to address.

### 15. Structure of Internal Audit team

The Audit Team was brought in house at the start of 2019/20 and a Chief Internal Auditor Appointed from August 2019. The team is in a period of improvement and development and some posts remain vacant and recruitment will continue during 2020/21. Resource requirements will continue to be reviewed to ensure that we are able to provide organisational assurance. The team is set out as shown in Appendix 1

APPENDIX 1 - Status of Internal Audit team as at March 2020

|                              |                            |   |
|------------------------------|----------------------------|---|
| Chief Internal Auditor       | Jenni Morris               | CIPFA qualified accountant with over 25 years post qualification experience. Jenni has worked in the Council in a variety of finance roles. |
| Audit and Compliance Manager | John MacDonald (interim)   | This position is currently vacant. John has been appointed on an interim basis whilst we recruit and has significant audit experience.      |
| Principal Auditor            | Chris Portmann             | [REDACTED]  |
| Principal Auditor            | Lisa Smith                 | [REDACTED]  |
| Auditor                      | Dominic Roberts            | AAT qualified. Dominic has 15 years internal audit experience.  |
| Audit Assistant              | Maria Garcia (secondment)  | Maria has a background in business administration and has been with the Council for 4 years.  |
| Audit Trainee                | Vacant                     | We are currently recruiting several apprentices who will have a period in internal audit as part of their training.                         |
| Risk and Assurance Manager   | Rachel Hallam              | Rachel is a recent appointment and has over 15 years' experience with the Council's Trading Standards service.                              |
| Risk and Fraud Officer       | Andrew Pillow (secondment) | CIPFA qualified accountant, Andrews has over 5 years' experience with the Council in the Finance function.                                  |