

Annual Report and Audit Opinion 2022/23

Executive Summary

1. The purpose of this report is to provide the Council with an assessment of the effectiveness of the governance arrangements, risk management and internal control framework. Through a combination of internal audit assurance, certification and advisory activity, anti-fraud and corruption activity and the links to a risk management process, supported by professional knowledge and judgement, as Acting Chief Internal Auditor, I can give an overall assurance assessment rating of **'moderate'**.
2. A moderate rating means that the control framework is adequate and controls to mitigate key risks are operating effectively, although improvements are needed. This report should be considered in conjunction with the Annual Governance Statement which provides additional assessment of the governance framework of the Authority.
3. Internal Audit coverage was sufficient during 2022/23 to adequately inform the opinion.
4. Five audits were reported as 'limited' assurance outcomes.
5. The full statement can be found in later in the report.

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6. The Council is required under Regulation 6 of the Accounts and Audit Regulations 2018 to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards and guidance".
7. The internal audit plan was approved by the Audit and Governance Committee on the 11 March 2022. The internal audit team has delivered the audit programme in conformance with the Public Sector Internal Audit Standards, as amended, published by the Institute of Internal Auditors.
8. Whereas the 2021/22 annual report reported a return to more routine and settled internal audit activity, 2022/23 saw some significant staff changes within the team and the relocation of risk management. Changes of staff impacted almost all levels within the Service including the Chief Internal Auditor, Finance Business Partner, and Scale 6 roles. Due to circumstances, several posts within the Team remained vacant for the best part of a year. 2022/23 also saw discussions taking place between Worcestershire County Council and Worcestershire Internal Audit Shared Service with a view to bringing the Internal Audit Services together. Unfortunately, after prolonged discussions, due to some fundamental differences this initiative did not progress, and the Services remained separate. Worcestershire County Council have employed the services of the Chief Internal Auditor from Worcestershire Internal Audit Shared Service on a rolling three-month, part-time consultancy contract basis to assist the Audit and Compliance Manager. This arrangement has continued during 2023/24.
9. Steady progress was made throughout the year regrading plan delivery. During the year a change was made from a quarterly plan provision to a projected plan for the municipal year allowing better planning, more transparency and oversight of the work of internal audit. The deployment of resource to identified risk areas has been key to ensure adequate coverage and has been effectively managed to ensure all functions of the Internal Audit Service have been maintained during 2022/23. The team has continued to work in a hybrid manner

throughout 2022/23. The overall assurance has been drawn from a combination of internal audit work including assurance reports, certifications, advisory support, fraud and specialist investigations, external inspections, internal governance activities and risk management. Details of the audit throughout 2022/23 can be found at section 3 of this report.

10. The internal audit work for 2022/23 was achieved despite several vacancies in the team. Across the team we are continuing to develop staff actively encouraging study for the Association of Technicians (AAT). This is to continue throughout 2023/24. All the team have fully engaged with the mandatory training requirements as well as external groups including the Midland Chief Internal Auditor Group and Anti-Fraud and Corruption networking groups. The work of internal audit has also been across key partners including Worcestershire Children First.

11. We have seen a more proactive reaction to action response across many of the audit clients. However, there have been certain areas where a slow reaction has culminated in a need to escalate requests to secure a full and adequate management response. Whilst there remain actions outstanding the number of aged actions continues to fall.

Table 1: Analysis of actions for 2022/23 audits showing the total number of actions and the actions analysis split into the number of actions not due, number of actions which are cleared and the number of actions outstanding between 0 – 3 months.

Audit	Rating	Total Number of Actions	Not Due	Cleared	0-3 months
2020/21-76 - Rigby Hall Day Special	Limited	15		15	
2021/22-75 - Redhill Primary School	Limited	9	8	1	
2022/23-07 - Shrub Hill Governance	Limited	7	5	2	
2022/23-25 - North Bromsgrove High School	Limited	10	2	6	2
2022/23-26 - Dodford First School	Limited	15	11	4	
2021/22-06 - Employee starter process	Moderate	8	8		
2021/22-11 - Comberton Primary School	Moderate	6		6	
2021/22-14 - Direct payments	Moderate	4		4	
2021/22-56 - Employee leaver process	Moderate	4	4		
2022/23-27 - Office of the Public Guardian Inspection for Appointees and Deputies	Moderate	11	11		
2022/23-33 - Westacre Middle	Moderate	6	1	4	1
2022/23-34 - Rigby Hall Follow Up	Moderate	2	1	1	
2022/23-35 - Elmley Castle School	Moderate	8	2	6	
2022/23-37 - Batchley First School	Moderate	7	1	4	2
2022/23-38 - Fairfield First School	Moderate	2		2	
2021/22-71 - Contract review - Ringway	Substantial	4	1	3	
	Total	118	55	58	5

Note: Three assurance reports are not listed above are as follows:

2021/22-72 - Contract register - supplier spend analysis – This was a research piece of work and therefore has no actions associated with it.

2021/22-54 - Long term agency and consultancy placements

2022/23-36 – Capital

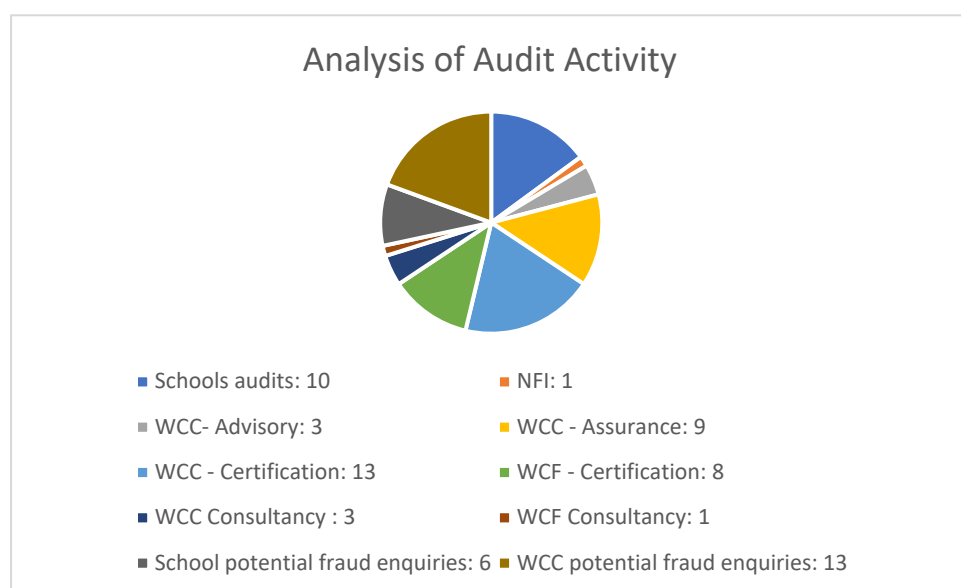
12. The outcome of the audit work has been considered as part of the overall opinion. However, further work is required by the Internal Audit service before the assurance rating for the two audits is publicised.

13. During 2022/23 the internal audit service delayed the assessment for Public Sector Internal Audit Standards (PSIAS) due to the ongoing negotiations position with Worcestershire Internal Audit Shared Service. The priority during 2023/24 will be to re-establish a full team and aim to ready the service for a PSIAS reassessment during 2024/25.

Summary of Audit Activity

14. The internal audit service supports the County Council and Worcestershire Children First with resource split across all facets. Reviews for the Worcestershire Children First and Worcestershire Pension Fund provide an assurance of activity as they directly support Council objectives. Below provides an indication of audit activity by organisation. School engagement has continued to increase during 2022/23 and internal audit have worked closely with the Schools Support Forum to provide schools audit coverage. Of the schools audited, several were found to have significant governance and financial deficiencies returning limited assurance outturns. Internal audit has continued to work with these establishments to enhance their overall governance control framework.

Chart 1: Analysis of 2022/2023 audit activity



15. The remainder of the report focuses solely on the work delivered for the County Council. During 2022/23 58 pieces of work have been completed for the County Council. These reviews have covered assurance audits, grant certifications, advisory work, investigations and assisting with the National Fraud Initiative.

16. The detail of activity is indicated above along with assurance outcomes. Committee is reminded that assurance ratings range from limited to substantial and there can be a higher proportion of limited or moderate assurances as the plan is a risk based. Consequently, the perceived areas included in the plan potentially carry a higher risk factor.

17. Consultancy, investigations and national fraud initiative assistance is demand-led and can fluctuate throughout the year and from year to year. During 2022/23 there was a requirement for a significant upload of datasets which internal audit managed. All the data sets were uploaded prior to the specified deadline dates to the specification requirements. Results of this exercise have been received and appropriate action has commenced to identify any potential fraudulent activity.

18. Corporate features have continued to feature in audit work in particular risk management, national fraud initiative and the provision of advice, for example, on the implementation of business improvement work streams.

19. It is recognised that there are other review functions providing sources assurance (both internally and externally) over aspects of the Council's operations. Where possible internal audit seeks to place reliance on such work thus increasing the internal audit coverage.

Quality Assurance and Independence

20. As part of the PSIAS requirements internal audit should continually seek to improve and provide excellent audit services to their clients. Key to this ambition and to identify improvements the team meet regularly, apply a risk based approach, share learning and knowledge, challenge assumptions and outcomes and identify areas for improvement and development.

21. Internal audit activity is organisationally independent. Internal audit reports to the s151 Officer but has direct and unrestricted access to senior management and the Audit and Governance Committee Chair.

22. Further quality control measures are embedded in the service. These include individual audit reviews, staff working to a given methodology and adherence to the Audit Charter. A copy of the Internal Audit Charter can be found at section 6.

23. 2022/23 has seen communication continuing across the Council, with regular attendance at senior officer meetings and leadership teams. This is set to continue in 2023/24 along with engagement with the wider Council community through lunch and learn sessions.

24. Internal audit has remained and maintained independence throughout the year and safeguards remain in place to ensure that this continues.

25. All staff have received their end of year assessments as part of the Council's performance framework which will inform training and development requirements going forward.

Audit Commentary and Opinion of the Chief Internal Auditor

Overall Conclusion

26. Based on the audits performed in accordance with the audit plan, the Acting Chief Internal Auditor has concluded that the internal control arrangements for 2022/23, on the whole, managed the principal risks identified in the audit plan and can reasonably be relied upon to ensure that the Council's corporate purposes have been met. Based on this assessment the overall assessment for the Council is '*moderate*'.

27. The 2022/23 Internal Audit Plan was a risk-based plan with a predefined risk and assurance mechanism being applied as part of the methodology to produce an assurance. The plan covered corporate systems, schools and pensions.

28. Risk exists in all aspects of the services delivered by the County but is mitigated to an acceptable level where possible. Applying a risk-based approach to the reviews, internal audit identified several schools where risks remained unacceptably high thus reporting a 'limited assurance'. Where risk remains at an unacceptable level for the organisation it can jeopardise the Council's corporate objectives delivery.

29. The internal audit function conforms to Chartered Institute of Public Finance and Accountancy guidance and the Institute of Internal Audit Standards for the UK Public Sector, as amended, and objectively reviews on a continuous basis the extent to which the internal audit control environment supports and promotes the achievement of the Council's objectives and contributes to the proper, economic and effective use of resources.

Risk Management Conclusion

30. Risk management and monitoring was part of the internal audit service until July 2022. A corporate decision was made to decentralise risk management and allow the Services to manage their own risk with a watching brief kept by the Corporate Risk Management Group. This Group has met on several occasions the outcome of which there have been no reports of risk management slippage. This process is set to continue during 2023/24.

Audit Opinion

31. The internal audit of Worcestershire County Council's systems and operations during 2022/23 was conducted in accordance with the internal audit plan. The results of the reviews have been taken into consideration along with the management action plans associated with the review findings. Although internal audit assesses the Council's control environment, the direct responsibility to ensure correct process and adequate systems are in place lies with Officers. They are required to ensure all controls are operating effectively, due diligence is being applied and the public purse is always protected. One area that is currently under scrutiny is the Constitution. This vital area of governance for the Council was due to be reviewed during 2022/23 but due to the Monitoring Officer leaving the organisation and the Acting Monitoring Officer retiring the review was deferred.

32. There has been a wide spectrum of assurance applied to the reviewed areas in 2022/23. Audits have been assigned assurances from 'limited' to 'substantial'. Any assurances provided are linked directly to the areas of the system where controls are in place. It is difficult to directly draw a comparison with previous year results and corporate position as the reviews are not like for like.

33. The Acting Chief Internal Auditor 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 some assurance based on the audits performed in accordance with the plan and scoping therein.

Andy Bromage
Acting Chief Internal Auditor
July 2023

Internal Audit Charter

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.

Mission

The mission of Internal Audit is to assist the Council, elected members, 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 by providing risk-based and objective assurance, advice, and insight.

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 accounts public section 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.

Authority

To ensure the authority of the Internal Audit function the following arrangements are in place:

- The function is headed by the Chief Internal Auditor, who reports administratively to the Chief Financial Officer.
- The Chief Internal Auditor maintains regular contact with Leadership Team, including regular meetings with the Chief Executive, Strategic Directors, Chief Officers' Group, 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.

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 have full, free and unrestricted access to records, personnel or property of the Council; relevant security and privacy

arrangements will be complied with.

Independence and objectivity

It is vital that the Internal Audit service remains independent and that the function remains free from all conditions that threaten the ability of the internal auditors to carry out their responsibilities in an unbiased manner. This includes audit selection, scope procedures, frequency, timing, and report content. Details of any impairment, in fact or appearance, will be reported by the Chief Internal Auditor to the Chair of the Audit and Governance Committee.

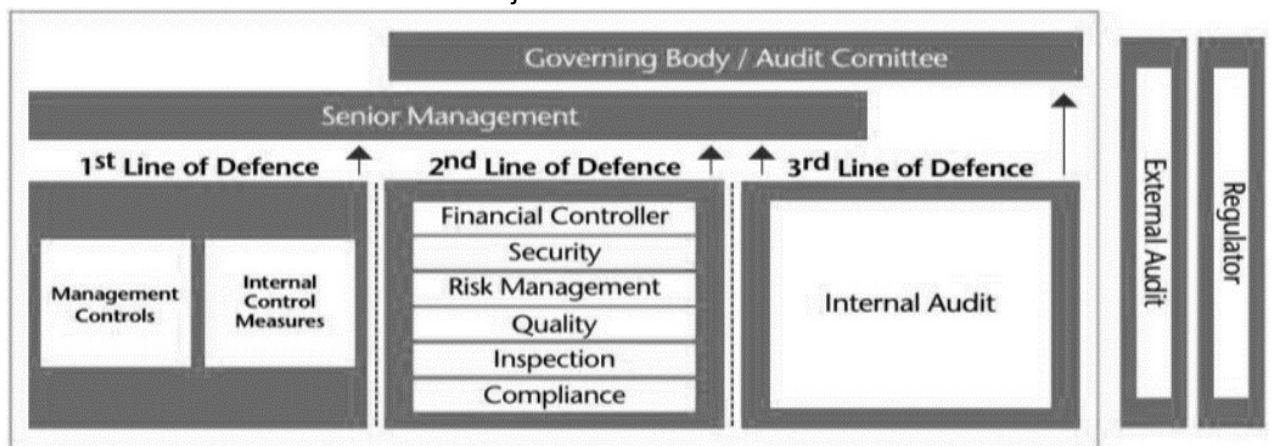
To ensure this independence and objectivity internal auditors provide advisory rather than decision making services, remaining independent of the activities we audit and rotating staff across audits.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or processes being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.

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:

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

Audit Approach

Internal Audit work will normally include, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments of the adequacy and effectiveness of governance, risk management, and control processes. Assessments include evaluating whether:

- Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed
- The actions of the Council's officers and elected members comply with our policies, procedures and applicable laws, regulations and governance standards
- Operations or programs are being carried out effectively and efficiently

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). Under these core principles Internal audit will always:

- Demonstrate integrity
- Demonstrate competence and due professional care
- Be objective and free from undue influence
- Align with strategies, objectives, and risks of the Council
- Be appropriately positioned and adequately resourced
- Demonstrate quality and continuous improvement
- Communicate effectively
- Produce risk-based assurance
- Be insightful, proactive, and future-focused
- Promote organizational improvement

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.

Deliverables and the timeline for the audit will be agreed as part of the terms of reference. If information is not provided to agreed milestones, we will agree revisions if appropriate. If, however, information is still not provided we reserve the right to issue a report specifying the impact of gaps in evidence and the assurance level provided will reflect this.

Planning and reporting

Internal Audit 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. 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.

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

- 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 or operational manager 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.

Assurance audits will give an assurance level assessment providing an indication of the relative impact of the service on the Council's overall governance and effectiveness.

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.

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 is subject to regular monitoring against the following measures.

Performance Indicator	Measure	Frequency
Percentage of audit plan delivered	Count of completion	Monthly, with quarterly reporting
Proportions of audit ratings	Count of ratings	Monthly, with quarterly reporting
Qualifications and training	Detail of qualifications held	Twice yearly
SRD output reviews	In line with corporate approach	Twice yearly
Percentage of audit actions accepted	Count of audit actions	Monthly, with quarterly reporting
Percentage of audit actions implemented on time	Count of audit actions against due date	Monthly, with quarterly reporting
Completed grant certifications	Count of certifications	Monthly, with quarterly reporting
Percentage of audits completed to milestone dates	Comparison of audit completions to milestone dates	Monthly, with quarterly reporting
Regular 121s held with each member of staff	Review of management information	Monthly, with quarterly reporting

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 which require assessment on a 5 year-basis. We will carry out self-assessment annually to ensure that these standards are met. We are planning to carry out an external assessment in 2023/24.