



ANNUAL REPORT OF INTERNAL AUDIT

2024/25

Date: September 2025

1. BACKGROUND

- 1.1 The Internal Audit Standards (the Standards) require the Head of Internal Audit to provide an annual Internal Audit Opinion and report that can be used by the organisation to inform its Annual Governance Statement.
- 1.2 The Standards specify that the annual report must contain:
- An Internal Audit opinion on the overall adequacy and effectiveness of the Council's governance, risk management and control framework;
 - A summary of the audit work (including organisational knowledge) from which the opinion is derived and any work by other assurance providers upon which reliance is placed; and
 - A statement of the extent of conformance with the Standards including progress against the improvement plan arising from external assessments.

2. INTERNAL AUDIT OPINION 2024/25

- 2.1 The Head of Internal Audit's overall opinion on the organisation's system of internal control is that:

Reasonable assurance can be given that there is an adequate and effective framework of governance, risk management and internal control in place, designed to meet the organisation's objectives.

Of the 7 graded assignments completed in 2024/25, 5 (71%) resulted in an opinion Substantial assurance, and 2 (29%) resulted in an opinion of Limited assurance.

The progress made by management in implementing the actions arising from audits has been good. Follow up work completed by Internal Audit has not highlighted any overdue High or Medium priority actions. Implementation of agreed control improvement actions strengthens the organisation's framework of governance, risk management and control.

The organisation has an embedded framework of risk management in place, with a clear focus on control and treatment. There were evidenced reviews and updates of the Strategic risk register during the year. The results of the Fraud Risk review were satisfactory.

The internal audit plan for 2025/26 includes a review of risk management controls. This work has already been completed with satisfactory results. The results of previous governance audits, such as on procurement, were also satisfactory. We will be reviewing and providing an opinion on other key governance areas in 2025/26 including performance, project, procurement and contract management.

2.2 A summary of Internal Audit assurance opinions issued in 2024/25 is shown in Table 1 below:

Table 1 – Summary of Internal Audit Opinions in 2024/25

Assurance Area	Substantial	Reasonable	Limited	No
Financial	4	1	0	0
Strategic & Operational Risks	1	1	0	0
Totals	5	2	0	0

3. REVIEW OF AUDIT COVERAGE

3.1 The Auditor's Opinion for each assignment is based on the fieldwork carried out to evaluate the design of the controls upon which management rely and to establish the extent to which controls are being complied with. The table below explains what the opinions mean:

Table 2 – Assurance Categories

Opinion	Definition
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

The prioritisation of recommendations made by Internal Audit is based upon an assessment of the level of risk exposure. The Auditor's Opinion considers the likelihood of corporate/ service objectives not being achieved, and the impact of any failure to achieve objectives. In order that recommendations can be

prioritised according to the potential severity of the risk, a traffic light system is used, aligned with the organisation’s risk assessment framework, as follows:

Table 3 – Definition of Priority of Recommendations

Risk Level	Definition Matrix
Very Low	No action needs to be taken on these risks or these risks can be carried. They will be recorded and monitored regularly to ensure that scores do not change.
Low	These risks both unlikely to occur and may be significant in their impact. They should be managed using normal or generic planning arrangements and require minimal monitoring and control. They will be monitored regularly to ensure that scores do not change.
Medium	These risks are less significant but may cause upset and inconvenience in the short term. These risks should be monitored to ensure that they are being appropriately managed, including generic emergency planning arrangements. They will be monitored regularly to ensure that scores do not change.
High	These risks are classed as significant irrespective of likelihood of occurrence. Considerations must be given to the development of strategies to eliminate risks, as well as mitigation by multi-agency, general planning, exercising and training. These risks will be frequently monitored.
Very High	These are primary or critical risks which require immediate attention. They may have high or low likelihood of occurrence, but the consequences must be treated as high priority. Strategies must be developed to reduce or eliminate risks along with mitigation by multi-agency, general planning, exercising and training. Risk must be frequently monitored, and considerations should be made towards specific planning, rather than specific.

Table 4 – Risk Matrix

RISK MATRIX						
Impact	Severe (5)					
	Major (4)					
	Moderate (3)					
	Minor (2)					
	Minimal (1)					
		Low (1)	Low/Medium (2)	Medium (3)	Medium/High (4)	High (5)
	Likelihood					

Table 5 – Impact and Likelihood Ratings

LEVEL	SERVICE DELIVERY	FINANCIAL	REPUTATIONAL
Severe	Major external interruption or loss	Greater than £5m	Extensive interest by national/international media requiring continued strategic response, press management resulting in sustained media exposure
Major	Noticeable external interruption or loss	£2.5m to £5m	Interest by national media requiring strategic response
Moderate	Significant internal interruption or loss	£1m to £2.5m	Significant interest by local/regional media with formal response required.
Minor	Internal interruption only	£0.5m to £1m	Minimal interest by local/regional media that may require informal or formal response
Insignificant	Unnoticeable internal interruption only	Less than £0.5m	Rumours - potential requirement for clarification of the facts

Descriptor	Description	Probability (over 3 years)
High	Near certain to occur	>75%
Medium/High	Will often occur	21-75%
Medium	May occur	6-20%
Low /Medium	Will seldom occur	1-5%
Low	May occur in exceptional circumstances	<1%

3.2 Summary of Internal Audit Work

Table 6 details the assurance levels resulting from all audits completed during the year:

Audit Area	Assurance Opinion
Financial	
Treasury Management	Substantial
Creditors	Substantial
Debtors	Substantial
Payroll	Substantial
Strategic & Operational Risks	
Cyber Security	Reasonable
Fraud Risk Review	Reasonable
On Call and Crew Systems Interface	Substantial
Follow up reviews	Substantial

Outlined at pages 12 to 16 is a short summary of the findings of each of the audits completed. It should be noted that many of these findings have previously been reported as part of the defined cycle of progress update reports provided to the Committee.

3.3 Adding Value

Much internal audit work is carried out “behind the scenes” and is demand led but is not always the subject of a formal report. Examples include:

- Governance e.g. assisting with the Annual Governance Statement.
- Dissemination of information regarding potential fraud cases likely to affect the organisation.
- Drawing managers’ attention to specific audit or risk issues.
- Internal audit recommendations: follow up review and advice.
- Day to day audit support and advice for example risk implications arising from proposed changes in controls.
- Networking with audit colleagues in other organisations on professional points of practice.

3.4 Service Performance in 2024/25

Description	Narrative	Target	Actual
Delivery	% of audit days delivered by Year End	90%	90% (86 days delivered against a target of 95)
Productivity	% of available time spent on productive audit work	80%	81% (prior year comparative: 66%)
Effectiveness	% of agreed recommendations implemented by the agreed date	75%	100%
Customer Satisfaction	% of Post Audit Questionnaires which have rated the service as "Very Good" or "Good"	80%	92% (result of client survey issued June 2025)

4. QUALITY ASSURANCE AND COMPLIANCE WITH PROFESSIONAL STANDARDS

- 4.1 The Public Sector Internal Audit Standards (the Standards) were adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) from April 2013. The Standards were intended to promote further improvement in the professionalism, quality, consistency and effectiveness of Internal Audit across the public sector.
- 4.2 The objectives of the Standards, which applied until 31st March 2025, were to:
- Define the nature of internal auditing within the public sector;
 - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
 - Establish the basis for evaluation of internal audit performance and to drive improvement planning.
- 4.3 The Standards required that an independent External Quality Assessment (EQA) of the service be completed every 5 years. An EQA was completed in the 2024/25 financial year, and the results confirmed that the service is operating **in General Conformance to the Standards**. This is the highest of the three available assessment grades. The findings of the external assessment were used to develop a new Quality Assurance policy.
- 4.4 As part of the EQA a client satisfaction survey was issued and based upon a response from 15 senior client officers and members across the shared service, there was a 92% positive satisfaction score. 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 reference material and Charter which are updated regularly to reflect the requirements of the standards and the changing environment that Internal Audit operates in. On-going dialogue is maintained with the s151 officer and the Client Officer Group which governs the shared service. The Client Officer Group for the Internal Audit Shared Service comprises all the partners' s151 Officers all whom actively encourage and support the on-going development of the service.

4.5 As noted at Paragraph 4.3 above, a new Quality Assurance policy was approved in September 2024. In accordance with the standards, the Head of Internal Audit is required to include a statement on compliance with the policy within this annual report. The Head of Internal Audit can confirm that the service operated in compliance with the policy from the date of its approval to the end of the financial year.

4.6 **Continuous Improvement in 2024/25**

In addition to implementation of the Quality Assurance policy, the following continuous improvements have been implemented by the Service during 2024/25:

- Introduction of a formal set of Key Performance Indicators for the service, with the results reported to the Audit & Standards Committee.
- Completion of an auditor skills review.
- Documented evaluation of fraud risks as a standard requirement for all audits.
- Aligning the grading of internal audit recommendations with those impact definitions used within the Authority's risk management process.
- Team training in environmental sustainability audit, and appointment of a service champion for this area.

4.7 **New Global Internal Audit Standards and 2025/26 Improvement Plan**

There are new Global Internal Audit Standards which apply for the 2025/26 financial year onwards. The new Standards cover five key areas (domains):

- The purpose of internal auditing
- Ethics and Professionalism
- Governing the Internal Audit function
- Managing the Internal Audit function
- Performing Internal Audit services

4.8 The Head of Internal Audit has reviewed the new Standards with the team and the following actions are planned to ensure compliance with the additional requirements:

Improvement Action	Planned Implementation Date
Ensure all members of the team are reminded of the requirements of the Code of Ethics. This covers integrity, objectivity, confidentiality, due care, professional conduct, conflicts of interest, use of information, and professional development.	October 2025
Ensure that additional professional development over and above mandatory corporate training is recorded on individual learning plans.	October 2025
Update the Internal Audit Charter to incorporate a mandate. The mandate will define why internal audit exists within the organisation. It will also specify the authority, role and responsibilities.	October 2025. The document will be submitted to the Audit & Standards Committee for approval.
Develop a formal Internal Audit Strategy setting out its vision, strategic objectives and supporting initiatives.	November 2025. The document will be submitted to the Audit & Standards Committee for approval.
As part of audit planning, consider how data analytics and Artificial Intelligence may be used to create more efficient and effective workflows.	November 2025. This will be considered alongside development of the Internal Audit Strategy.
Review communications to ensure the Service adopts the use of conclusions rather than opinions.	Completed

5. ORGANISATION INDEPENDENCE

If independence or objectivity is impaired in fact or appearance, the Head of Internal Audit is required to disclose this. The Head of Internal Audit can confirm that the Internal Audit service is independent and objective, and this is currently demonstrated in a number of ways:

- The Head of Internal Audit reports directly to the s151/ chief finance officer at all organisations in the Shared Service and the equivalent Audit Committee. He also has direct unfettered access to the Heads of Paid Service, Monitoring Officers and Chairs of the Audit Committees.
- Any attempts to unduly influence the scope of audit reviews or the contents of reports will be reported by the Head of Internal Audit to the Head of Paid Service and the Chair of the Audit Committee.
- All officers responsible for internal audit work are required to complete an annual Declaration of Interests form, which is in turn reviewed by the Head of Internal Audit. In the case of the Head of Internal Audit, the form is reviewed by the Director of Finance and Resources (s151 officer) at

Worcester City Council. Auditors are required to report any interests that might compromise the impartiality of their professional judgements – or give rise to a perception that this impartiality has been compromised. Any conflicts of interest are avoided when allocating assignments.

- The Audit and Standards Committee approves any significant consultancy activity included in the Internal Audit Plan.

6. LIMITATIONS INHERENT TO THE WORK OF INTERNAL AUDIT

Internal Audit undertakes a programme of work agreed by the Council's senior managers and approved by the Audit Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant responsible managers. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work, were excluded from the scope of individual internal audit assignments or were not brought to the attention of Internal Audit. As a consequence, the Audit Committee should be aware that the Audit Opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to Internal Audit's attention.

Internal Control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees, management override of controls, and unforeseeable circumstances.

Future Periods

The assessment of each audit area is relevant to the time that the audit was completed. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance, and for the prevention or



detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected, additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.

7. SUMMARY OF INTERNAL AUDIT FINDINGS

<u>Audit Area</u>	<u>Assurance Rating</u>	<u>Summary of Findings/ Comments</u>
Treasury Management	Substantial	<p>The objective of this audit was to provide assurance that the Service Level Agreement with Worcestershire County Council (WCC) provides good value, and that there is monitoring of the cash flow to ensure sufficient funds are available to maximise investment opportunities where possible.</p> <p>The scope covered:</p> <ul style="list-style-type: none"> • Strategy, reporting and performance monitoring • Value for money • Cash flow management processes <p>Internal Audit's opinion is that WCC has appropriate resourcing and resilience to carry out the investments and if this activity was brought back in house, there would be recruitment and resource costs for an officer with the appropriate expertise. A separate treasury management strategy and practices would be required; therefore, there would be additional internal costs and a transfer of risk.</p> <p>The Authority is provided with useful insights into investments held through the quarterly reporting.</p> <p>Cashflow documents clearly shows future expected balances held. Cashflow is also managed prudently and not leaving the authority vulnerable to liquidity risk.</p> <p>There were no significant weaknesses or recommendations arising from the review, and accordingly a Substantial level of assurance was provided.</p>
Creditors	Substantial	<p>This audit was designed to provide assurance that payments to suppliers are only made where goods/services have been received and have only been made once for the correct amount.</p> <p>The scope covered:</p> <ul style="list-style-type: none"> • Review of policies and procedures from the initial ordering of the goods/service to the payment authorisation.

<u>Audit Area</u>	<u>Assurance Rating</u>	<u>Summary of Findings/ Comments</u>
		<ul style="list-style-type: none"> • System controls including segregation of duties and system access rights. • Accuracy of invoices/credit notes received, matching to orders, VAT (number and calculation), addressee etc., and payment in line with the prompt payment code. • New suppliers and change of supplier details. • Reconciliations. <p>The following areas were found to be well managed:</p> <ul style="list-style-type: none"> • There are well controlled procedures in place for the ordering, authorisation and payment of invoices. • The procedures that are in place for the addition of new suppliers and amendment to current suppliers were deemed to be robust, which was reflected in the results of our testing. • There are well controlled BACS procedures in place with payments authorised in accordance with the bank mandates. • The accounts payable to general ledger reconciliations for the year all bore evidence of preparation and review. • The IT user access listing was found to be up to date. <p>There were no significant weaknesses or recommendations arising from the review, and accordingly a Substantial level of assurance was provided.</p>
Debtors	Substantial	<p>This audit was designed to provide assurance that debts are raised and managed in line with service policies and procedures.</p> <p>The scope covered:</p> <ul style="list-style-type: none"> • Procedures for the raising of debts. • Issued Credit Notes, and the recording of receipts. • Debt Management, including the timeliness of debt raising, supporting documentation held, and actions taken to recover the debts. • Reconciliations. • IT User Access Rights.

<u>Audit Area</u>	<u>Assurance Rating</u>	<u>Summary of Findings/ Comments</u>
		<p>The raising, processing and collection of debtor invoices was judged to be a well-run process with all invoices being raised in line with standard fees and charges.</p> <p>The debt collection procedures are well controlled; we found that 98.5% of debts had been collected for the period reviewed.</p> <p>The accounts receivable to general ledger reconciliations all bore evidence of preparation and review.</p> <p>The IT user access listing was found to be up to date.</p> <p>There were no significant weaknesses or recommendations arising from the review, and accordingly a Substantial level of assurance was provided.</p>
Payroll	Substantial	<p>The objective of this audit was to provide assurance that:</p> <ul style="list-style-type: none"> • Only bona fide employees are being paid correctly and in a timely manner. • There is quality and accuracy of the payroll data files received from Warwickshire County Council. <p>The scope covered:</p> <ul style="list-style-type: none"> • Starters and Leavers • Deductions – PAYE, NIC, Pensions etc. • The process for ensuring the quality and accuracy of the payroll data files. <p>The review found the following areas of the system were working well:</p> <ul style="list-style-type: none"> • Strong processes and defined responsibilities for the management of payroll. • Accuracy of payroll data, including but not limited to deductions, expenses and overtime. • Controls to ensure accuracy during data transfer. <p>There were no significant weaknesses or recommendations arising from the review, and accordingly a Substantial level of assurance was provided.</p>

<u>Audit Area</u>	<u>Assurance Rating</u>	<u>Summary of Findings/ Comments</u>
Cyber Security	Reasonable	<p>The objective of this audit was to provide assurance that Cyber Security risks are being appropriately managed and mitigated as far as practicable by the Authority.</p> <p>The scope covered:</p> <ul style="list-style-type: none"> • Identification and control of ICT service risks • Confirmation of implementation of recommendations from the previous ICT Security Internal Audit Report in 2022-23 • Backups and data recovery • Staff training <p>The review found the following areas to be working well:</p> <ul style="list-style-type: none"> • A sound framework of Security Policies and Procedures, including Cyber Protection, were in place. • Effective technical and procedural cyber protection measures • Progress against recommendations from the previous audit was found to be satisfactory <p>The audit highlighted scope to improve management monitoring to gain assurance that staff have completed appropriate cyber security awareness training. It was also recommended that an Incident Procedure document be introduced for Helpdesk staff. Management also agreed to implement bimonthly meetings with a Strategic Leadership Board (SLB) member to discuss ICT service performance and KPIs.</p>
Fraud Risk Review	Reasonable	<p>The objective of this audit was to provide assurance that the Authority has risk assessment arrangements in place to identify fraud, bribery and corruption schemes and risks, with actions to mitigate them.</p> <p>The scope covered:</p> <ul style="list-style-type: none"> • Review of policies and procedures that support fraud assessment • Fraud exposures identification and evaluation process • Monitoring and reporting of fraud risks, including actions to mitigate them <p>The following areas were found to be well managed:</p>

Audit Area	Assurance Rating	Summary of Findings/ Comments
		<ul style="list-style-type: none"> • A system for reporting potential fraud and corruption is in place • Policies and procedural guidelines for fraud and corruption risks are promptly available to staff. <p>The report noted that, whilst fraud risks have been recorded in two department risk registers, assurance cannot be provided that fraud risk assessment is consistently performed and documented across the authority. Management has agreed action to address this.</p>
On Call and Crew Systems – Interface Testing	Substantial	<p>This audit was designed to provide assurance that on call and crew systems interfaces provide accurate and meaningful data which fits the needs of the organisation.</p> <p>The scope covered:</p> <ul style="list-style-type: none"> • Accuracy of data regarding crew availability and competencies • Usefulness of on call and crew systems data in providing sufficient information to make operational and strategic decisions. <p>The following areas were found to be well managed:</p> <ul style="list-style-type: none"> • Systems were easily navigable, providing detailing information with minimal input • There are robust controls in place, such as procedures, software features, and policy documents, to ensure the provision of accurate data. • Officer training appears to be monitored and does not appear to be negatively impacting resources. <p>There were low priority findings relating to software bugs, inputting of training details, and general administration. Management have agreed to address these risks as part of an ongoing move to a new system specification. The issues identified were not significant and, as such, a Substantial level of assurance was provided.</p>
Follow up of Recommendations	Substantial	The results of follow up audit reviews have been satisfactory, with no overdue recommendations at the time of reporting.