



ANNUAL REPORT OF INTERNAL AUDIT

2025/26

Date: April 2026

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 2025/26

- 2.1 The Head of Internal Audit's overall conclusion 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 2025/26, 4 (57%) resulted in an opinion Substantial assurance, and 3 (43%) resulted in an opinion of Reasonable assurance.

The progress made by management in implementing the actions arising from audits has been good. Follow up work completed by Internal Audit has identified only 3 medium priority actions which are currently overdue. Medium priority actions are defined as "less significant". 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. Governance related audits on Risk Management, and Procurement & Contract Management, resulted in opinions of reasonable assurance, indicating a generally sound system of governance, risk management, and control.

The provisional plan for 2026/27 contains further governance related audits of Data Protection and compliance with the Transparency Code; as well as audits in areas identified by the annual risk assessment and discussion with senior leadership.

- 2.2 A summary of Internal Audit assurance opinions issued in 2025/26 is shown in Table 1 below:

Table 1 – Summary of Internal Audit Opinions in 2025/26

Assurance Area	Substantial	Reasonable	Limited	No
Financial	1	0	0	0
Strategic & Cross-Cutting	1	2	0	0
Operational Risks	2	1	0	0
Totals	4	3	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 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	£2m to £5m	Interest by national media requiring strategic response
Moderate	Significant internal interruption or loss	£1m to £2m	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

Table 6 –Likelihood Ratings

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

Audit Area	Assurance Opinion
Financial	
Main Ledger	Substantial
Strategic & Operational Risks	
Procurement and Contract Management	Reasonable
Unwanted Fire Signals	Reasonable
Risk Management	Reasonable
Performance Management & Data Quality	Substantial
Project Management	Substantial
Follow up reviews	Substantial

Outlined at pages 11 to 17 is a short summary of the findings of each of the audits completed. It should be noted that most 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 2025/26

Description	Narrative	Target	Actual
Delivery	% of audit days delivered by Year End	90%	88% (92 days delivered against a target of 104). Note, this figure is as at 13/03/2026 and is not the final outturn.
Productivity	% of available time spent on productive audit work	85%	87% (prior year comparative 81%)
Effectiveness	% of agreed recommendations implemented by the agreed date	75%	88% (prior year comparative 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) A further analysis of client feedback will be undertaken in Q1, 2026/27

4. QUALITY ASSURANCE AND COMPLIANCE WITH PROFESSIONAL STANDARDS

- 4.1 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.
- 4.2 A 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.

4.3 Global Internal Audit Standards and 2025/26 Improvement Plan

The Global Internal Audit Standards apply for the 2025/26 financial year onwards. The 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

4.4 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 was operating in **General Conformance to the Standards**. This is the highest of the three available assessment grades. Whilst this EQA was completed under the previous Public Sector Internal Audit Standards, it also considered the requirements of the new Global Standards. The next external assessment of the service is due in 2029/30.

4.5 The Head of Internal Audit has reviewed the new Standards with the team, and the following actions were developed to ensure compliance with the additional requirements:

Improvement Action	Implementation Date/ Comments
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.	Independent training on integrity and objectivity was delivered to the whole team in November 2025.
Ensure that additional professional development over and above mandatory corporate training is recorded on individual learning plans.	This will be covered off during annual appraisal and development reviews in May 2026.
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.	Completed. The document is submitted to the Audit & Standards Committee for approval in March 2026.

Improvement Action	Implementation Date/ Comments
Develop a formal Internal Audit Strategy setting out its vision, strategic objectives and supporting initiatives.	Completed. The document is submitted to the Audit & Standards Committee for approval in March 2026.
As part of audit planning, consider how data analytics and Artificial Intelligence may be used to create more efficient and effective workflows.	This has been incorporated within the new Internal Audit Strategy. The team will consider how this can be taken forward for 2026/27.
Review communications to ensure the Service adopts the use of conclusions rather than opinions.	Completed.

4.6 With the actions taken and in progress as noted in the table above, the annual self-assessment conclusion of the Head of Internal Audit is that the Internal Audit service is operating in general conformance to the Global Internal Audit Standards.

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>Status</u>	<u>Anticipated Reporting Date</u>	<u>Assurance Rating</u>	<u>Summary of Findings/ Comments</u>
Main Ledger including Process Changes	Final Report issued	January 2026 (actual)	Substantial	<p>The objective of this audit was to provide assurance that main ledger controls are adequately designed and operating as intended to support the production of accurate financial statements.</p> <p>The scope covered:</p> <ul style="list-style-type: none"> • Design and operating effectiveness of process-level controls to mitigate significant risks • Reconciliation to subsidiary ledgers • Journals and suspense account <p>The review found the following areas to be working well:</p> <ul style="list-style-type: none"> • Journal controls are appropriately designed to mitigate the risk of fraud and were confirmed to be operating effectively. • Suspense account balances remained immaterial throughout the period, with most transactions relating to pensions with work ongoing to reduce pension postings to suspense. Other transactions were nonrecurring, and there is no indication that existing controls are ineffective. • Reconciliation processes are appropriately designed, and reconciliations have been performed at suitable intervals to reduce risk. Sample testing confirmed that approvals were correctly processed and reconciling items were appropriately addressed where present



<u>Audit Area</u>	<u>Status</u>	<u>Anticipated Reporting Date</u>	<u>Assurance Rating</u>	<u>Summary of Findings/ Comments</u>
				No findings were identified based on the work undertaken and assessment against the authority's risk management strategy.
Procurement & Contract Management	Final Report issued	November 2025 (actual)	Reasonable	<p>From February 2025, the Procurement Act 2023 came into force. The objective of this audit was to provide assurance that procurement and contract management controls are sufficient and operating as intended to ensure compliance, effectiveness.</p> <p>The scope covered:</p> <ul style="list-style-type: none"> • Procurement processes <ul style="list-style-type: none"> ○ Compliance with legislation ○ Tendering and selection processes ○ Segregation of duties and approval thresholds • Contract management processes <ul style="list-style-type: none"> ○ Documentation and recording keeping ○ Monitoring of performance • Governance and oversight arrangements <ul style="list-style-type: none"> ○ Reporting and oversight by senior management ○ Training and development ○ Management of conflicts of interest <p>The review identified the following areas to be working well:</p> <ul style="list-style-type: none"> • There are appropriate guidance and support arrangements for service managers. • Procurements tested by Internal Audit had been appropriately advertised using the Central Digital Platform.

<u>Audit Area</u>	<u>Status</u>	<u>Anticipated Reporting Date</u>	<u>Assurance Rating</u>	<u>Summary of Findings/ Comments</u>
				<ul style="list-style-type: none"> Tender assessment criteria are detailed, considerate of operational and strategic objectives, and have been assessed in accordance with legislation. <p>The review identified 1 high level risk regarding communication and monitoring of aggregate contract value. Where contracts are retained on a rolling basis there is a risk that cumulative contract values could transcend procurement thresholds. Management has agreed to provide further training to officers, and to review existing contracts.</p>
Performance Management & Data Quality	Final Report issued	September 2025 (actual)	Substantial	<p>The objective of this audit was to provide assurance that information used for performance management is sufficient, appropriate, and accurate for the organisation and key stakeholders.</p> <p>The scope covered:</p> <ul style="list-style-type: none"> Review of the data processing procedures including: <ul style="list-style-type: none"> Gathering of data Review and amendments Analysis of data and transformation into a suitable format Review of the process for data provision to key stakeholders, including but not limited to: <ul style="list-style-type: none"> Ministry of Housing, Communities and Local Government (MHCLG), formerly Home Office His Majesty's Inspectorate of Constabulary and Fire & Rescue Services Senior Management and Members <p>The review found the following areas to be working well:</p>

<u>Audit Area</u>	<u>Status</u>	<u>Anticipated Reporting Date</u>	<u>Assurance Rating</u>	<u>Summary of Findings/ Comments</u>
				<ul style="list-style-type: none"> • Data preparation is mostly free from intervention which may manipulate data, with appropriate controls in operation • The Performance and Information department has a culture of continuous improvement. • No indications of inaccurate or incomplete data were identified. <p>The audit identified scope to improve the system of control and risk management such as increased use of data validation and entries to the department risk register.</p>
Unwanted Fire Signals – Quality Assurance Process	Final Report issued	August 2025 (actual)	Reasonable	<p>In September 2024, the Service introduced a new policy in order to reduce the number of unwanted fire signals (UwFS) that are attended. The objective of this audit was to provide assurance that new procedures have been consistently applied and that where inconsistency has occurred, this is reasonable and evidenced.</p> <p>The scope covered:</p> <ul style="list-style-type: none"> • Review the accuracy of the application of UwFS policy, to include: <ul style="list-style-type: none"> ○ Consistency of call filtering ○ Adherence to Automatic Fire Alarm (AFA) response timeframes ○ Identification of inconsistencies in the application of the policy, as part of the internal quality assurance process, and the sharing of information to ensure shared learning and development. <p>The review found the following areas of the system were working well:</p>



<u>Audit Area</u>	<u>Status</u>	<u>Anticipated Reporting Date</u>	<u>Assurance Rating</u>	<u>Summary of Findings/ Comments</u>
				<ul style="list-style-type: none"> • Testing did not identify any unexplainable instances of call filtering use outside of UwFS Policy timeframes or non-attendance to incidents where a fire was present, indicating that call handlers are consistently applying timeframes and consistently providing a response where necessary. • Call handlers are successfully utilising available site intel to make informed decisions when call filtering. <p>The audit highlighted scope to improve the internal Quality Assurance process, for example by incorporating structured feedback to reduce the risk of recurring errors which may result in repeated attendance to false alarms.</p>
Risk Management	Final Report issued	December 2025 (actual)	Reasonable	<p>The objective of this audit was to provide assurance that organisation risk management controls are adequate, sufficient, and operating effectively.</p> <p>The scope covered:</p> <ul style="list-style-type: none"> • Review of the Organisational Risk Management Policy, including consistency of application • Review of strategic and department risk registers for completeness, accuracy, and consistency of approach • Assessment of risk monitoring controls. <p>The following areas were found to be working well:</p> <ul style="list-style-type: none"> • Department review processes appear consistent, with only small variations. • Strategic risk register is appropriately managed by senior leadership. <p>The following findings were identified:</p>

<u>Audit Area</u>	<u>Status</u>	<u>Anticipated Reporting Date</u>	<u>Assurance Rating</u>	<u>Summary of Findings/ Comments</u>
				<ul style="list-style-type: none"> • The rationale for impact and likelihood definitions requires updating. • Some of the roles and responsibilities outlined in the policy do not accurately reflect actual practice. • There is scope to improve the documentation which evidence oversight of risk management activities. Examples include the dates of planned and actual actions taken, and reviews of control effectiveness.
Project Management	Final Report Issued	November 2025 (actual)	Substantial	<p>The objective of this audit was to provide assurance that project management controls are robust, evidenced, and operating effectively to mitigate risk. This did not include capital projects managed in partnership with the Office of the Police and Crime Commissioner (OPCC).</p> <p>The scope covered:</p> <ul style="list-style-type: none"> • Review of processes including: <ul style="list-style-type: none"> ○ Risk management ○ Resource management ○ Monitoring and reporting ○ Retrospective review and learning <p>The review identified adequate process level controls in operation with only minor variations in practice, supported by robust governance controls. Control activities are deemed appropriate to manage significant risks in the audited area.</p> <p>The review identified the following scope for improvement:</p> <ul style="list-style-type: none"> • Adoption of an established or hybrid methodology, such as PRINCE2, may further strengthen control activities particularly in terms of uniformity and cohesiveness.

<u>Audit Area</u>	<u>Status</u>	<u>Anticipated Reporting Date</u>	<u>Assurance Rating</u>	<u>Summary of Findings/ Comments</u>
				<ul style="list-style-type: none"> • Risk and portfolio scoring should be revised by either aligning it with the organisation's risk management framework, or through more developed definitions for scoring. • Post-completion learning could be enhanced by formalising lessons learnt. This may also contribute to resilience where staffing changes.
Follow up of Recommendations	Work completed for 2025/26	March 2026	Substantial	<p>Performance has been good, with 88% of actions implemented by the agreed date. At the time of reporting, 3 medium priority actions have passed their target implementation date, with a further 8 actions not yet due.</p> <p>1 overdue action relates to rectification of bugs within the crewing roster software. Changes to the implementation date are not deemed to be concerning given management there are alternative control measures in place, and that medium priority actions are defined as "less significant".</p> <p>The remaining 2 overdue actions relate to an incident procedure policy for ICT help desk staff and minor amendments to the service intranet in respect of fraud detection guidance. The Head of ICT has confirmed that both actions are underway but are not yet at full completion. As above, management are working to resolve these "less significant" action and have communicated with Internal Audit.</p> <p>At this stage, there is no indication that management will fail to implement the agreed actions.</p>