

**Wirral Council
Internal Audit Service**

**Chief Internal Auditor's
Annual Report and Opinion on the
System of Internal Control
2015/16**

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1 Management Summary

1.1 Head of Internal Audit Opinion

Significant steps were taken during the year by the Chief Executive and his management team to continue to develop and implement more effective control and governance arrangements and embed an organisational infrastructure to serve the organisation more effectively. This has taken place against a backdrop of significant organisational transformation and in an environment of severe financial constraint and as such should be commended.

1.2 My Overall Opinion is that:

Assurance can be given that there is a sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently.

1.3 Basis of the Opinion

My opinion has been based on:

- Our assessment of the governance arrangements;
- Our assessment of the risk management arrangements and the framework of assurance; and
- The outcomes of our risk-based assignments.

1.4 Corporate Governance

The Code of Corporate Governance has been publicised on the Council's intranet, so as to raise awareness amongst officers and members of the principles of corporate governance and the importance of their commitment to compliance.

Internal Audit has standing membership on the Corporate Governance Group and uses this to raise governance issues highlighted in Internal Audit reports, as well as reviewing evidence of the progress being made in respect of Significant Governance Issues highlighted in the Annual Governance Statement.

Progress has been made during the year to address the four Significant Governance Issues highlighted in the Annual Governance Statement 2014/15.

1.5 Risk Management Arrangements

During the year, an updated Risk Management policy was approved by Cabinet. In accordance with the Policy, the Corporate Risk

Register is populated with risks to the achievement of the Council's corporate objectives, and each risk is allocated to a responsible Lead Officer. The highest rated ("red") risks, and changes to the risk ratings are considered regularly by the Corporate Governance Group and Strategic Leadership Team; and the Audit and Risk Management Committee also receives regular reports on risk.

The Internal Audit review conducted during the year identified positive progress in the development of the system, but also highlighted some areas for improvement. The implementation of the recommendations will link to the implementation of the revised performance management arrangements to support the Wirral Plan. The recommendations will also link to the outcomes of the CIPFA Risk Management benchmarking exercise, for which an action plan is in place.

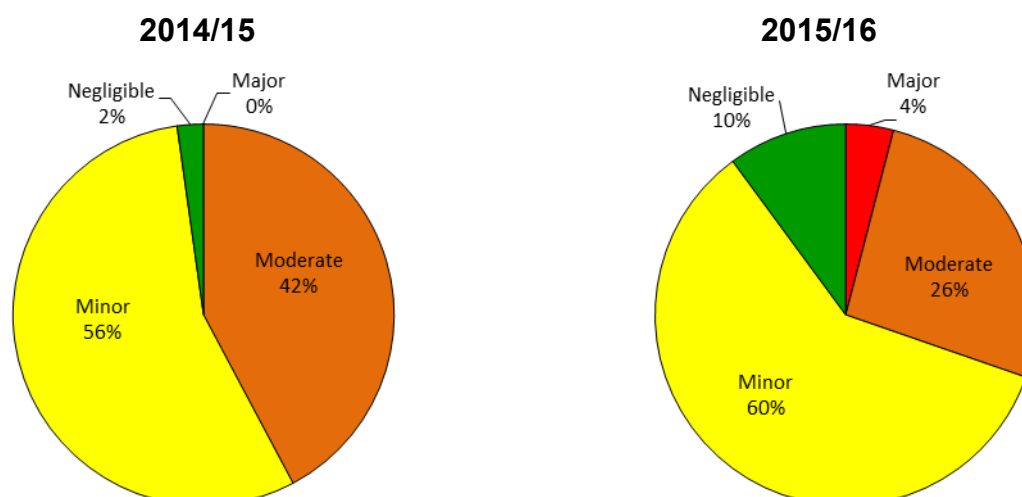
1.6 Framework of Assurance

The Corporate Governance Group chaired and supported by the Strategic Director for Transformation and Resources, a member of the Strategic Leadership Team, met regularly during 2015/16, using the comprehensive framework of assurance to demonstrate how assurance is provided to the Chief Executives Strategic Leadership Team and the Audit and Risk Management Committee. Regular updates were provided to this group during the year on all of these key assurance components and action plans covering key areas for development and improvement monitored. This included the comprehensive action report covering the Significant Governance Issues arising from the 2015/16 Annual Governance Statement and on which progress has been made.

1.7 Risk Based Assignments

Arising from the agreed plan of work a total of 97 individual pieces of work including reports, actions plans, briefing notes and memos have been issued. The work undertaken contributes to my overall opinion on the control environment; all of the reports issued identified an organisational risk opinion and have informed the opinion in this report as noted in the charts below.

The risk opinions included in audit reports identify the actual risk to the organisation of the audit findings taking account of the impact and likelihood of occurrence with 'Major' being the most significant and 'Negligible' presenting the least risk.



The charts illustrate the opinions provided in audit reports produced during 2015/16 and the previous year 2014/15. When comparing the two years the most notable feature is the reduction in the number of audits identifying a 'Moderate' risk opinion and the corresponding increase in the lesser 'Minor' and 'Negligible' risk opinions which is encouraging and suggests that there is an increased awareness and understanding of the need for robust systems of control and governance across management, particularly important during periods of significant transformation and change. Those audits identifying 'Major' risk opinions remain reasonably static over the two years.

The individual assignments identifying major or moderate organisational risk opinions were reported to the Strategic Leadership Team and the Audit and Risk Management Committee during the year due to their significance and have been taken account of when formulating my overall opinion. In the majority of these cases all of the issues arising have been attended to by senior management in year and the follow ups have indicated a strengthening of controls in these areas.

1.8 Key Control Developments in year that support the Opinion

- There have been a number of significant improvements to the organisation's governance and control environment and therefore reduced exposure to controllable risk,
- Following the Corporate Peer Challenge during the year further work has been undertaken to strengthen arrangements in a number of areas including working with partners,
- Revised performance management arrangements to support the delivery of the Plan are being implemented including the new

Performance Appraisal system and Skills for Wirral training and development programme,

- The organisation has updated its Corporate Risk Management Policy and has participated in a benchmarking exercise so as to compare the Council's risk management systems with those of other Councils. The Corporate Governance Group, the Strategic Leadership Team and the Audit and Risk Management Committee regularly consider reports on risk, in accordance with the Risk Management Policy,
- Risk Registers have been reviewed and refined to ensure that they reflect the critical risk issues that the organisation currently faces,
- Engagement sessions have taken place with staff to attempt to embed the Wirral vision and values across the organisation, more work of this nature is scheduled during 2016/17,
- Development of the Wirral Plan to highlight the Council's vision, and values and take account of emerging priorities,
- Enhanced engagement with all stakeholders including the Council's budget consultation,
- The Councils Constitution and Scheme of Delegation has been reviewed and revised to ensure continued ongoing fitness for purpose,
- Development and implementation of the new Medium Term Financial Strategy 2016-21,
- The corporate Information Governance Board has established itself as the driver for corporate improvements in information governance,
- All Internal Audit reports issued with a major or moderate organisational risk opinion in 2015/16 have had follow up work undertaken and significant improvements have been made in these areas,
- The response to the financial irregularities identified with petty cash management has been swift and effective with the account being closed and all transactions now undertaken by the Business Support Team or via Selfserve and P-Cards,
- Reduction in the number of cash transactions across the Authority has resulted in significant progress in the development of alternative non-cash based systems,
- Expenses and mileage claims are now processed on-line through the Selfserve HR system which has enhanced the control environment for these payments.

As the risk profile of the organisation continues to change due to the reduced funding, alternative delivery models and subsequent reduced staffing levels, the requirement to have robust proportionate governance arrangements in place will significantly increase. Internal Audit will continue to play a proactive role in further strengthening the Council's control and governance.

2. Opinion

2.1 Roles and Responsibilities

The Council is accountable collectively for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement (AGS) is an annual statement by the Council setting out:

- How the responsibilities of the Council are discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- The purpose of the governance arrangements as evidenced by a description of the risk management and review processes; and
- The conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

The Council's framework of assurance should bring together all of the evidence required to support the Annual Governance Statement.

The role of the Chief Internal Auditor (CIA), in accordance with the CIPFA Code and the new Public Sector Internal Audit Standards (PSIAS), is to provide an annual opinion, based upon (and limited to) the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes i.e. the organisation's system of internal control. This is achieved through a risk based plan of work, agreed with management and approved by the Audit and Risk Management Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that internal audit have reviewed all risks and assurances relating to the Council. The purpose of the opinion is to contribute to the assurances available to the Council which underpin the Council's own assessment of the effectiveness of the organisation's governance arrangements and system of internal control. My opinion is one component that the Council takes into account in compiling its Annual Governance Statement. In particular, apart from the overall opinion, where 'Major' or 'Moderate' organisational risk opinions have been issued against individual audits, then the Council should assess whether or not the sources of those opinions and subsequent actions taken to address issues necessitate the need for a disclosure of a significant issue.

2.2 Chief Internal Auditors Opinion

My overall opinion is that:

Assurance can be given that there is a sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently.

2.3 Basis of the Opinion

The basis for forming my opinion is as follows:

- An assessment of the Code of Corporate Governance and its operation including underpinning processes;
- An assessment of the risk management arrangements and the framework of assurance; and
- An assessment of the range of individual opinions arising from risk based audit assignments, contained within the internal audit risk based plan that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses. A number of reports have identified major or moderate organisational risks opinions during the year however all of these reports have recommended actions which when implemented will reduce the level of risk to the organisation. Internal Audit perform work to gain assurance that the recommendations have been implemented and report the findings to the Strategic Leadership Team and Audit and Risk Management Committee Members each month; and progress to date in year is good.

2.4 The Code of Corporate Governance and associated processes

An assessment against the Code of Corporate Governance was undertaken by Internal Audit against the CIPFA/SOLACE Good Governance Framework. Overall design of controls was seen to be satisfactory and compliant with the requirements of the framework The Code was reviewed, refreshed and approved by the Audit and Risk Management Committee in September 2013, and is publicised on the Council's Intranet. A review and update of the Code is to be completed following the publication of the updated CIPFA/ SOLACE guidance document. An e-learning package will be constructed to accompany this.

2.4.1 Significant Governance Issues from 2014/15

The Annual Governance Statement 2014/15 detailed four Significant Governance Issues, and an action plan to address these has been in place during the year. There has been progress in respect of these issues and the Audit and Risk Management Committee have received updates on this during the year. The current position is that sufficient

progress has been made in respect of Procurement, Absence Management and ICT Business Continuity/Disaster Recovery for them not to be currently classified as significant issues whilst further work is currently ongoing regarding Cultural compliance which remains a significant issue going forward with more focussed work scheduled to be undertaken by the organisation during 2016/17. More detail on this is provided in the Annual Governance Statement for 2015/16.

2.4.2 ICT

Internal audit have continued to work with ICT managers during 2015/16 to identify key risks in this area of operations that has been subject to significant change as well as continually assessing and evaluating controls in place to mitigate emerging threats such as Cyber Security.

2.4.3 Business Continuity and Disaster Recovery

The projects to develop robust business continuity and disaster recovery arrangements continued through the year. This has included the ongoing development of business continuity plans for critical services and work to relocate the Council's primary data centre.

This does however remain an ongoing risk to the organisation that should be addressed at the earliest opportunity, monitoring and reporting of progress in this area by Internal Audit and the Corporate Governance Group will continue during 2016/17.

2.4.4 Information Governance

Information Governance remains a developing area and has seen some improvements in 2015-16 that includes the appointment of an Information Governance Security Officer and the ongoing work of the Information Governance Board to establish effective policy, procedure and good working practices across the organisation. However work undertaken during the year by Internal Audit clearly indicates that there remain a number of potential weaknesses in this area of operations that require the attention of management and the SIRO. The organisation is currently proactively working on a voluntary basis with the ICO to address issues in this area and improve arrangements.

Internal Audit remains an active participant in the officers Information Governance Board and will ensure that information risk receives appropriate focus during 2016/17 including necessary actions to address reported weaknesses.

2.5 **The design and operation of the Risk Management arrangements and the framework of assurance**

The Corporate Risk Register is intended to be a critical means by which the Council assures itself that risks to its corporate objectives are being managed. As such it is also central to the methodology by which the Council conducts its assessment of its governance arrangements and its review of the system of internal control.

The Audit and Risk Management Committee is presented with regular updates on the Corporate Risk Register at its scheduled meetings including summary reports of all risks together with new risks added during 2015/16.

The Corporate Governance Group and the Chief Executives Strategic Leadership Team received the Corporate Risk Register on a quarterly basis during 2015/16. Strategic and departmental management teams also discuss regularly the key risks on the register including reports identifying finance, audit and activity reports and performance management reports that highlight key risks to the achievement of the Council's corporate objectives.

The Risk Management Policy was revised for 2015/16 and was approved by Cabinet in March 2015. The Internal Audit review conducted during the year identified positive progress in the development of the system, but also highlighted some areas for improvement. The implementation of the recommendations will link to the implementation of the revised performance management arrangements to support the Wirral Plan. The recommendations will also link to the outcomes of the CIPFA Risk Management benchmarking exercise, for which an action plan is in place.

2.6 The range of individual opinions arising from risk-based audit assignments contained within the internal audit plan that have been reported throughout the year.

This element of the opinion is based on an assessment of the range of individual opinions arising from risk based audit assignments, contained within the internal audit plan that have been reported throughout the year. On 18 March 2015 the Annual Internal Audit Plan was agreed by the Audit and Risk Management Committee. During the year regular updates including any necessary changes to the plan were reported to, and agreed by, the Audit and Risk Management Committee. Arising from the agreed plan of work a total of 97 reports, action plans, memos and briefing notes have been issued. All of the work undertaken contributes to my overall opinion on the control environment; all of the reports issued contained a formal organisational risk opinion and have informed the opinion in this report. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses. The outcomes section of this report gives fuller details of:

- Performance against plan;
- Unplanned work undertaken;
- Key points arising where our organisational risk opinion was 'major'; and
- Follow up work undertaken.

2.6.1 Fundamental Financial Systems

The internal audit plan included reviews of the core financial systems which underpin the system of internal control and financial reporting. This work is designed to provide assurance that the control environment for each system is robust and we have continued to develop a suite of Computer Assisted Audit Techniques (CAATs) that enable us to test whole databases wherever possible as well as samples of individual transactions. It is used to support the work of External Audit in their review of the Statement of Accounts and significantly informs the Chief Internal Auditor's opinion. A summary of the opinions from these system audits completed in the year are identified below:

Audit	Organisation Risk
Accounts Payable	Moderate
Bank Reconciliation (Drawings Account)	Moderate
Benefits	Negligible
Budget Cycle (Revenue)	Negligible
Capital Investment Programme	Minor
Counter Fraud Proactive Work (Officers Expenses, Gifts, Hospitality, Conflicts of Interests etc.)	Minor
Debt Management (Personal Finance Unit)	Moderate
General Ledger	Negligible
Income Management	Minor
MPF – Benefit Payments	Moderate
MPF – Contract Procedures	Moderate
MPF – LGPS Annual Return	Minor
MPF – Pensions Payroll	Minor
NDR (Reliefs & Exemptions)	Minor
Payroll System (Data Testing)	Minor
Treasury Management	Minor

2.6.2 Merseyside Pension Fund

Given, the complex nature of the Pension Fund operations and the materiality of the finances involved, its inherent risk level is significant. The delivery of the Internal Audit service to the Pension Fund has been developed and mutually agreed via a service level agreement (SLA), so as to formalise the audit relationship; clarify responsibilities and obligations on both sides; and embed positive practices. The SLA has now been operational for three years and has enhanced the effectiveness of the Internal Audit service to the Fund who have provided very positive feedback on the assurance work undertaken. The approved programme for 2015/6 included audits within the Benefits, Payroll, Member Services, and Investment Contract risk areas.

As in the previous year, the review of the Benefits system focused on providing assurance on the payment of retirement benefits following the implementation of the Local Government Pension Scheme 2014. Again it supported the co-operative arrangement with the external auditors by incorporating a programme of compliance tests on a sample of transactions pre-selected by Grant Thornton.

An audit was also completed to ensure the risks associated with the regulatory changes within the Pension Scheme Act 2015, referred to within the industry as 'Freedom & Choice', had been addressed. The outcomes from this work, together with the audit of the pension's payroll system, concluded that these operational processes are robust.

A requested audit review undertaken on an investment advisory contract did identify an issue of non-compliance with the contract procedure rules. Therefore further assurance work was completed across all MPF contracts to ensure that this finding was an isolated case and not indicative of a larger problem. The review concluded that the MPF contract processes are effective in ensuring compliance with the corporate regulations and MPF policies.

On the basis of the work undertaken during the year, the overall assurance opinion is that 'the internal control environment for the Pension Fund is adequately designed and operated'. The Pension Fund Management Team continues to ensure identified risks are effectively managed and the recommendations emanating from the audit work are consistently and effectively implemented within the agreed timescales.

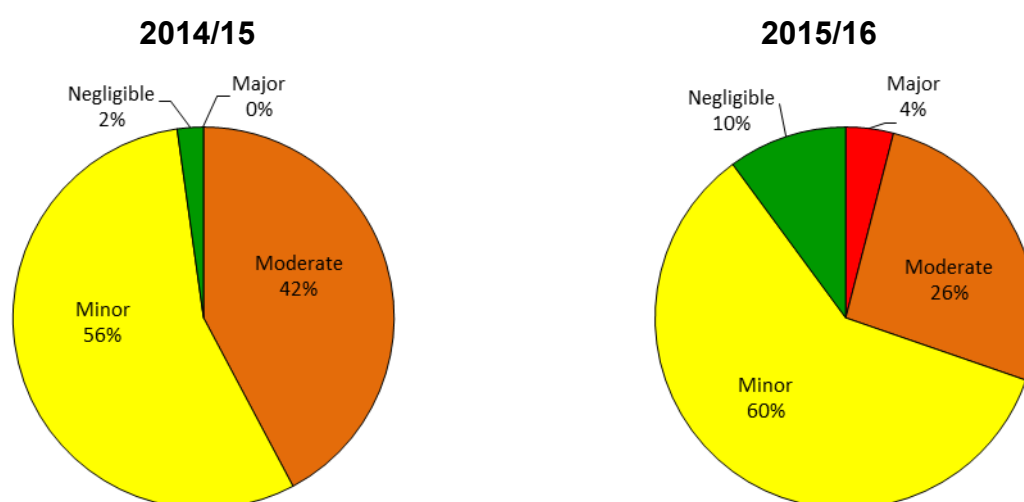
3. Audit Outcomes 2015/16

Assurances Issued During 2015/16

My opinion has taken account of the relative materiality of areas reviewed and management's progress in respect of addressing control weaknesses. Whilst all audit outcomes have contributed to the overall opinion, the following reviews and their outcomes are considered particularly relevant in determining my overall opinion.

3.1 Audit Opinions Provided

The charts below illustrate the opinions provided in audit reports produced during 2015/16 and the previous year 2014/15. These opinions identify the risk to the organisation of the audit findings taking account of the impact and likelihood of occurrence with 'Major' being the most significant and 'Negligible' presenting the least risk. When comparing the two years the most notable feature is the reduction in 2015/16 of the number of audits identifying a 'Moderate' risk opinion and the corresponding increase in the lesser 'Minor' and 'Negligible' risk opinions which is encouraging and suggests that there is an increased awareness and understanding of the need for robust systems of control and governance across management, particularly important during periods of significant transformation and change. Those audits identifying 'Major' risk opinions remain reasonably static over the two years.



These opinions are explained in more detail below:

3.2 Negligible Organisational Risk Opinion

A Negligible organisational risk indicates that there were no weaknesses identified during the audit review and that the Council is not exposed to any risks directly associated with the findings. This opinion was provided for the following audits:

- Better Care Fund
- Biffa Contract Savings
- ERDF Merseyside Business Support Programme Procurement Exercise Health Check
- Financial Procedures Protocol
- General Ledger
- Housing Benefit Subsidy Claim 2013/14
- Local Welfare Assistance Scheme
- Revenue Budget Cycle - Departments
- School presentation / self-assessment
- Training Costs - Recoverable

3.3 Minor Organisational Risk Opinion

A Minor organisational risk indicates that the likelihood/impact of the risks identified during the review, should they materialise, would leave the Council open to minor non fundamental or material risk. This opinion was provided for the following audits:

- Contract Procedure Rules
- Capital Investment Programme
- Procurement Exercise Health Check
- Gifts, Hospitality and Conflicts of Interest
- Homelessness
- Income and Banking
- CRCEES
- Officers' Expenses
- Official Form Declarations (Internal)
- Library / One Stop Shop - Income Systems
- MFP-Member Records LGPS Annual Return
- Library IT system Cross Departmental Working
- MPF Pensions Payroll
- NDR Reliefs and Exemptions
- P & P System
- Parks & Countryside Services
- Patch Management
- Payroll System - IDEA testing
- Pensions Reform 2015 (Freedom & Choice)
- Barnston Primary School

- Supporting People
- Transaction Centre
- Transaction Centre - Petty Cash Operation
- Treasury Management
- WASBT
- Wirral Evolutions
- Wirral Evolutions Day Services
- Bedford Drive Primary School
- Black Horse Hill Primary School
- Brackenwood Infant School
- Brentwood Nursery School
- Brookdale Primary School
- Cathcart Street Primary School
- Christ Church CE (B'Head)
- Christ Church CE Primary School (Moreton)
- Eastway Primary School
- Higher Bebington Junior School
- Holy Cross Catholic Primary School
- Kilgarth School
- Ladymount RC Primary School
- Leasowe Nursery School & Family Centre
- Meadowside School
- Mount Primary School
- New Brighton Primary School
- Overchurch Infant School
- Overchurch Junior School
- Riverside Primary School
- Rock Ferry Primary School
- Sacred Heart Catholic Primary School
- Secondary School Financial Reporting
- Somerville Primary School
- St Albans Catholic Primary School
- St John's Catholic Infant School
- St Joseph's Catholic Primary School (Wallasey)
- St. Pauls RC Primary School
- Stanley School
- Stanton Road Primary School
- West Kirby Primary School
- Woodchurch Road Primary School

3.4 **Moderate Organisational Risk Opinion**

A Moderate organisational risk opinion indicates that the likelihood/impact of the risks identified during the review, should these materialise, would leave the Council open to a moderate risk of a fundamental or material nature. This opinion suggests that there are some weaknesses in the design and/or operation of the control environment that may have varying degrees of impact on the

achievement of systems and/or corporate objectives. This opinion was provided for the following audits:

- Accounts Payable
- Constitution
- Contract Tender Procedures - West Kirby Concourse
- Debt Management
- Elections
- Foster Care
- Foxfield School
- Gilbrook School
- Health, Safety & Resilience
- Bank Reconciliation - Drawings Account
- Implementation of the Care Act 2014
- Liquidlogic
- Management of Leavers
- Confidential Reporting (Whistleblowing)
- MPF - Contract Procedures
- MPF Retirement Benefit Payments
- Officers' Vehicle Use
- Organisational Change
- Our Lady & St Edwards RC Primary School
- Performance Management and Planning
- Personal Finance Unit
- Risk Management
- Safeguarding Children
- Thornton Hough Primary
- Transport Unit

3.5 Major Organisational Risk Opinion

A Major organisational risk opinion indicates that the likelihood/impact of the risks identified during the review, should these materialise, would leave the Council open to a major risk of a fundamental or material nature. This opinion suggests that there are some potentially serious weaknesses in the design and/or operation of the control environment that may have a significant impact on the achievement of systems and/or corporate objectives if not addressed.

The schedule below identifies the 4 reports out of the total of 97 produced during the year that contained 'Major organisational risk opinions. A number of these assignments were identified by Chief Officers from individual directorates in year, commissioning audit work in these areas. In all cases management action to address reported weaknesses was agreed and appropriate actions taken during the year as indicated.

Subject	Outcome
Organisational Culture	Follow up work is ongoing to review the improvements being made to the Council's culture and compliance. This remains a key corporate issue and an action plan is in place to address the weaknesses identified in the audit, and broader themes emanating from the Corporate Peer Challenge.
MPF – Contract Procedures	An audit undertaken of an investment advisory contract identified an issue of non-compliance with the contract procedure rules. Further assurance work was completed across all MPF contracts to ensure that this finding was an isolated case and not indicative of a larger problem. The review concluded that the MPF contract processes are effective in ensuring compliance with the corporate regulations and MPF policies. Recommendations to further enhance the control environment have been agreed by MPF management.
Direct Payments	A follow up audit has been conducted and highlighted that progress had been made in implementing each of the recommendations. The follow up review was appreciated by the client as it helped to provide focus on the further work required as the system develops and to ensure full implementation. It is expected that full implementation will be achieved during 2016/17.
Sport and Recreation Income	Follow up work is in progress to review the improvements being made to Sport and Recreation (Leisure Centres) Income. An implementation date for each recommendation was provided in the response to the original report, with all recommendations expected to be implemented by April 2016. Initial discussions have indicated that good progress is being made.

3.6 Additional Work during 2015/16

Additional work by internal audit during the year has included involvement in investigation work, input to developing systems and a separate programme of work for Counter Fraud, including strategy development and raising awareness.

3.6.1 Counter Fraud

An initial exercise was undertaken to assess the Council's measures to counter fraud and corruption against CIPFA's new Code of Practice on Managing the Risk of Fraud and Corruption, which all authorities should comply with. The findings indicated that overall good practice advocated by CIPFA was being followed, where appropriate, and that the necessary policies and procedures were in place to support this approach. However, since our initial assessment CIPFA has issued a guidance document and assessment tool to accompany the Code which will be used to undertake further work of this nature in 2016/17.

The Mersey Region Fraud Group, which Wirral Internal Audit take the lead on continues to develop a regional approach to counter fraud, including the production of generic policies and procedures and undertaking collaborative working in targeted areas, such as data matching and other counter fraud exercises.

Wirral Council were successful in securing separate funding from the DCLG to purchase a 'Counter Fraud App' from the Intec Group. The app can be utilised by members of the public to report fraud and keep up to date on threats in the local area.

During the year the team ran a week long Public Fraud Awareness Campaign from 16-22 November 2015, in collaboration with the Fraud Team (Benefits and Revenues), Insurance & Risk, Publicity and other neighbouring authorities, which was aimed at raising public awareness of fraud and encouraging Wirral Residents/Businesses to help spot and report fraud. The campaign involved posters and leaflets in Council run public buildings, advertisements in the local newspapers and messages on the Council's Website, Facebook/Twitter pages and the One Stop Shop plasma screens.

Since the campaign the team has seen an increase in the number of referrals and the number of investigations that they were asked to both undertake or to provide advice and support with.

3.6.2 CIPFA Fraud and Corruption Tracker (CFaCT)

CIPFA have established a new national Counter Fraud Centre (CFC) to lead on work to counter fraud and corruption across public services. In May 2015 the CFC carried out an annual survey of fraud and corruption detected in local authorities in England. The survey is similar to the former Annual Fraud and Corruption Survey delivered by the Audit Commission and includes questions commissioned by the Fighting Fraud Locally Board and the Home Office, to provide a picture of the amount of detected fraud, emerging risks and actions taken by local authorities across the country to combat fraud and corruption.

The highest results of fraud risks were in the generic areas pertinent to all organisations, in particular Procurement fraud, Abuse of Position and Debt fraud. There were also high figures for local authority specific areas in Social Care and Business Rates.

A number of emerging threats were identified such as:

- Organisational change which leads to fraud risks.
- Personal budgets and direct payments.
- Cyber and e-enabled fraud.

These areas have been incorporated into the annual Internal Audit planning process and audit work has been identified that will be undertaken during 2016/17.

3.6.3 National Fraud Initiative

The National Fraud Initiative has continued following the abolition of the Audit Commission in March 2015 with responsibility for the national exercise transferring to the Cabinet Office.

Data sets were submitted in October 2014 for the 2014/15 National Fraud Initiative biennial data matching exercise and results of data matches were received at the end of January 2015. For this current NFI exercise £164,812.02 has been identified to date, of which £164,506.71 is being recovered.

The team has worked with departments to develop and implement Action Plans taking into account lessons learnt from this exercise. The aim being to identify common themes and recurring types of fraud and error so that departments can identify what changes can be made and measures taken to reduce their incidence.

3.6.4 Investigations

For the financial year 2015/16 Internal Audit received 33 reports and referrals via a number of sources. This represents an increase of 83% from 2014/15 and is partly due to an increased awareness of fraud risks amongst employees and members of the public as a result of successful publicity campaigns run during the year. The type of issues covered a broad spectrum of the Council's activities.

3.6.5 Developing Systems

During the year Internal Audit has had input to a number of systems being developed that includes the following, advising on the control environment and proportionate risk responses:

- Better Care Fund
- Public Liability Claims (Self Handling)
- Housing Benefit & Council Tax Support (Verification Policy)
- Implementation of the Care Act 2014
- Troubled Families Programme
- ICT "Target Operating Environment" project
- ICT in Council Libraries

3.6.6 Value for Money work

Whilst value for money work is implicit within all audit work a limited number of specific exercises have been undertaken during the year as detailed below. Time has been included within the Audit Plan to develop this approach and increase our focus in this area on proactive, value adding reviews to support the organisation in delivering increased budget savings and managing service redesign. Work in this area will undoubtedly increase and this has been reflected in the work plan. Developments have taken place during the year to improve our approach to this including new operational practices and reporting formats that are now in operation and encompass a review of the

effectiveness/VFM approaches in place.

- Performance Management
- Parks and Countryside

3.7 **Schools Work**

The objective of the schools audits was to form an opinion on the effectiveness of the controls within schools in ensuring appropriate levels of governance are exercised by the governing body and schools management over the delegated budget.

A risk self-assessment approach has been developed during 2015/16 that ensures a much more effective use of internal audit resources and targets those schools which are most in need of independent review and advice in a more timely fashion.

This approach involves the utilisation of an audit questionnaire designed to enable the assessment of controls currently in operation at schools on a more timely basis. The questionnaire highlights a range of high risk controls and systems, including those affected by recent changes in LA procedures, such as income and banking processes. Audit findings identified during the year include over thirty assurance opinions rated as 'Good', a clear indication that the approach has been well received and has encouraged schools to 'take ownership' of these systems and with ongoing support and guidance from Internal Audit and the LMS Unit ensure that appropriate and effective systems of control are in operation.

The Wirral Electronic School Communications Website (WESCOM) is currently being utilised by Internal Audit to convey best practice learning points in response to issues raised during individual audits for the collective benefit of all schools. Customer feedback in response to the new audit approach has been extremely positive to date.

3.8 **Other Work**

The internal audit team's resources have been applied in several other respects:

- Support to the Audit and Risk Management Committee;
- Attendance at monthly meetings with the Chair of the Audit and Risk Management Committee;
- Support to and attendance at the Corporate Governance Group;
- Support to and attendance at the Information Governance Board;

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- Analysis of the HB Subsidy Claim to provide additional verification in support of the external audit on specific LHA cases.
- Attendance at regular meetings with the Chief Finance Officer;
- Attendance at regular meetings with the Strategic Director for Transformation and Resources;
- Regular attendance at the Strategic Leadership Team;
- Attendance at Departmental Management Team meetings
- Regular meetings with Strategic Directors
- Grant claims;
- Provision of ad-hoc advice;
- Annual planning and reporting and;
- Collation of evidence for the preparation of the 2015/16 Annual Governance Statement.

4 Effectiveness of Internal Audit

4.1 Internal Audit Standards

Internal Audit fully complies with the CIPFA Code of Practice for Internal Audit which has until recently been the pre-eminent best practice standard for public sector internal audit providers.

From 2013 Internal Audit are required to adhere to the new Public Sector Internal Audit Standards (PSIAS) which will replace the Code of Practice and require all public sector internal audit providers to be fully compliant with by 2018. Regular update reports on this have been presented to the Audit and Risk Management Committee during 2015/16 advising Members of the evolving requirements and progress being made by the service to become compliant. This has included the completion of a self-assessment exercise against the new standards that effectively introduce more demanding targets for internal audit across the public sector. A small number of areas have been identified for development and are included in an action plan being utilised by the service to ensure full compliance by the required deadline.

The new Public Sector Internal Audit Standards (PSIAS) note that a professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. The PSIAS require an external assessment of the service at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The scope of the external assessment will be agreed with the Section 151 Officer and the Chair of the Audit & Risk Management Committee as well as with the external assessor or assessment team.

It is the intention of Wirral Council to adopt the peer challenge assessment approach developed by the North West Chief Internal Auditors Group. This approach is acknowledged and supported by the Chartered Institute of Public Finance Accountants (CIPFA), the Chartered Institute of Internal Auditors (CIIA) and External Audit colleagues as being a best practice method of satisfying the requirements of the Standards and ensuring that internal audit are providing a robust and effective service. The objective of the group is to implement this approach during 2016/17.

In March of this year Grant Thornton presented its draft Audit Plan to the Council and within it acknowledged that “the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment to the Council”:

4.2 Internal Audit Developments

A number of improvements have been made during the year to the Internal Audit Service that have been designed to increase the overall efficiency and effectiveness of systems of internal audit across the Council. Some of these improvements include:

- The implementation of a revised audit report format incorporating opinions on organisational impact;
- Developed reporting arrangements for Chief Officers and Members;
- Development of self-assessment approach to auditing Schools promoting ownership of issues and utilising audit resources more efficiently;
- Developed performance management system incorporating more effective reporting facilities;
- Developed approach to AGS work incorporating changes resulting from new CIPFA/SOLACE best practice guidance;
- Utilisation of the Intranet to communicate more effectively the outcomes of Schools audits and best practice points of note,
- Improved engagement with Chief Officers, managers and Members;
- Improved reporting arrangements for ARMC members;
- Reviewed and revised Internal Audit Strategy and Charter incorporating changes resulting from Public Sector Internal Auditing Standards;
- Regular scheduled attendance at departmental management meetings and the Chief Executives Strategy Group/Senior Leadership Team by the Chief Internal Auditor;
- Ongoing benchmarking against other audit service providers;
- Enhanced relations with Chief Internal Auditors from across the North West region;
- Further development of the Mersey Counter Fraud Group including the establishment of protocols and collaborative cross boundary working;
- Implementation of a comprehensive Quality Assurance Improvement Programme in compliance with the Public Sector Internal Auditing Standards;

Ongoing developments to be carried forward into 2016/17 include the following:

- Continued development of the Intranet facility as a vehicle for communicating audit and risk related issues to clients;
- Implementation of developed planning and management system incorporating automated working papers;
- Development of the Internal Audit Strategy, Charter and working arrangements to include recent updates to the Public Sector Internal Auditing Standards (2016);

- The implementation of a fully automated 'paperless' working environment and increased use of mobile technology and flexible working to increase efficiencies;
- Development of more collaborative proactive counter fraud working across the Mersey region;
- Development of local arrangements to ensure compliance with the Local Audit and Accountability Act, specifically regarding Audit Panels and the procurement of external audit services;
- Continued development of more collaborative working arrangements with colleagues from other organisations to address skills and capacity requirements;
- Further develop the extent of the value for money work undertaken;
- Full compliance with the Public Sector Internal Audit Standards;

The ultimate aim of these initiatives is to make the very best use of resources and to continue to deliver a cost effective, value added internal audit service to the Council.

4.3 Performance Indicators

For 2015/16 the internal audit service continued to set some challenging targets for all of its key measures, but particularly 'plan delivery' and 'acceptance of High priority recommendations'.

These indicators form part of the overall service performance reporting information for senior management and the Audit and Risk Management Committee.

For 2015/16 summaries of the post audit feedback forms indicate an overall satisfaction rate of 100% with the audit service, with over 88% of respondents noting that they were 'very satisfied' with the service provided.

The table below details the key performance measures relating to Internal Audit and actual performance for 2015/16:

IA Performance Indicator	Target	Actual
Percentage delivery of IA Plan 2015/16	100	100
Percentage of High priority recommendations agreed with clients.	100	100
Percentage of returned client survey forms indicating satisfaction with the IA service.	80	100
Percentage of internal audit reports issued within 10 days of completion of fieldwork.	100	98

4.3.1 Completion of the Internal Audit Plan for 2015/16:

The plan was 90% complete as at the 31 March with 10% carried over into 2016/17 with completion during April/May 2016. This predominately related to ICT audit work commissioned late in the year following the departure of the Principal ICT Auditor which ran over into 2016/17. At the time of writing this report the IA Plan for 2015/16 was 100% complete. All of the contingency days were used in investigations work, this equates to 9% of the audit days available.

4.3.2 Final reports issued within 10 working days of completion of fieldwork:

The average delay on top of this was 1 day and the majority were delays in obtaining management responses to the reports, a factor largely beyond the control of Internal Audit management.

4.3.3 Comments received on the Customer Survey Feedback Questionnaires:

“Good approach and excellent communication process throughout”

“the report will assist us in tightening our internal control systems”

“Very satisfied with the support provided”

“the recommendations will ensure needed improvements are made”

“An informative and professional service”

“the Auditor was helpful, courteous, constructive and professional”

Minuted feedback received from the Audit and Risk Management Committee during 2015/16:

“Members offered their congratulations on the work of the Internal Audit Team”

“The Vice-Chair commended the Internal Audit team on their work, noting that Wirral was held in high esteem for its efforts in the protection of the public purse, the Chair echoed Councillor Abbey’s comments, thanking the Officer for his report”.

4.4 Follow up Procedure

Internal audit undertake a follow up audit of every completed assignment and report the findings to senior management, the Senior Leadership Team and the Audit and Risk Management Committee. A summary of all recommendations made for each report is provided for the Audit and Risk Management Committee Members each month identifying:

- The actual number of recommendations made for each report and the narrative for each High risk recommendation made;
- The opinions provided in each audit report;
- The position statement for each recommendation;
- RAG ratings indicating actions required and follow up status.

Where there is a failure to implement agreed critical or high priority recommendations by the due date, without any justification for not doing so, a formal process of notification to the Chief Officer and SLT followed by referral to the Audit and Risk Management Committee is in operation.

4.5 Working with External Audit

The Government introduced new legislation for local audit during 2013. The legislation abolishes the Audit Commission and in line with the government changes the Audit Commission appointed Grant Thornton as the Council's external auditors until 2017. The close links with External Audit continue to be important particularly given this change and we have liaised during the year with External Audit to ensure that we avoid unnecessary duplication and use resources to the best effect. Close links with External Audit have been evidenced by:

- Provision of our plan to them for comment,
- Sharing of our reports and working papers,
- Local progress meetings on a regular basis; and,
- The development and implementation of a formal working protocol.

4.6 Working relationships

Internal audit have continued to enjoy positive working relationships with staff at all levels of the Council. This assistance is acknowledged and welcomed.

1 Scope, Responsibilities and Assurance

1.1 Approach

- 1.1.1 In accordance with the CIPFA Code of Audit Practice and the Public Sector Internal Auditing Standards, the scope of internal audit encompasses all of the Council's operations, resources and services including where they are provided by other organisations on their behalf.

1.2 Responsibilities of Management and Internal Auditors

- 1.2.1 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.
- 1.2.2 However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to Chief Officers as they have become known to us, without undue delay, and have worked with them to develop proposals for remedial action.
- 1.2.3 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.
- 1.2.4 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

1.3 Basis of Our Assessment

- 1.3.1 My opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken and completed during the period in accordance with the plan approved by the Audit and Risk Management Committee. We have obtained sufficient, reliable and relevant evidence to support the recommendations that we have made.

1.4 Limitations to the Scope of Our Work

- 1.4.1 There have been no limitations to the scope of our work.

1.5 Limitations on the assurance that internal audit can provide

- 1.5.1 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.
- 1.5.2 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

1.6 Access to this Report and Responsibility to Third Parties

- 1.6.1 This report is prepared solely for Wirral Council and forms part of a continuing dialogue between the Internal Audit Service, the Director of Finance, Chief Executive, Audit and Risk Management Committee and management of the Council. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- 1.6.2 I acknowledge that this report may be made available to other parties, such as the external auditors. I accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, I expect the external auditors to determine for themselves the extent to which they choose to utilise our work.