



**Audit and Risk Management Committee**  
**Monday, 23 July 2018**

|                      |                               |
|----------------------|-------------------------------|
| <b>REPORT TITLE:</b> | <b>INTERNAL AUDIT UPDATE</b>  |
| <b>REPORT OF:</b>    | <b>CHIEF INTERNAL AUDITOR</b> |

**REPORT SUMMARY**

This report identifies and evaluates the performance of the Internal Audit Service and includes details of any issues arising from the actual work undertaken during the period 1<sup>st</sup> March to 31 May 2018. There are 4 items of note concerning audit work undertaken that are brought to the attention of the Members for this period and these are identified at Section 3.2.

**RECOMMENDATION**

Members note the report.

## **SUPPORTING INFORMATION**

### **1.0 REASON FOR RECOMMENDATION**

- 1.1 To provide the Members with assurance that the Council is taking appropriate measures to ensure that the control environment is effective and to comply with statutory requirements to provide an adequate and effective internal audit service.
- 1.2 To ensure that risks to the Council are managed effectively.
- 1.3 To ensure that the Council complies with best practice guidance identified in the CIPFA publication 'A Toolkit for Local Authority Audit Committees'.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 No other options considered.

### **3.0 BACKGROUND AND AUDIT OUTPUT**

- 3.1. Internal Audit operate an effective reporting mechanism for Members of the Audit and Risk Management Committee that summarises audit work completed and identifies issues raised on timely bi-monthly basis. This report supports these arrangements by focussing on the following:

- Any items of note arising from audit work conducted,
- Any issues arising that require actions to be taken by Members,
- Performance information relating to the Internal Audit Service,
- Developments being undertaken to improve the effectiveness of the Internal Audit Service.

The information contained within this report is for the period 1<sup>st</sup> March to 31<sup>st</sup> May 2018.

#### **3.2. Items of Note**

##### **3.2.a Accounts Payable**

Members will recall that in 2017 Internal Audit undertook audit work to evaluate the effectiveness of controls in operation over bank mandates following notification of a potential fraud in this area involving a supplier to the Council. Amendments to the processes for changing bank account details on the Accounts Payable (AP) supplier file were identified, and arrangements to further strengthen controls in this area agreed with management. A follow up systems based audit has now been completed to assess the impact of these changes on the system for processing changes to the AP supplier file regarding bank account details.

The findings from the work undertaken indicate that the internal control framework as designed can provide reasonable assurance if agreed working

practices are followed at all times. Further opportunities were identified to enhance the framework and a number of recommendations were agreed with the system managers to address the developing threats in this area of operations.

### 3.2.b Merseyside Pension Fund

A report was recently presented to the Pensions Board summarising the nature and extent of the audit work undertaken at the Fund during 2017/18 and providing opinion as to the adequacy effectiveness of the overall control and governance arrangements in operation. It is pleasing to note that the overall opinion was very positive and acknowledges the robust nature of the arrangements in operation in what is a very high risk area of operations. More details on this can be found in the Chief Internal Auditors Annual report.

### 3.2.c Wirral Growth Company

During the reporting period Internal Audit have continued to be involved in the Finance work stream relating to the development of the Wirral Growth Company. It is essential that ongoing risks are identified and properly evaluated with a project of this nature and size, and Internal Audit aim to continue to provide ongoing input into this initiative through attendance at work streams, assisting with risk identification, review of development partner's processes and associated testing as works commence.

### 3.2.d ICT Audit Work

Audit work has been focussed in the following areas this period and upon completion of detailed audits to evaluate and test the effectiveness of controls in operation actions were agreed with management to address a small number of issues identified for improvement:

- IT Equipment Procurement
- Data Centre Security

It is pleasing to note that management response has been immediate with agreed actions implemented. Follow up work will be conducted later in the year to evaluate the impact of actions taken and outcomes reported to this Committee.

## 3.3 Outstanding Audit Recommendations

3.3.a Attached at Appendix 1 is a 'tracker' table identifying information relating to those audits where recommended actions included in audit reports for the current year to date have not been fully implemented within agreed timescales and yet still present a serious risk.

3.3.b Where items are addressed by officers those entries are removed from the report on a rolling basis.

- 3.3.c All of the reports identifying outstanding actions are currently BRAG rated as 'amber' indicating that progress is being made to address identified issues. A report on developments that are currently taking place to improve corporate risk management arrangements is included elsewhere on the agenda for tonight's meeting.

### 3.4 Internal Audit Performance Indicators

- 3.4.a The Service constantly evaluates and measures the effectiveness of its performance in terms of both quality and productivity by means of a number of performance indicators in key areas as identified below. These include delivery of the annual Internal Audit Plan and ensuring that all of the audits identified in the plan are completed on schedule. This is particularly important at the present time as the requirement for Internal Audit involvement in a number of important corporate initiatives has increased dramatically.

| IA Performance Indicator   | Target & (No) | Actual |
|--|---------------|--------|
| Percentage delivery of Internal Audit Plan 2017/18.  | 10            | 6      |
| Percentage of High priority recommendations agreed with clients.   | 100           | 100    |
| Percentage of returned client survey forms for the reporting period indicating satisfaction with the Internal Audit service. | 90<br>(18)    | 100    |
| Percentage of internal audit reports issued within 10 days of the completion of fieldwork.                                   | 100           | 100    |

- 3.4.b There are currently no significant issues arising.

### 3.5 Internal Audit Developments

#### 3.5.a Continuous Improvement

This is important to the overall efficiency and effectiveness of the Internal Audit Service and as such a Continuous Internal Audit Improvement and Development Plan has been formulated that incorporates new and developing areas of best practice from across the profession, ensuring that the service continues to constantly challenge how efficient and effective it is at delivering its service to all of its stakeholders and making any relevant changes and improvements as required. Some of the actions currently ongoing include:

- Ongoing improvement of corporate counter fraud awareness across the Council as evidenced in Counter Fraud Update reports presented to this Committee;
- Continuing development of more automated utilisation and storage of audit working papers and reports to evidence and support audit findings and comply with GDPR;
- Continued ongoing development of the Mersey Region Counter Fraud group led by Wirral Internal Audit to include more joint fraud exercises and training across the local region and the North West of England;
- Completion of self-assessment against QAIP, and reporting to ARMC;
- Continuing development of the Wirral Assurance Map identifying areas of assurance for the Council for utilisation in audit planning process;
- Ongoing improvements to the audit reporting format;
- Improvements to Schools assessment questionnaire incorporating more emphasis on information governance following GDPR;
- Improvements to the audit planning process for 2018/19.

#### **4.0 FINANCIAL IMPLICATIONS**

4.1 There are none arising from this report.

#### **5.0 LEGAL IMPLICATIONS**

5.1 There are none arising from this report.

#### **6.0 RESOURCE IMPLICATIONS**

6.1 There is none arising from this report.

#### **7.0 RELEVANT RISKS**

7.1 Appropriate actions are not taken by officers and Members in response to the identification of risks to the achievement of the Council's objectives.

7.2 Potential failure of the Audit and Risk Management Committee to comply with best professional practice and thereby not function in an efficient and effective manner.

#### **8.0 ENGAGEMENT/CONSULTATION**

8.1 Members of this Committee are consulted throughout the process of delivering the Internal Audit Plan and the content of this regular routine report.

#### **9.0 EQUALITY IMPLICATIONS**

9.1 There are none arising from this report.

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## **APPENDICES**

Appendix 1:                      Audit Recommendations Status Report

## **REFERENCE MATERIAL**

Internal Audit Plan 2017/18 & 2018/19

## **SUBJECT HISTORY (last 3 years)**

| <b>Council Meeting</b>              | <b>Date</b>   |
|-------------------------------------|---|
| Audit and Risk Management Committee | Routine report presented to all meetings of this Committee. |