



Chief Internal Auditor's Annual Report and Opinion on the System of Internal Control 2019/20

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Executive Summary

1.1 Introduction

In accordance with the Public Sector Internal Audit Standards (PSIAS), the Chief Internal Auditor is required to provide an annual opinion on the overall adequacy and effectiveness of the organisation's control and governance processes. This is achieved through delivering a risk-based plan of work (the Internal Audit Plan), which has been agreed with management and approved by the Audit and Risk Management Committee. The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the organisation. However, the Chief Internal Auditors opinion forms one of the sources of assurance that underpins the Council's Annual Governance Statement.

1.2 Overall Assurance

In providing an opinion it should be noted that assurance can never be absolute. The work of Internal Audit can only provide reasonable assurance that there are no major weaknesses in the Council's control and governance processes. The opinion provided is based on the work completed by internal audit and reported to the Audit and Risk Management Committee. It must be noted that there may be weaknesses in the Council's systems of internal control that have not been identified if they did not form part of the programme of audit work completed or were excluded from the scope of individual internal audit assignments.

1.3 Opinion

In the opinion of the Chief Internal Auditor, the Council generally maintains adequate and effective control and governance processes overall. This opinion is based on audit work performed during 2019/20 and from cumulative knowledge of the organisation.

There has been positive engagement with management in agreeing recommendations where audit work has identified weaknesses in the design or application of controls. Action plans are in place to address all issues identified through the work of internal audit. The results of the follow up audits completed provide assurance that the actions agreed in response to audit reports are being implemented.

Section Two

Basis of the Opinion

2.1 Planned coverage and output

Internal audit completed 84% of the planned audits and delivered over one hundred individual assignments across a wide range of service areas during 2019/20 up to the outbreak of the Covid-19 pandemic in mid-March 2020 with 100% of actions identified in audit reports agreed with clients for implementation. The ability of the team to comprehensively complete all of the work identified during the year was directly affected by the advent of Covid-19, preventing completion of a number of audit assignments that were in progress at the date of the outbreak, however coverage is considered sufficient and wide-ranging enough to allow a confident and evidence-based annual audit opinion. It is important to note that the overall opinion is based on internal audit work undertaken during 2019/20, the vast majority of which took place prior to Covid-19 and the resulting emergency measures being implemented. Covid-19 has resulted in a significant level of challenge to the Council and necessitated some changes to its control and governance arrangements. Internal Audit has had significant involvement in supporting the Council's response to Covid-19, both in terms of undertaking audit and non-audit emergency work directly relating to the Council's response, as well as directly supporting Covid-19 activity across a wide variety of business areas.

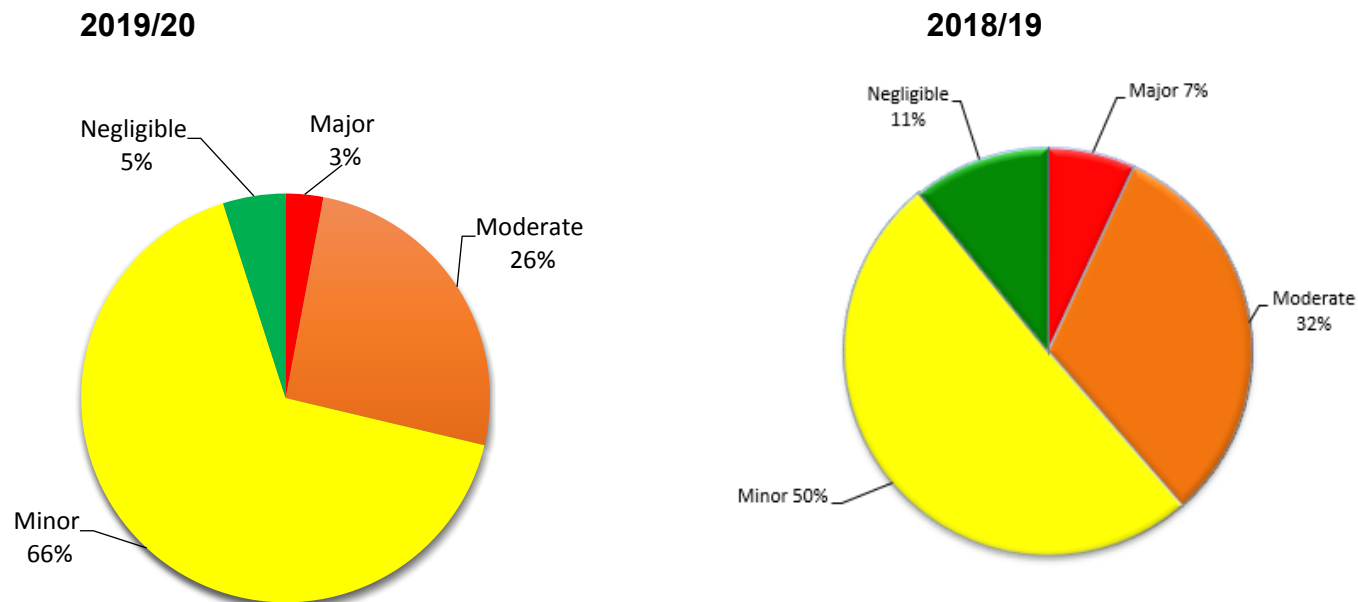
2.2 Summary of work supporting the opinion

The audit work undertaken that forms the basis of the opinion includes:

- The work of Internal Audit in reviewing the Council's governance arrangements.
- Assessment of risk management arrangements across business areas.
- Assessment of the range of audit opinions arising from audit assignments that have been reported to the Audit and Risk Management Committee throughout the year. This assessment has taken account of the relative materiality of each area audited and includes the audit of the Merseyside Pension Fund for which separate reporting arrangements are in operation in accordance with the service level agreement.
- Assessment of management's responses to Internal Audit's recommendations and the progress made in addressing risks and issues identified through audit work.

2.3 Audit assignments completed

A full list of the audit assignments that have helped inform the opinion is provided in Appendix A. Each audit is graded in terms of the risk to the organisation and how well risks were managed in the area under review. Four different levels of opinion are used: major, moderate, minor and negligible. Definitions of the assurance levels are provided in Appendix C. All audit reports were finalised, summarised and reported to the Audit and Risk Management Committee during the year. The opinions provided are shown in the chart below with comparative information for 2019/20 and 2018/19.



It is notable that opinions provided in audit reports produced during 2019/20 are similar to the previous year with the majority of the audit opinions provided identified as being in the 'Minor' and 'Negligible' risk categories, although a notable reduction in the number of audits identifying 'Major' and 'Moderate' risk opinions is very encouraging and suggests an increased understanding and awareness amongst officers of the importance of robust systems of control and ongoing management of risk.

2.4 Summary of key issues arising in year

Issues have been identified in audit reports during the year and reported to senior management for appropriate actions to be undertaken to mitigate any risks and strengthen and improve the respective control environment. All of these issues have been summarised and reported to the Audit and Risk Management Committee at regular scheduled meetings and appropriate actions taken by Members that have included relevant officers being invited to Committee meetings to provide updates including progress being made to implement agreed actions. Key issues identified and reported during 2019/20 include the following for which actions have either been undertaken in year by senior management or are progressing and will be subject to further audit work during 2020/21:

Information Governance and GDPR Compliance.
Finance Management (CFSU).
Commissioning and Procurement.
Wirral Health and Care Commissioning.
Enterprise Resource Planning (ERP).

Appointment of Agency Workers.
Compliance with Policy and Procedure
Cyber Security.
VAT Compliance.
Digital Business Continuity Planning.

2.5 Follow-up audit assignments completed

In accordance with the requirements of the Public Sector Internal Audit Standards follow-up audit assignments were completed for audits during the year. These audits examine the progress that management has made in implementing previously agreed audit recommendations. A revised opinion is subsequently issued for each 'follow up' audit, which is informed by the extent to which the issues identified in the original audit report have been addressed. Adequate progress has been made during 2019/20 by management in response to these audits. Any failure to implement agreed recommendations within agreed timescales are routinely reported to the Audit and Risk Management Committee. Appendix B to this report contains more information relating to this.

2.6 Limitations placed on internal audit

During the year, there have been no matters arising which have impacted on the independence of the Internal Audit Service and there have been no inappropriate scope or resource limitations on internal audit work.

2.7 Conformance with the Public Sector Internal Audit Standards

Under PSIAS, internal audit services are required to have an external quality assessment every five years. The Council's external assessment was completed during 2018/19 and the overall conclusion was that the Council's internal audit arrangements 'fully conform' with all aspects of the standards. There were no departures from these arrangements in 2019/20.

Section Three

Performance, Quality Assurance and Improvement Programme

3.1 Performance

The Internal Audit service measures its ongoing performance against an agreed set of key targets in line with current best practice and as identified below. These indicators form part of the overall service performance reporting information for senior management and the Audit and Risk Management Committee.

The table below details the key performance targets relating to the Internal Audit Service and identifies actual performance for 2019/20, indicating that with the exception of plan delivery which was directly impacted by Covid-19, preventing the completion of a number of pieces of work at the year end all of the targets were achieved. Failure to fully achieve this target has not directly impacted upon the annual opinion provided in this report:

IA Performance Indicator	Target	Actual
Percentage delivery of IA Plan 2019/20	100	84
Percentage of High priority recommendations agreed with clients.	100	100
Percentage of returned client survey forms indicating 'satisfaction' with the IA service.	90	100
Percentage of internal audit reports issued within 10 days of completion of fieldwork.	100	100

3.2 Quality Assurance

The development and maintenance of a Quality Assurance and Improvement Programme (QAIP) is a requirement within PSIAS. The purpose of the QAIP is to ensure that the Internal Audit service operates in accordance with PSIAS and the Local Government Application Note (LGAN) and maintains consistently high standards. The Internal Audit Service operates

a Quality Assurance Improvement Programme (QAIP) that is designed to provide all stakeholders with reasonable assurance that the service performs its work in accordance with this, the Internal Audit Charter, Strategy and Code of Ethics. The QAIP is designed to cover all elements of internal audit activity in accordance with PSIAS Standard 1300 ensuring compliance, adding value and helping improve organisational operations. Key elements of the quality assurance improvement programme are described below:

- The Internal Audit team is made up of appropriately trained and qualified staff with significant local government experience. All of the team complies with ethical rules, technical standards and professional practice laid down by Wirral Internal Audit Services and respective professional bodies;
- Internal audit work is based upon a detailed risk-based audit plan, which is agreed in consultation with management and is approved by the Audit and Risk Management Committee;
- Internal Audit employs an audit methodology that is in accordance with professional standards;
- Terms of reference are developed with key stakeholders for each audit assignment which set out the agreed coverage;
- Robust management review is undertaken of all audit files and reports prior to issue;
- Post audit assessments are undertaken for all audit assignments completed, evaluating performance against core competencies for professional internal auditors;
- There is a well-developed system of regular reporting of progress against the audit plan and the performance of the Internal Audit Service against key targets to the Audit and Risk Management Committee;
- All Internal Audit staff complete annual declarations confirming their compliance with the Code of Ethics;
- There is a commitment to the continuing professional development of all internal audit staff through a range of learning and development opportunities including ongoing auditor skills appraisals. These include professional training, on the job training, e-learning, webinars and attendance at relevant training events and workshops.

3.3 Feedback from audit clients

Internal Audit invites feedback on the quality of service provided by issuing a 'customer satisfaction questionnaire' at the end of each audit. This is an important process in terms of identifying how the audit was received by the service area. It is also an important means of identifying aspects of the audit process that can be improved.

The feedback received in the year was very positive and there were no common themes in the questionnaires returned that highlighted any particular areas for improvement. A sample of comments received through the questionnaires is included below:

- *Very professional and fair... xxx put us at ease and explained things fully.*
- *The audit was carried out in a thoroughly professional manner.*
- *The process was very helpful and highlighted areas for improvement.*
- *A worthwhile audit with some very good recommendations that will have a positive impact.*
- *A very positive experience, the auditor was very supportive and understanding.*

3.3 Areas for Development

The challenge for the Internal Audit Service in 2020/21 is to complete sufficient audit work during the year to provide assurance to support the annual audit opinion. For various reasons the current pandemic impacted on the completion of audit work and coverage in quarter one of 2020/21 has been affected. Like many other teams, all members of the Internal Audit team have been working from home since mid-March. Initially most of the team were engaged in overseeing the payment of Covid-19 financial support grants to small businesses across the borough, as well as providing support in many other areas where emergency arrangements were rapidly developing to address issues arising out of the pandemic. However, the auditors are now mostly engaged in audit work with audits largely being completed remotely. This enforced change has provided the opportunity to challenge the way the team operates and to implement some improvements to working practices. Performance management and quality control arrangements will however need to be kept under review and adapted as required.

In terms of audit coverage, some planned audits of frontline services have had to be postponed temporarily to allow services to focus on the Council's continued response to the pandemic. The pandemic has also necessitated changes to planned work, as the environment within which the Council is operating has changed significantly since the 2020/21 Audit Plan was approved in early March 2020. In order to address the situation, a more dynamic approach will be undertaken to the planning of audit work with planned coverage being kept under constant review.

The 2020/21 Audit Plan therefore needs to be more flexible and dynamic to accommodate changes in the priority of audit work to accommodate emerging risks. Changes to the planned coverage for 2020/21 have consequently been made and these will be reported to the Audit and Risk Management Committee meeting in November 2020 and subsequently through the regular Internal Audit Update Reports.

Appendix A

Summary of Audit Assignments

Summary of the audit assignments completed in the year is set out below showing the assurance ratings and the number and priority of recommendations made. Definitions of the organisational risk opinion can be found at Appendix C.

No	Audit Assignment	Organisational Risk Opinion	High Recs	Med Recs	Low Recs
1	Pension Fund - Alternative Portfolio Custodian Transfer	Negligible	0	0	0
2	Corporate Governance / AGS	Moderate	0	0	0
3	Barnston Primary School	Minor	0	4	2
4	Bedford Drive Primary School	Minor	0	3	0
5	Brookdale Primary School	Minor	0	4	1
6	Business Rates - Covid19 Grants – IA Control and Processing		-	-	-
7	Business Rates - Covid19 Grants – IA Project Development Input		-	-	-
8	Business Rates - Covid19 Grants – IA Support and Ongoing Development		-	-	-
9	Capital Financing	Moderate	0	4	1
10	Castleway Primary School - Headteacher Referral/Investigation	Moderate	0	8	0
11	Castleway Primary School	Moderate	0	8	5

No	Audit Assignment	Organisational Risk Opinion	High Recs	Med Recs	Low Recs
12	Christchurch CE Primary (Birkenhead)	Minor	0	4	1
13	Client Finance Support Team	Major	0	8	3
14	Pension Fund - Contributions Payable - Knowsley Council	Minor	0	2	1
15	ContrOCC Payments	Minor	0	0	0
16	Council Tax Collection	Moderate	0	3	0
17	Dawpool CE Primary	Minor	0	7	1
18	Eastway Primary School	Minor	4	0	3
19	Ethical Framework	Moderate	0	5	0
20	Financial Resilience (Ongoing input and review)	Major	-	-	-
21	Foxfield School	Minor	0	9	1
22	Gilbrook Primary School	Minor	0	7	1
23	Holy Cross Catholic Primary School	Minor	0	1	0
24	Holy Spirit Catholic & CE Primary	Minor	1	7	1
25	HR Selfserve System	Minor	2	0	0
26	Income Control	Minor	0	0	1
27	Key Route Network grant claim - 1st quarter	Negligible	0	0	0

No	Audit Assignment	Organisational Risk Opinion	High Recs	Med Recs	Low Recs
28	Key Route Network grant claim – 2nd quarter	Negligible	0	0	0
29	Key Route Network grant claim – 3rd quarter	Negligible	0	0	0
30	Kilgarth School	Minor	0	15	3
31	Leasowe Early Years	Minor	0	9	1
32	Lifeguard Referral/Investigation	Moderate	0	6	0
33	Local Pension Board	Minor	0	0	0
34	Children's Services - Management Information	Moderate	1	2	3
35	Mayor's Charity Account 2018/19	Minor	0	6	0
36	Mount Primary School	Minor	0	4	1
37	Pension Fund – Benefits Payable	Minor	0	1	0
38	Pension Fund – Civica5 Migration	Negligible	0	0	1
39	Northern LGPS Collective Asset Pool - Governance Review	Minor	0	1	0
40	Overchurch Infants School	Minor	0	1	2
41	Overchurch Junior School	Moderate	3	9	1
42	Parks and Countryside Services - Wages Enhancements	Moderate	2	1	1
43	Payroll - Advances of Pay	Minor	0	6	0

No	Audit Assignment	Organisational Risk Opinion	High Recs	Med Recs	Low Recs
44	Pensions Payroll System	Minor	0	0	1
45	Performance Management – Business Planning	Moderate	3	4	0
46	Personal Finance Unit	Moderate	2	4	0
47	Planning Review	Moderate	2	3	0
48	Business Management - PRAD Forms	Moderate	2	3	0
49	Commissioning and Procurement - PRAD6 review	Moderate	0	2	0
50	Commissioning and Procurement	Moderate	0	4	0
51	Regularity testing	Minor	0	0	1
52	Repayable Advances	Minor	1	0	0
53	Riverside Primary School	Minor	0	5	0
54	Somerville Primary School	Minor	0	5	5
55	South Wirral High School	Minor	0	4	1
56	St Albans Catholic Primary	Minor	0	6	1
57	St John Infants Catholic Primary	Minor	1	9	2
58	St Josephs Catholic Primary School (Upton)	Minor	1	13	1
59	St Joseph's Catholic Primary School (Wallasey)	Minor	0	6	2

No	Audit Assignment	Organisational Risk Opinion	High Recs	Med Recs	Low Recs
60	Stanley School	Minor	0	11	1
61	Sustainable Transport Enhancement Package grant claim - 1st quarter	Minor	0	0	1
62	Sustainable Transport Enhancement Package grant claim – 2nd quarter	Minor	0	0	0
63	Sustainable Transport Enhancement Package grant claim – 3rd quarter	Minor	0	0	0
64	Thornton Hough Primary	Minor	0	1	0
65	Troubled Families grant certification – (12 report certificates tested and certified)	Minor	0	0	1
66	Financial Management – VAT System	Moderate	0	11	1
67	Wirral Evolutions – Governance and Finance Rules and Regulations	Moderate	0	3	0
68	Wirral Health Care Commissioning – Demand Management	Moderate	1	7	2
69	Wirral Hospital Schools	Minor	1	10	1
70	Woodchurch Road Primary	Moderate	3	10	0
71	National Fraud Initiative	Minor	0	2	0
72	Counter Fraud Policies and Procedures	Minor	-	-	-
73	Counter Fraud Campaign	Minor	-	-	-
74	Wirral Growth Company Risk Assessment and Audit Plan Development 20-21	Minor	-	-	-
75	Wirral Growth Company – Payments System	Minor	0	1	0

No	Audit Assignment	Organisational Risk Opinion	High Recs	Med Recs	Low Recs
76	Wirral Evolutions – Risk Management	Moderate	0	2	0
77	Information Governance (GDPR, Arrowe Hill, IAO's, Digital Storage, advice)	Moderate	6	12	3
78	PCIDSS (Extended Follow up)	Moderate	2	1	0
79	ERP System (Consultancy/Development Input)	Major	-	-	-
80	Insurance – Crime Insurance Policy (development input)	Minor	-	-	-
81	Payroll – Emergency Acting Up Payments (development input)	Minor	-	-	-
82	Contracts – Bona Fide Error	Minor	-	-	-
83	Housing Benefit Subsidy Claim	Minor	-	-	-
84	Corporate Debt Recovery Policy (development input)	Minor	-	-	-
85	Financial Regulations (development input)	Minor	-	-	-
86	Accounts Payable (Meridian exercise – development input)	Minor	-	-	-
87	Contract Procedure Rules (development input)	Minor	-	-	-
88	Windows 10 Project	Moderate	0	3	4
89	Business Continuity Planning Digital (Crisis Comms)	Moderate	2	2	0
90	Cyber Security	Moderate	3	3	0
91	Appointment of Agency Workers	Moderate	5	2	2

Appendix B

Summary of Follow Up Audit Assignments

The Public Sector Internal Audit Standards require the 'chief audit executive' (Chief Internal Auditor) to establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. This process involves internal audit carrying out work to determine the progress that management has made in implementing recommendations previously agreed. A follow-up audit notification is then issued summarising the results of this work. Each follow-up audit provides an overall opinion, which is based on the extent to which the risks identified in the original audit have been addressed. The following table summarises the results of the follow-up assignments completed during the year by original organisational risk opinion:

No	Audit Assignments	Original Organisational Risk Opinion	Actions Implemented	Actions Ongoing	Actions Outstanding	Actions No Longer Needed
1	Three Audits	Major	8	5	0	0
2	Twenty Seven Audits	Moderate	127	27	0	4
3	Sixty Seven Audits	Minor	134	36	0	9
4	Five Audits	Negligible	1	0	0	0

Actions identified as 'ongoing' are subject to ongoing discussion and agreement with senior management regarding action timescales and will continue to be monitored and reported upon in line with these agreed timescales.

Appendix C

Organisational Risk Opinions

Conclusion from Audit Findings	Risk Level
<i>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.</i>	Major
<i>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.</i>	Moderate
<i>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.</i>	Minor
<i>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.</i>	Negligible

