



AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 16 November 2020

REPORT TITLE:	INTERNAL AUDIT UPDATE
REPORT OF:	CHIEF INTERNAL AUDITOR

REPORT SUMMARY

This report analyses and summarises the work of the Internal Audit Service for the period 1st April to 31st October 2020, identifying the significant impact of the Covid19 pandemic on scheduled audit work and includes an analysis of planned work for the remainder of 2020/21.

RECOMMENDATIONS

1. Members of the Audit and Risk Management Committee note the report
2. Members of the Audit and Risk Management Committee endorse the revised Internal Audit Plan for 2020/21

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 by CIPFA and the CIIA.

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 involves audit reports summarising audit work completed being presented to this Committee at scheduled meetings on a timely basis. However, following the outbreak of the Covid19 pandemic scheduled committee meetings have not taken place and normal routine planned audit work has had to be adjusted to accommodate a significantly changed operating environment.
- 3.2 This report therefore differs from the routine reporting format that I would normally adopt and identifies the impact of the pandemic on the normal work of the team, increased demands outside of the norm to address additional risks presented and the impact of this on routine planned work. This report therefore focusses on the following:
 - The Impact of Covid19 on the Internal Audit Plan 2020/21
 - Internal Audit Activity for the year to date
 - Planned Internal Audit work for the remainder of the year
 - Items of note arising from audit work undertaken.
- 3.3 The information contained within this report is for the period 1st April to 31st October 2020.
- 3.4. **Internal Audit Plan 20/21**
 - 3.4.1 The Internal Audit Plan for 2020/21 was reported to the Audit and Risk Management Committee in March 2020 and endorsed by the Members for delivery during the year.
 - 3.4.2 The Covid19 pandemic arrived in the same month and had an immediate and significant impact on the ability of the Internal Audit Service to deliver the Audit Plan as agreed. The reason for this was that officers of the Council were required to direct resources into addressing emergency Covid19 related activity as well as operating in

a very different manner, away from the traditional office workplace in a remote and agile fashion. Many services across the Council were unable to continue to deliver as normal and many activities were suspended to accommodate and deal with the impact of the pandemic. Consequently, many internal audits were required to be suspended and the team deliberately refocussed its activity towards supporting the corporate response to the pandemic, utilising its considerable expertise in governance, controls, and risk in the following areas:

- Supporting each of the governance cells established by the Council to oversee and manage corporate activity during the pandemic.
- Providing direct input to the development of processes and procedures and controls over systems implemented during the pandemic.
- Direct involvement in the control systems established for the payment of support grants during the pandemic.
- Evaluation of the threats posed by fraudsters and the subsequent development of a comprehensive publicity campaign.

3.4.3 The direct impact of this unscheduled activity on the agreed Audit Plan of work for the year to date has been significant and has required me, in conjunction with the Chief Executive, the Strategic Leadership Team and corporate managers, to revisit the planned work and to reassess the work priorities, including any additional risks presented as a result of the pandemic. A copy of the revised Audit Plan for the remainder of the 2020/21 year with annotations to indicate adjustments made is included at Appendix 1 of the report.

3.4.4 The approach to the work undertaken to adjust the audit plan has been completed in accordance with current best professional practice as identified by the Chartered Institute of Public Finance Accountants (CIPFA) and Chartered Institute of Internal Auditors (CIIA) in recent seminars and publications. This approach is also currently being adopted by peer colleagues from across the region and nationally.

3.4.5 In addition to the adjustments identified in the attached Audit Plan, the service is also currently looking at how it delivers scheduled audit work for the remainder of the year. This has involved streamlining processes, procedures and work programmes as well as reducing the content and presentation of audit reports and supporting working papers to ensure that minimal resource is utilised on this activity and more time focussed productively upon actual review and testing. This type of operating does not fully comply with the requirements of the Public Sector Internal Auditing Standards so consequently will be a relatively short-term measure introduced for the duration of the pandemic and supported by the respective professional bodies during these extraordinary circumstances.

3.5 Internal Audit Activity for the Year to Date

Internal Audit activity during the year to date has been focussed in the following areas:

3.5.1 Supporting each of the governance cells established by the Council to oversee and manage corporate activity throughout the pandemic and designed to ensure that the Council's response was appropriate and proportionate and delivered regional and national schemes introduced to support both the public and local business.

- 3.5.2 Providing direct input to the development of processes and procedures and controls over systems implemented to facilitate the delivery of various government schemes. Examples of this include Small Business Grant payments, Early Years Grant payments, Hospitality Grants, Discretionary Payments, Track and Trace systems and Foodhub operations.
- 3.5.3 Direct involvement in the establishment of a payment system for Government grants to small businesses and the hospitality sector with appropriate controls and checks over eligibility and to prevent fraud. Examples of the control checks implemented include Companies House, Business Rates and other evidence-based checks to ensure accuracy, validity and eligibility as well as protecting against fraud and corruption.
- 3.5.4 Evaluation of the threats posed by fraudsters and the subsequent development of a comprehensive publicity campaign designed to alert all stakeholders and the public to the risks and appropriate actions to take to mitigate.
- 3.5.5 Assessment and evaluation of the Ministry for Housing, Communities and Local Government (MHCLG) publication into the risks of fraud and corruption in local government procurement that was released during the pandemic and captured some of the increased fraud risks and threats that local government might face during this time. The exercise identified a total of 42 potential Issues/Risks across the following areas that the Council should consider and ensure that adequate controls are in operation over:
- Local Authority-wide arrangements
 - Commissioners procedures
 - Commercial Procurement and Payments
 - Counter-Fraud measures

The conclusions reached from the work undertaken was that of the 42 Issues/Risks identified in the publication over 30 were confirmed as having been identified, considered, and currently appropriately managed by Wirral Council officers. Those areas that require further action have been identified in a report for senior management that includes a detailed action plan for implementation within an agreed timescale, covering the following areas:

- Conflict of Interest Declarations for LA Companies
- Contract Procedure Rules Breaches reporting
- Main Contractor/Sub Contractor checks
- Procurement Initiation documentation completion
- Single Source contracting and reporting
- Invoices received outside of order process analysis and reporting.

Follow up work to evaluate progress made to implement required actions is scheduled for completion later in the year and the outcomes will be reported to this Committee.

3.5.6 Routine scheduled audit work has either recently been completed or is underway in the following areas and reports have been, or are being prepared for senior management with actions identified to improve arrangements in operation:

- Merseyside Pension Fund
- Contracted work at Academy Schools
- Council Tax Collection
- Contract Management

3.5.7 An audit has recently been started to examine and evaluate the effectiveness of the arrangements in operation to protect the Council from Cyber threats following recent incidents at Cleveland and Redcar and Hackney Councils. Research at these Councils and analysis of the nature of the incidents has allowed Internal Audit to develop a programme that will provide us with assurance regarding the effectiveness of arrangements in operation locally to combat this type of threat. These cyber-attacks resulted in system unavailability and in one Council staff were unable to use IT equipment for three weeks, thus impacting on services being provided to all stakeholders. Research at these Councils and analysis of the nature of the incidents has facilitated the development of a work programme that will provide us with some assurance regarding the effectiveness of arrangements in operation locally to combat this type of threat. In addition, we are also reviewing the Cyber Governance arrangements in line with guidance from the National Cyber Security Centre. Findings and conclusions from this piece of work will be included in a report to senior management including any required actions and summarised in the update report to this Committee.

3.6 **Planned Internal Audit Work for 2020/21**

3.6.1 The revised Internal Audit Plan identified at Section 3.4.3 includes targeted audit work aimed at evaluating the effectiveness of controls in operation in the following areas during the remainder of this quarter. Each piece of work has been identified for review based upon the significance of the risks presented in these areas and the corporate impact associated with failure of the control systems in operation. Each audit will culminate in a detailed report for senior management and identify any areas requiring attention/action and outcomes including progress updates will be reported to this Committee:

- Cyber Security – Organisational review (see 3.5.7)
- Wirral Growth Company – Governance and Financial Systems
- Corporate Financial Systems
- Governance Arrangements
- Business Grants - Post Assurance Checks
- Covid19 Decisions Audit (3.7.2)

3.7 **Items of Note**

3.7.1 Throughout November 2020 the Internal Audit Service will be coordinating a Counter Fraud Campaign aimed at both members of the public and the Council workforce. The campaign is scheduled to coincide with the International Fraud Awareness event run annually and has involved collaboration with a number other Mersey Region and North West Authorities.

The aim of the initiative is to heighten members of the public and employee awareness of the scale, nature and impact of fraud and the signs to look out for, as well as directing individuals to reporting procedures and processes. This is particularly important at this present time as the prevalence of fraud has risen dramatically in recent months as fraudsters look to exploit circumstances and potential opportunities presented by the pandemic. Members are requested to support this initiative in the usual manner.

- 3.7.2 An audit assignment is currently being undertaken to sample test a number of actual decisions taken by the Council during the Covid19 pandemic, evaluating compliance with established procedures implemented and assessing the effectiveness of the supporting documentation utilised to undertake decisions. The conclusion and outcomes from this assignment will be summarised in a report for the Strategic Leadership Team upon completion, identifying any actions required which will be incorporated into the comprehensive 'Covid19 Lessons Learnt' exercise that is currently being undertaken across the organisation and will be reported to this Committee in due course.

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: STAFFING, ICT AND ASSETS

- 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.

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 Wirral Council has a legal requirement to make sure its policies, and the way it carries out its work, do not discriminate against anyone. An Equality Impact Assessment is a tool to help council services identify steps they can take to ensure equality for anyone who might be affected by a particular policy, decision, or activity.

9.2 There are none arising from this report.

10. ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The content and/or recommendations contained within this report are expected to have no impact on emissions of greenhouse gases.

REPORT AUTHOR: **Mark P Niblock**
Chief Internal Auditor
telephone: 0151 666 3432
email: markniblock@wirral.gov.uk

APPENDICES

Appendix 1: Revised Internal Audit Plan 2020/21

BACKGROUND PAPERS

Internal Audit Plan 2020/21

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit and Risk Management Committee	Routine report presented to all meetings of this Committee.