

**Wirral Council  
Internal Audit Service**

**Annual Internal Audit Report  
2010/2011**

**May 2011**

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Appendix A: Scope, Responsibilities and Assurance

# **1 Introduction**

## **Purpose of This Report**

- 1.1 As part of Wirral Council, the Internal Audit Service is an assurance function that primarily provides an independent and objective opinion on the adequacy of the whole of the organisation's control environment. The scope, responsibility and assurance function role is defined in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (as reported to this Committee and attached at Appendix A). It requires the head of internal audit to provide a written report to those charged with governance, timed to support the Statement on Internal Control – now subsumed into the Annual Governance Statement – which includes an opinion on the overall adequacy and effectiveness of the organisation's control environment. This report presents my opinion based upon the work the Internal Audit Service has performed.
- 1.2 This report covers the period 1 April 2010 to 31 March 2011 and is timed to support the Annual Governance Statement for that year.
- 1.3 The scope of our work, management and audit's responsibilities, the basis of the assessment, and access to this report are set out in Appendix A to this report.

## **Interim Reports**

- 1.4 This report builds on the matters reported which remain relevant and have been the subject of discussions throughout the year with the Chief Executive, Chief Officer's and individual senior management teams.
- 1.5 I have also reported summaries of some of the key areas of our work to the Audit and Risk Management Committee as they have been completed.

David A Garry  
Chief Internal Auditor  
Wirral Council

## 2 Summary Assessment

### Overall Opinion

- 2.1 On the basis of our programme of work for the year, I can conclude that the Council's internal control environment, risk management process and corporate governance, taken as a whole are **adequate and generally effective**. I have identified individual themes that present limited exceptions to this broad conclusion, and have set these out below.
- 2.2 Whilst recognising that there are control issues which need to be addressed, our work during the year has identified good areas of effective control and the Council continues to operate well in a very challenging environment.

### Key Issues and Themes

- 2.3 The Council's agenda has been very challenging for a number of years and these pressures will undoubtedly increase in the foreseeable future due to the very demanding and extremely difficult economic and financial climate at present. The public sector is currently experiencing a significant period of unprecedented change that has required the Council to implement severe and radical structural changes across the whole of the organisation. In addition, important changes in legislation and policy directly affecting the Council and its partners is anticipated in the not too distant future. The Council's funding situation will continue to be tight as central government reduces expenditure in this area and local communities place increasing demands on Council's services.
- 2.4 The impact of this on the Council has to date involved radical measures to reduce expenditure through significantly restructuring and re-focussing of service delivery areas. These fundamental changes to the way in which the Council operates will continue to have significant impact on the control environment in many areas of the Council's activities and require management to ensure that corresponding risks in these areas are effectively managed. In addition, during periods of financial uncertainty and economic downturn fraud against public bodies has been shown to increase exponentially and the Council must ensure that adequate controls remain in place across the organisation to reduce and manage the risk presented.
- 2.5 The Council does however continue to be highly regarded and achieves a lot, providing valuable services to a large and diverse community. However, much will be required of staff at a time when many will be concerned for their job security and when many are under pressure arising from the changes already in hand. It will be vitally important to ensure that the Council's most basic financial and

operational controls are robust, consistent, widely understood and consistently applied.

- 2.6 Some concerns have been reported to Chief Officers regarding the lack of consistently documented and communicated controls in some areas, including corporate governance and the resulting lack of consistency in the controls operated between departments and even within individual departments and service areas. It is anticipated that the benefits arising from the significant restructuring of the Council's departments and the implementation of the Strategic Change Programme will be fully realised in this area in the not too distant future.
- 2.7 There is a pressing need to ensure that sufficient focus is given to the Council's on-going activities and its infrastructure as well as in the areas subject to the greatest change. This will be particularly relevant to the information and technology systems infrastructure, which is expected to underpin much of the Council's work and efficiency savings in the near future.
- 2.8 Increasing demands are being placed on the Council's services by the changing national agenda, the strategic change programme and many other similar initiatives and developments scheduled. Service specific drivers will undoubtedly require significant enhancements to be made to key service-specific applications and service deliverers must continue to adapt and develop to ensure that they can sustain these services.
- 2.9 Additional information and a short summary of all our work for each area of the Council is provided in section 3.

### **Implications for the Annual Governance Statement**

- 2.10 In making its Annual Governance Statement the Council considers the Chief Internal Auditors opinion in relation to its internal control environment, risk management processes and corporate governance. The Annual Governance Statement therefore again refers to the need for further work to implement and ensure compliance with consistent control policies and procedures across the Council.

### **Implications for the review of the effectiveness of the System of Internal Audit**

- 2.11 The Council is required by legislation to undertake an annual review of the effectiveness of its system of internal audit and to report the findings of this review to the audit committee. Since the term "system of internal audit" does not have a commonly understood meaning, the Technical Audit Panel of the Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance which defines it as:

*"The framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in undertaking its work, have been properly identified and are*

*being managed by controls that are adequately designed and effective in operation."*

- 2.12 This guidance regards heads of internal audit as central to this framework of assurance and requires them to acquire an understanding of both the Council's risks and its overall whole control environment and also of the sources of assurance available to it.
- 2.13 As we have implemented the audit plan during the year we have taken into consideration the assurance also provided to the Council by external bodies, including the Audit Commission, Ofsted, the Care Quality Commission, the Office of Surveillance Commissioners and various other external bodies.
- 2.14 The Audit Commission's most recent inspection report for Wirral notes that this is a Council that is improving adequately and demonstrating a 3 star overall performance.

### **3 Summary of Internal Audit Work Undertaken**

- 3.1 In forming my opinion on the Council's internal control environment, risk management process and corporate governance, I have considered the work undertaken by the Internal Audit Service throughout the year (as well as, to a more limited extent, that of external providers of assurance) and I have set out below short summaries of the reports we have made to individual service areas within the Council.

#### **Management's Responses to our Findings**

- 3.2 Each of the issues I have set out in this report has been discussed with the relevant management teams as well as with the Chief Executive and Chief Officers. Action plans have been agreed and actions are already being taken; the Internal Audit Service will follow up our findings during the course of 2011/12 and provide further support to managers to implement pragmatic solutions to the control issues identified.

#### **3.A. Cross-Cutting Issues**

- 3.3 The Council's risk management process continues to develop well, with an increasing understanding amongst the senior management teams of what is required in practice. The Council has adopted a pragmatic approach to risk management, although the corporate Risk and Insurance Manager is well aware that there is a need for more widespread ('embedded') understanding of the Council's approach within all levels of management.
- 3.4 A fundamental external review of risk management systems across the whole of the Council is currently being undertaken by external consultants and a report identifying the findings scheduled for 2011/12. Internal Audit will work very closely with both the consultants and the Risk and Insurance Manager, to ensure that all of the necessary benefits are realised from this exercise and that significant developments are made in this important area of operations during 2011/12.
- 3.5 We have likewise continued to be involved in the development of the Council's corporate governance. The Internal Audit Service is represented on the Council's Corporate Governance working group chaired by the Chief Executive and in particular has worked with all Chief Officers to ensure that each of them has been able to provide an assurance statement (AGS) to the Chief Executive.
- 3.6 Work is undertaken annually by the Internal Audit Service to provide the evidence required to support the production of the Annual Governance Statement in compliance with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework.

### **3.B. Corporate or Common Control Systems**

- 3.7 The Internal Audit Service has undertaken a substantial amount of work on the controls that under-pin the Council's work whatever operational service is being provided and in whatever service area or department. These controls manage the risks of the Council's day to day operations that are operated in common across the whole organisation.
- 3.8 In 2010/11 we focussed on the corporate financial control systems, ICT systems, and other controls such as those of a governance nature operated over the whole of the Council.

#### **Key Issues in relation to Corporate or Common Control Systems**

- 3.9 I have previously reported that a wide range of controls and different procedures designed to achieve the same objectives across the Council is supported by diverse documentation, much of it not always readily accessible to staff. Senior managers have agreed that documented governance procedures should be collated and made consistent across the Council where possible, and that the accessibility of information, particularly through use of the intranet, should be improved.
- 3.10 The Service has continued to support the implementation of the Strategic Change Programme across the Council, providing assurance regarding progress for each of the individual projects identified in the programme. More work of this nature is included in the Internal Audit Plan for 2011/12 with the creation of a dedicated post to undertake this work.

#### **Corporate Financial Control Systems**

- 3.11 Financial control is a key element of the Council's control environment and the core financial systems include, for example, the Payroll, Benefits, Revenues and Main Accounting systems. These systems have been agreed with the Audit Commission as 'key' and each has been reviewed to comply with the International Standards on Auditing.
- 3.12 Whilst we are able to provide assurance that there is a minimum of an adequate level of control in the majority of the key financial systems, some issues were identified this year that required management action. A review of the Sundry Debtors Recovery system identified a number of key risks that were not effectively managed and measures have now been introduced to significantly improve the level of control within the system.
- 3.13 We have continued to develop a suite of Computer Assisted Audit Techniques (CAATS) that enable us to test whole databases as well as samples of individual transactions. These techniques have become an important element of our counter-fraud work, as well as being used to support our work on key financial systems.



- 3.14 During 2010/11 we used CAATS to identify potential duplicate Creditor Payments over the period and identified a number of instances in which duplicate payments had been made through the Creditors system. These amounted to £30k in total and are now being pursued for recovery by the Payments Section. In addition to this, separate testing identified incidences of duplicate and invalid VAT numbers, cheque number gaps, irregular payment patterns and non compliance with Contract Procedure Rules. All identified anomalies have been investigated by management and appropriate actions taken including designing and implementing controls to prevent recurrence.
- 3.15 Similar testing of the Payroll and Debtors systems provided assurance regarding the accuracy of standing data and payments made and received over a specified period. A small number of issues identified mainly concerning better use of features included within the respective systems to increase controls have been discussed and agreed with senior management.
- 3.16 It is acknowledged that controls in operation across the Council to manage Creditor payments systems and prevent any potential duplicate payments are improving and management are committed to addressing this problem. However, further work is required to ensure that these controls operate to full effect in the future.
- 3.17 Our reviews of the Main Accounting system undertaken during the year included assessments of the arrangements for complying with the full introduction of the International Financial Reporting Standards (IFRS) for the 2010/11 financial statements. The key risk areas for IFRS were identified as accounting for Non Current Assets and Leases, therefore the policies and procedures for those areas were evaluated for compliance with the CIPFA guidance. Overall the opinion provided on the effectiveness of the arrangements was that they were adequate and provided management with an effective level of assurance.
- 3.18 Debtor, NNDR and Housing Benefits accounts submitted for write off during the year have been verified on a sample basis to provide assurances that full recovery action has been completed and the amounts submitted are considered acceptable.
- 3.19 We have also undertaken work on the Council's key financial systems and have concluded that overall each of the following systems are adequately designed and effectively operated in practice:
- Cash and Banking
  - Payroll
  - Expenses
  - Procurement
  - Pensions
  - Treasury Management

- Council Tax
- Main Accounting
- Creditors
- Insurance
- Housing Benefits
- VAT Compliance
- NNDR
- Debtors

### **Corporate Human Resources Systems, including Payroll**

- 3.20 Two reviews of the Payroll system were completed during the year, so as to provide assurance that the key controls are operating effectively, including the operation of Documentum. The reviews provided a good level of assurance over the controls in place; however an issue was highlighted regarding the review of acting up and honorarium payments. Detailed discussions have taken place with senior management regarding appropriate actions required and additional controls are being implemented to improve the control environment. We will continue to monitor progress made in this area during 2011/12 and have scheduled more detailed testing and review work to assess this.

### **ICT Systems and Controls**

- 3.21 The Council's approach to, and management of, information risks is continuing to mature. An audit review of Information Assurance during 2010/11 highlighted some enduring issues around roles and responsibilities, information risk strategy and staff training. The restructuring of the IT Services section, as a result of the SOCITM review, together with other organisational changes due to EVR/VS, provide the opportunity to implement improved Information Management and Assurance procedures and clearer reporting lines throughout the Authority. The Internal Audit Service will continue to monitor progress and provide advice in these areas during 2011/12.
- 3.22 The Internal Audit Service has undertaken a detailed review of the processes surrounding the procurement and administration of Mobile Phones throughout the Authority following a request by Members. Several opportunities for improvement were identified and these will be implemented during 2011/12.
- 3.23 Efficient and secure Agile Working will be fundamental to the success of the Authority's Office Accommodation Strategy. In 2011/12 we will review a number of systems which underpin Mobile and Remote working, such as Webmail, Wireless Networks and the use of Portable Devices to access Authority information.
- 3.24 Many of the Council's objectives depend on resilient, modern ICT systems supported by first-class staff with efficient processes and procedures. 2011-12 will be a busy year for IT Services as the section implements the recommendations of the SOCITM report, rolls out virtualised desktops to support agile working and continues to

improve the support of staff, Members and systems. Internal Audit will play an active role, throughout the year, in ensuring that all new systems, both technical and procedural, have good systems of control.

- 3.25 The Council has made good progress to develop effective Information Security in general, and continues to improve its Information Governance systems although further work is still required in this area. Findings arising from audit reviews undertaken during 2010/11 have identified a number opportunities for development that are currently being addressed by senior management.
- 3.26 During 2011/12 we plan to return to follow up these issues.

### **Counter Fraud and Investigatory Work**

- 3.27 During 2010/11 the development of the Counter Fraud Team within the service has continued with significant progress being made in a number of key areas. Two members of the team have now successfully completed the CIPFA Certificate in Investigative Practice (CCIP). The qualification provides a thorough grounding in the legal and other frameworks associated with undertaking investigations as well as equipping participants with advanced interviewing techniques such as cognitive interviewing. As a result, investigations into the largest suspected frauds can be undertaken in a highly professional manner ensuring the best possible outcome for the Council, should the investigation lead to litigation. During 2010/11 these trained investigators have been able to provide advice to officers conducting disciplinary investigations to ensure that legal considerations are taken into account in the conduct of an investigation.
- 3.28 An exercise was completed building on from the Fraud Questionnaire exercise, conducted by the service earlier in the year, and an online fraud awareness training package purchased and tailored to reflect Wirral's policies and procedures. This will be rolled out to all staff during 2011/12.
- 3.29 Policies have been developed during the year for Money Laundering and Bribery Act legislation and promoted across the Council. Specific training will be provided to all those members of staff employed in areas where risks are deemed to be greatest during 2011/12.
- 3.30 A suite of computer assisted audit techniques has been developed and used to identify potential financial irregularities by interrogating financial and other databases and which closely links our audit and investigatory work. These tests will continue to be conducted during 2011/12 and any data generated investigated.
- 3.31 A number of unplanned special investigations were conducted during the year following referrals from Chief Officers and Members that resulted in significant staffing resources being utilised and some scheduled audits included within the Internal Audit Plan having to be re-prioritised and carried forward into 2011/12 to accommodate this

additional work. These audits resulted in detailed reports being prepared for management and the Audit and Risk Management Committee identifying actions required to alleviate weaknesses in systems reviewed.

### **Confidential Reporting (Whistle-blowing)**

- 3.32 The Council's Confidential Reporting policy provides Council employees with a structured process where they can raise concerns in confidence. During 2010/11 further audit work was conducted to ascertain the level of awareness of and understanding of the policy amongst Wirral Council staff and to evaluate the progress made in implementing the recommendations made during 2009/10. The main findings from the review indicated that significant work still needs to be undertaken corporately to promote the policy and clarify the process to be followed by staff. Management have agreed to undertake these actions with immediate effect, and more audit work is scheduled to evaluate the effectiveness of these actions during 2011/12.

### **National Fraud Initiative**

- 3.33 The Audit Commission requires all local authorities to participate in its biennial National Fraud Initiative (NFI), which is a national exercise in using computer assisted audit techniques, and specifically data matching. The NFI exercise consistently results in significant savings to the Council, arising largely from payments recovered or stopped where the Council had made payments in error.
- 3.34 We collated and submitted the required data to the Audit Commission for the NFI 2010 exercise and have received reports highlighting areas for further investigation. This data is currently being analysed and investigated by Wirral Council staff and a summary report will be provided by us to the Director of Finance identifying savings and actions required in due course.

### **Gifts and Hospitality and Conflict of Interest**

- 3.35 A corporate review of Gifts and Hospitality and Conflict of Interest procedures and compliance was undertaken during 2010/11 highlighting that across the organisation there were significant variations in awareness and application of the appropriate procedures. Subsequent work demonstrated increased awareness and compliance; however this issue should remain on the agenda so that these positive developments continue.

## **3.C. Service Specific Controls**

### **Adult Social Services Department**

- 3.36 The department's internal control environment has been adequately designed and is generally operating adequately overall, although

there are a considerable number of areas where controls should be strengthened further. Management responses to the findings from our work and those of external inspectorates have been positive and indicate that action has or will be taken where issues have been identified. Follow up work is scheduled in this area for 2011/12 to ensure that sufficient progress is made to address issues of concern.

- 3.37 The department is very active in driving forward the government's Social Care Change agenda and in implementing more effective ways of working. In particular, the system for implementing the Personal Budgets initiative for all Wirral residents is progressing following Cabinet approval in October 2010 to roll out Phase 3. Further work in this area is included in the Internal Audit Plan for 2011/12.
- 3.38 Improvements have been made to the operation of Day to Day Procurement following an audit of these systems during the year where a number of control issues were identified. Further improvements are anticipated in this area and follow up work is scheduled during 2011/12.
- 3.39 The department's systems in operation over Safeguarding Adults were inspected and evaluated by the Care Quality Commission during the year and the overall opinion on the effectiveness of the arrangements evaluated as being poor overall. The Commission identified a number of areas for improvement and issued an action plan identifying a significant number of required actions to improve arrangements in place in these areas. Internal Audit has subsequently worked with staff in Adult Social Services to ensure that adequate progress is being made to address these issues within the agreed timescales.

### **Children and Young People Department**

- 3.40 Overall, the departments internal control environment is generally adequate; controls are adequately designed and effectively operated, although there are some areas where controls should be strengthened further including the system in place for Children Centres. Issues were also identified with many Schools regarding the effectiveness of the Statement of Internal Control prepared for 2009/10. Detailed discussions took place with senior management from the department and various actions were agreed to address all of the issues identified and improve the systems of control in operation.

### **Technical Services Department**

- 3.41 Overall, the internal control environment in operation within the department is generally considered to be effective, with controls over systems being well designed and managed. Management response to our work has been good and action is always taken promptly in response to the findings of our work. The Director contributes very actively to the preparation of the annual internal audit plan and operates a very 'hands on' approach to subsequent review and inspections. All internal audit reports are personally considered jointly

by the Director and the relevant Head of Service and appropriate actions delegated to responsible officers and implementation monitored accordingly

- 3.42 During the year the department became responsible for the ongoing management of the Cultural Services Division, previously the responsibility of the former Regeneration department, which included Libraries prior to their subsequent transfer to the Finance department.
- 3.43 Some areas for improvement were identified following audits conducted during the year and appropriate actions taken to address issues raised within agreed timescales. These systems included Europa Pools, Greenwaste Services, Sports Centre Procurement, Golf Courses and the Waste Services contract.

#### **Finance Department**

- 3.44 Overall the departments internal control environment is considered to be effective with controls well designed and operated. Audits and inspections are mainly welcomed as an opportunity to seek assurances regarding the adequacy and effectiveness of systems in place. In some areas, including the Call Centre operations and the Information Management systems, the control environment was assessed as being excellent. Management are largely very proactive when considering and designing necessary controls and aware of the value of having strong systems in operation. Risk and control advice has been provided to the development of a revised system for processing and banking establishment income.
- 3.45 Some areas for improvement were identified that included the systems in operation over Controlled Stationery and Severance Payments. Meaningful discussions have taken place with management regarding the most effective methods of reducing risks and developing more robust systems. Issues identified following audits have in the main, been addressed and where this is not the case work is currently in progress and will be followed up.

#### **Pension Fund**

- 3.46 On the basis of the work undertaken during the year, overall the internal control environment is adequately designed and operated, with some areas such as the Benefits and Payroll services being particularly well controlled.
- 3.47 However, given the nature of the Pension Fund operations and the significance of the finances involved, its inherent risk level is significant. Pension Fund management continues to pay attention to ensuring that these risks are effectively managed, assisted by significant Internal Audit work during 2011/12.

#### **Corporate Services**

- 3.48 Overall, the departments internal control environment is generally sound; controls are adequately designed and effectively operated. However there are a small number of areas where audit work

conducted during the year indicated that the systems of control in operation should be strengthened further. Management responses to the findings from our work have been positive and indicate that action has or will be taken where issues have been identified.

- 3.49 The department continues to be very active in driving forward positive change as evidenced by the development of the Big Society Unit.
- 3.50 Procedures for the award of Grants to Voluntary Organisations both within the department and across the Council as a whole have a number of acknowledged problems, mostly relating to the consistency of approach and implementation of procedures. The recommendations arising from work conducted during the year are being addressed by the Corporate Services Department and the Commissioning and Procurement Sub-Group of the Local Strategic Partnership. Audit work to verify the progress made is to be carried out in 2011/12.
- 3.51 The Corporate Services Department underwent significant organisational change during 2010/11, with the addition of some services previously managed by the Regeneration Department, and of Building Control and Planning functions previously managed by Technical Services. As procedures within the newly configured department embed, Internal Audit will undertake significant work in this area, so as to provide the required assurances on their effectiveness.

#### **Law, HR and Asset Management**

- 3.52 The audit work conducted during the year highlighted that there are a number of key recommendations which require attention. Many of these relate to the Corporate Governance agenda. Consequently, the overall control environment is assessed as 'improving' although it is acknowledged that further improvements are required for this process to continue.
- 3.53 It is of the greatest importance, particularly as the Department grows in size (following the addition of services formally managed by the Regeneration Department) that a robust system is developed for acknowledging and responding to Internal Audit reports and ensuring effective implementation of the recommendations made.

#### **Wirral Schools**

- 3.54 The 2010/11 audit plan included 410 days for work relating to internal control frameworks and governance arrangements in schools and involved us actually visiting 71 Schools to conduct this work. We have considered financial management, ICT security, corporate governance, safeguarding assets, health and safety engagement, extended services and voluntary fund management as part of this work.
- 3.55 We undertook a number of visits to Schools and assessed them for compliance with the Financial Management Standard in Schools

(FMSIS) initiative in accordance with the timescale identified in the Education Act. Following these visits the Section worked with Schools to ensure that the required standard was achieved and all required actions implemented by the target deadline.

This initiative was subsequently cancelled in November 2010 following the change in government and all inspection work ceased. The Council has since been notified that FMSIS will be replaced with a simpler standard from September 2012 provisionally called Schools Financial Value Standard (SFVS). Audit inspection work will be scheduled in this area once more details are known about the scheme.

- 3.56 All of the issues identified in reports were discussed with Headteachers and Governors were appropriate and required actions subsequently taken by them to improve the systems in operation.
- 3.57 Work scheduled in this area for 2011/12 has been reorganised to reflect fundamental changes in how Schools operate across the borough. This work will in future be conducted on a more targeted basis utilising a more explicit risk rationale with audits being undertaken where significantly greater risks are presented as opposed to evaluating the effectiveness of systems in place to combat all risks, as previously. Audit work will initially involve concentrating on high risk themes across a sample of Schools, as well as undertaking comprehensive reviews of those Schools deemed to have a weak control environment. Internal Audit staff will be working with Schools and the Children and Young People Department during this transition to ensure that responsibility for operating effective systems is clear and that systems are robust.

### **Follow-up Work**

- 3.58 We have undertaken work to ascertain progress in implementing agreed recommendations resulting from earlier years' reviews. All of the recommendations we have agreed with management have either been implemented as agreed or are in the process of being implemented. Revised action plans have been obtained detailing the progress to date and a timescale for full implementation where this has not already been achieved.

### **Audit Work for Other Organisations**

- 3.59 The Internal Audit Service undertook a small amount of audit work for two local Housing Associations, Wirral Methodists and Family Housing. The provision of this work was at the time regarded as being an excellent opportunity for training and developing audit staff although was undertaken on a commercial fee basis. Following the restructuring of the Service a decision has been taken to cease activities in these areas due to the need for resources to be utilised elsewhere and the contracts have subsequently been cancelled.



## **4 Internal Audit Inputs**

- 4.1 The outputs of our audit work have been reported in detail to the senior management teams of individual service areas, and the key themes arising for them and for the Council as a whole are set out in Section 3 above. However in fulfilling its duty to consider the performance of the Internal Audit Service, the Audit and Risk Management Committee will be interested, on behalf of the Council, to understand the way that the Internal Audit Service has been staffed and its resources deployed.

### **Internal Audit Service Establishment - 2010/11**

- 4.2 The Internal Audit Service has a very professionally competent and committed workforce that has adapted well to enforced changes and developments in working practices implemented during the year by management to increase efficiency. These measures were necessary to address a significant shortfall in staffing resource experienced in the early part of the year and as a result of the Authority wide severance exercise conducted towards the end of the year which resulted in a permanent reduction in the workforce of six full time posts.
- 4.3 Recruiting and retaining suitable qualified and experienced staff is the key to the successful achievement of the Audit Plan and being able to address the many other issues and investigations that arise during each year. The problems of staffing have constantly been a concern and have been regularly reported to this Committee. The widening role and area of responsibility of Internal Audit continues to exacerbate but staff are continuously gaining experience and enhancing their ability to address new issues. Though the remit has increased significantly, the Service has downsized but it is considered it will continue to be able to provide an effective service with the help of Chief Officers in identifying risks and implementing recommendations swiftly.
- 4.4 The Internal Audit Service has also particularly felt the loss of the Principal ICT Auditor for the majority of the year due to active service with the Royal Naval Reserve. We were however able to purchase some ICT audit services from outside of the organisation to assist in the delivery of the plan during 2010/11. This was at a significantly higher cost than the internal provision although no extra cost was actually incurred due to some financial assistance provided by the Ministry of Defence to reimburse the additional audit fees incurred.
- 4.5 A number of vacancies have also existed at Assistant Auditor level during the year although following the restructuring exercise undertaken towards the end of the third quarter these posts have now been deleted from the establishment.
- 4.6 Sickness levels amongst the internal audit workforce are amongst the lowest in the Council and compare very favourably with all national

indicators for this type of workplace, a considerable achievement given the very stressful nature of the audit work at times. The total number of days lost due to sickness per employee during the year was 3 days. The current rate for the Service is 2.9 days which compares very favourably with the target for the Council as a whole.

### **Internal Audit Plan - 2010/11**

- 4.7 Due to the high staff turnover experienced early in the year, the restructuring of the Service following the severance exercise and the identification of some emerging high risk issues not originally included in the Audit Plan it was necessary to make a number of adjustments to the plan during the year. This was reported to the Audit and Risk Management Committee during the year and the changes endorsed by them. The Service was therefore able to utilise 3238 days in total to deliver the Audit Plan during 2010/11 and consequently was able to complete 424 audits.
- 4.8 This actually represents a significant achievement when compared to the target of 4150 days and 467 audits identified at the beginning of the year and recognises the significant work undertaken by the service to increase performance and productivity following the reduction in staffing resource during the year. Importantly, the Service has completed all of the Assurance audits identified in the Audit Plan as being essential to the provision of our 'annual opinion' on the effectiveness of the Council's control environment.
- 4.9 This work is required by the Audit Commission and essential to the well being of the organisation. Regular meetings take between officers from Audit Commission and the Internal Audit Service to discuss audit work and findings and the Commission have indicated satisfaction and continue to rely upon Internal Audit in specific areas. The actual work conducted has involved audits of the Council's corporate Financial and ICT systems, and its Governance and Risk Management arrangements. Completion of this work should allow the Audit Commission to gain a reasonable level of assurance whilst undertaking their external audit work and formulating an opinion of the Council's overall control and governance environment.
- 4.10 The total time involved in managing the Internal Audit Service and providing support to the senior management team and Members together amounts to 300 days against a plan of 400 days.
- 4.11 The individual audits completed and days spent on each area of our audit plan, by service area, are set out in the table on the next page:

Wirral Council Internal Audit Service  
Annual report for the year ended 31 March 2011

Audit Area	Planned Audits	Planned Audit Days	Actual Outturn		Variance (%)	
			Audits	Days	Audits	Days
<b>CROSS CUTTING RISKS</b>						
Corporate Governance	7	300	7	252	-	-16
Risk Management	4	50	4	43	-	-14
Other Work	4	100	4	30	-	-70
<b>SUB-TOTAL</b>	<b>15</b>	<b>450</b>	<b>15</b>	<b>325</b>	<b>-</b>	<b>-28</b>
<b>SERVICE SPECIFIC RISKS</b>						
Adult Social Services	13	160	12	252	-8	58
Children and Young Peoples	95	350	95	327	-	-7
Technical Services	31	190	31	161	-	-15
Corporate Services	10	150	10	66	-	-56
Law, HR & Asset Management	15	200	15	71	-	-65
Finance	11	90	11	70	-	-22
Pensions	12	150	12	92	-	-39
<b>SUB-TOTAL</b>	<b>187</b>	<b>1480</b>	<b>186</b>	<b>1039</b>	<b>-0.54</b>	<b>-30</b>
<b>CORPORATE/COMMON RISK</b>						
Financial Systems	54	440	49	440	-1	-
ICT Systems	6	120	10	180	67	50
Commissioning & Procurement	14	60	14	60	-	-
Human Resources	8	50	8	50	-	-
Partnerships	2	20	2	20	-	-
Constitution	2	10	1	5	-50	-50

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Asset management	2	18	2	18	-	-
Contracting	21	35	19	28	-10	-6
Confidential Reporting	2	26	2	26	-	-
Customer Services	2	20	2	20	-	-
Anti Fraud	43	300	38	300	-12	-
Management Contingency	10	50	20	53	100	6
<b>SUB TOTAL</b>	<b>166</b>	<b>1200</b>	<b>167</b>	<b>1200</b>	<b>0.60</b>	<b>-</b>
<b>TOTAL CONTROL OPINION</b>	<b>368</b>	<b>3130</b>	<b>368</b>	<b>2564</b>	<b>-</b>	<b>-18</b>
Other Areas of Work	99	1020	56	674	-43	-34
<b>TOTAL AUDIT DAYS</b>	<b>-</b>	<b>4150</b>	<b>-</b>	<b>3238</b>	<b>-</b>	<b>-22</b>
<b>TOTAL AUDITS</b>	<b>467</b>	<b>-</b>	<b>424</b>	<b>-</b>	<b>-9</b>	<b>-</b>

## **1. Scope, Responsibilities and Assurance**

### **1.1. Approach**

- 1.1.1. In accordance with the CIPFA Code of Audit Practice, 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. I have prepared this report solely for Wirral Council. As you are aware, this report 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.