

**Wirral Council  
Internal Audit Service**

**Annual Internal Audit Report  
2011/2012**

**May 2012**

## Contents

<b>Section</b>	<b>Page</b>
1. Introduction	1
2. Summary Assessment	2
3. Summary of Internal Audit Work Undertaken:	6
3.A. Cross - Cutting issues	6
3.B. Corporate or Common Control Systems	7
3.C. Service Specific Controls;	13
Adult Social Services	13
Children and Young People Services	14
Technical Services	14
Finance	15
Pension Fund	15
Regeneration	15
Law, HR & Asset Management	16
Wirral Schools	16
Follow Up Work	17
4. Internal Audit Inputs	18
Service Establishment	18
Audit Plan	19

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 2011 to 31 March 2012 and supports 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, taken as a whole is **adequate and generally effective** as there are sound control systems largely in place though there must be substantial improvement in applying the procedures as there have been significant issues for the Council during the year, which have arisen principally because there have been failures to follow systems and procedures correctly. 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 provide effective services 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 and will continue to require 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 are 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 In addition to this, to this, a number of external reviews conducted during the year have identified some significant weaknesses in the governance arrangements currently in operation across the Council and have clearly indicated the need for significant change and

improvement in this area. The findings and recommendations arising from Internal Audit work conducted throughout the year were in accordance with this view and a number of specific areas for improvement that include senior management taking proper ownership of these issues and ensuring that effective consistent governance arrangements are effectively embedded within the culture of the organisation were identified .

- 2.6 Others areas identified for improvement following audit work conducted include Performance Management and the need for more robust and transparent systems that include more detailed monitoring and reporting arrangements for managers, Chief Officers and Members.
- 2.7 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 changes identified will be fully realised in the not too distant future.
- 2.8 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 should underpin much of the Council's work and efficiency savings in the near future.
- 2.9 A recurring issue that needs to be addressed by the Council with some urgency involves the continuous failure of the organisation to meet invoice payment targets. This issue has been reported to management and actions are being taken to address these concerns, Internal Audit has scheduled work for 2012/13 in this area to evaluate progress targeting key payment areas.
- 2.10 Increasing demands are being placed on the Council's services by the changing national agenda, the need for change and many other similar initiatives and developments scheduled. Service specific drivers will undoubtedly require significant enhancements to be made to key applications and service deliverers must continue to adapt and develop to ensure that they can sustain these services.
- 2.11 Despite this the Council still does however continue to be well regarded overall 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.

- 2.12 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**

- 2.13 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.
- 2.14 Some changes to the Annual Governance Statement process are proposed for 2012/13 following some weaknesses in systems identified during 2011/12 exercise. The changes include a revised process and new documentation for obtaining manager's assurances in key areas, refocusing the questions asked, and requiring more detailed comment from them regarding the adequacy and ownership of arrangements in place. The new system should promote more ownership and 'buy-in' to the process from officers; a further change to be implemented will involve Internal Audit no longer chasing these assurance returns. In future any failure on behalf of Chief Officers to comply will be documented and reported in the Annual Governance Statement to further promote ownership and prevent over reliance on internal audit.
- 2.15 Additional audit work is scheduled for 2012/13 to evaluate the response by Chief Officers to the issues identified following external reviews and more proactive testing will be undertaken in key areas throughout the year and reported to the Chief Executive and Members.
- 2.16 Improvements required in a number of key areas of the Council's business and as identified in this report have been reported to senior management for inclusion in the Annual Governance Statement for 2011/12.

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

- 2.17 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."*

- 2.18 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.
- 2.19 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.

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

- 3.1 In forming my opinion on the Council's internal control environment, 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 2012/13 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 remains effectively co-ordinated corporately although issues regarding the updating of departmental registers, clear allocation of responsibilities and streamlined reporting lines need to be addressed as the Council's strategy and framework are reviewed and refreshed. The Council has adopted a pragmatic approach to risk management, although the corporate Risk and Insurance Manager has been made aware that there is a need for a more widespread ('embedded') understanding of the Council's approach within all levels of management and for more comprehensive training in this area of operations.
- 3.4 The Service has conducted audits of key corporate systems evaluating the adequacy of arrangements in key areas such as performance management, compliance with legislative, HR and constitutional requirements and prepared reports for Chief Officers identifying areas for improvement in these areas. The Service continues to provide input to Council operations to support improving governance arrangements by attending the Council's Corporate Governance working group chaired by the Chief Executive and by providing a senior member of staff on secondment to support the work of the Governance Team. In addition, significant ongoing work is being undertaken with Chief Officers to ensure that systems are improved and that the requirements of the Annual Governance Statement process are complied with.
- 3.5 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. During 2011/12 problems have been experienced and reported regarding the completion of Chief Officer and management assurance

statements to support the AGS and changes are proposed for 2012/13 as identified above in 2.14.

- 3.6 Work scheduled for 2012/13 includes more emphasis on Council policy and systems in operation over Decision Making including, Equality and Diversity, Media Protocol and more detailed work to review Departmental and Corporate Plans including and linked to Performance Management.

### **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 2011/12 we focussed on the corporate financial control systems, ICT systems, counter fraud arrangements and other systems where risks were identified as being significant and in operation 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 Performance Management systems have been affected by ongoing corporate changes and the relocation of officers involved in many corporate processes, this situation should improve during 2012/13 as the new arrangements become embedded. Issues of concern identified in reports for Chief Officers include the structure and frequency of reporting of performance data to the Executive Team and the process for the co-ordination and reporting of performance data to the Corporate Performance Team in a consistent structured manner to enable meaningful assessments of the organisation's overall performance. It is considered essential that a clear timetabling of corporate and departmental reporting requirements is established for performance indicator targets and that subsequent monitoring is undertaken including that relating to any associated issues. Audit work has identified a clear need for more corporate performance monitoring, a key function that is not currently performed effectively, perhaps due to a lack of resource in this area.

- 3.11 The Service has continued to support the implementation of strategic change across the Council, providing assurance regarding progress for individual projects in areas such as Corporate Procurement, Banking Contracts, e-Auctions and Supporting People. More work of this nature is included in the Internal Audit Plan for 2012/13.

### **Corporate Financial Control Systems**

- 3.12 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.
- 3.13 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 online Sundry Debtors Recovery system within departments identified a number of risks that were not effectively managed and measures have now been introduced to significantly improve the level of control within these systems.
- 3.14 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.
- 3.15 During 2011/12 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. All identified anomalies have been investigated by management and appropriate actions taken including designing and implementing controls to prevent recurrence. Management are committed to addressing this problem, however, further work is required to ensure that these controls operate to full effect in the future.
- 3.16 Similar testing of the Payroll systems provided assurance regarding the accuracy of standing data and payments made and received over a specified period. A number of suspicious employee matches were identified including instances of some ex-employees being paid in months following their leaving dates and actions have been agreed for management to investigate these further. Other actions required to increase controls in these areas have been discussed and agreed with senior management.
- 3.17 Our reviews of the Main Accounting system undertaken during the year included assessments of the General Ledger, Treasury Management, Budget Cycle and Bank Reconciliation systems and whilst actions were agreed with management to address some relatively low risk issues overall the opinions on the control

environment were of a three or four star rating, which is a very effective level of assurance and encouraging for management.

- 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
- Council Tax
- Main Accounting
- Creditors
- Insurance
- Procurement
- Pensions
- Treasury Management
- Housing Benefits
- VAT Compliance
- NNDR
- Debtors

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

- 3.20 A number of reviews of different elements of the Payroll systems including counter fraud arrangements were completed during the year, so as to provide assurance that the key controls are operating effectively. The reviews provided a good level of assurance over the controls in place and also indicated that the standing data was generally sound, payments made were appropriate and no potential or actual occurrences of fraud were identified. A number of issues were identified and actions agreed with management to investigate were appropriate and improve the arrangements to strengthen the controls in operation. We will continue to monitor progress made in this area during 2012/13 and have scheduled more detailed testing and review work to assess this.
- 3.21 The Job Evaluation exercise has still not been concluded at Wirral and the Council remains in a unique position of not having fully concluded this exercise. Human Resources management acknowledge that this must be completed during 2012/13 and audit will be monitoring this situation.
- 3.22 Other corporate Human Resources issues of concern relate to the existing policy of retaining officers on the redeployment listing for indeterminate periods of time and without proper justification or business case as well as the provision of training and development outside of the approved Matrix Consultancy contract.

### **ICT Systems and Controls**

- 3.23 The Council's approach to, and management of, information risks is continuing to mature. An audit review of Information Assurance highlighted some enduring issues around roles and responsibilities, information risk strategy and staff training. The overall opinion provided was that information assurance was not yet truly embedded within the culture of the organisation and that whilst there were pockets of good practice there was scope for much more work to be undertaken to implement a joined up authority wide approach to this very important issue. The ongoing restructuring of the IT Services section, together with other organisational changes should provide an excellent opportunity to implement improved Information Management and Assurance procedures with much clearer reporting lines throughout the Authority. The Internal Audit Service will continue to monitor progress and provide advice in these areas during 2012/13 as well as reporting any concerns in these areas to Chief Officers and Members.
- 3.24 The Internal Audit Service has undertaken a detailed review of the processes surrounding the procurement and administration of Mobile Phones including an examination of usage across the Council. Several issues were identified that require a re-evaluation of how the organisation utilises these devices and has more robust policy, procedures and controls in operation. Management are currently working to implement various actions identified that will improve the control environment and reduce overall costs in this area.
- 3.25 Efficient and secure Agile Working will be fundamental to the success of the Authority's Office Accommodation Strategy. In 2011/12 we reviewed 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 and prepared reports for senior management identifying areas for improvement.
- 3.26 Many of the Council's objectives depend on resilient, modern ICT systems supported by first-class staff with efficient processes and procedures. 2012/13 will continue to be a busy year for IT Services as the division 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.
- 3.27 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 2011/12

have identified a number opportunities for development that are currently being addressed by senior management.

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

- 3.28 During 2011/12 the development of the Counter Fraud Team within the service has continued with significant progress being made in a number of key areas. The team has clearly established itself as a 'corporate' function and has become increasingly involved with issues and investigations arising from all departments.
- 3.29 The development and promotion of the on-line training facility by the team has seen almost 50% of the workforce complete this training to date. This has clearly raised awareness amongst the workforce of potential threats and provided detailed guidance concerning appropriate actions for staff to take when presented with this type of threat. This training has been supplemented by the provision of more detailed direct training for front line officers covering a range of subjects including Money Laundering.
- 3.30 During the year the team has been involved with eight investigations across the Authority, providing advice and guidance to officers and in some cases where appropriate conducting the investigation.
- 3.31 An exercise was completed to evaluate the effectiveness of the Counter Fraud Team against best professional practice by completing the CIPFA Fraud Evaluation Diagnostic as well ensuring that the service complied with the National Fraud Authority's Local Government Fraud Strategy. This effectively allowed the team to build on from the Fraud Questionnaire exercise, conducted in 2010/11 and gauge the progress being made including the overall impact on the organisation. The findings of this work will continue to inform the work of the team during 2011/12 and beyond.
- 3.32 Policies have been updated during the year for Money Laundering and Bribery Act legislation and promoted across the Council. Specific training will continue to be provided to all those members of staff employed in areas where risks are deemed to be greatest during 2012/13.
- 3.33 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 2012/13 and any data generated investigated.
- 3.34 Proactive counter fraud work conducted during the year has included audits of the use of corporate Credit Cards that resulted in some significant issues being identified that entailed the removal of a staff members credit card facility and corresponding disciplinary action.

- 3.35 Other work carried out has included reviews of Travel and Subsistence and Overseas Travel systems and involved the verification of a sample of claims submitted by officers. Some significant issues were identified concerning compliance with Council Policy and agreements subsequently reached with the relevant Chief Officers for appropriate actions to be undertaken.
- 3.36 A detailed investigation into the activities of a partner organisation highlighted the need for more robust documented partnership arrangements across the Council that include clear identification of roles, responsibilities and management arrangements including access rights.

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

- 3.37 The Council's Confidential Reporting policy provides Council employees with a structured process where they can raise concerns in confidence. During 2011/12 further audit work was conducted to ascertain the level of awareness of and understanding of the policy amongst Wirral Council staff. 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 undertaken work in this area and these actions should strengthen the arrangements. More audit work is scheduled to evaluate the effectiveness of these actions during 2012/13.

#### **National Fraud Initiative**

- 3.38 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.
- 3.39 We collated and submitted the required data to the Audit Commission for the current 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. A number of actions have been taken across the Council to strengthen arrangements in place in an attempt to prevent fraud in these areas, following this exercise.

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

- 3.40 A corporate review of Gifts and Hospitality and Conflict of Interest procedures and compliance was undertaken during the year that highlighted issues across the organisation regarding significant variations in awareness and application of the appropriate procedures. Some departments were provided with 1 star opinions on

the effectiveness of their arrangements and appropriate actions agreed to improve arrangements.

### **Constitution / Legal Issues**

- 3.41 The Service provided input to the annual review of the Constitution to provide the Head of Legal and Member Services with assurances regarding the adequacy of the proposals and compliance with the requirements of the outcome of the Localism Act. Specific advice and guidance was provided during the year regarding interpretation of the Contract Procedure Rules.

### **Commissioning and Procurement**

- 3.42 Work has been undertaken to evaluate controls in operation over specific systems that include the Electronic Tendering Portal, Estimates for Work Contracts, Corporate Contracts and Evaluation Models with reports prepared for management identifying areas for improvement that include the lodging of evaluation models with the Corporate Procurement Unit, an issue that should be resolved with developed use of the Chest as the tendering portal. It is also vital that all Departments utilise the iProcurement system and that any spend incurred outside of this system is monitored, reported upon and followed up by relevant Chief Officers to ensure continued best value for the organisation. More audit work is scheduled in this area for 2012/13 to ensure continued compliance with this important corporate policy.

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

### **Adult Social Services Department**

- 3.43 There are a considerable number of areas where controls should be strengthened further to improve the department's overall internal control environment, it is however acknowledged that in some areas controls have been adequately designed and are generally operating satisfactorily. 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 2012/13 to ensure that sufficient progress is made to address issues of concern.
- 3.44 The findings of work conducted on the Procurement of Commissioned Care indicated the need for significant improvements to address five high priority recommendations covering a range of issues including the maintenance of evidence trails and measuring and monitoring satisfaction with care providers. Management have agreed to address these issues with some urgency. More work will be conducted in this area during 2012/13 to evaluate progress made.
- 3.45 Detailed work was undertaken during the year of the Care Quality Commission Improvement Plan to evaluate progress being made by the Department. The Improvement plan was the Departments

response to concerns raised regarding safeguarding and learning disability and sought to address these issues through a range of targets and milestones. The audit review work conducted was highly appreciated by the department as being independent and objective and is likely to be something that will be repeated in other areas in this age of 'self regulation'.

- 3.46 Other issues concerning Gifts and Hospitality and Conflicts of Interest have been raised with senior management and actions agreed to address concerns in these areas. More work will be conducted in this important area of governance during 2012/13.

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

- 3.47 Overall, the departments internal control environment is generally satisfactory; controls are adequately designed and effectively operated, although there are some areas where controls should be strengthened further including the system in place for Youth Services, specifically bank account management. Significant issues were also identified with many Schools regarding the effectiveness of their internal controls and the support provided to them by the Bursars Unit. 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**

- 3.48 Overall, the internal control environment in operation within the department is generally considered to be effective, however there is some cause for concern regarding Cultural Services. Generally controls over systems are 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. 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.
- 3.49 Concerns over the robustness of the financial procedures in operation at Cultural Services establishments, particularly around the collection of income have been expressed in audit reports following an extensive Control Risk Self Assessment exercise conducted across all of the establishments. The exercise was proven to be very beneficial as it resulted in a heightened awareness amongst managers of the risks existing at these types of establishments, and the effective controls that they need to put in place. We now believe that there is a need for the results of the exercise to drive a full review by the Head of Service of the financial procedures in this area and have notified the department accordingly.
- 3.50 Some other areas for improvement were identified following audits conducted during the year and appropriate actions taken to address

issues raised within agreed timescales. These included Birkenhead Park and the Williamson Art Gallery.

### **Finance Department**

- 3.51 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 Housing Benefits Disputes and Appeals, Financial Services General Ledger and Treasury Management, systems were assessed as being excellent. Management are largely proactive when considering and designing necessary controls and are aware of the value of having strong systems in operation. Risk and control advice is provided on an ongoing basis to the development of revised systems and procedures.
- 3.52 Some areas for improvement were identified that included the systems in operation over Departmental Creditors and Debtors. 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**

- 3.53 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.
- 3.54 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 2012/13 which will include additional work areas that include Investments Contributions.

### **Regeneration**

- 3.55 Overall, the departments internal control environment is generally sound; controls are adequately designed and 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.

- 3.56 The department continues to be very active in driving forward positive change and has only recently won a national award for its Investment Strategy.
- 3.57 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 Department and further audit work to verify the progress made is to be carried out in 2012/13.
- 3.58 The Regeneration Department has undergone significant organisational change during 2011/12, with the addition of some services previously managed elsewhere and as procedures within the newly configured department embed; Internal Audit will continue to undertake significant work in this area, so as to provide the required assurances on their effectiveness.

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

- 3.59 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 only being satisfactory as it is acknowledged that further improvements are required.
- 3.60 Issues identified during the year include systems in operation over Day to Day Procurement where a number of significant issues need to be addressed to improve the effectiveness of the control environment.
- 3.61 Other issues identified of significance include the Registrars function that was provided with a 1 star 'poor' opinion on the effectiveness of its internal control environment and a report prepared for management identifying ten high priority recommendations. We would expect to see significant progress to address these issues as a matter of urgency and more work has been scheduled in this area for 2012/13 to follow up work completed.
- 3.62 As has been widely reported previously it is of the greatest importance, that the Department implements a robust system for acknowledging and responding to Internal Audit reports and ensuring effective implementation of the recommendations made.

#### **Wirral Schools**

- 3.63 The 2011/12 audit plan included a new approach and risk assessment in respect of school audits that enabled audit resources to be targeted more effectively to those schools deemed to be of the highest risk. A range of factors, including the results and date of the last audit, the schools budget position and other high profile issues were used to select those schools deemed to be of the highest risk. In addition to this the type of audits undertaken at Schools has been developed so

that specific areas of internal control can be targeted individually, such as Debtors, Creditors, Budgets and Treasury Management, and Payroll and Personnel. A full audit of all risk areas is also undertaken.

- 3.64 The use of this targeted and highly risk aware approach has generated a total of five school audits, identified below that have resulted in a 1 star opinion and included significant numbers of High Priority recommendations relating to a range of systems weaknesses.

Stanton Road Primary

Bidston Village Primary

Holy Spirit Catholic and CE Primary

Brackenwood Primary

Calday Grange Grammar

- 3.65 This approach has been most beneficial focussing management attention, and has resulted in raised awareness of the need for robust internal controls in schools particularly during periods of economic decline and financial hardship when risks increase. Requests for training and awareness sessions were met during the year, with Internal Audit advising schools of common areas of weakness, and identifying ways to improve these. Such developments are very positive in raising standards of control over time.

- 3.66 All of the issues identified in the reports were discussed with Headteachers and Governors were appropriate and required actions subsequently taken by them to improve the systems in operation.

- 3.67 Due to the success of this approach more work of this nature is scheduled 2012/13. In addition to this more work is also scheduled with the School Bursars Unit to ensure that effective support is being provided to schools.

### **Follow-up Work**

- 3.68 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. Regular update reports on this are included within routine audit reports to the Audit and Risk Management Committee.

## **4 Internal Audit Inputs**

- 4.1 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 - 2011/12**

- 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 throughout the year.
- 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 the Audit and Risk Management Committee. The widening role and area of responsibility of Internal Audit continues to exacerbate this problem 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 that it should 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 two members of staff from the Counter Fraud Team for a significant part of the year, although the extent of the impact of this was reduced slightly by the acquisition of two temporary members of staff for the final quarter of the year and impact upon the plan delivery was kept to a minimum.
- 4.5 A number of vacancies have also existed at Assistant, Senior and Group Auditor level during the year for a number of different reasons and has impacted upon the Service's ability to deliver the plan in its entirety. The actual impact upon the plan delivery was however lessened slightly by the appointment of a number of temporary members of staff during the final quarter of the year.
- 4.6 Sickness levels amongst the internal audit workforce are amongst the lowest in the Council and compare very favourably with all national indicators, 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 2.5 days which compares very favourably with the target for the Council as a whole.
- 4.7 Following an external review of the Service it is envisaged that some strengthening will take place and additional resource may be made

available during 2012/13 to enable the delivery of increased work in a number of key areas that include Counter Fraud and Governance.

### **Internal Audit Plan - 2011/12**

- 4.8 Due to staffing issues experienced during the year including the secondment of one of only two Group Auditors out of the Section and the loss of the two members of staff that make up the Counter Fraud Team for a large proportion of the year 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 2484 days in total to deliver the Audit Plan during 2011/12 and consequently was able to complete 177 audits plus follow ups which equates to 84% of the planned work.
- 4.9 This represents a significant achievement and recognises the important 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.
- 4.10 This assurance work is required by the Audit Commission, supports the production of the Annual Governance Statement and is essential to the well being of the organisation. Regular meetings take place between officers from Audit Commission and the Internal Audit Service to discuss audit work and findings and the Commission continue to work very closely with Internal Audit in specific areas.
- 4.11 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 350 days.
- 4.12 The individual audits completed and days spent on each area of our audit plan, by service area, are set out in the table overleaf:

Wirral Council Internal Audit Service  
Annual report for the year ended 31 March 2012

Audit Area	Planned Audits	Planned Audit Days	Actual Outturn		Variance (%)	
			Audits	Days	Audits	Days
<b>CROSS CUTTING RISKS</b>						
Corporate Governance	8	130	8	165	-	27
Risk Management	7	70	7	77	-	10
Other Work (estimated)	3	200	6	92	50	-54
<b>SUB-TOTAL</b>	<b>18</b>	<b>400</b>	<b>21</b>	<b>334</b>	<b>17</b>	<b>-17</b>
<b>SERVICE SPECIFIC RISKS</b>						
Adult Social Services	8	189	8	93	-	-51
Children and Young Peoples	28	379	25	427	-11	13
Technical Services	9	139	5	104	-44	-25
Regeneration, Housing & Planning	11	183	5	82	-54	-55
Law, HR & Asset Management	6	94	6	94	-	-
Finance	4	84	3	18	-25	-79
Pensions	5	109	5	82	-	-25
<b>SUB-TOTAL</b>	<b>71</b>	<b>1177</b>	<b>57</b>	<b>900</b>	<b>-20</b>	<b>-24</b>
<b>CORPORATE/COMMON RISK</b>						
Financial Systems	24	504	20	360	-17	-29
ICT Systems	26	388	19	324	-27	-16
Commissioning & Procurement	10	144	10	136	-	-6
Human Resources	6	95	3	54	-50	-43
Partnerships	2	30	2	23	-	-23
Constitution	5	37	5	27	-	-27
Contracting	12	85	12	76	-	-11
Anti Fraud	36	400	30	250	-23	-38
<b>SUB TOTAL</b>	<b>121</b>	<b>1683</b>	<b>101</b>	<b>1250</b>	<b>-18</b>	<b>-26</b>
<b>TOTAL CONTROL OPINION</b>	<b>210</b>	<b>3260</b>	<b>177</b>	<b>2484</b>	<b>-16</b>	<b>-24</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.