

**Wirral Council
Internal Audit Service**

**Chief Internal Auditor's
Annual Report
2012/2013**

May 2013

Contents

Section	Page
1. Introduction	1
2. Summary Assessment	2
3. Summary of Internal Audit Work Undertaken:	8
3.A. Cross - Cutting issues	9
3.B. Corporate or Common Control Systems	11
3.C. Service Specific Controls:	18
Adult Social Services	18
Children and Young People Services	19
Technical Services	20
Finance	20
Pension Fund	21
Regeneration, Housing & Planning	21
Law, HR & Asset Management	22
Wirral Schools	22
Follow-Up Work	23
4. Internal Audit Inputs	24
Service Establishment	24
Audit Plan	25

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, and from 2013, the Public Sector Internal Audit Standards. 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 2012 to 31 March 2013 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 Officers 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.

Mark P Niblock
Chief Internal Auditor
Wirral Council

2 Summary Assessment

Overall Opinion

- 2.1 For a large part of the year, evidence obtained from audits conducted identified some significant control and governance issues across many areas of the Council's activities. It was notable, however, that during the later part of the year significant steps were taken by the new Chief Executive and his management team to develop and implement a more effective and embedded organisational infrastructure to serve the organisation more effectively and prevent a recurrence of similar control and governance issues in the future. This is something that is clearly acknowledged in the feedback that is being received from the Corporate Peer Challenge Follow Up team and will be explored in more detail in the Annual Governance Statement when the findings are reported. It is clear from the work undertaken of late that the organisation is on an upward curve of improvement in many of these areas and that if this continues and many of the associated actions are implemented as planned then the assurance opinion that I provide in the future will be much improved to reflect these achievements. However, having acknowledged this, it remains that for a large part of the year many issues were in evidence and consequently on the basis of the programme of work undertaken, I am required to conclude that the Council's internal control environment, taken as a whole for the year has provided **less than adequate assurance**.
- 2.2 The rating system utilised is explained in more detail in the table below and Wirral's score and direction of travel detailed in 2.3:

Assurance Rating	Assurance Explanation	Travel Direction
Good	Systems of control that exceed the minimum requirements	Improving Strongly
Adequate	Systems of control that meet the minimum requirements.	Improving Well
Less Than Adequate	Systems of control that do not always meet the minimum requirements.	Improving Adequately
Poor	Systems of control that do not meet the minimum requirements.	Not Improving Adequately

2.3 Wirral Council's assurance rating and direction of travel:

	Improving Strongly	Improving Well	Improving Adequately	Not Improving Adequately
Good				
Adequate				
Less Than Adequate			*	
Poor				

2.4 There are it must also be mentioned however some reasonably sound control systems largely in place though significant failings in a number of key areas have clearly prevented a more positive opinion being identified. The issues identified have arisen principally because there have been a number of failures to implement and comply with systems and procedures effectively across the organisation.

It is acknowledged that significant steps have been taken by the Council during the period to address these issues and that the measures taken should dramatically improve the control environment in those areas. More detail on these measures is identified at 2.11.

2.5 The 2012/13 audits of the core financial systems have shown a good level of compliance which is reflected by Internal Audit reporting only 3 (8%) weaknesses that had a corporate impact assessment of 'High' and issuing 2 (12%) reports with a 'Limited' opinion during the year. There is a significant amount of work being undertaken to address these weaknesses raised in these audits and the recommended actions from all the audits of the core financial systems have been agreed, which when implemented will further increase the level of assurance in this area.

2.6 Internal Audit performs work to gain assurance that the recommendations have been implemented and progress to date is good. Reports produced following audit work necessarily concentrate on areas for improvement rather than on celebrating success and can often make for a very difficult although rewarding read. This report is no exception.

2.7 No system of control can give absolute assurance against material misstatement or loss and, accordingly, this opinion does not provide such an absolute assurance.

Key Themes and Issues

There are a number of key themes identified below that figure quite prominently throughout this report and have a direct bearing on not only the current position of the Council but also how actions in these areas will influence and facilitate progress required:

Transformational Change (2.8 + 2.9)

External Review (2.10 + 2.11)

Performance Management (2.12)

Consistency of Approach (2.13)

Maintaining Focus (2.14)

Debt and Recovery (2.15)

The Changing National Agenda (2.16)

- 2.8 The Council has been through a significant period of **Transformational Change** over the previous twelve months that has been very challenging and demanding, it is expected that pressures associated with this will continue into the foreseeable future. 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 taking place. 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 and alternative methods of delivering services are explored.
- 2.9 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.
- 2.10 In addition to this, a number of **External Reviews** conducted 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

many areas of the Council's activities. During the previous twelve months there have been significant steps forward in the control and governance environment of the organisation under the direction of the new Chief Executive and his management team. Whilst the corporate arrangements in these areas are evolving, through discussions with key officers it is evident that on a directorate and service level these key governance strands are being put in place, this has also been acknowledged in praise received from the Peer Review team for work that has been undertaken. Substantive audit work in these areas is included within the Audit Plan approved at Audit and Risk Management Committee in March 2013.

2.11 Actions taken to date to significantly improve the control environment include:

- A number of senior management appointments and restructuring at this strategic level
- The vision and values of the organisation being clarified and incorporated into a corporate plan
- Developments in the financial planning, management and control of the organisation
- A revised approach to risk management being developed and encapsulated into a new strategy.
- Revised governance arrangements being implemented including Committee structures, responsibilities and reporting lines
- The development and ongoing delivery of a detailed corporate improvement plan
- Significant development of the systems of Internal Audit.

2.12 One area identified for improvement following audit work conducted was **Performance Management** and the need for more robust and transparent systems that include more effective target setting and improved detailed monitoring and reporting arrangements for managers, Chief Officers and Members. It is acknowledged that the establishment of the Department of Policy, Performance and Public Health has initiated planned improvements in this area, specifically target setting and challenge, monitoring and reporting, which will be reviewed during the 2013/14 financial year.

2.13 Concerns have been reported to Chief Officers regarding the lack of **Consistency** in documenting and communicating 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.

- 2.14 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.
- 2.15 An issue that needs to be addressed by the Council with some urgency is **Debt** recovery and the reduction of outstanding debts, especially within DASS. This issue has been reported to Cabinet following an independent review and an action plan has been agreed to improve debt recovery. Internal Audit played a key role in assisting the independent consultant in undertaking the review of debt levels and uncollected income across the Council. It is noted that following this exercise, significant work has been undertaken by the Council to recover over £15m of outstanding debt to date, and work in this area is ongoing. Internal Audit has scheduled work for 2013/14 in this area to evaluate the progress in implementing the recommendations.
- 2.16 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.
- 2.17 Other issues of note identified elsewhere in Section 3 of this report include the following:
Risk Management
Training and Development
Improvement Planning
Confidential Reporting
- 2.18 The Council does still continue to be reasonably well regarded overall, 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.
- 2.19 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

- 2.20 In making its Annual Governance Statement, the Council considers the Chief Internal Auditor's opinion in relation to its internal control environment, risk management processes and corporate governance. The Annual Governance Statement therefore includes many of the issues and themes identified in this report and again refers to the

need for further work to implement and ensure compliance with consistent control policies and procedures across the Council.

- 2.21 Significant changes to the Annual Governance Statement process have been implemented for the 2012/13 system following some weaknesses identified. The changes include a revised and improved process for involving the Chief Executive and his Corporate Strategy Group more in the ongoing audit work outcomes, promoting corporate ownership of the overall process and production of the actual Annual Governance Statement. Internal Audit input will continue on the 2012/13 AGS, with a draft Statement being compiled through the Chief Executive's Policy officers and discussed by the Chief Executive's Strategy Group prior to being presented to the Audit and Risk Management Committee in June, and the final Statement being reported in September. 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 2012/13.

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

- 2.22 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."

- 2.23 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.
- 2.24 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, Grant Thornton 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.
- 3.2 Opinions are formed in respect of each individual audit and are graded both as to the level of assurance over the area audited and also since September 2012, the corporate impact, which is a measure of the significance of the findings to the organisation as a whole.
- 3.3 The opinion of the Head of Internal Audit is informed significantly by the results of audits of the Council's core financial systems. These are the major systems which underpin the system of internal control and financial reporting. A summary of the outcomes of the audits for these systems for the year is identified in 3.19 below.

Management's Responses to our Findings

- 3.4 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 2013/14 and provide further support to managers to implement pragmatic solutions to the control issues identified.

3.A. Cross-Cutting Issues

There are a small number of important areas that cut across all the work of the Council that should always form part of the audit plan, assessments for these areas are included in this section:

Risk Management (3.5)

Key Corporate Systems – Critical Reports (3.6)

Corporate Governance (3.7)

Business Planning (3.8)

2013/14 – Internal Audit Emphasis (3.9)

- 3.5 The Council's **Risk Management** framework requires improved higher management support and commitment at both corporate and departmental level. The utilisation of the Concerto business planning system or equivalent should improve future coordination of the risk management process across the Council. The corporate Risk and Insurance Officer is 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 and these matters are currently in hand. More detailed work is planned in this area for 2013/14.
- 3.6 The Service has conducted audits of **Key Corporate Systems** evaluating the adequacy of arrangements in key areas such as Asset Management, Performance Management, Training and Development, Absence Management, compliance with legislative, HR and constitutional requirements and prepared critical reports for Chief Officers identifying a significant number of areas for improvement in these areas. The Service continues to provide input to Council operations to support improving governance arrangements by regularly liaising with the Policy/Planning Officers responsible for coordinating and reporting the AGS through the Chief Executive's Strategy Group to the Audit And Risk Management Committee. 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.
- 3.7 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. The completion and return of Chief Officer and Manager's Assurance Statements improved during 2012/13 although suggestions have been made to further streamline this process for 2013/14, and encourage a greater level of management buy-in to the process.

- 3.8 **Improvement Plan** work performed, whilst not verifying outcomes at this stage, did identify a clear timetable for Board meetings, a governance model which illustrates clear lines of responsibility and Briefing Notes being issued on a monthly basis to document any issues regarding the delivery of the Improvement Plan. It was agreed that the business planning system could be more effectively used to provide assurance of evidence supporting target completion. It will be a key risk as the Improvement Plan comes to an end to ensure that the indicators involved are, where appropriate, included within the Council's performance management framework.
- 3.9 Work scheduled for **2013/14**, year one of the Strategic Audit Plan includes more emphasis on Council policy and systems in operation over Decision Making including, Financial Savings Delivery, Shared Services Arrangements, and Service Transformation.

3.B. Corporate or Common Control Systems

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. This section explores some of the findings from this work.

- 3.10 In 2012/13 we focused 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

- 3.11 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.
- 3.12 The Performance Management framework has been affected by ongoing corporate changes and the relocation of officers involved in many corporate processes, this situation should improve during 2013/14 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 Chief Executives Strategy Group (CESG) 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 hoped the utilization of the Concerto Business Planning System may improve coordination of processes in the future, although it is considered essential that a clear timetabling of corporate and departmental reporting requirements is established for performance indicator targets, that the targets proposed are robustly challenged 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.
- 3.13 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 the Corporate Procurement Toolkit, the amended Contract Procedure Rules and the lessons learned from the HESPE Action Plan resulting from the Audit

Commission's PIDA report issued during the year. More work of this nature is included in the Internal Audit Plan for 2013/14.

Corporate Financial Control Systems

- 3.14 The opinion of the Chief Internal Auditor is informed significantly by the results of audits of the Council's core financial systems. These are the major systems which underpin the system of internal control and financial reporting. Core financial systems include, for example, the Payroll, Benefits, Revenues and the Main Accounting systems. These systems have been agreed as 'key' and therefore each has been reviewed and the outcomes presented to the external auditors to ensure overall compliance with the International Standards on Auditing.
- 3.15 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 significant management action.
- A review of the sundry debtors on-line systems 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.
 - A review of invoice payments processed via a number of on-line accounts payable sites identified some critical weaknesses. Recommendations to reduce the risks and improve the utilisation of the i-Procurement system were made and have now been effectively implemented.
- 3.16 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.
- 3.17 During 2012/13, CAATS were used as part of the audit approach to the Payroll system in order to perform testing of the standing data and provide assurance regarding the accuracy of payments made over a specified period. A number of matches were identified for further investigation, including instances of some ex-employees being paid in months following their leaving dates. All matches were reviewed by management and satisfactorily resolved. The review 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. Actions required to further improve controls in these areas have been discussed and agreed with senior management. We will continue to monitor this area during 2013/14 and have scheduled more detailed testing and review work to assess this.
- 3.18 Our reviews of the Main Accounting systems undertaken during the year included assessments of the Non-Current Asset Accounting,

Treasury Management 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 an effective level of assurance.

3.19 The work undertaken on the Council's key financial systems identified that control over each of the following was generally adequately designed and operated in practice. Some issues identified have required actions by management to improve controls:

- Cash and Banking
- Payroll
- Main Accounting
- Council Tax
- Creditors
- NNDR
- Pensions
- Treasury Management
- Housing Benefits
- VAT Compliance

The control environment for the Procurement system however is assessed as being less than adequate on account of significant issues reported to management and included at 3.40 below.

Control issues in relation to Debtors and Debt recovery are identified elsewhere in this report at 2.15.

The control environment for VAT, Treasury Management, Bank Reconciliation and Council Tax was assessed as being good.

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 as identified in 3.17 above.

3.21 The Job Evaluation exercise remains incomplete 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 2013/14 and audit will be monitoring and reporting on this situation. Other corporate Human Resources issues of concern relate to Absence Management, Training and Development and Case Management with the need for the developed Employee Relations Report, verified as accurate, to continue to be presented to members to demonstrate transparency.

ICT Systems and Controls

3.22 As previously reported, the Council's approach to, and management of, information risk continues to mature but there are enduring issues around roles and responsibilities, information risk strategy and staff training. It is our opinion that Information Assurance is not yet truly embedded within the culture of the organisation, and that major organisational change has limited the opportunity for Managers to apply sufficient focus to the development of Information Assurance structures, responsibilities and procedures.

The reintegration of Public Health into the Authority, with their more mature Information Governance background, may provide an opportunity to share good practice throughout other areas of the Council.

The Internal Audit Service will continue to monitor progress and provide advice in these areas during 2013/14 as well as reporting any concerns to Chief Officers and Members.

- 3.23 The Council has made good progress towards implementing technical controls to guard against the loss of information on portable devices and removable media. Work continues to strengthen monitoring and detection systems to minimise the impact of potential security breaches and to enable effective incident management.

Internal Audit will continue to advise during the development of new systems and to verify that technical solutions support the needs of the Council whilst adequately protecting its information assets.

- 3.24 Wirral IT Services staff are planning and implementing significant changes to the corporate infrastructure to support the future requirements of the Council. These include an operating system upgrade and the roll-out of virtualised environments to support the demands of a flexible and agile workforce. While Wirral IT Services staff have the skills and knowledge to implement these technical solutions, there is the risk that resources will be spread too thinly to adequately support concurrent business-as-usual demands or to cope with unexpected requests for change.

In 2013/14, the Internal Audit Service will review the controls in developing ICT systems as well as continuing to ensure that risks are appropriately managed in routine, business-as-usual processes.

- 3.25 In common with all parts of the Council, IT Services has undergone significant restructuring resulting in many changes to roles, responsibilities and reporting lines. These changes, together with any potential Shared Services which may arise, present a challenge in the short to medium term but, when combined with the development of business-led ownership and management of information assets, should lead to clearer demarcation between ICT service provision and the usage, management and exploitation of information as a business asset.

- 3.26 Some recommendations contained in the 2010 SOCITM report on IT Service Delivery have not yet been implemented due, in part, to higher priority work arising from Council-wide restructuring, and to the internal restructuring of the IT Services section. Internal Audit will continue to evaluate the risks arising from the lack of certain industry best practices and will ensure that Management, Chief Officers and Members are informed of any areas of concern. Other longstanding issues of note in this area of operations include the use of

telecommunications devices by the Council workforce and the establishment of robust and fit for purpose systems of governance over the use of these devices.

Counter Fraud and Investigatory Work

3.27 The Counter Fraud Team within the service has continued to deliver an effective service despite the loss of key members of staff for large periods of the year. A number of temporary members of staff provided the necessary input and good progress was made in a number of key areas during the year. The team has now clearly established itself as a 'corporate' function and has now become increasingly involved with issues and investigations arising from all departments.

3.28 An exercise has been undertaken to assess the Council's measures to counter fraud and corruption against current industry best practice and suggested measures, as reported by a number of public sector organisations, which include the Audit Commission, CIPFA, The National Fraud Authority and Fighting Fraud Locally. The subsequent findings indicate that good practice advocated by these and other organisations was being followed, where appropriate, and that the necessary policies and procedures were in place to support this approach. The Counter Fraud Team within the Internal Audit section has used this evaluation to develop their approach and strengthen procedures accordingly.

Having undertaken this analysis the team, has also looked to update its business plan where these publications have identified new and emerging trends in abuses targeted at similar organisations. This is a constant and ongoing development of the organisation's approach to limiting the potential and actual abuse through fraud and corruption.

3.29 The team continues to be involved and participates in major anti fraud surveys such as the Audit Commission's Protecting the Public Purse, Fighting Fraud Locally, managed by the National Fraud Authority and has now become a member of the steering group for the CIPFA Fraud Benchmarking survey.

The Counter Fraud team subscribe to the National Anti Fraud Network (NAFN) which provides an additional resource to investigative staff and we are also represented on the National Executive of the Local Authority Investigation Officers Group (LAIORG), ensuring that we have access to updates and emerging trends at the earliest opportunity.

3.30 The on-line Fraud Awareness training facility previously subscribed to has been successfully migrated to the authority's own on-line training platform and updated which besides creating a cost saving in relation to the licence fees, has enabled greater management of the officers undertaking the training and enabled improved targeting for those yet to take it. This has been supported at the highest level by the Chief Executive, and this is now a mandatory training module for all staff.

- 3.31 During the year the team saw an increase in the number of investigations that they were asked to both undertake or to provide advice and support with. This clearly demonstrated that the work to raise the profile of the team, and the support that they can provide has been successful, in that more requests for assistance were now being received.
- 3.32 Other work carried out has included reviews of Compromise Agreements, Travel and Subsistence, Mobile Phone Usage and Overseas Travel systems which involved the verification of a sample of claims submitted by officers. Some significant issues were identified concerning compliance with Council Policy and agreements were subsequently reached with the relevant Chief Officers for appropriate actions to be undertaken.
- 3.33 A major initiative was undertaken to brief all appropriate frontline staff regarding the Anti Money Laundering policy and to ensure they knew how and to whom reports were to be made. Over thirty training sessions were held across the borough with 350 front line staff attending. This has seen an increase in the 'due diligence' checks conducted by staff.

Confidential Reporting (Whistle-blowing)

- 3.34 The Council's Confidential Reporting policy aims to provide Council employees with a structured process where they can raise concerns in confidence. During 2012/13 further audit work was conducted to ascertain the level of awareness and understanding of the policy amongst Wirral Council staff. It was identified that the Whistleblowing policy required improvement in a number of areas and more effective communication to the workforce and other stakeholders, while there was little consistency with the process/procedures contained in the Grievance policy. It is acknowledged that subsequent management actions have shown improvements in these areas, and more audit work is scheduled to evaluate the effectiveness of these actions during 2013/14.

National Fraud Initiative

- 3.35 The Audit Commission requires all local authorities and other public bodies including the NHS, Paymaster Generals Office, Student Loans Company, The Department for Work and Pensions and the UK Border Agency to participate in its biennial National Fraud Initiative (NFI), which is a national exercise using computer assisted data matching techniques. The NFI exercise consistently generates significant savings for participating organisations, arising largely from payments recovered or stopped.
- 3.36 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 Resources 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.

- 3.37 In addition, a more robust reporting mechanism has been introduced to identify potential opportunities to recover any monies owed to the Council earlier in the process and to instigate necessary recovery proceedings.

Gifts and Hospitality and Conflict of Interest

- 3.38 Detailed audit work was performed as a result of adverse comment by the external auditor earlier in the year. The findings of the work identified key weaknesses in a number of areas including a lack of consistency of approach across the Council and significant compliance failures, particularly regarding prior approvals of any acceptance of a gift or hospitality, the importance of making annual and ongoing declarations of conflict of interest by all officers, and the requirement for an annual report to members on declarations for transparency purposes.

Constitution / Legal Issues

- 3.39 Specific advice and guidance was provided during the year regarding the interpretation of the Council's Procedure Rules. The revised Constitution was agreed at Cabinet in April 2013 and audit work is scheduled for 2013/14 year to ensure compliance with key aspects of these rules and procedures across the Council.

Commissioning and Procurement

- 3.40 Work completed during the year included the Contract Register, Completion of Contracts, DASS Procurement of Commissioned Care and OJEU Notices. It is a cause for concern that the Corporate Procurement Board has not met since November 2012 when the Corporate Procurement Manager went off on long term sickness. Management advise that there is a commitment to re-establish this Board early in the 2013/14 and Internal Audit are of the opinion that this is essential. More detailed audit work is scheduled for this area in 2013/14 to follow up on issues raised.

3.C. Service Specific Controls

This section is presented in accordance with the organisational structure as at 1st April 2012.

Adult Social Services Department

- 3.41 The departments internal control environment requires attention and is assessed as being less than adequate for the year. There are a considerable number of areas where controls should be strengthened further to improve the overall effectiveness. 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 peer reviews and challenges have been positive and indicate that action has, or will be, taken where issues have been identified although some concerns relating to this have been experienced and are identified at 3.46. Follow up work is scheduled in this area for 2013/14 to ensure that sufficient progress is made to address all of the areas of concern.
- 3.42 A system review of DASS Procurement of Commissioned Care resulted in key risks being highlighted regarding the need for a clear risk assessment methodology for visits to care homes and care providers, that the DASS list of approved providers must reconcile to the Corporate Procurement Unit list, and evidence must always be retained as to why a specific provider was selected. It was pleasing to note that these issues had been actioned at the time of the follow up audit review, although further work is planned for 2013/14 to ensure necessary assurances can be provided of properly operating processes within this system.
- 3.43 Internal Audit played a key role in assisting an independent consultant in undertaking a review of levels of debt and uncollected income across the Council. The resulting report was critical of a number of key corporate systems as well as some within Adult Social Services. A full report and action plan has resulted from the work, and the initial indications are that the Department and the wider Council is responding positively to the recommendations.
- 3.44 Detailed work was undertaken during the year on the following key systems within the Department, and resulted in low audit opinions:
- Court of Protection
 - Appointeeships
 - Residential and Nursing Care
- The Department has, however, shown very positive signs of improvement in these areas, as evidenced by the ongoing follow-up work.
- 3.45 During the year, three Council-operated residential/day centres were audited. These reviews resulted in low audit opinions and many findings of a fundamental nature. Discussions have been held with

the relevant managers so as to seek to improve the levels of control and consistency across centres. A training session was held with residential/day centre managers to raise awareness of the principles of good control and seek to assist them with the implementation of such controls. The session was positively received and it is hoped that future audits will generate improved opinions as a result.

- 3.46 Internal Audit has had some difficulty during the year in obtaining evidence of implementation of recommendations in respect of audits undertaken across the department. It is of some concern that timely responses to Internal Audit requests for information and evidence have not always been forthcoming, despite the reporting of these matters on previous occasions to the Audit and Risk Management Committee. We are advised that the department now has this matter in hand and is to implement a more robust system for managing and monitoring actions undertaken in response to internal audits.
- 3.47 The corporate review of Gifts, Hospitality and Conflicts revealed that Conflicts of Interest forms had not been completed within DASS. This issue was acknowledged as needing rectification at management team level, and the renewed corporate policy approved in February 2013 will be covered in the 2013/14 Audit Plan to ensure compliance.

Children and Young People Department

- 3.48 The department's internal control environment overall is generally adequately designed and operating reasonably effectively, although there are some areas where controls should be strengthened further. There is an improving picture in relation to schools, with fewer significant issues highlighted in recent audits. This is partly attributable to a greater level of Internal Audit engagement with Head Teachers and senior management.
- 3.49 Detailed work was undertaken during the year on the following key systems within the Department, and resulted in low audit opinions:
- Emergency cash payments
 - Out of borough placements
 - Metro Catering: income
 - Leaving care
- The Department has, however, shown very positive signs of improvement in these areas, as evidenced by the ongoing follow-up work.
- 3.50 Training sessions were held during the course of the year with all Head Teachers, so as to raise their awareness of the principles of good control, and assist them in implementing these. The sessions were very positively received, and have been instrumental in improving the audit opinions generated in subsequent audits.

Technical Services Department

- 3.51 The departments internal control environment overall is generally adequately designed and in most areas operating adequately, however there were some significant concerns raised regarding Cultural Services establishments that are explored in more detail at 3.54 below. Generally controls over systems are reasonably 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.
- 3.52 A review of the operation of the system of payment for the Highways Maintenance contract with Colas was undertaken during the year, following a highlighted control failure. The work resulted in a number of key findings. Initial indications are that the Department has made a positive response to the recommendations, which will be evidenced during the forthcoming follow-up audit.
- 3.53 The progress with the HESPE Action Plan is a regular item on the Audit and Risk Management Committee Agenda to ensure that the Council has learned from the past and demonstrates a commitment to improvement and transparency. Items on the Action Plan resulting from the PIDA report are regularly monitored to ensure progress to completion. The new contract is in the process of being tendered and it is important to demonstrate that the issues where the Council was criticised, such as the challenge of the tendered rates, are incorporated into the developing tendering review processes.
- 3.54 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. We are aware that this service has now transferred to a new directorate and we will be monitoring very closely the development of more robust control arrangements in this area during 2013/14.

Finance Department

- 3.55 The departments internal control environment overall is generally adequately designed and reasonably operated although improvements are required in a number of areas that include Debt Recovery and Budgeting, as identified at 2.15 and 3.57, to strengthen the current arrangements. 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.
- 3.56 Some areas for improvement were identified that included the systems in operation over Pension Calculations, and Controlled Stock. Meaningful discussions have taken place with management regarding the most effective methods of reducing risks and

developing more robust systems. Issues identified following the audits have in the main, been addressed and where this is not the case work is currently in progress and will be followed up.

- 3.57 The work undertaken on financial assessments for Adult Social Services by the Personal Finance Unit generated a low audit opinion and a number of findings. This Unit is instrumental in assisting with the successful implementation of the recommendations arising from the external report on debt.
- 3.58 Audits were completed on a number of central systems within the Library Service following its integration into the Finance Department. The work on the Library Book Fund and External Cash Management systems identified some critical issues requiring management's attention. These have been monitored and significant progress has been made in implementing the audit recommendations with further follow-up work planned for 2013/14.
- 3.59 Another area identified for significant improvement was the Business Travel Arrangements system where a number of issues were brought to the attention of management. Some of the agreed actions remain outstanding because they are beyond the current responsibilities of the Corporate Procurement Division and this has highlighted issues over the ownership of the Corporate Business Travel Policy and the responsibility for managing the current contract with Redfern Travel. These issues have been escalated for the attention of senior management and further work is planned for 2013/14 in this area to evaluate the management response.

Pension Fund

- 3.60 On the basis of the work undertaken during the year, overall the internal control environment is adequately designed and operated, with positive audit opinions being given in all reports issued.
- 3.61 However, given the nature of the Pension Fund operations and the significance of the finances involved, its inherent risk level is significant. The Pension Fund management continues to pay attention to ensuring that these risks are effectively managed, assisted by significant Internal Audit work during 2013/14 which will include additional work areas based upon emerging risks, such as pension transfers and member services.
- 3.62 The Internal Audit service has developed and agreed a Service Level Agreement with the Pension Fund, so as to formalise the audit relationship; clarify responsibilities and obligations on both sides; and embed positive practices. This is operational for the financial year 2013/14 onwards.

Regeneration, Housing and Planning

- 3.63 The departments internal control environment overall is generally considered to be adequately designed and reasonably well operated. However there are a 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.

- 3.64 Positive audit opinions were given in the reports resulting from detailed work undertaken in respect of Supporting People and Income.
- 3.65 Some internal issues may result from ongoing investigation work and require improvements to be made to systems currently in operation relating to internal processes. If so, it is essential that these processes are clearly documented with sufficient and adequate detailed guidance provided to all those involved.

Law, HR and Asset Management

- 3.66 The departments internal control environment requires attention as it is assessed as being less than adequate, audit work conducted during the year highlighted that there are a number of key recommendations arising which require action and it is generally acknowledged that further improvements are required. Many of these relate to the Corporate Governance agenda and are detailed elsewhere in this report at 3.6, 3.21, 3.34 and 3.38.
- 3.67 Other issues identified of significance include the Community Safety Team and Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES), where positive audit opinions were given. There were also positive practices identified during the audit of Trading Standards, along with some areas for improvement.
- 3.68 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

- 3.69 The 2012/13 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 school's 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. Full audits of all risk areas are also undertaken.
- 3.70 Awareness sessions held with Head Teachers, and greater engagement with senior managers within the Department, have proved instrumental in improving the outcomes from school audits. It is striking that compared to five audits of a 1 star opinion during 2011/12; there was only one audit of this type during 2012/13. It is also evident that positive progress has been made in respect of the

recommendations resulting from previous school audits where low opinions were given.

- 3.71 There is, however, some work to do to improve the timeliness and quality of information returned to Internal Audit following requests as part of the follow-up audit.

Follow-up Work

- 3.72 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 and any failure to implement required actions within agreed timescales reported and action by Members requested.

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 during the year.

Internal Audit Service Establishment - 2012/13

- 4.2 The Internal Audit Service has undergone a significant period of transformation since September 2012 when a change in management took place and a radical restructure of the service was undertaken. The changing public sector landscape and the transformation taking place across Wirral Council provided an opportunity for some fundamental streamlining of the workforce and refocusing of its priorities and operational practices to take place. A benchmarking exercise against similarly sized Council audit providers was undertaken and a collaborative arrangement entered into with Liverpool City Council's Internal Audit Service that provided many opportunities to share resources and best working practices that should continue to develop well into the future. This relationship has proven to be very successful to date and has provided not only significant working opportunities but allowed Wirral Council to rationalise and refocus the workforce reducing the actual staffing structure from 23 FTE's to 13 FTE's and realising approximately £200k in savings across the Internal Audit Service.
- 4.3 Following the exercise, a comprehensive Improvement Plan was developed for the Internal Audit service identifying eighteen actions essential to implement radical and significant change across all elements of the service. At the time of writing twelve of those actions have been implemented and progress towards the others is proceeding in line with identified timescales. Actions taken to date include:
- The implementation of a revised audit report format incorporating colour coded opinions on systems, compliance and organisational impact,
 - The introduction of a Letter of Engagement for all audits,
 - The development of a comprehensive Training and Development Programme for audit staff,
 - Developed reporting and arrangements for Chief Officers and Members,
 - The implementation of a three year Strategic Internal Audit Plan directly linked to key corporate priorities,
 - Improved engagement with Chief Officers, managers and Members,
 - Enhanced escalation procedures for audit issues identified,
 - Improved reporting arrangements for ARMC members including monthly RAG rated update reports,

- The development of a collaborative arrangement with Liverpool City Council's Internal Audit services,
- Regular scheduled attendance at departmental DMT's by the Chief Internal Auditor,
- The Implementation of a RAG ratings system for audit opinions and action progress,
- The introduction of ongoing benchmarking against other audit service providers,
- Raised awareness and profile of the Internal Audit service across the Council,
- The introduction of a developed Annual Governance Statement process across the Council promoting corporate ownership,
- More established relations with Chief Internal Auditors from across the North West region.

Internal Audit Plan - 2012/13

- 4.4 The Service was able to utilise **2617** days in total to deliver the Audit Plan during 2012/13 and consequently was able to complete **168** audits which equates to **95%** of the planned work.
- 4.5 This represents a significant achievement and recognises the important work undertaken by the service to increase performance and productivity. 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.
- 4.6 This assurance work is required by the external auditors, 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 external audit and the Internal Audit Service to discuss audit work and findings and the external auditors continue to work very closely with Internal Audit in specific areas.
- 4.7 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 2013

Audit Area	Planned Audits	Planned Audit Days	Actual Outturn		Variance (%)	
			Audits	Days	Audits	Days
CROSS CUTTING RISKS						
Corporate Governance	8	110	8	153	0	+39
Risk Management	4	36	3	26	-25	-28
Other Work	7	172	8	195	+14	+13
SUB-TOTAL	19	318	19	374	0	+18
SERVICE SPECIFIC RISKS						
Adult Social Services	8	139	8	285	0	+105
Children and Young Peoples	26	445	22	264	-15	-41
Technical Services	6	115	4	42	-33	-63
Regeneration, Housing & Planning	8	200	5	64	-38	-68
Law, HR & Asset Management	7	75	7	84	0	+12
Finance	6	99	6	97	0	-2
Pensions	6	113	6	58	0	-49
SUB-TOTAL	67	1186	58	894	-13	-24
CORPORATE/COMMON RISK						
Financial Systems	23	486	20	374	-13	-23
ICT Systems	28	388	26	324	-7	-16
Commissioning & Procurement	3	50	3	39	0	-22
Human Resources	3	116	6	158	+100	+36
Constitution	2	16	3	29	+50	+81
Contracting	12	109	10	86	-17	-21
Anti Fraud	20	350	23	339	+15	-3
SUB TOTAL	91	1515	91	1349	0	-11
TOTAL AUDIT DAYS		3019		2617		-13
TOTAL AUDITS	177		168		-5	

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.