

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

25 NOVEMBER 2013

SUBJECT:	INTERNAL AUDIT UPDATE
WARD/S AFFECTED:	ALL
REPORT OF:	CHIEF INTERNAL AUDITOR
KEY DECISION ?	NO

1.0 EXECUTIVE SUMMARY

1.1. This report identifies and evaluates the performance of the Internal Audit Section and includes details of any issues arising from the actual work undertaken during the period 1 September to 31 October 2013. There are 5 items of note concerning audit work undertaken that are brought to the attention of the Members for this period and these are identified at Section 2.2.

2.0 BACKGROUND AND AUDIT OUTPUT

2.1. Internal Audit recently introduced a more effective reporting mechanism for Members of the Audit and Risk Management Committee that summarises audit work completed and identifies issues raised on a more timely monthly basis. This report supports the revised arrangements by focussing on the following:

- Any items of note arising from audit work conducted,
- Any issues arising that require actions to be taken by Members,
- Performance information relating to the Internal Audit Service,
- Developments being undertaken to improve the effectiveness of the Internal Audit Service.

The information contained within this report is for the period 1 September to 31 October 2013.

2.2. Items of Note

2.2.a. Central Libraries

An audit was conducted during the period to evaluate the adequacy and effectiveness of the controls in operation at the Wallasey Central Library. The aim of the audit was to establish if the existing control systems were fit for purpose and effectively managed. The audit generated 'minimum' assurance opinions for the system and compliance and a 'moderate' opinion for the corporate impact. Nineteen recommendations were identified in a report for management of which four were High priorities.

Following this audit the Head of Business Processes requested that similar audits be undertaken at the remaining three central libraries. This audit generated findings consistent with those identified at Wallasey and resulted in an action plan being developed and agreed with the Principal Librarian to address all of the weaknesses and areas for development within an agreed timescale. The action plan identified 13 recommendations of which 6 are

High priority and include issues across the full range of activities that include the following:

- Income/Charging
- Asset management
- Security
- Cash handling.

Senior management have reacted very positively to the reports and have agreed the action plan and associated timescales, many of the actions have in fact been implemented with immediate effect. Follow up work is scheduled for February 2014 where progress will be evaluated and reported, Members of this Committee will be notified of the findings of this work and any issues escalated for attention and action.

2.2.b Change in Payment Destination Fraud Investigation

At the request of Members this investigation is the subject of a separate report to this Committee identifying the work undertaken and findings including recommendations arising.

2.2.c External Assurances Update

At the September 2013 meeting of this Committee a report was presented identifying progress made by the Council to implement recommendations arising from external inspection reports. At that time the majority of the required actions had been undertaken, however a small number of actions were identified as being in progress relating to Safeguarding, Related Party Transactions and Retrospective 1Business Orders. Work is currently being undertaken by Internal Audit to verify the progress made in this area and to undertake testing to evaluate the effectiveness of actions taken. The findings from this work will be included in the monthly summary report for ARMC Members and formally reported to this Committee upon completion.

2.2.d Policies and Procedures

An audit was undertaken in the period to review the adequacy of the controls in operation over the management of corporate Policies and Procedures. The aim of the audit was to establish if the existing system was fit for purpose and effectively controlled. The audit generated a 'minimum' assurance opinion for the control system and a 'moderate' opinion for the corporate impact. Ten recommendations were identified in a report for management of which 6 were High priorities. The High priority recommendations relating to this work have been identified in detail on the Internal Audit Activity Summary for September 2013 and are summarised below:

- Introducing more effective processes for compiling and managing corporate policies and procedures that include streamlining those policies in place, removing those no longer relevant and regularly refreshing those that are in constant use for continued effectiveness.
- Implementing a more robust system for ensuring that all corporate policies and procedures are effectively communicated to staff utilising all available communications media.

- Implementing a system that ensures awareness and understanding of key corporate policies amongst the workforce that includes training sessions, targeted briefings and ongoing management compliance checks.

The Head of HR has responded extremely positively to the report findings and has confirmed that a new team has been established with a dedicated work programme focussing on corporate policy and procedure. The teams remit is to include the implementation of all actions identified during the review to improve systems in operation within agreed timescales.

Follow up work to evaluate progress made towards implementing actions identified is scheduled for January 2014 and the findings of this work will be reported to Members of this Committee in due course.

2.2.e Invigor8 Direct Debit Investigation

An internal investigation was undertaken following an incorrect direct debit collection totalling £986,935.00 was processed by the Council regarding membership fees for Invigor8. The purpose of the review was to establish the reason for the error and to evaluate the adequacy and effectiveness of controls present within the existing system.

Findings indicated that the IBACS Direct Debit system incorrectly identified the wrong version of a transmission file and exported this in error. Whilst it is not clear why the IBACS system performed in this manner weakness within the existing control systems contributed towards the error not being identified and the payment being stopped. An action plan was prepared for senior management identifying six High priority recommendations with an immediate implementation date to improve systems in operation and prevent recurrence of a similar incident in the future. Internal Audit have been advised that all actions have been implemented, follow up work will be undertaken later this month to confirm this and evaluate the effectiveness of the new arrangements.

2.3 Outstanding Audit Recommendations

2.3.a Attached at Appendix 1 is a table identifying information relating to those audits where recommended actions included in audit reports have not currently been implemented.

2.3.b It is my intention in future to include this table as an attachment to this report on a routine basis identifying only those items that remain outstanding and may require the attention of, or action by Members. Where items are addressed by officers those entries will be removed from the report on a rolling basis. This additional information is designed to address concerns raised by Members at a previous meeting regarding retaining sight of issues flagged for attention.

2.4 Internal Audit Performance Indicators

2.4.a The Service constantly evaluates and measures the effectiveness of its performance in terms of both quality and productivity by means of a number of performance indicators in key areas as identified below. These include

delivery of the annual Internal Audit Plan and ensuring that all of the audits identified in the plan are completed on schedule. This is particularly important at the present time as the requirement for Internal Audit involvement in a number of important corporate initiatives has increased dramatically.

IA Performance Indicator	Target	Actual
Percentage delivery of Internal Audit Plan 2013/14.	50	45
Percentage of High priority recommendations agreed with clients.	100	100
Percentage of returned client survey forms indicating satisfaction with the Internal Audit service. (Numbers returned indicated in brackets)	80 (65)	95 (60)
Percentage of internal audit reports issued within 10 days of the completion of fieldwork.	100	96

2.4.b There are currently no issues arising.

2.5 Internal Audit Developments

2.5.a Good progress is being made to deliver the Internal Audit Improvement Plan which is designed to drive a number of developments and initiatives aimed at increasing the overall efficiency and effectiveness of systems of internal audit across the Council. Of the 18 actions identified 16 have now been fully implemented and good progress has been made in respect of the remaining actions within the agreed timescales. Actions undertaken to date include:

- The implementation of a revised audit report format incorporating opinions on systems, compliance and organisational impact,
- The introduction of Letter of Engagement for all audits,
- The introduction of a Training and Development Program for audit staff,
- Developed reporting arrangements for Chief Officers and Members,
- The implementation of a three year strategic internal audit plan directly linked to the key corporate priorities,
- Improved engagement with Chief Officers, managers and Members,
- The introduction of enhanced escalation procedures for audit issues identified,
- Improved reporting arrangements for ARMC members including monthly RAG rated update reports,
- Developed collaborative arrangement with Liverpool Council's Internal Audit services,
- Significantly restructuring and refocusing the service in line with other best practice providers,
- Regular scheduled attendance at departmental DMT's and the Chief Executives Strategy Group 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,
- The introduction of a service level agreement with the Pension Fund,
- Enhanced relations with Chief Internal Auditors from across the North West region.

2.5.b The improvement plan was designed to be delivered in the current financial year and implement some significant and fundamental changes to the nature of the service and its delivery. This has undoubtedly been achieved however, it is acknowledged that there will always be the need to constantly challenge and evaluate the effectiveness and efficiency of the way in which the service is delivered well into the future. Consequently it is my intention to continue to utilise the Improvement Plan vehicle on a constantly rolling basis adding new improvement targets and reporting on progress in similar fashion to as at present. Improvement targets added to date include:

- Self-assessment against the Public Sector Internal Auditing scheduled for this period, reporting outcomes and actions to Members upon completion,
- Implementation of the Excellent Internal Auditor Framework,
- Development of the Internal Audit Intranet facility as a vehicle for communicating audit and risk related issues to clients.
- Implementing an IA staff development programme incorporating post audit assessments to identify areas for improvement/development.

2.5.c The first UK Public Sector Internal Audit Standards came into force in April 2013 and all local authorities are required to evaluate implementation of the new standards from April and report on intended compliance with these by June 2014 with full implementation and compliance required by 2018. Internal Audit plan to undertake a self assessment exercise against the standards over the coming months and report the findings and any required actions to this Committee upon completion.

3.0 RELEVANT RISKS

- 3.1 Appropriate actions are not taken by officers and Members in response to the identification of risks to the achievement of the Council's objectives.
- 3.2 Potential failure of the Audit and Risk Management Committee to comply with best professional practice and thereby not function in an efficient and effective manner.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 No other options considered.

5.0 CONSULTATION

- 5.1 Members of this Committee are consulted throughout the process of delivering the Internal Audit Plan and the content of this regular routine report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising from this report.

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 There are none arising from this report.

8.0 LEGAL IMPLICATIONS

8.1 There are none arising from this report.

9.0 EQUALITIES IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

No because there is no relevance to equality.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are none arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are none arising from this report.

12.0 RECOMMENDATIONS

12.1 That the report be noted.

13.0 REASON FOR RECOMMENDATION

13.1 To provide the Members with assurance that the Council is taking appropriate measures to comply with statutory requirements to provide an adequate and effective internal audit service.

13.2 To ensure that risks to the Council are managed effectively.

13.3 To ensure that the Council complies with best practice guidance identified in the CIPFA publication 'A Toolkit for Local Authority Audit Committees'.

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

APPENDICES

Appendix 1: Audit Recommendations Status Report

REFERENCE MATERIAL

Internal Audit Plan 2013/14

SUBJECT HISTORY (last 3 years)

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