

**Wirral Council
Internal Audit Service**

**Chief Internal Auditor's
Annual Report and Opinion on the
System of Internal Control
2013/2014**

May 2014

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1 Management Summary

1.1 Head of Internal Audit Opinion

Significant steps have been taken during the year by the Chief Executive and his management team to develop and implement more effective control and governance arrangements and embed an organisational infrastructure to serve the organisation more effectively and prevent a recurrence of previously reported control and governance issues.

This is something that is clearly acknowledged by the Improvement Board who concluded within their review report that “The Improvement Board recognises the significant progress made by the Council but also recognises there is still significant risk going forward. However, taking into account the progress we have seen and the public consultation, it recommends that an Improvement Board in its current form is no longer needed as the Council has the capability and capacity to manage its own improvement process”.

1.2 My Overall Opinion is that:

Assurance can be given that there is a substantively sound system of internal control, designed to meet the Council’s objectives, and that controls are generally being applied consistently.

1.3 Basis of the Opinion

My opinion has been based on:

- Our assessment of the governance arrangements;
- Our assessment of the risk management arrangements and the framework of assurance; and
- The outcomes of our risk-based assignments.

1.4 Corporate Governance

A revised Code of Corporate Governance was approved by the Audit and Risk Management Committee in September 2013 which reflected the revised guidance issued by CIPFA/SOLACE.

Input was provided by Internal Audit and the Planning, Risk and Governance Group who have identified areas for development that include promoting and raising awareness of the Code across the organisation.

Significant progress has been made during the year to address issues arising from the 2012/13 annual governance statement with

none of the items identified now being rated as red and in need of urgent attention.

1.5 Risk Management Arrangements

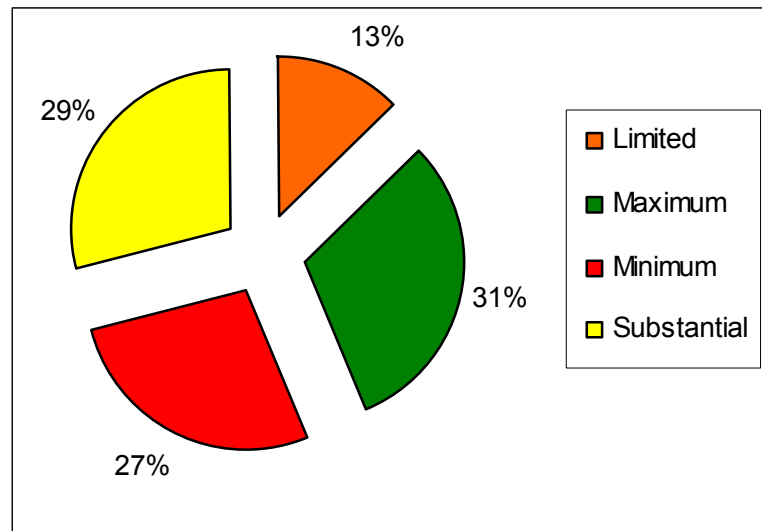
The review identified that during 2013/14 the Corporate Risk Register was populated with risks to the achievement of the Council's corporate objectives. All risks are categorised and allocated to a responsible Lead Officer. The Strategic Risk Register was developed during the year to include emerging risks such as Safeguarding and ICT Disaster Recovery. The register is reviewed by the Planning, Risk and Governance Group, the Chief Executives Strategy Group, and is regularly presented to the Audit and Risk Management Committee for their review of assurance requirements. During the year a new Risk Management Policy was produced and approved by Cabinet and workshops and training sessions undertaken with Officers and Members, with more scheduled. The audit review identified some areas for action that included ensuring that effective risk management processes are embedded across the Council and attention will now focus on this. Plans for comprehensive training in this area are in hand.

1.6 Framework of Assurance

The officer Planning, Risk and Governance Group chaired and supported by the Strategic Director for Transformation and Resources, a member of the Chief Executives Strategy Group, met regularly during 2013/14, using the comprehensive framework of assurance to demonstrate how assurance is provided to the Chief Executives Strategy Group and the Audit and Risk Management Committee. Regular updates were provided to this group during the year on all of these key assurance components and action plans covering key areas for development and improvement monitored. This included the comprehensive action report covering the Significant Governance Issues arising from the 2012/13 Annual Governance Statement and on which good progress has been made with eight of the fifteen actions now rated as blue or green and seven as amber with none now rated as red and requiring urgent action.

1.7 Risk Based Assignments

Arising from the agreed plan of work a total of 94 individual pieces of work including reports, actions plans, briefing notes and memos have been issued. All of the work undertaken contributes to my overall opinion on the control environment; 66 of the reports issued contained formal assurance opinions and have informed the opinion in this report as noted in the chart below. The graph illustrates the opinions provided in audit reports during the year.



A number of individual assignments identifying minimal assurance opinions were reported to the Chief Executives Strategy Group and the Audit and Risk Management Committee during the year due to their significance and have influenced my overall opinion. In the majority of these cases all of the issues arising have been attended to by senior management in year and the follow ups have indicated a strengthening of controls in these areas. For those items that remain outstanding management have been able to demonstrate sufficient progress towards the issues and further work will be conducted by Internal Audit in 2014/15. More detail on this is provided at Section 2 of this report.

1.8 Key Control Developments in year that support the Opinion

- There have been a number of significant improvements to the organisation's governance and control environment and therefore reduced exposure to controllable risk,
- The Senior Management Team are now all permanent appointments who are therefore able to shape their directorates with a long term vision,
- The new Wirral vision and values of the organisation have been further embedded,
- The Councils corporate and directorate plans have been reviewed and refreshed to take account of and adapt to emerging priorities and highlight the Councils vision,
- A significant amount of work continues to be undertaken to strengthen the Council's Commissioning and Procurement procedures,
- The organisation has a revised Risk Management process and work is currently being undertaken to embed this into the culture of the organisation. Corporate and Departmental risk registers are regularly reported and discussed at the Planning Risk and

- Governance Group, the Chief Executives Strategy Group and the Audit and Risk Management Committee,
- Further developments to the Budget setting process have been implemented which will help to mitigate the effects of the continuing funding cuts,
 - A new streamlined Performance Management framework and policy has been produced and communicated, including a performance appraisal process for all senior management,
 - Enhanced engagement with all stakeholders including the Council's major consultative initiative "What Really Matters" has taken place,
 - A corporate Information Governance Board has been set up to drive improvements in information governance,
 - The Improvement Board formally ceased its activity at Wirral during the year reporting that it recognised the significant progress made by the Council,
 - The Council reviewed and revised its Constitution to ensure fitness for purpose and lawfulness,
 - All Internal Audit reports issued with a limited opinion in 2012/13 have had follow up work undertaken and significant improvements have been made in these areas.

As the risk profile of the organisation continues to change due to the reduced funding and subsequent reduced staffing levels, the requirement to have robust proportionate governance arrangements in place will increase. Internal Audit will continue to play a proactive role in further strengthening the Council's control and governance arrangements.

2. **Opinion**

2.1 **Roles and Responsibilities**

The Council is accountable collectively for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement (AGS) is an annual statement by the Council setting out:

- How the responsibilities of the Council are discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- The purpose of the governance arrangements as evidenced by a description of the risk management and review processes; and
- The conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

The Council's framework of assurance should bring together all of the evidence required to support the Annual Governance Statement.

The role of the Head of Internal Audit (HIA), in accordance with the CIPFA Code, is to provide an annual opinion, based upon (and limited to) the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes i.e. the organisation's system of internal control. This is achieved through a risk based plan of work, agreed with management and approved by the Audit and Risk Management Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that internal audit have reviewed all risks and assurances relating to the Council. The purpose of the opinion is to contribute to the assurances available to the Council which underpin the Council's own assessment of the effectiveness of the organisation's governance arrangements and system of internal control. My opinion is one component that the Council takes into account in compiling its Annual Governance Statement.

2.2 Head of Internal Audit Opinion

My overall opinion is that:

Assurance can be given that there is a substantively sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently.

2.3 Basis of the Opinion

The basis for forming my opinion is as follows:

- An assessment of the Code of Corporate Governance and its operation including underpinning processes;
- An assessment of the risk management arrangements and the framework of assurance; and
- An assessment of the range of individual opinions arising from risk based audit assignments, contained within the internal audit risk based plan that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses. A number of reports have identified Limited and Minimum opinions during the year however all of these reports have recommended actions which when implemented will increase the level of assurance. Internal Audit perform work to gain assurance that the recommendations have been implemented and report the findings to the Chief Executives Strategy Group and Audit and Risk Management Committee Members each month; and progress to date in year is good.

2.4 The Code of Corporate Governance and associated processes

An assessment against the Code of Corporate Governance was undertaken by Internal Audit against the CIPFA/SOLACE Good Governance Framework. Overall design of controls was seen to be satisfactory and compliant with the requirements of the framework. It was confirmed that the code had been reviewed, refreshed and presented to the Audit and Risk Management Committee in September 2013 for approval. It was noted that the refreshed code incorporated changes required by the revised CIPFA/SOLACE guidance issued in late 2012. An action was identified during the audit relating to the inclusion of the Code in the Constitution and subsequent awareness and training sessions for members and officers. An action plan is in place, maintained by the Monitoring Officer and overseen by the Planning, Risk and Governance Group, to ensure that the issue is addressed as required. Further work will be undertaken by Internal Audit during 2014/15 to ascertain progress in this important area of operations.

Significant Governance Issues from 2012/13

An action plan identifying fifteen actions from the previous annual governance statement has been implemented during 2013/14 and the progress made indicates that eight of the items are identified as being either blue or green and seven as amber with none identified as being red rated. This indicates that significant progress has been made during the year to address important issues that include management and governance, procurement and debt.

ICT

Internal audit have continued to work with ICT managers during 2013/14 to identify key risks in this area of operations that has been subject to significant change during the year.

Corporate Business Continuity and Resilience

Internal audit reports in relation to ICT Business Continuity and to Disaster Recovery issued during the year identified some critically significant areas for development and identified minimal assurance opinions regarding the recovery and business continuity arrangements and an action plan has been agreed with senior management to address these issues in a reasonable and risk proportionate timescale. The departmental and corporate risk registers were subsequently updated to reflect the risks in this area and senior management in conjunction with Internal Audit will continue to monitor this area of operations during 2014/15.

Information Governance

Continuing a theme from last year's Annual Audit Report, Information Governance remains an area which requires improvement. The results of a pan-Authority survey conducted by Internal Audit showed that there are pockets of good practice but that information management responsibilities are not always clear or embedded within standard working practices.

The officers Information Governance Board was formed during the year to address issues in this area, is chaired by the Strategic Director for Transformation and Resources, a member of the Chief Executives Strategy Group and demonstrating the support of this group, and has a formally agreed membership and terms of reference that are designed to address all issues of this nature. The Board has overseen a managers' Information Governance Checklist exercise that has identified a number of key actions and the delivery of these are being managed by the Board. In addition, specialist external resources have been commissioned by the Board to ensure that Wirral meets its obligation to comply with the NHS Information Governance Toolkit and other related information governance issues. Internal Audit are standing members of this board and through this are able to ensure that any associated risks identified during audits are brought to the attention of and included within action plans arising from the board.

2.5 The design and operation of the Risk Management arrangements and the framework of assurance

The Corporate Risk Register is intended to be a critical means by which the Council assures itself that risks to its corporate objectives are being managed. As such it is also central to the methodology by which the Council conducts its assessment of its governance arrangements and its review of the system of internal control.

The Audit and Risk Management Committee is presented with regular updates on the Corporate Risk Register at its scheduled meetings including summary reports of all risks together with new risks added during 2013/14.

The Planning, Risk and Governance Group and the Chief Executives Strategic Group received the Corporate Risk Register on a quarterly basis during 2013/14. Strategic and departmental management teams also discuss regularly the key risks on the register including reports identifying finance, audit and activity reports and performance management reports that highlight key risks to the achievement of the Council's corporate objectives.

The Risk Management policy and strategy was revised during 2013/14 and was approved by Cabinet in March 2014.

An Internal Audit review during the year identified that attention is now required to be focussed on ensuring that effective risk management processes are embedded across the Council. Actions are in hand to address this issue and training and awareness sessions for officers and Members are continuing. More audit work is scheduled in this area during 2014/15 to review compliance with the policy within directorates and within projects.

2.6 The range of individual opinions arising from risk-based audit assignments contained within the internal audit plan that have been reported throughout the year.

This element of the opinion is based on an assessment of the range of individual opinions arising from risk based audit assignments, contained within the internal audit plan that have been reported throughout the year. On 19 March 2013 the annual internal audit plan was agreed by the Audit and Risk Management Committee. During the year regular updates including any necessary changes to the plan were reported to, and agreed by, the Audit and Risk Management Committee. Arising from the agreed plan of work a total of 94 reports, action plans, memos and briefing notes have been issued. All of the work undertaken contributes to my overall opinion on the control environment; all of the reports issued contained a formal assurance opinion and have informed the opinion in this report. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses. The outcomes section of this report gives fuller details of:

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- Performance against plan;
- Unplanned work undertaken;
- Key points arising where our overall assurance opinion was 'limited' or 'minimal'; and
- Follow up work undertaken.

Fundamental Financial Systems

The internal audit plan included reviews of the fundamental financial systems in 2013/14 along with detailed testing to support the work of External Audit in their review of the Statement of Accounts. These are the major systems which underpin the systems of internal control and financial reporting.

This work significantly informs the Head of Internal Audit's opinion and a summary of the outcomes of these audits for these systems for the year is identified below:

Audit	Opinion
Accounts Receivable (central system)	Substantial
Accounts Payable	Substantial
Income/Cash Management (after follow up completed)	Substantial
Council Tax	Substantial
NNDR	Maximum
Budgetary Control (Financial Management)	Substantial
Payroll	Substantial
Pensions	Maximum
Treasury Management	Maximum
General Ledger	Substantial

Pension Fund

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 the significant Internal Audit work completed during 2013/14 which covered the Benefits, Payroll, Member Services and Investment risk areas. The review of the

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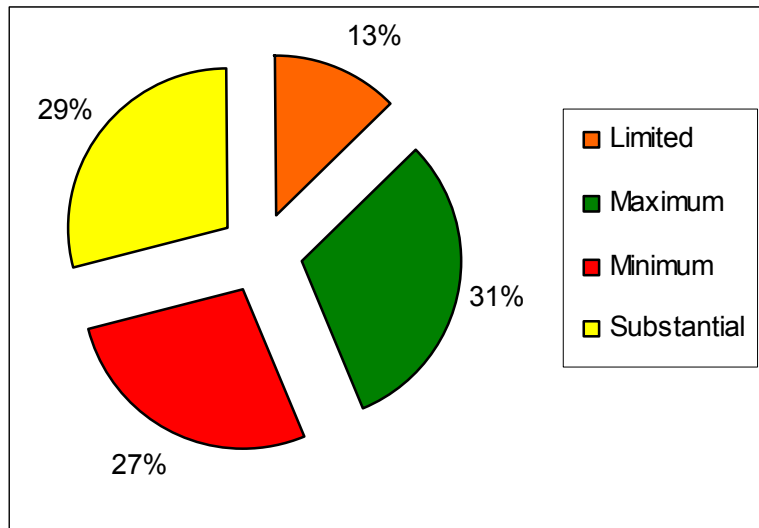
Benefits system focused on providing assurance on the payment of retirement benefits and again supported the co-operative arrangement with the external auditors by incorporating a programme of compliance tests on a sample of transactions pre-selected by Grant Thornton. The Investment audit did identify an advisory arrangement with an external service provider that did not comply with the Contract Procedure Rules which the Pensions Fund have now included within their annual business plan for resolution via re-tender in 2014/15

3. Audit Outcomes 2013/14

Assurances Issued During 2013/14

My opinion has taken account of the relative materiality of areas reviewed and management's progress in respect of addressing control weaknesses. Whilst all audit outcomes have contributed to the overall opinion, the following reviews and their outcomes are considered particularly relevant in determining my overall opinion.

3.1 Audit Opinions Provided



A key to these opinions is provided at Appendix B.

3.2 Maximum Assurance

Maximum assurance opinions were provided for the following audits:

- Investments
- Business Rates - New Scheme
- MPF Benefits & Payroll
- MPF Retirement Benefit Payments
- Regional Growth Fund
- Directorate Management
- Contract Tender Arrangements (sample)
- Final Account - Demolition of Poulton Primary School
- Fuel Poverty Fund Grant

- Member Services
- CREES
- Greenleas Primary
- Wallasey School
- Mendell Primary School: Accountability, Security of Assets & Budgets
- Bidston Avenue Primary School
- Woodlands Primary School: Income & Voluntary Funds

3.3 **Substantial Assurance**

Substantial assurance was provided for the following reviews indicating that key controls were in place and actions to further improve controls agreed as appropriate:

- Benefits - Discretionary Housing Payments
- Safeguarding Adults
- Revenue Budget Cycle
- Payroll Core System (EAT)
- Car Parking
- Civica DIP - access controls
- Contract Final Account - Greasby Children's Centre
- Early Years Services
- Financial Savings Delivery
- Greasby Infant School - Thematic: Income & Budgets
- Grievances
- Independent Foster Care
- MPF - Investments, Governance and Strategy
- Official Use of Private Vehicles
- Residential care – Quality
- Youth Offending Team

3.4 Limited or Minimal Assurance

The schedule below identifies those reports containing 'Limited' (L) or 'Minimal' (M) assurance where the risks presented are identified as having potentially significant impact on the achievement of systems objectives. A number of these assignments were identified by Chief Officers from individual directorates in year, commissioning audit work in these areas. In all cases management action to address reported weaknesses was agreed and appropriate actions taken during the year year as indicated.

Subject	Outcome
Training and Development (L)	Significant progress has been made to update the training and development policy, implementing all of the recommendations and effectively communicating this to the workforce via a variety of media including the Intranet.
Performance Management (M)	Significant progress has been made in the implementation of the recommendations made in respect of Performance Management. In the areas of performance management and business planning, new policies and frameworks are in place. Work is to continue, via training sessions, to help further embed these areas into the culture of the organisation. Further audit work is planned for 2014/15 to obtain assurance of these continuing developments and how these have manifested themselves in the 2014/15 corporate planning process.
Risk Management (M)	The review identified that during 2013/14 the Corporate Risk Register was populated with risks to the achievement of the Council's corporate objectives. All risks are categorised and allocated to a responsible Lead Officer. The Strategic Risk Register was developed during the year to include emerging risks. The register is reviewed by the Planning, Risk and Governance Group, the Chief Executives Strategy Group, and is regularly presented to the Audit and Risk Management Committee for their review of assurance requirements. During the year a new Risk Management Policy was produced and approved by Cabinet and workshops and training sessions undertaken with Officers and Members, with more scheduled. The audit review identified some important areas for action that included ensuring that effective risk management processes are embedded across the Council and attention will now focus on this. Plans for comprehensive training in this area are in hand.
Shared Lives Scheme (L)	Specific risks regarding this contract relating to the fee structure for differing types of care provided, the programming of meetings with the contractor and carers, and the verification of payment schedules received

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	identified at the original audit were found to have been satisfactorily improved at the follow up review, with regular meetings taking place and relevant financial information from the contractor being promptly received. It should be noted that a new contract with a new provider commenced early in 2014/15, and this will be subject to audit testing during the year.
Libraries (M)	A report went to Audit and Risk Management Committee in March 2014 indicating the significant progress made by Libraries to address the issues identified at the audit earlier in the year involving Income, Cash, Security and Asset Management, as evidenced at the follow up audit. More audit work is scheduled during 2014/15.
Policies and Procedures (M)	Initial audit work identified that work was needed on reviewing, amending and communicating policies. Follow up work has evidenced significant improvements with a number of policies being updated and approved, with recent recommended amendments to specific key policies being discussed in advance with internal audit to allow input to developing processes, which is a positive commitment. Work is currently being undertaken to promote awareness and compliance and Internal Audit will be undertaking more work in 2014/15 to evaluate impact.
ICT Disaster Recovery (M)	Actions agreed with management to address concerns regarding effectiveness of recovery arrangements within a proportionate timescale. The risk registers have been updated to reflect the risk in this area and the issue is being managed by the Director of Resources and management colleagues. Regular update reports on this issue are being provided to the Planning, Risk and Governance Group, CESH and the Audit and Risk Management Committee.
Directorate Plans (M)	Significant progress has been made. A business planning framework and performance management policy have been finalised and approved by Chief Executive's Strategy Group. The Council's directorate plans were reviewed and refreshed for 2013/14 to reflect the corporate plan priorities and the Council's vision. The Chief Executive's Strategy Group review performance of the Corporate Plan on a monthly basis with regular reports also provided to Policy and Performance committees.
Golf Courses (M)	Immediate implementation of actions following the audit. Further work scheduled in 2014/15 to test controls.
Corporate Procurement (M)	The audit highlighted key recommendations regarding the delivery of the 'no purchase order-no pay' policy, tender exercises being promptly progressed to completion with a

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	formal contract being drawn up and signed/sealed accordingly, and the method for calculating procurement savings being approved and applied in all calculations. Progress has been made to address these issues and a detailed action plan is in place. Implementation of these recommendations will be overseen by the Commissioning and Procurement Board and will be followed up in 2014/15 by Internal Audit.
Income Control (L)	Uncertainties over access rights to an on-line bank account and internal control checks have been significantly improved and overall controls have now been strengthened in this area.
Confidential Reporting (L)	The follow up work in year revealed a much improved position with a revised policy and enhanced communications being developed. This will be the focus of attention going forward along with relevant training across the Council We are advised that this will be undertaken via a series of essential workshops regarding key Council policies that is being developed for delivery to all managers. Further audit work is scheduled in this area during 2014/15 to monitor progress.
Learning Disability (M) (Involving continuity of service, transitions and incentive payments)	Initial follow-up audit work undertaken indicates progress in the implementation of the recommendations There have been positive developments in relation to Incentive Payments and, in broader terms, in relation to the response of the Department to Internal Audit recommendations. It is anticipated that the forthcoming follow-up audit will obtain evidence of positive progress in other areas, particularly around managing streamlined and inclusive transitions. This work is scheduled for early 2014/15.
Data Loss Prevention (M)	The Information Governance Board has delegated responsibility for overseeing implementation of actions identified in this area and is currently making good progress to address all information and data management issues across the Council. Active monitoring of progress is being undertaken as part of the remit of the board as defined in its terms of reference. IA will be inputting to this process and monitoring progress during 2014/15.

3.5 Additional Work during 2013/14

Additional work by internal audit during the year has included involvement in investigation work, input to developing systems and a separate programme of work for Counter Fraud, including policy development and awareness raising.

Counter Fraud

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 overall 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.

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.

National Fraud Initiative

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.

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.

Investigations

For the financial year 2013/14 Internal Audit received 16 referrals via a number of sources. This represents an increase of 30% from 2012/13. The type of issues covered a broad spectrum of the Council's activities.

New automated arrangements have been introduced during the year to facilitate more effective and efficient reporting of these types of issues.

Developing Systems

During the year Internal Audit has had input to a number of systems being developed that includes the following, advising on the control environment and proportionate risk responses:

- Pensions
- Liquid Logic
- Better Care Fund
- Welfare Benefits System
- Endpoint Security

Value for Money work

Whilst value for money work is implicit within all audit work, a limited number of specific exercises have been undertaken during the year as detailed below. Time has been included within the three year Strategic Audit Plan to develop this approach and increase our focus in this area on proactive, value adding reviews to support the organisation in delivering increased budget savings and managing service redesign. Work in this area will increase and this has been reflected in the plan. Some work has been undertaken to date to shape our approach to this kind of review and to develop a work programme to enable us to deliver reviews of this nature during 2014/15.

- Financial Savings Delivery
- Shared Services
- Parks and Countryside – Budget Reductions
- Highways Procurement Exercise – Health check

3.6 Schools Work

The objective of the schools audits was to form an opinion on the effectiveness of the controls within schools in ensuring appropriate levels of governance are exercised by the governing body and schools management over the delegated budget. The reviews consisted of 21 schools selected on a risk assessed basis. This included risk factors such as the individual schools budget, historic and reported issues and time elapsed since the previous review. The opinions provided included 5 Maximum and 1 Substantial assurance opinions.

The continuing use of the risk assessment process developed in 2012/13 has allowed Audit resources to be concentrated on those schools which are most in need of independent review and advice. Audits either cover the full spectrum of risks or are tailored to focus on specific areas of internal control such as governance or financial management.

A good working relationship between Internal Audit and the LMS section of CYPD has led to better sharing of information and a swifter response to control issues identified in schools.

3.7 Other Work

The internal audit team's resources have been applied in several other respects:

- Support to the Audit and Risk Management Committee;
- Attendance at monthly meetings with the Chair of the Audit and Risk Management Committee;
- Attendance at the Planning, Risk and Governance Group;
- Support to and attendance at the Information Governance Board;
- Attendance at the Corporate Procurement Board;
- Attendance at regular meetings with the Chief Finance Officer;
- Attendance at regular meetings with the Strategic Director for Transformation and Resources;
- Regular attendance at the Chief Executive Strategy Group;
- Attendance at Departmental Management Team meetings
- Regular meetings with Strategic Directors
- Grant claims;
- Provision of ad-hoc advice;
- Annual planning and reporting and;
- Collation of evidence for the preparation of the 2013/14 Annual Governance Statement.

4 Effectiveness of Internal Audit

4.1 Internal Audit Standards

Internal Audit complies with the CIPFA Code of Practice for Internal Audit. A self assessment was undertaken in June 2013 by the Chief Internal Auditor and confirmed compliance with the code in all material aspects.

For 2013/14 and beyond Internal Audit are required to adhere to the new Public Sector Internal Audit Standards, as reported to Audit and Risk management Committee in March 2013, with subsequent updates during the year. A self assessment has been undertaken against these new standards that introduce more demanding targets for internal audit in the public sector and a small number of areas have been identified for development. A report on this incorporating any actions required and implemented is scheduled to be presented to the Audit and Risk management Committee in September 2014.

The new Public Sector Internal Audit Standards (PSIAS) which are to be adopted by all public sector bodies from 1 April 2013, note that a professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. The PSIAS require an external assessment of the service at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The scope of the external assessment will be agreed with the Section 151 Officer and the Chair of the Audit & Risk Management Committee as well as with the external assessor or assessment team. It is the intention of Wirral Council to adopt the peer challenge assessment approach currently being developed by the Greater Manchester and North West Chief Internal Auditors Group and supported by CIPFA, the CIIA and External Audit colleagues to satisfy these requirements during 2014/15.

In May of this year Grant Thornton presented its draft Audit Plan to the Council and within it acknowledged that “the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment to the Council”:

4.2 Internal Audit Developments

Good progress has been made during the year 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:

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- 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 implementation of a revised Internal Audit Charter;
- The introduction of a Training and Development Program for audit staff linked to core competencies for professional auditors;
- Developed reporting arrangements for Chief Officers and Members;
- The implementation of a three year risk based 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;
- 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 management meetings 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 development and implementation of an IA Code of Ethics;
- 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.

Ongoing developments to be carried forward into 2014/15 include the following:

- Continued development of the Internal Audit Intranet facility as a vehicle for communicating audit and risk related issues to clients.
- Implementation of developed planning and management system incorporating automated working papers;
- The implementation of a fully automated 'paperless' working environment and increased use of mobile technology and flexible working to increase efficiencies;

- Development of more proactive counter fraud working to raise awareness across the organisation;
- Development of more collaborative working arrangements with colleagues from other organisations to address skills and capacity requirements,
- Further developments in the corporate reporting arrangements.

The ultimate aim of these initiatives is to make the very best use of resources and to continue to deliver a cost effective, value added service.

4.3 Performance Indicators

For 2013/14 the internal audit service continued to set some challenging targets for all of its key measures, but particularly 'plan delivery' and 'acceptance of High priority recommendations'.

These indicators form part of the overall service performance reporting information for senior management and the Audit and Risk Management Committee.

For 2013/14 summaries of the post audit feedback forms indicate an overall satisfaction rate of 96% with the audit service, with 38% of respondents noting that they were 'very satisfied' with the service provided.

The table below details the key performance measures relating to Internal Audit and actual performance for 2013/14:

IA Performance Indicator	Target	Actual
Percentage delivery of IA Plan 2013/14	100	100
Percentage of High priority recommendations agreed with clients.	100	100
Percentage of returned client survey forms indicating satisfaction with the IA service.	80	96
Percentage of internal audit reports issued within 10 days of completion of fieldwork.	100	97

Completion of the audit plan for 2012/13:

The plan was 96% complete as at the 31 March with 4% carried over into 2014/15 with completion during early April 2014. At the time of writing this report the IA Plan for 2013/14 was 100% complete. All of the contingency days were used in investigations work, this equates to 9% of the audit days available.

Final reports issued within 10 working days of completion of fieldwork:

The average delay on top of this was 2 days and the majority were delays in obtaining management responses to the reports. Benchmarking by the other AGMA internal audit teams against this KPI contained information from 5 teams with % figures ranging from 50% to 68%.

Comments received on the Customer Survey Feedback Questionnaires:

“the audit was carried out in a very professional manner”

“the report identified clear concise recommendations”

“the support provided was excellent”

“the recommendations will certainly ensure that improvements can be made”

“draft and final reports all qualitative, adding value”

4.4 Follow up Procedure

Internal audit undertake a follow up audit of every completed assignment and report the findings to senior management, the Chief Executives Strategy Group and the Audit and Risk Management Committee. A summary of all recommendations made for each report is provided for the Audit and Risk Management Committee Members each month identifying:

- The actual number of recommendations made for each report and the narrative for each High risk recommendation made;
- The opinions provided in each audit report;
- The position statement for each recommendation;
- RAG ratings indicating actions required and follow up status.

Where there is a failure to implement agreed critical or high priority recommendations by the due date, without any justification for not doing so, a formal process of notification to the Chief Officer and CESG followed by referral to the Audit and Risk Management Committee.

4.5 Working with External Audit

The Government introduced new legislation for local audit during 2012/13. The legislation abolishes the Audit Commission and in line with the government changes the Audit Commission appointed Grant Thornton as the Council's external auditors for 2013/14. The close links with External Audit continue to be important particularly given this change and we have liaised during the year with External Audit to ensure that we avoid unnecessary duplication and use resources to the best effect. Close links with External Audit have been evidenced by:

- Provision of our plan to them for comment,
- Sharing of our reports and working papers,
- Local progress meetings on a regular basis; and,
- The development and implementation of a formal working protocol.

4.6 Working relationships

Internal audit have continued to enjoy positive working relationships with staff at all levels of the Council. This assistance is acknowledged and welcomed.

1 Scope, Responsibilities and Assurance

1.1 Approach

1.1.1 In accordance with the CIPFA Code of Audit Practice and the Public Sector Internal Auditing Standards, 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 This report is prepared solely for Wirral Council and 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.