

**Wirral Council
Internal Audit Service**

**Chief Internal Auditor's
Annual Report and Opinion on the
System of Internal Control
2014/2015**

May 2015

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Appendix A: Scope, Responsibilities and Assurance

1 Management Summary

1.1 Head of Internal Audit Opinion

Significant steps were 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. This has taken place against a backdrop of significant organisational transformation and in an environment of severe financial constraint and as such should be commended.

This is something that is clearly acknowledged by the Improvement Board who concluded their ongoing involvement with the Council's improvement process as well as the external auditors who acknowledge in their annual reports the significant improvements that have been made by the Council to strengthen overall governance arrangements. In addition, the Local Government Chronicle recently identified Wirral as its most improved council at the LGC national awards, acknowledging the significant work undertaken.

1.2 My Overall Opinion is that:

Assurance can be given that there is a 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

The Code of Corporate Governance (which was revised and approved by the Audit and Risk Management Committee in September 2013) has been publicised on the Council's intranet, so as to raise awareness amongst officers and members of the principles of corporate governance and the importance of their commitment to compliance.

Internal Audit has standing membership on the Corporate Governance Group and uses this to raise governance issues highlighted in Internal Audit reports, as well as reviewing evidence of

the progress being made in respect of Significant Governance Issues highlighted in the Annual Governance Statement.

Progress has been made during the year to address the five Significant Governance Issues highlighted in the Annual Governance Statement 2013/14. One of the issues, Asset Management, has been completed, and the remaining four issues have progressed to amber ratings acknowledging the ongoing improvement work being undertaken.

1.5 Risk Management Arrangements

During the year, an updated Risk Management policy was approved by Cabinet. In accordance with the Policy, the Corporate Risk Register is populated with risks to the achievement of the Council's corporate objectives, and each risk is allocated to a responsible Lead Officer. The Strategic Risk Register encapsulates emerging risks such as Safeguarding and ICT Disaster Recovery. The highest rated ("red") risks, and changes to the risk ratings are considered regularly by the Corporate Governance Group and Senior Leadership Team; and the Audit and Risk Management Committee also receives regular reports on risk.

The Internal Audit review conducted during the year identified positive progress in the development of the system, but also highlighted some areas for improvement – including the consistent application of the Risk Management Policy across directorates. The implementation of the recommendations will link to addressing the outcomes of the CIPFA Risk Management benchmarking exercise, for which an action plan is in place.

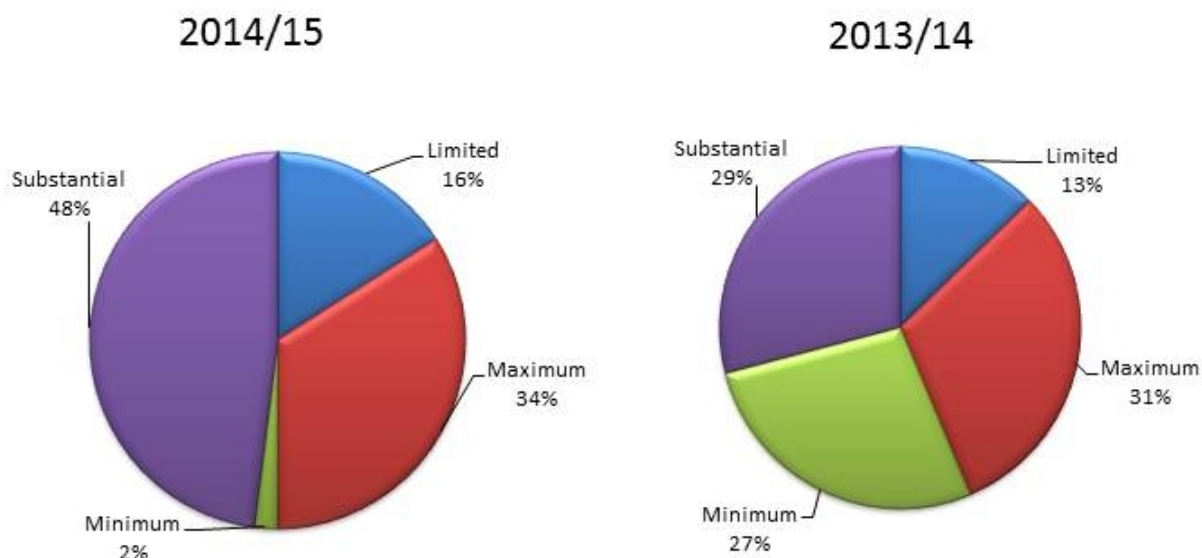
1.6 Framework of Assurance

The Corporate Governance Group chaired and supported by the Strategic Director for Transformation and Resources, a member of the Senior Leadership Team, met regularly during 2014/15, using the comprehensive framework of assurance to demonstrate how assurance is provided to the Chief Executives Senior Leadership Team 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 2013/14 Annual Governance Statement and on which good progress has been made with one of the five issues now rated as blue and four issues rated as amber.

1.7 Risk Based Assignments

Arising from the agreed plan of work a total of 85 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; all of the reports issued contained

formal assurance opinions and have informed the opinion in this report as noted in the charts below.



The charts illustrate the opinions provided in audit reports produced during 2014/15 and the previous year 2013/14. When comparing the two years it is very encouraging to note that there has been a significant reduction, from 27% to 2% of the number of audits identifying a 'Minimum' opinion. Another notable feature of the statistics is the increase from 2013/14 in the number of audits identifying a 'Substantial' opinion from 29% to 48% whilst those identifying 'Maximum' and 'Limited' opinions remain pretty static across the periods. This does suggest that there is an increased awareness and understanding of the need for robust systems of control and governance across management, particularly important during periods of significant transformation and change.

A small number of individual assignments identifying minimal assurance opinions were reported to the Senior Leadership Team and the Audit and Risk Management Committee during the year due to their significance and have been taken account of when formulating 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.

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 Wirral vision and values of the organisation have been established and are included within the corporate performance appraisal system,
- The Councils Corporate Plan has been refreshed to highlight the Council's vision, and Directorate plans have been updated to take account of emerging priorities,
- The organisation has updated its Risk Management Policy and has participated in a benchmarking exercise so as to compare the Council's risk management systems with those of other Councils. The Corporate Governance Group, the Senior Leadership Team and the Audit and Risk Management Committee regularly consider reports on risk, in accordance with the Risk Management Policy,
- Further developments to the Budget setting process have been implemented which will help to mitigate the effects of the continuing funding cuts,
- Enhanced engagement with all stakeholders including the Council's budget consultation,
- The corporate Information Governance Board has established itself as the driver for corporate improvements in information governance,
- The Local Government Chronicle have acknowledged the work undertaken at Wirral by awarding it the 'Most Improved' Council,
- Approval of Better Care Fund bid by Department of Health to implement integration of health and social care,
- The Monitoring Officer has continued to provide ongoing review of the Constitution to ensure its fitness for purpose,
- All Internal Audit reports issued with a limited opinion in 2014/15 have had follow up work undertaken and significant improvements have been made in these areas,
- Expenses and mileage claims are now processed on-line through the Selfserve HR system which has enhanced the control environment for these payments.

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 significantly 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 Chief Internal Auditor (CIA), in accordance with the CIPFA Code and the new Public Sector Internal Audit Standards (PSIAS), 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. In particular, apart from the overall opinion, where 'Limited' or 'Minimal' assurance opinions have been issued against individual audits, then the Council should assess whether or not the sources of those opinions and subsequent actions taken to address issues necessitate the need for a disclosure of a significant issue.

2.2 Chief Internal Auditors Opinion

My overall opinion is that:

Assurance can be given that there is a 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 Senior Leadership Team 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 has been reviewed, refreshed and approved by the Audit and Risk Management Committee in September 2013, and that this is now publicised on the Council's Intranet. However, a timetable for the review of the evidence base which underpins the Code has not been put in place; therefore a review did not take place during the year. Work is however underway to complete a review early in 2015/16.

Significant Governance Issues from 2013/14

The Annual Governance Statement 2013/14 detailed five Significant Governance Issues, and an action plan to address these has been in place during the year. There has been progress in respect of these issues and the Audit and Risk Management Committee received an update on this during the year. The issues now stands at: one blue

(Asset Management) and four amber (ICT Business Continuity/Disaster Recovery, Procurement, Sickness Absence and Training). The Annual Governance Statement 2014/15 will reflect the four remaining issues and reinforce the need to ensure forward momentum is maintained.

ICT

Internal audit have continued to work with ICT managers during 2014/15 to identify key risks in this area of operations that has been subject to significant change during the year.

Corporate Business Continuity and Resilience

A review of progress made to strengthen ICT Business Continuity planning during the year has identified that whilst improvements continue to be implemented more work remains to be undertaken during 2015/16.

All Council services identified as critical are now undertaking Business Continuity planning in accordance with the corporate Business Continuity Policy and the corporate Business Continuity planning template to ensure that plans are consistent and comprehensive. The resulting critical service plans will inform corporate planning to ensure that the business can recover efficiently and promptly in the event of the loss of one or more ICT systems.

Information Governance

Information Governance remains a developing area and has seen significant improvements in 2014-15. A programme of Information Security training included a National Archives workshop for Information Asset Owners, and Responsibility for Information training for all staff.

The Council achieved compliance with the NHS Information Governance Toolkit; demonstrating that information relating to health and social care is protected with due regard to confidentiality, data protection and information security. Whilst focused on health and social care data, the project to meet the requirements of the Information Governance Toolkit has delivered improvements in how all Council information is managed and protected.

Internal Audit remains an active participant in the officers Information Governance Board and ensures that information risk receives appropriate focus at Senior Leadership Team level.

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 2014/15.

The Corporate Governance Group and the Chief Executives Senior Leadership Team received the Corporate Risk Register on a quarterly basis during 2014/15. 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 was revised during 2014/15 and was approved by Cabinet in March 2015. An Internal Audit review during the year identified very positive progress in the implementation of the Risk Management Policy, but that some enhancements are required so as to ensure that there is consistent application across Directorates. The action plan in place will be implemented in line with the outcomes from the recently undertaken benchmarking exercise.

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 18 March 2014 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 85 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:

- 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 core financial systems which underpin the system of internal control and financial reporting. This work is designed to provide assurance that the control environment for each system is robust and we have continued to develop a suite of Computer Assisted Audit Techniques (CAATs) that enable us to test whole databases wherever possible as well as samples of individual transactions. It is used to support the work of External Audit in their review of the Statement of Accounts and significantly informs the Chief Internal Auditor's opinion. A summary of the opinions from these system audits completed in the year are identified below:

| Audit | Opinion |
|---|-------------|
| Accounts Receivable (CY) | Maximum |
| Accounts Payable | Substantial |
| Budget Cycle (Revenue) | Substantial |
| Capital Investment Program | Substantial |
| Income Management | Substantial |
| Council Tax Recovery | Maximum |
| Council Tax Support Scheme | Maximum |
| Debtors - Central | Substantial |
| Revenue Refunds | Substantial |
| Payroll Central | Maximum |
| Pensions (Benefits/Payroll/Investments) | Maximum |
| Treasury Management | Substantial |
| General Ledger | Maximum |

Pension Fund

Given, the nature of the Pension Fund operations and the significance of the finances involved, its inherent risk level is significant. The delivery of the Internal Audit service to the Pension Fund has been developed and agreed via a Service Level Agreement, so as to formalise the audit relationship; clarify responsibilities and obligations on both sides; and embed positive practices. This has now been operational for two years.

On the basis of the work undertaken during the year, the overall assurance opinion is that the internal control environment for the Pension Fund is adequately designed and operated, with positive audit opinions being given in all reports issued. The Pension Fund Management Team continues to ensure identified risks are effectively managed and the recommendations emanating from the audit work are consistently and effectively implemented within the agreed timescales.

The approved programme of work for 2014/5 covered the Benefits, Payroll, and Investment risk areas. The review of the Benefits system focused on providing assurance on the payment of retirement benefits following the implementation of the Local Government Pension Scheme 2014, 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 result in a number of agreed recommendations for enhancing the control environment and included expediting the tendering process for the provision of strategic asset allocation advice to the Pension Fund.

3. Audit Outcomes 2014/15

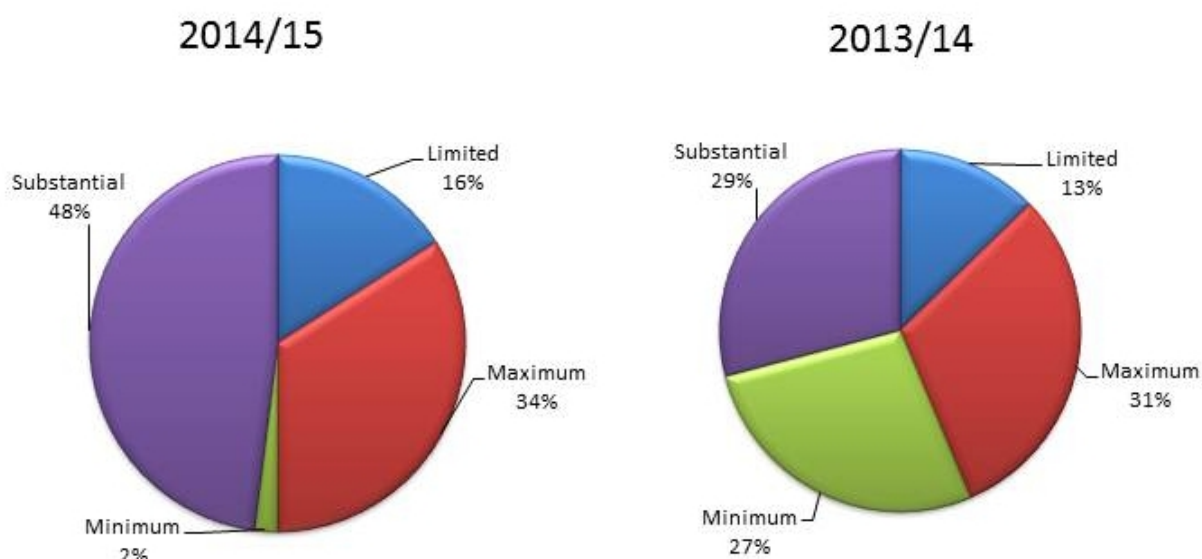
Assurances Issued During 2014/15

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

The charts below identify all those opinions on the effectiveness of the control environment included in individual audit reports produced during 2014/15 and the previous year 2013/14.

Following direct comparison of the opinions provided in audit reports over the two years it is notable that there has been a significant reduction, from 27% to 2% of the number of audits identifying a 'Minimum' opinion. Another feature is the increase from 2013/14 in the number of audits identifying a 'Substantial' opinion, from 29% to 48% whilst those audits identifying 'Maximum' and 'Limited' opinions remain fairly static across the periods. This suggests that there is an increased awareness and understanding of the need for robust systems of control and governance across management, something that is particularly important during periods of significant transformation and change.



These opinions are explained in more detail below:

3.2 **Maximum Assurance**

A Maximum assurance opinion indicates that a sound systems of control designed to achieve objectives is in operation and is being consistently applied. This opinion was provided for the following audits:

- Pensions Payroll
- Central Debtors System
- Adoption Reform Grant
- Accounts Receivable (CYPD)
- Payroll System
- Pension Investments
- Contract Final Account (C18924)
- Council Tax Recovery
- Pension Benefit Payments (LGPS2014)
- Council Tax Support Scheme

3.3 **Substantial Assurance**

A Substantial assurance opinion indicates that basically a sound system of control is in operation but that there are some weaknesses in design and/or operation that place some control objectives at risk. This opinion was provided for the following audits:

- Risk Management
- Better Care Fund
- Capital Investment Programme
- Income Management
- Regional Growth Fund
- Revenue Budget Cycle
- Performance Management
- Accounts Payable
- Officers Expenses
- Treasury Management
- Revenue Refunds
- Emslie Morgan Alternative Provision School
- Greasby Junior School
- Grove Street Primary School
- Heygarth Primary School
- Millfields CE Primary School
- St Bridgets CE School

- Clare Mount Specialist Sports College

3.4 Limited or Minimal Assurance

Limited or Minimum assurance opinions indicate that there are some serious weaknesses in the design and/or operation of the control environment that may have varying degrees of significant impact on the achievement of systems and/or corporate objectives.

The schedule below identifies the 10 reports out of the total of 85 produced during the year that contained 'Limited' or 'Minimal' assurance opinions. 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 as indicated.

| Subject | Outcome |
|------------------------------------|--|
| ResourceLink (HR) Access Controls | Actions were agreed with management to develop and improve control over the system by defining and enforcing an access control policy and procedure. Implementation and effectiveness of these actions will be reviewed during 2015/16. |
| Mobile Device Security | Following an audit the Council has procured a Mobile Device Management solution which will ensure that Council information is more comprehensively protected when accessed from mobile devices in the future and addresses the actions identified during the audit. |
| ICT Business Continuity | <p>Actions were agreed with management to improve the documenting of risks and the planning for business continuity in the event of the loss of ICT services.</p> <p>A Business Continuity Policy has now been produced and distributed. All critical services are completing a business continuity planning template which will be used to inform the corporate ICT business continuity plan in 2015.</p> |
| Consultancy Services Special Audit | Following a review actions have been taken by senior management to improve arrangements over the awarding, monitoring and payments processes regarding this type of service provider. All of the required audit recommendations have now been fully implemented including a commitment to review existing CPR's early in the 2015/16 financial year. |
| Procurement - Commissioned Care | Audit work during the year identified some areas for improvement regarding formal contract arrangements with organisations providing a service to Adult Social Services funded clients. Follow up work has not provided comprehensive assurance and this is an area that will be |

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| | subject to further audit work during 2015/16. |
| Corporate Procurement | Follow up audit work undertaken during 2014/15 has indicated that whilst progress to address previously reported issues is being made some fundamental risks remain in this area and will be subject to further more detailed audit work during 2015/16. This item is included in the AGS action Plan for 2015/16. |
| Attendance Management - Sickness | Improvements have been made by senior management to the systems in operation for attendance management to ensure the accuracy and completeness of attendance information maintained implementing all actions identified during the audit review. Further audit work will be completed during 2015/16 to ensure ongoing compliance with corporate procedures. Related work in this area is included in the AGS action plan for 2015/16. |
| Officers Business Travel Arrangements | Good progress has been made by senior management to develop and improve systems in operation and address all actions identified during the audit. |
| Libraries | Management have made good progress during the year to address a significant number of weaknesses identified during a routine audit and covering a range of income/cash management risks. The follow up audit undertaken in-year indicated a marked improvement in the control environment. |
| The Learning Lighthouse | Significant improvements have been made to the control environment by management during the year specifically to implement all required actions to address areas identified for improvement regarding security of assets including IT equipment. |

3.5 Additional Work during 2014/15

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 CIPFA's new Code of Practice on Managing the Risk of Fraud and Corruption, which all authorities should assess themselves against. The subsequent findings indicate that overall good practice advocated by CIPFA was being followed, where appropriate, and that the necessary policies and procedures were in place to support this approach.

In July 2014 the team set up the Mersey Regional Fraud Group which consists of a number of neighbouring authorities and partner organisations. The group is committed to developing a regional approach to counter fraud, including the production of generic policies and procedures and undertaking collaborative working in targeted areas, such as data matching and other counter fraud exercises.

During the year the team coordinated a week long Employee Fraud Awareness Campaign, in collaboration with the Fraud Team (Benefits, Revenues and Customer Services), Trading Standards, Insurance & Risk, HR, Publicity and other neighbouring authorities.

The aim of the week was to heighten the awareness of the problem and scale of fraud in the public sector, to direct all employees to complete the mandatory Anti-Fraud and Corruption e-learning course and to encourage them to report any suspicions of fraud that they may have. The campaign involved posters, e-alerts and daily intranet bulletins and was supported by corporate messages from the CEO and Members.

Since the campaign the team has seen both an increase in the take up of the Anti-Fraud and Corruption e-learning course and 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.

Protecting the Public Purse Fraud Survey

The Audit Commission publishes an annual report on fraud and corruption in Local Government called Protecting the Public Purse (PPP). This publication provides details of the amount of detected fraud across the UK, warns of emerging fraud risks and promotes best practice across the sector. Much of the information for PPP is drawn from the results of the annual Fraud and Corruption Survey which were collated by the Audit Commission in May 2014 prior to publication at the end of October.

The report has specifically highlighted an increase in fraud nationally in the following relevant areas (extracts below quoted from the report identifying national trends):

- Social care – the number of detected cases has more than trebled since 2009/2010 and in 2013/2014 438 cases were detected with a value of £6.2million.....the policy of more choice and local control has changed the scale of the fraud risks councils face in this area.
- Insurance – the number of detected cases rose from 72 in 2009/2010 to 226 in 2013/2014, with a value of £4.8million.
- Disabled parking (also known as 'Blue Badge' fraud) – as in 2012/13, this produces the largest number of "other" cases, and in 2013/14, cases increased by 40 per cent to 4,055 with a value of £2 million.

These areas have been incorporated into the annual Internal Audit planning process and audit work has been identified that will be undertaken during 2015/16.

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.

Data sets were submitted in October 2014 for the 2014/15 National Fraud Initiative biennial data matching exercise and results of data matches were received at the end of January 2015. Good progress has been made by directorates to investigate the matches and a number of errors have been identified. 26 overpayments totalling £77,957 have been recorded on the NFI site, of which £51,856 has been recovered at the time of writing this report.

A more robust reporting mechanism has now been introduced to identify potential opportunities to recover monies owed to the Council earlier in the process and to instigate necessary recovery proceedings.

The Audit Commission powers to conduct the National Fraud Initiative will pass to the Cabinet Office on the 1st of April 2015, and the NFI will run under Cabinet Office powers from that date onwards.

Investigations

For the financial year 2014/15 Internal Audit received 18 referrals via a number of sources. This represents an increase of 6% from 2013/14. The type of issues covered a broad spectrum of the Council's activities.

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:

- Better Care Fund
- Intensive Families Intervention Programme ("Troubled Families Programme")
- Information Governance
- Liquid Logic
- Welfare Benefits System
- Commissioning and Procurement Board
- Mobile 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 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 undoubtedly increase and this has been reflected in the work plan. Some work has been undertaken to date to shape our approach including new operational practices and reporting formats that have been piloted during the year for Performance and Risk Management audits in particular. These include and encompass a review of the effectiveness/VFM approaches in place.

- Pilot reviews that include Risk and Performance Management
- Future Council / Organisational Change
- Parks and Countryside
- 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 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 3 Maximum and 7 Substantial assurance opinions.

The continuing use of the risk assessment process developed in 2013/14 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;
- Support to and attendance at the Corporate 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 Senior Leadership Team;
- 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 2014/15 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 2013 by the Chief Internal Auditor and revisited during 2014 that confirmed compliance with the code in all material aspects.

From 2013 Internal Audit are required to adhere to the new Public Sector Internal Audit Standards (PSIAS) which will replace the Code of Practice and require all public sector internal audit providers to be compliant with by 2018. Regular update reports on this have been presented to the Audit and Risk Management Committee during 2014 advising Members of the evolving requirements and progress being made by the service to become compliant. This has included the completion of a self-assessment exercise against the new standards that effectively introduce more demanding targets for internal audit across the public sector. A small number of areas have been identified for development and are included in an action plan being utilised by the service to ensure full compliance by the required deadline.

The new Public Sector Internal Audit Standards (PSIAS) 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 a sub group of the North West Chief Internal Auditors Group on which Wirral is represented. This approach is acknowledged and supported by the Chartered Institute of Public Finance Accountants (CIPFA), the Chartered Institute of Internal Auditors (CIIA) and External Audit colleagues as being a best practice method of satisfying the requirements of the Standards and ensuring that internal audit are providing a robust and effective service. The objective of the group is to implement this approach during 2015/16.

In March 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

A number of improvements have been made during the year to the Internal Audit Service that have been designed to increase the overall efficiency and effectiveness of systems of internal audit across the Council. Some of these improvements include:

- The implementation of a revised audit report format incorporating opinions on organisational impact;
- 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;
- Improved engagement with Chief Officers, managers and Members;
- Improved reporting arrangements for ARMC members;
- 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/Senior Leadership Team by the Chief Internal Auditor;
- The introduction of ongoing benchmarking against other audit service providers;
- Enhanced relations with Chief Internal Auditors from across the North West region;
- The development of a Mersey region counter fraud group including the establishment of protocols and collaborative cross boundary working;
- The development of a comprehensive quality assurance programme in compliance with the Public Sector Internal Auditing Standards;
- Recognition by the Chartered Institute Financial Accountants (CIPFA) of the contribution by the Chief Internal Auditor to better governance across the North West region.

Ongoing developments to be carried forward into 2015/16 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 collaborative proactive counter fraud working across the Mersey region;

- Development of more collaborative working arrangements with colleagues from other organisations to address skills and capacity requirements;
- Further develop the extent of the value for money work undertaken;
- Implementation of the Quality Assurance Assessment Programme;
- Full compliance with the Public Sector Internal Audit Standards;
- 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 internal audit service to the Council.

4.3 Performance Indicators

For 2014/15 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 2014/15 summaries of the post audit feedback forms indicate an overall satisfaction rate of 96% with the audit service, with over 60% 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 2014/15:

| IA Performance Indicator | Target | Actual |
|---|--------|--------|
| Percentage delivery of IA Plan 2014/15 | 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 | 98 |

Completion of the audit plan for 2014/15:

The plan was 95% complete as at the 31 March with 5% carried over into 2015/16 with completion during early April 2015. At the time of writing this report the IA Plan for 2014/15 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 NWCAE 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 ensure that improvements are made”

“draft and final reports all qualitative, adding value”

“the Auditor was helpful, courteous, constructive and professional”

“excellent service provided throughout”

Minuted feedback received from the Audit and Risk Management Committee:

“That the thanks of the Committee be accorded to the Internal Audit team for the exceptional quality of the work undertaken and for the clarity and conciseness of the reports presented to the Committee”

4.4 Follow up Procedure

Internal audit undertake a follow up audit of every completed assignment and report the findings to senior management, the Senior Leadership Team 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 SLT 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 2013. 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 until 2017. 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.