



**Audit and Risk Management Committee**  
**Monday, 26 September 2016**

<b>REPORT TITLE:</b>	<b>INTERNAL AUDIT UPDATE</b>
<b>REPORT OF:</b>	<b>CHIEF INTERNAL AUDITOR</b>

**REPORT SUMMARY**

This report identifies and evaluates the performance of the Internal Audit Service and includes details of any issues arising from the actual work undertaken during the period 1<sup>st</sup> June to 31<sup>st</sup> August 2016. There are 2 items of note concerning audit work undertaken that are brought to the attention of the Members for this period and these are identified at Section 3.2.

**RECOMMENDATION**

Members note the report.

## **SUPPORTING INFORMATION**

### **1.0 REASON FOR RECOMMENDATION**

- 1.1 To provide the Members with assurance that the Council is taking appropriate measures to ensure that the control environment is effective and to comply with statutory requirements to provide an adequate and effective internal audit service.
- 1.2 To ensure that risks to the Council are managed effectively.
- 1.3 To ensure that the Council complies with best practice guidance identified in the CIPFA publication 'A Toolkit for Local Authority Audit Committees'.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 No other options considered.

### **3.0 BACKGROUND AND AUDIT OUTPUT**

- 3.1. Internal Audit operate an effective reporting mechanism for Members of the Audit and Risk Management Committee that summarises audit work completed and identifies issues raised on timely bi-monthly basis. This report supports these arrangements by focussing on the following:

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

The information contained within this report is for the period 1<sup>st</sup> June to 31<sup>st</sup> August 2016.

#### **3.2. Items of Note**

##### **3.2.a Pension Fund - Contact Procedures**

Following an audit undertaken during 2015/16 into the procurement of infrastructure advisory services to the Merseyside Pension Fund (MPF), that was reported to this Committee in February 2016, further assurance work was completed across all MPF contracts to ensure compliance with the Contract Procedure Rules and MPF and the outcomes from this was reported to this Committee in June 2016.

Internal Audit have continued to monitor the progress made by MPF in implementing the agreed recommendations emanating from the work completed and can report the following:

- The identified failure to comply with the CPRs for the procurement of infrastructure advisory services was independently investigated and dealt with under the corporate disciplinary process. The officers at the Fund involved in procurement have undergone training on the new CPRs introduced from April 2016.
- The MPF Compliance Manual is in the process of being updated with; clearer signposting, enhanced detail and guidance around CPRs; and a formal terms of reference for the Investment Committee. The revised Compliance Manual will be presented to the Pension Committee in January 2017 for approval.
- The expected actions of the lead officers following discussions on services contracts are now clearly recorded in the minutes of the Fund Operating Group.
- Work is progressing in liaison with Corporate Procurement over the two long standing contractual arrangements to establish whether further action is required to ensure continued CPR compliance.

### 3.2.b Annual Governance Statement

A significant amount of work has been undertaken by the Internal Audit Service to support the production of the Annual Governance Statement which is presented as a separate report to this Committee elsewhere on the agenda. This work has involved independent targeted reviews of compliance with the CIPFA/SOLACE guidance and also includes the provision of support to senior management in the assessment of significant governance issues. The Internal Audit service is also represented on the Corporate Governance Group and supports the work undertaken to ensure that the organisation has strong governance arrangements in place that comply with evolving professional best practice and operate effectively and for the benefit of the Council.

### 3.3 Outstanding Audit Recommendations

- 3.3.a Attached at Appendix 1 is a table identifying information relating to those audits where recommended actions included in audit reports for 2015/16 and the current year to date have not yet been fully implemented.
- 3.3.b Where items are addressed by officers those entries are removed from the report on a rolling basis.
- 3.3.c All of the reports identifying outstanding actions are currently RAG rated as 'amber' indicating that progress is being made to address identified issues. A number of these relate to audits undertaken within ITS and were the subject of a previous report to this Committee by the Chief Information Officer outlining actions being taken and providing Members with necessary assurances that risks in these areas were being managed effectively. These actions are currently being overseen by the Information Governance Board chaired by the Strategic Director for Transformation and Resources.
- 3.3.d Since the previous report to this Committee a significant number of assurances have been received from senior managers regarding the

implementation of agreed actions following audits undertaken. Those items have subsequently been removed from the attached report for the moment and will be subject to scheduled follow up audit work in due course to verify the validity and effectiveness of those actions taken. The outcome of this work will be reported to Committee in the usual fashion and determine if any further action is required including the possible re-instatement to the list if actions are not deemed appropriate or effective.

3.3.e Outstanding actions relating to Organisational Culture, Corporate Procurement and Business Continuity/Disaster Recovery are included on a Governance Issues Action Plan agreed with senior management and it's implementation is currently being overseen and monitored by the Corporate Governance Group chaired by the Strategic Director for Transformation and Resources. Internal Audit has work scheduled during the remainder of the year to evaluate progress in this area, the outcome of which will be reported to this Committee upon completion.

### 3.4 Internal Audit Performance Indicators

3.4.a The Service constantly evaluates and measures the effectiveness of its performance in terms of both quality and productivity by means of a number of performance indicators in key areas as identified below. These include delivery of the annual Internal Audit Plan and ensuring that all of the audits identified in the plan are completed on schedule. This is particularly important at the present time as the requirement for Internal Audit involvement in a number of important corporate initiatives has increased dramatically.

IA Performance Indicator	Target	Actual
Percentage delivery of Internal Audit Plan 2016/17.	40	35
Percentage of High priority recommendations agreed with clients.	100	100
Percentage of returned client survey forms for the reporting period indicating satisfaction with the Internal Audit service. (Number of forms returned for period shown in brackets)	90	99 (25)
Percentage of internal audit reports issued within 10 days of the completion of fieldwork.	100	100

3.4.b There are currently no significant issues arising although it should be noted that achievement of the audit plan is slightly behind schedule for this time of year. This is primarily due to a number of vacant posts within the section that have proven difficult to fill. Work is currently ongoing to attempt to address this issue and I will continue to closely monitor and report on progress made, advising of any further impact on plan delivery.

### **3.5 Internal Audit Developments**

#### **3.5.a Continuous Improvement**

This is important to the overall efficiency and effectiveness of the Internal Audit Service and as such a Continuous Internal Audit Improvement and Development Plan has been formulated that incorporates new and developing areas of best practice from across the profession, ensuring that the service continues to constantly challenge how efficient and effective it is at delivering its service to all of its stakeholders and making any relevant changes and improvements as required. Some of the actions currently ongoing include:

- Further development of the Quality Assurance and Improvement Programme (approved by ARMC – September 2015) in line with the Public Sector Internal Auditing Standards;
- Ongoing development and implementation of a more streamlined and dynamic AGS working to allow for further changes made to the CIPFA/SOLACE best practice guidance;
- More collaborative counter fraud exercises across the Mersey region;
- Ongoing regional Counter Fraud Publicity Campaign scheduled for November 2016;
- Ongoing improvement of corporate counter fraud awareness across the Council;
- Further developments in reporting arrangements for stakeholders;
- Further development of the Mersey region Counter Fraud group led by Wirral Internal Audit to include joint fraud exercises and training;
- Implementation of actions arising from the new Public Sector Internal Audit Standards (PSIAS) self-assessment exercise;
- Development of the use of computer assisted auditing techniques in the evaluation and testing of system controls for more effective and efficient auditing;
- Ongoing development and implementation of a new automated planning and management system for the service;
- Implementation of paperless working papers operation.

#### **4.0 FINANCIAL**

4.1 There are none arising from this report.

#### **5.0 LEGAL IMPLICATIONS**

5.1 There are none arising from this report.

#### **6.0 RESOURCE IMPLICATIONS**

6.1 There is none arising from this report.

#### **7.0 RELEVANT RISKS**

7.1 Appropriate actions are not taken by officers and Members in response to the identification of risks to the achievement of the Council's objectives.

7.2 Potential failure of the Audit and Risk Management Committee to comply with best professional practice and thereby not function in an efficient and effective manner.

## **8.0 ENGAGEMENT/CONSULTATION**

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

## **9.0 EQUALITY IMPLICATIONS**

9.1 There are none arising from this report.

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## **APPENDICES**

Appendix 1: Audit Recommendations Status Report

## **REFERENCE MATERIAL**

Internal Audit Plan 2016/17

## **SUBJECT HISTORY (last 3 years)**

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