

**Chief Internal Auditor's  
Annual Report and Opinion on the System of Internal Control  
2016/17**

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Appendix A: Scope, Responsibilities and Assurance

## 1 Executive Summary

### 1.1 Introduction

The 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 role of the Chief Internal Auditor, in accordance with the 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 governance, risk management, and control 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 in this report.

### 1.2 My Overall Opinion is that:

*On the basis of our programme of work for the year, I can provide **moderate** assurance overall that there is a generally sound system of internal control, designed to meet the Council's objectives, and controls are generally being applied consistently.*

*However some weaknesses in the design and inconsistent application of controls put the achievement of particular key objectives at risk. The key governance, risk and internal control issues of which the Chief Internal Auditor was made aware during the year and that impact the overall opinion are included within sections 3 and 4 of this report.*

### 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.

#### 1.3.1 **Corporate Governance**

The Code of Corporate Governance was refreshed during the year following the update to, and publication of, the CIPFA/SOLACE *Delivering Good Governance in Local Government Framework* (2016 edition), the Code was approved by the Audit and Risk Management Committee in November 2016, and is available for reference via the Council intranet and website. 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.

#### 1.3.2 **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 highest rated ("red") risks, and changes to the risk ratings are considered regularly by the Corporate Governance Group and Strategic Leadership Team; and the Audit and Risk Management Committee also receives regular reports on risk.

The Risk Management Policy envisages risk management arrangements to be in place for the Strategy, Delivery and Business Support hubs, Wirral pledges, and key Transformation and other projects. The extent to which risk registers and appropriate risk management arrangements for all these developing areas are fully embedded is mixed. A recent Internal Audit review confirms that where gaps exist and risk registers are not yet established or embedded following the changes in organisational structure from November 2016, appropriate arrangements are in the process of being developed.

### 1.3.3 **Framework of Assurance**

The Corporate Governance Group now chaired and supported by the Director for Business Services (Assistant Chief Executive), a member of the Strategic Leadership Team, met regularly during 2016/17, using the comprehensive framework of assurance to demonstrate how assurance is provided to the Chief Executives Strategic 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 2015/16 Annual Governance Statement and on which progress has been made.

### 1.3.4 **Risk Based Assignments**

Arising from the agreed plan of work a total of 103 individual pieces of work including reports, actions plans, briefing notes and memos have been issued. The work undertaken contributes to my overall opinion on the control environment.

Opinions provided in audit reports produced during 2016/17 are very similar to the previous year when making a direct comparison with perhaps the only real point of note being the slight reduction in the number of audits identifying a 'Major' risk opinion. This is encouraging and suggests that there is a slight increase in awareness and understanding of the need for robust systems of control and governance across management, particularly important during periods of significant transformation and change.

### 1.3.5 **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 during the year in the following areas that have reduced the Council's exposure to controllable risk:

- Partnership Working;
- Corporate Risk Management Policy;
- Constitution and Scheme of Delegation;
- Wirral Plan outcomes.

## 2. Introduction

### **UK Public Sector Internal audit Standards (PSIAS) 2013**

The 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 role of the Chief Internal Auditor, in accordance with the 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 governance, risk management, and control processes (i.e. the organisation's system of internal control).

The CIPFA Statement on the role of the Head of Internal Audit (Chief Internal Auditor) in Local Government issued during 2013 noted that the Head of Internal Audit in a local authority plays a critical role in delivering the authority's strategic objectives by:

- Championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and
- Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

### 3. Assurance

#### 3.1 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 'Major' or 'Moderate' organisational risk 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.

### 3.2 Chief Internal Auditors Opinion

My overall opinion is that:

*On the basis of our programme of work for the year, I can provide **moderate** assurance overall that there is a generally sound system of internal control, designed to meet the Council's objectives, and controls are generally being applied consistently.*

*However some weaknesses in the design and inconsistent application of controls put the achievement of particular key objectives at risk. The key governance, risk and internal control issues of which the Chief Internal Auditor was made aware during the year and that impact the overall opinion are included below.*

### 3.3 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 major or moderate organisational risks opinions during the year however all of these reports have recommended actions which when implemented will reduce the level of risk to the organisation. Internal Audit perform work to gain assurance that the recommendations have been implemented and report the findings to the Strategic Leadership Team and Audit and Risk Management Committee Members bi-monthly; and progress throughout the year was good.

## **Corporate Governance**

### **3.3.1 The Code of Corporate Governance**

An assessment against the Code of Corporate Governance was undertaken by Internal Audit against the CIPFA/SOLACE Good Governance Framework (2016 edition). Overall design of controls was seen to be satisfactory and compliant with the requirements of the framework. The Code was reviewed, refreshed and approved by the Audit and Risk Management Committee in November 2016, following the publication of the 2016 edition of the Framework. The Code is publicised on the Council's Intranet and available for reference via the Council website.

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 partially address the two Significant Governance Issues highlighted in the Annual Governance Statement (AGS) 2015/16. These issues, together with certain IT related issues, will be reported in the 2016/17 AGS and further addressed in 2017/18.

### **3.3.2. Significant Governance Issues**

### **Compliance with Council Policy**

Further action was required to address organisational and managerial compliance with certain Council processes and procedures, including Performance Appraisals, Absence Management, Contract Procedure Rules and Essential Training.

The current position is that sufficient progress has been made in respect of compliance with Performance Appraisals. Further progress is still needed to routinely embed compliance with Contract Procedure Rules and Essential Training. Despite considerable organisational attention, including monthly reporting to Strategic Leadership Team and proactive support from HR, Absence Management continues to be a problem area for the Council. Concerns exist over recording and reporting and, on review and follow-up, reported absences are rising and there is a significant increase in the number of cases of long term sickness absence. A recent Internal Audit Review highlights the inconsistent and irregular application of sickness absence processes by line managers. Further work will need to be undertaken to evaluate the full extent of under-reporting and non-compliance with Council policy in this area. It is clear that more needs to be done to ensure that all managers recognise their accountability and accept and discharge their responsibilities to comply with all aspects of the Council policy. More also needs to be done to strengthen the accountability for non-compliance.

### **Business Continuity and Disaster Recovery**

There is a further significant governance issue in relation to Business Continuity, and a greater focus is needed by business plan owners and relevant Directors to ensure Business Continuity plans are kept up to date and subject to supportive challenge and review by advisers in the business continuity and IT teams. The Scrutiny Review panel set up to review the Council's IT disaster recovery arrangements reported that the Council does not have a current, fit for purpose IT disaster recovery plan. Progress is being made, in particular with the key project to relocate the Treasury Building datacentre.

### **Children's Services**

There is ongoing action to address significant issues of concerns raised in the Ofsted inspection in July 2016 which provided an overall opinion that arrangements in place for Children's Services in Wirral were inadequate. The Improvement Board continues to drive delivery of an Improvement Action Plan developed to address the main recommendations in the report covering key assessment areas. Resourcing has been strengthened and a number of permanent appointments have been made, including a permanent Head of Children's Services. Actions are underway but it is recognised that sustained focus on plans must be maintained to ensure that the risks raised by Ofsted are fully addressed.

In addition, a serious case review is currently underway in relation to a specific case of child sexual exploitation that has recently been reported and will have implications for the Council.

More detail on this is provided in the Annual Governance Statement for 2016/17.

### **ICT Governance**

Internal audit have continued to work with Digital during 2016/17 to identify key risks to be reviewed during 2017/18. In addition, internal audit will continue to assess and evaluate controls in place to mitigate Cyber threats.

### **Information Governance**

Internal audit has remained an active participant on the Information Governance Delivery Group who are reviewing and monitoring progress of implementing the recommendations identified by the Information Commissionaires Office (ICO).

In addition, progress on implementing outstanding internal audit recommendations relating to information assurance continues despite a change in Senior Information Reporting Officer (SIRO).

Information Governance remains a developing area however; compliance with The General Data Protection Regulation will require significant attention in order to meet the May 2018 deadline. Failure to meet the deadline could see the organisation faced with significant financial penalties. The risk faced by the Council is not yet included on the Corporate Risk Register.

### **3.3.3 Risk Management Arrangements/Assurance**

The Council's corporate risk management arrangements are well established, including the corporate Risk Management Policy and Corporate Risk Register.

An update to the Council's Risk Management Policy was approved by ARMC in September 2016 and formally adopted by Cabinet on behalf of the Council in November 2016.

The Corporate Risk Register is the critical means by which the Council assures itself that risks to its corporate objectives are being managed. The format of the Corporate Risk Register was updated in spring 2016. The Audit and Risk Management Committee is presented with regular updates on the corporate risk register.

The Risk Management Policy envisages risk management arrangements to be in place for the Strategy, Delivery and Business Support hubs, Wirral pledges, and key Transformation and other projects. The extent to which risk registers and appropriate risk management arrangements for all these developing areas are fully embedded is mixed. A recent IA review confirms that where gaps exist and risk registers are not yet established or embedded following the changes in organisational structure during 2016/17; appropriate arrangements are in the process of being developed.

Revised requirements concerning the management of risk in relation to transformation programmes and projects were discussed and agreed with the Transformation team in autumn 2016. These are reflected in operational guidance produced by the Transformation team, in line with the updated Corporate Risk Management Policy. The Council's Senior Risk and Insurance Officer (SRIO) has facilitated workshops with key stakeholders for both the Customer Experience and Asset Service Transformation teams to identify the key strategic and over-arching risks to their delivery. A draft register for the Asset Service team has been shared with the Transformation Board.

Revised requirements concerning the management of risk in relation to service plans were discussed and agreed with the Performance team in autumn 2016. The SRIO has addressed Business Services, Strategic hub and Delivery management teams and / or facilitated workshops. Risk registers are being developed. For the Wirral pledges, progress in establishing risk management arrangements in line with the corporate policy varies across the pledges and underlying strategies. The SRIO has facilitated workshops and/or attended steering groups as requested and risk registers are in place for some steering groups

The ability for the Risk and Insurance Team to devote the required time to embedding the revised corporate risk management arrangements, particularly in relation to pledge strategies, has been restricted due to an experienced member of staff leaving. It is expected that this vacancy will be filled by the end of quarter 1 (2017/18).

A report considering the need to update the organisations consideration of its risk appetite was presented to corporate Governance on the 13 April 2017. The report confirms that further analysis is required in order to determine fully the organisations risk appetite, after which a further report will be presented to SLT and Cabinet.

Compliance with risk management procedures remains an important element of the wider culture of compliance issue and this will be continued to be monitored during 2017/18.

As in previous years the context in which the Council operates remains a fundamental challenge to corporate objectives and delivery. Savings plans have been established for 2017/18 which will have further impact on the way the Council operates. Whilst the Council remains well placed to respond, the scale and pace of change required including reduced levels of resourcing and organisation change remains a fundamental risk to the control environment and needs to be effectively managed.

#### 3.3.4 Risk-Based Assignments

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 14 March 2016 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 104 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 organisational risk 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 and effectiveness sections of this report give fuller details of:

- Performance against plan;
- Unplanned work undertaken;
- Key points arising where our organisational risk opinion was 'major'; and
- Follow up work undertaken.

### 3.3.5 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 is robust and audits were completed across all the core systems focused on the identified key areas of risk. An audit of Capital Financing has been carried forward into the Internal Audit Plan for 2017/18 following a re-evaluation of risk and the available resources during the year. We have continued to develop and utilise 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 audits completed in the year are identified below:

| Audit   | Organisation Risk |
|---|-------------------|
| Accounts Payable – CHAPS / Faster Payments      | Minor             |
| Accounts Payable - Electronic Billing           | Moderate          |
| Accounts Payable - Williamson Art Gallery       | Minor             |
| Accounts Receivable – Recovery Processes        | Negligible        |
| Benefits - Local Welfare Assistance Scheme      | Moderate          |
| Benefits - Personal Finance Unit                | Moderate          |
| Benefits - Risk Based Verification Draft Policy | Minor             |
| Benefits - Write-Offs                           | Negligible        |
| Business Support – BACS Transactions            | Minor             |
| Business Support - Prepaid Cards                | Moderate          |
| Corporate Credit Cards                          | Moderate          |
| General Ledger - Bank Reconciliations           | Negligible        |

|   |            |
|---|------------|
| General Ledger – E.Audit International Auditing Standards | Negligible |
| Income & Banking - Establishments                         | Minor      |
| Income & Banking - Postal Operation                       | Minor      |
| Payroll - LGPS Annual Return                              | Minor      |
| Payroll - Timesheet Processing                            | Moderate   |
| Revenues - Council Tax Data Testing                       | Minor      |
| Revenues - NDR Valuations                                 | Minor      |

### 3.3.6 Merseyside Pension Fund

Given the complex nature of the Pension Fund operations and the materiality 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 mutually agreed via a service level agreement (SLA), so as to formalise the audit relationship; clarify responsibilities and obligations on both sides; and embed positive practices. The SLA has now been operational for four years and has enhanced the effectiveness of the Internal Audit service to the Fund who have again provided very positive feedback on the assurance work undertaken.

The approved programme of audits for 2016/17 included some assurance work on systems under development at the Fund which was undertaken at the request of the Fund Operating Group (FOG). A summary of the opinions from the programme of completed audits is provided below:

| Audit                        | Organisation Risk |
|------------------------------|-------------------|
| Immediate Payments Process   | Minor             |
| Investments                  | Moderate          |
| My Pension IT System         | Negligible        |
| Overseas Travel              | Minor             |
| Retirement Benefits Payments | Moderate          |

The review of the Fund's proposed operational processes to utilise the 'Immediate Payment' option within the Pensions Administration IT System (Altair), together with the trial outcomes resulted in audit assurance on the validity and accuracy of the payments.

A high level review was completed on the Fund's investments system focused on strategy, governance and performance monitoring as well as testing a sample of transactions. Assurance was provided on the compliance of the operation with approved policies and procedures and recommendations were agreed to enhance the control environment.

No risks were identified following a review of the MyPension system which is a web based application which enables members of the Local Government Pension Scheme to access their pension information online.

Officers of the Fund periodically need to make visits overseas in order to research investments, conduct due diligence and to meet with investment managers. All overseas trips undertaken in a 12 month period were examined as part of an audit review and found to comply with corporate policy.

As in previous years, the review of the Benefits system focused on providing assurance on the validity and accuracy of a sample of retirement benefits payments. Again it supported the co-operative arrangement with the external auditors by incorporating a programme of compliance tests required by Grant Thornton.



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'. The Pension Fund Operating Group 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.

### 3.3.7 Key Control Developments In Year

- From discussions with partners and commissioners it is evident that, for many of the Wirral Plan partnerships, there has been significant improvement in the effectiveness of partnership working, with partnerships generally reflecting a well-co-ordinated approach, strong communication between partners and commissioners, a clear understanding of pledges and strategies and robust arrangements for the monitoring and delivery of outcomes;
- The organisation has updated its Corporate Risk Management Policy. The Corporate Governance Group, the Strategic Leadership Team and the Audit and Risk Management Committee regularly and routinely consider reports on risk, in accordance with the Risk Management Policy;
- Some risk registers have been reviewed and refined to ensure that they reflect the critical risk issues that the organisation currently faces;
- Enhanced engagement with all stakeholders including the Council's budget consultation;
- The Councils Constitution and Scheme of Delegation has been reviewed during the year and amendments approved through full Council or Standards and Constitutional Oversight Committee to ensure continued ongoing fitness for purpose;
- All Internal Audit reports issued with a major or moderate organisational risk opinion in 2016/17 have had follow up work undertaken and significant improvements have been made in these areas;
- A comprehensive Performance Management Framework is in place that is built upon, and supported by, robust systems and processes (however, scope does exist to further enhance processes to ensure performance management data/information being reported is robust and user-friendly);
- The Wirral Plan lays out twenty pledges across three areas: Business, Environment and People. Supporting the Wirral Plan and 20 pledges are a number of strategies aimed at achieving each of the pledges. Quarterly update reports

relating to the Wirral Plan have been reported to Overview and Scrutiny Committees and Cabinet. Quarterly Corporate Operational Health Reports have also been produced and routinely presented to SLT;

- A review was undertaken of Data Quality relating to "Care Leavers" performance information within Children's Services following the Ofsted review (report published 20 September 2017). It was evident that significant progress had been made since the initial Ofsted report; however, further improvements are required. Further audit work on Data Quality within CYP is to be determined and undertaken during 2017/18 as new processes become established and embedded.

## **4. Audit Outcomes 2016/17**

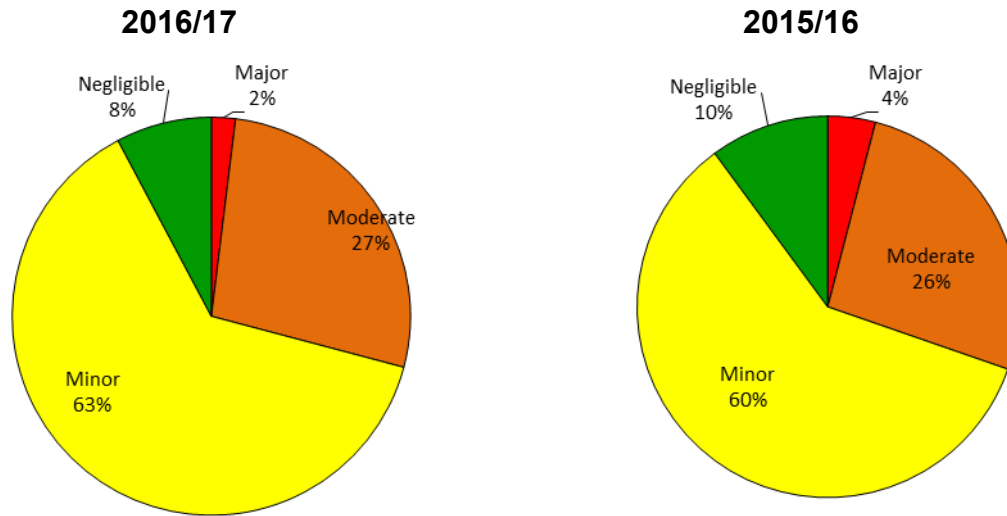
### **4.1 Assurances Issued During 2016/17**

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.

### **4.2 Audit Opinions Provided**

The charts below illustrate the organisational risk opinions provided in audit reports produced during 2016/17 and the previous year 2015/16. These opinions identify the risk to the organisation of the audit findings taking account of the impact and likelihood of occurrence with 'Major' being the most significant and 'Negligible' presenting the least risk opinion to the organisation.

When comparing the two years the most notable feature is the reduction in 2016/17 of the number of audits identifying a 'Major' risk opinion which is encouraging and possibly suggests 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. Those audits identifying other risk opinions have remained reasonably static over the two years.



These opinions are explained in more detail below:

**4.2.1 Negligible Organisational Risk Opinion**

A Negligible organisational risk indicates that there were no weaknesses identified during the audit review and that the Council is not exposed to any risks directly associated with the findings. This opinion was provided for the following audits:

|  |
|--|
| Accounts Receivable - Recovery Processes                   |
| Annual Governance Statement - Assurance Statements Testing |
| CIPFA Fraud and Corruption Tracker (CFaCT) survey          |

|  |
|--|
| General Ledger - Bank Reconciliations                            |
| General Ledger – External Audit International Auditing Standards |
| Public Health Contracts  |
| Refuse Collection Contract                                       |
| MPF My Pension   |

**4.2.2 Minor Organisational Risk Opinion**

A Minor organisational risk indicates that the likelihood/impact of the risks identified during the review, should they materialise, would leave the Council open to minor non fundamental or material risk. This opinion was provided for the following audits:

|   |
|---|
| Accounts Payable – CHAPS / Faster Payments      |
| Accounts Payable - Williamson Art Gallery       |
| Agile Working                                   |
| Altair Immediate Payments Process               |
| Asset Management                                |
| Benefits - Risk Based Verification Draft Policy |
| Benefits - Write-Offs                           |
| Black Horse Hill Infant School                  |
| Brookhurst Primary                              |
| Business Support – BACS Transactions            |
| Church Drive Primary                            |
| Dawpool CE Primary                              |
| Direct Payments - Children                      |
| Early Years Free Entitlement                    |
| Egremont Primary                                |

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| Financial Management - Insurance                                     |
| Great Meols Primary  |
| Greenleas Primary School   |
| Hayfield School  |
| Heswall Primary  |
| Highways Maintenance   |
| Hillside Primary   |
| Holy Spirit Catholic & CE Primary                                    |
| Hoylake Holy Trinity CE Primary                                      |
| Income & Banking - Establishments                                    |
| Income & Banking - Postal Operation                                  |
| Information Governance and Security - Intranet Policies and Guidance |
| Licensing  |
| Lingham Primary  |
| Liscard Primary School   |
| Mayor's Charity Fund y/e 15/16                                       |
| Mersey Park Primary  |
| Mersey Regional Fraud Group  |
| National Fraud Initiative  |
| OJEU Notices   |
| Orrets Meadow School   |
| Overseas Travel  |
| Oxton St Saviours CE Primary   |
| Park Primary   |
| Payroll - LGPS Annual Return   |
| Poulton Lancelyn   |
| Prenton Primary  |
| Raeburn Primary School   |
| Referral - Money Laundering  |

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|--|
| Revenues - Council Tax Data Testing              |
| Revenues - NDR Valuations                        |
| Sandbrook Primary                                |
| Social Care Transformation                       |
| South Wirral High School                         |
| St Georges Primary                               |
| St Joseph's Catholic Primary School (Birkenhead) |
| St Joseph's Catholic Primary School (Upton)      |
| St Peters CE Primary (Heswall)                   |
| STEP Grants 1                                    |
| STEP Grants 2                                    |
| STEP Grants 3                                    |
| The Observatory School                           |
| Thingwall Primary                                |
| Trading Standards and Environmental Health       |
| Troubled Families                                |
| Troubled Families                                |
| Well Lane Primary School                         |
| Wirral Hospitals' Schools                        |
| Woodlands Primary School                         |
| Woodslee Primary                                 |

#### 4.2.3 Moderate Organisational Risk Opinion

A Moderate organisational risk opinion indicates that the likelihood/impact of the risks identified during the review, should these materialise, would leave the Council open to a moderate risk of a fundamental or material nature. This opinion suggests that there are some weaknesses in the design and/or operation of the control environment that may have varying degrees of impact on the achievement of systems and/or corporate objectives. This opinion was provided for the following audits:

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|  |
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| Accounts Payable - Electronic Billing                                    |
| Annual Governance Statement Review                                       |
| Bebington High Sports College  |
| Benefits - Local Welfare Assistance Scheme                               |
| Benefits - Personal Finance Unit   |
| Business Support - Prepaid Cards   |
| Constitution   |
| Counter Fraud - Corporate Credit Cards                                   |
| Culture  |
| Cyber Security   |
| Data Quality (Ofsted)  |
| Discretionary Housing Payments - Assessment and Award                    |
| Discretionary Housing Payments - Assessment and Award of Rent In Advance |
| Discretionary Housing Payments - DLA                                     |
| Investments  |
| MPF Retirement Benefits Payments   |
| Organisational Change  |
| Passenger Transport Contracts  |
| Payroll - Timesheet Processing   |
| Pensby High  |
| Performance Management and Planning                                      |
| Ridgeway High School   |
| Risk Management  |
| Tendering Management   |
| Whistleblowing   |
| Wirral Family Forum  |
| Works Contracts Register   |



**4.2.4 Major Organisational Risk Opinion**

A Major organisational risk opinion indicates that the likelihood/impact of the risks identified during the review, should these materialise, would leave the Council open to a major risk of a fundamental or material nature. This opinion suggests that that there are some potentially serious weaknesses in the design and/or operation of the control environment that may have a significant impact on the achievement of systems and/or corporate objectives if not addressed.

The schedule below identifies the 2 reports out of the total of 103 produced during the year that contained ‘Major’ organisational risk opinions. In all cases management action to address reported weaknesses was agreed and appropriate actions either taken or started during the year as indicated.

| Audit                                   | Outcome   |
|---|---|
| Special Guardianship Orders             | <p>Following an audit review at the request of management into Special Guardianship, Child Arrangement and Adoption Orders action has been taken in year to significantly strengthen controls over the systems in place to prevent any overpayments being generated incorrectly.</p> <p>A satisfactory separation of duties is now in operation and controls introduced to improve operations. Internal Audit are scheduled to undertake further follow up work in this area during 2017/18 to test the effectiveness of the improved control environment including compliance with the revised procedures.</p> |
| Attendance Management(Sickness Absence) | <p>Actions are currently being undertaken by senior managers to address a number of issues reported following audit sample testing across three key operational areas where it was identified that corporate policy had not been consistently applied.</p> <p>These issues have been discussed by the Strategic Leadership Team who are overseeing and monitoring the implementation of a range of appropriate actions to</p>   |

|  |   |
|--|---|
|  | improve the effectiveness of existing systems.<br>Internal Audit are scheduled to undertake follow up work in this area during 2017/18 including judgemental sampling to provide an opinion on compliance with the policy requirements. |
|--|---|

### 4.3 Additional Work during 2016/17

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 strategy development and raising awareness.

#### 4.3.1 Counter Fraud

The Counter Fraud Team continued to chair and co-ordinate the activities of the Mersey Region Fraud Group (MRFG), which consists of a number of neighbouring authorities and partner organisations. The group is still 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.

To support the work of local authorities, CIPFAs Counter Fraud Centre (CFC) published a Code of Practice on Managing the Risk of Fraud and Corruption in 2014. Although the Code is not currently mandatory, it represents best practice and compliance with the Principles set out in the Code will enable the Council to demonstrate effective financial stewardship of public monies.

The Council's compliance with the Code was initially assessed in 2015 following its publication. However, following the publication of guidance and the development of an online assessment tool provided by CIPFA, the Council's fraud arrangements were re-assessed in early 2017. The findings indicated 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.

The team continues to maintain the fraud register which is used to collate details of all reported fraudulent activity across the Council, whether investigated by the Counter Fraud Team or by the relevant department. This facilitates the completion of the CIPFA Fraud and Corruption Tracker, which is coordinated by the Team on behalf of the Council. The information contained within the register has been used to identify potential weakness and areas that may be susceptible to increased attempts of fraud and as such where Counter Fraud resources need to be directed.

The Counter Fraud Team provides advice to departmental officers investigating suspected frauds and irregularities in cases where these are investigated within the department. The last year has seen an increase in the number of referrals from Departments as the profile of the team has risen and become more widely known to management of the Council.

#### **4.3.2 CIPFA Fraud and Corruption Tracker (CFaCT)**

In June 2016 CIPFA's CFC carried out an annual survey of fraud and corruption detected in local authorities in England. The survey includes questions commissioned by the Fighting Fraud Locally Board and the Home Office, to provide a picture of the amount of detected fraud, emerging risks and actions taken by local authorities across the country to combat fraud and corruption.

The CFC survey identified that the largest area of growth in fraud is in procurement and investigations in this area increased by five times in the year. Business rates and Council Tax continue to be areas of concern for Local Authorities.

These areas have been incorporated into the annual Internal Audit planning process and audit work has been identified that will be undertaken during 2017/18.

#### **4.3.3 National Fraud Initiative**

The Counter Fraud Team facilitates and co-ordinates the Council's participation in the National Fraud Initiative which the Council is required by law to participate in.

Data sets were submitted in October 2016 for the 2016/17 National Fraud Initiative biennial data matching exercise and results of data matches were received at the end of January 2017. For this current NFI exercise £21,476.34 has been identified to date, of which £21,368.44 is being recovered.

#### 4.3.4 Investigations

For the financial year 2016/17 Internal Audit received 63 reports and referrals via a number of sources. This represents an increase of 90% from 2015/16 and is partly due to an increased awareness of fraud risks amongst employees and members of the public as a result of successful publicity campaigns run during the past two years. The type of issues covered a broad spectrum of the Council's activities including:

- Bank Mandates
- Blue Badges
- Business Rates

#### 4.3.5 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:

- Public Liability Claims (Self Handling)
- Housing Benefit & Council Tax Support Risk Based Verification Policy
- Local Government Pension Scheme Annual Return
- Utility Electronic Billing
- Information Governance
- Selective Licencing

#### 4.3.6 Value for Money /Consultancy work

Whilst value for money work is implicit within all audit work a limited number of specific exercises has 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. Developments have taken place during the year to improve our approach to this including new operational practices and reporting formats that are now in operation and encompass a review of the effectiveness/VFM approaches in place.

- Performance Management
- Events Management
- Utilisation of casual worker pool

#### 4.3.7 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 school's management over the delegated budget.

The risk self-assessment approach developed during 2015/16 to ensure a much more effective use of internal audit resources has continued. This approach targets those schools which are most in need of independent review and advice in a more timely fashion and also ensures that all schools are audited over a three year cycle.

The questionnaire utilised was developed based on the '*Scheme for Financing Schools*' which is statutory guidance provided by the Department for Education for local authorities. It relates to Section 48 of the School Standards and Framework Act 1998, and Schedule 14 to the Act.

The audit questionnaire is designed to enable the assessment of controls currently in operation at schools on a timelier basis. The questionnaire highlights a range of high risk controls and systems, including those affected by recent changes in LA procedures, such as the introduction of SelfServe. Audit findings identified during 2016/17 include over thirty assurance

opinions rated as 'Good', a clear indication that the approach continues to be well received and has encouraged schools to 'take ownership' of these systems and with ongoing support and guidance from Internal Audit and the LMS Unit ensure that appropriate and effective systems of control are in operation.

The Wirral Electronic School Communications Website (WESCOM) continues to be utilised by Internal Audit to convey best practice learning points in response to issues raised during individual audits for the collective benefit of all schools. Customer feedback in response to this audit approach remains extremely positive.

#### 4.3.8 External Work

##### Edsential

As part of the SLA with Edsential to provide Internal Audit Services, a range of audit projects to evaluate the effectiveness and good governance of the service provider have been completed, in line with the audit plan agreed with the Edsential Board. Reports on this including projects and an annual internal audit opinion have been prepared for Edsential management and their respective board.

##### Evolutions

Internal Audit work was performed at Wirral Evolutions during the year covering visits to sample Day Centres, advice on developing financial systems and contract procedure rules, and a review of the governance and performance practices at the Local Authority Trading Company. Audit work is presented to the Managing Director and the Board, and all recommendations made have been implemented in a timely fashion.

Wirral Evolutions are retaining Internal Audit services for the 2017/18 year at least and advise us that they find the 'critical friend' approach very useful as they continue to develop. Work planned for 2017/18 includes further work on financial and governance systems as well as operational areas that includes reactive advice and assistance.

#### 4.3.9 Other Work

The Internal Audit team's resources have been applied in several other respects:

- Support to the Audit and Risk Management Committee including training provision;
- 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 Delivery Group;
- Support to prepaid card user group by attendance at meetings with service provider;
- Attendance at regular meetings with the Section 151 Officer;
- Regular attendance at the Strategic Leadership Team;
- Attendance at Departmental Management Team meetings
- Regular meetings with Directors
- Grant claims;
- Provision of ad-hoc advice;
- Annual planning and reporting,
- Collation of evidence for the preparation of the 2016/17 Annual Governance Statement; and
- Attendance at Commercial Approach workshop.

## **5 Effectiveness of Internal Audit**

### **5.1 Internal Audit Standards**

Internal Audit fully complies with the CIPFA Code of Practice for Internal Audit which has until recently been the pre-eminent best practice standard for public sector internal audit providers.

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 fully compliant with by 2018. Regular update reports on this have been presented to the Audit and Risk Management Committee during 2016/17 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. The outcome from the self assessment exercise indicates that the service is currently over 90% compliant with full compliance only achievable when the external peer review exercise scheduled for January 2018 is completed.

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.

Wirral Council has adopted the peer challenge assessment approach developed by the North West Chief Audit Executive's Group. 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 assessments are to take place during 2017/18 with Wirral scheduled for completion in January 2018.

Grant Thornton in its reporting continue to acknowledge that Internal Audit provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment to the Council.



## 5.2 Quality Assurance Improvement Programme

The Internal Audit Service operates a Quality Assurance Improvement Programme (QAIP) that is designed to provide all stakeholders with reasonable assurance that the service performs its work in accordance with the Internal Audit Charter and Strategy and is compliant with the Public Sector Internal Audit Standards and Internal Audit Code of Ethics. The QAIP is designed to cover all elements of internal audit activity in accordance with PSIAS Standard 1300 ensuring compliance, adding value and helping improve organisational operations. The QAIP has a number of different elements that contribute towards an ongoing assessment of the nature and effectiveness of the service delivered and the performance of individual auditors, identifying areas for improvement and development on a continuous and ongoing basis. Included within the QAIP are the following and any improvement actions arising in year have been included within both Internal Audit Service and Personal development plans:

- Customer Satisfaction Surveys
- Post Audit Assessments
- Auditor Skills Appraisal
- Core Competencies

## 5.3 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 revised audit working papers to reflect current best professional practice;
- Enhanced reporting arrangements for Chief Officers and Members to reflect organisational change;
- Further development of the self-assessment approach to auditing Schools promoting ownership of issues and utilising audit resources more efficiently;
- Improved performance management system utilising quality assurance improvement programme outcomes;

- Developed approach to AGS work incorporating changes resulting from new CIPFA/SOLACE best practice guidance and updated Governance Assurance Statement;
- Utilisation of the Wescom system to communicate more effectively the outcomes of Schools audits and best practice points of note,
- Continuous ongoing improvements to engagement arrangements with Chief Officers, managers and Members;
- Developed reporting arrangements for ARMC members;
- Reviewed and revised Internal Audit Strategy and Charter incorporating changes resulting from Public Sector Internal Auditing Standards (2016), endorsed by ARMC;
- Regular scheduled attendance at departmental management meetings and the Chief Executives Strategy Group/Strategic Leadership Team by the Chief Internal Auditor;
- Ongoing benchmarking against other audit service providers;
- Developed relations with Chief Audit Executives from across the Mersey and North West regions;
- Further development of the Mersey Counter Fraud Group including the establishment of more proactive collaborative cross boundary working;
- Revisions to the Quality Assurance Improvement Programme in compliance with the Public Sector Internal Auditing Standards;
- Development of the Intranet facility as a vehicle for communicating audit and risk related issues to clients;
- Ongoing evaluation and development of the audit planning and management system incorporating full automated working papers and reports;
- Ongoing restructuring of automated working folders to reflect organisational change and best practice;
- Clarification of local arrangements to ensure compliance with the Local Audit and Accountability Act, specifically regarding the procurement of external audit services through Public Sector Audit Appointments Ltd;
- Increased utilisation of mobile technology to enhance efficiency and effectiveness;
- Development and implementation of a 'fit for purpose' model for the delivery of internal audit services to related external organisations delivering services on behalf of the Council;
- Development of the extent of the value for money work undertaken;
- Full compliance with the Public Sector Internal Audit Standards;

Many of these initiatives will continue to be the subject of ongoing review during 2017/18 to ensure that the very best use of all available resources is made and that Internal Audit continues to provide a value added service to the Council.

#### 5.4 Performance Indicators

For 2016/17 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 2016/17 summaries of the post audit feedback forms indicate an overall satisfaction rate of 100% with the audit service, with over 95% of respondents noting that they were 'very satisfied' with the service provided, an overall improvement on last year's very high satisfaction levels.

The table below details the key performance measures relating to Internal Audit and actual performance for 2016/17:

| IA Performance Indicator  | Target | Actual |
|---|--------|--------|
| Percentage delivery of IA Plan 2016/17  | 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    | 99     |

**5.4.1 Completion of the Internal Audit Plan for 2016/17:**

The plan was 91% complete as at the 31 March with 9% carried over into 2017/18 with completion during April/May 2017. This predominately related to audit work undertaken late in the year following issues experienced during quarters two and three with a number of vacant posts. At the time of writing this report the IA Plan for 2016/17 was 100% complete. All of the contingency days were used on referrals and investigations work, this equates to 8% of the audit days available.

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

The average delay on top of this was 1 day and the majority were delays in obtaining management responses to the reports, a factor largely beyond the control of Internal Audit management.

**5.4.3 Comments received on the Customer Survey Feedback Questionnaires:**

*“this complex and highly sensitive piece of work was completed effectively and on time”*

*“Highly satisfied with the overall service from Internal Audit”*

*“The Auditor’s observations and findings are of significant operational and strategic benefit”*

*“Excellent service received from Internal Audit”*

*“Rigorous and professional service”*

*“Good approach and excellent communication, the Auditor was helpful and highly professional”*

Minuted feedback received from the Audit and Risk Management Committee during 2016/17:

*“The Chair expressed Members’ thanks to the Officer and their continued support of the work undertaken by his team”*

*“Members thanked the Chief Internal Auditor for the highly comprehensive report”*

## **5.5 Follow up Procedure**

Internal Audit undertake a follow up audit of every completed assignment and report the findings to senior management, the Strategic 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 summary narrative for each High risk recommendation made;
- The opinions provided in each audit report;
- The position statement for each High risk 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 is in operation.

## 5.6 Working with External Audit

The Government introduced legislation for local audit during 2013. The legislation abolished 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 continued to be important particularly given this change and we have liaised during the year with External Audit to ensure that we avoided any unnecessary duplication and utilised 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.

## 5.7 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.

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## **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.

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### **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 Section 151 Officer, 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.