



Audit and Risk Management Committee
Monday 27th January 2020

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| REPORT TITLE: | INTERNAL AUDIT UPDATE |
| REPORT OF: | CHIEF INTERNAL AUDITOR |

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 1st November to 31st December 2019. There are four 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

That Members of the Audit and Risk Management Committee 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 by CIPFA and the CIIA.

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 a 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 1st November to 31st December 2019.

3.2. Items of Note

3.2.1 VAT System

- 3.2.2 An audit has been carried out of the corporate VAT system to determine whether the controls within the VAT processes provide reasonable assurance of effective compliance with statutory regulations. The audit focussed on the risks which could be realised with the retirement of the VAT Compliance Officer; focussing principally on confirming that:

- The existing and proposed working processes do and will continue to provide an appropriate separation of duties and checking regime for the management of the VAT account which enables the VAT Return to be made; and

- There are agreed and documented procedures, which satisfy statutory requirements; and are known to and used by knowledgeable staff.

3.2.3 The audit did not include a review of the accuracy of VAT transactions in year, as this work is scheduled for later in the year as part of a regularity audit.

3.2.4 The conclusion drawn was that the proposed processes will continue to provide a separation of duties and checking regime, but that there are opportunities to enhance the control environment for the system. The audit resulted in 12 recommendations, relating to: improving the knowledge and understanding of VAT matters, both at a general level for non-specialist staff in the Authority and for the proposed specialist team within Corporate Finance; improving the level of detail provided by all sources to inform the VAT return; and confirming all transactions are appropriately coded to ensure adherence to future, but imminent, required changes to VAT recording and returns.

3.2.5 Northern Local Government Pension Scheme Collective Asset Pool – Governance

3.2.6 An audit has been conducted to review the effectiveness of the Merseyside Pension Fund's governance arrangements in respect of their participation within the Northern LGPS Collective Asset Pool. The Northern LGPS is a partnership between the Greater Manchester (GMPF), Merseyside (MPF) and West Yorkshire (WYPF) Local Government Pension Scheme (LGPS) funds. It was formed (initially as the 'Northern Pool'), after the Government published its investment reform criteria and guidance to reduce LGPS investment management costs and to encourage infrastructure investment to help drive growth in the UK economy. Collective asset pooling is a significant undertaking and will result in fundamental changes to the oversight of LGPS assets.

3.2.7 It is essential that appropriate governance arrangements are in place and the developing arrangements for the Northern Pool were previously reviewed as part of an audit in December 2017 of MPF Governance. This latest audit provided comment on the current position with the objective to provide management and stakeholders with reasonable assurance that governance arrangements are effective for MPF in respect of their participation within the Northern LGPS Collective Asset Pool. The review identified that good progress has been made in the development of the Northern LGPS governance with a framework that demonstrates effective compliance with the principles of good practice and relevant guidelines.

3.2.8 Enterprise Resource Planning - Follow Up

3.2.9 In late 2018 Internal Audit undertook a review of the Enterprise Resource Planning (ERP) system and, provided opinion that, the system was dated, unable to provide some services expected in a digital age and was not compliant with GDPR. A number of actions were agreed with management regarding replacement of the system as detailed in the table below with corresponding progress update and RAG rating. In addition, a comprehensive report prepared on this by responsible officers is being presented elsewhere on the agenda for this meeting:

| Recommendation | Progress Update | RAG Status |
|--|--|-------------|
| The findings and risks included in the report should be taken into consideration when deciding on upgrading to the current version of software available from Oracle, or, replacing it with a new one. | A risk log has been documented and includes the findings and risks included in the report, including the risk of non-compliance with GDPR. The risk log includes a description of the risk, the impact, the score and probability, risk owner, risk category along with options, costs. It is discussed at the monthly project board meetings. The project team consists of senior management and includes all relevant stakeholders, and to strengthen the Governance arrangements Internal Audit will be attending future meetings. A list of options is included in the Strategic Outline Case including a “do nothing” option. Each option is appraised by strengths and weaknesses. | Implemented |
| A cost benefit analysis should be conducted followed by a feasibility study. | Indicative costs for each option are included in the draft Outline Business Case and are based upon a three-year programme. Once the solution is decided and the project moves into implementation stage then a feasibility study is to be conducted. | Implemented |
| A business case should be completed that captures the business ‘problems’ all risks, costs, impacts etc. | A draft Outline Business Case has been documented and a Full Business Case is to be completed prior to the project implementation phase. | In Progress |

In addition, Internal Audit obtained a copy of the draft report entitled ‘SmartBusiness Report’ and based on a review of the project document, concur with the content.

3.2.10 Digital – Follow Up Work

Internal Audit have been working closely with Digital to ensure the completion of all outstanding recommendations in this area. The table below provides an update of those items reported to ARMC in November 2019.

| Audit | Summary of recommendations | Position Statement |
|-----------------------------|---|---|
| Digital Information Storage | <ul style="list-style-type: none"> Procedures should be documented to support the Records Management Policy. Routine compliance | <p>There is currently around 66 terabytes of unstructured data held on the H drive that is the responsibility of each business area across the Authority.</p> <p>IA made five recommendations, of those three have been implemented. Procedures</p> |

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| | <p>checks should be undertaken and formally reported.</p> <ul style="list-style-type: none"> Information Asset Owners should understand the importance of deleting data when no longer required. Data storage costs should be investigated Procedures for managing the data on the shared drive within Digital should be documented. | <p>to support the Records Management Policy and compliance checks have not yet been implemented. This is due to the Council not yet having in place a corporate contents management system. However, a project has been initiated that is working with business areas across the Authority for them to review their data. This is likely to take some further time to fully implement. Microsoft Teams has recently been developed but it is not a long term solution for a corporate contents management system.</p> <p>The risk of unmanaged information - lack of a corporate content / records management system potentially leads to services buying/using their own systems, conflicting approaches, information stored in emails, the email system not being managed effectively, inability to locate and retrieve information/poor knowledge of information held resulting in increased costs, difficulty defending enforcement action e.g. HSE, insurance claims, duplication of effort, inability to fulfil GDPR's Accountability Principle, is included in the draft information risk register that is to be managed and monitored by the IGB going forward.</p> <p>SharePoint has recently been set up and business areas advised to migrate their data.</p> <p>Digital Information Storage is on the agenda for the Information Governance Board, who are tasked with deciding the way forward and determining policy and procedure for managing the risk of holding data for longer than necessary.</p> |
| GDPR | <ul style="list-style-type: none"> Obtain confirmation from IAO's that data can be deleted from systems containing personal data. Subject Access Request data should be closely monitored to identify any increase in trajectory. This data could be presented to IGDG in a balanced scorecard style method. Include any lawful basis for the processing | <p>Five recommendations were made, three have been implemented and two are to be followed up after IAO training and resource changes have been implemented. Subject Access Request data is monitored, and figures presented to the Information Governance Board. In addition, the number of security incidents is presented at the IGB and going forward will be in a format that will allow the board to review details such as trends and actions taken.</p> <p>An update will be provided to ARMC at the March 2020 meeting.</p> |

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| | <p>activity on the information asset register and obtain clarification from Legal.</p> <ul style="list-style-type: none"> • The Children's Department should liaise with the project manager to investigate this further. • Details of security incidents should be presented to IGDG in a balanced scorecard style method. | <p>In addition, the risk of the ability demonstrate GDPR compliance is now included on the draft Information Risk Register that is monitored by the Information Governance Board.</p> |
| Information Asset Owners | <ul style="list-style-type: none"> • A SIRO should be appointed • Information Asset Owners (IAOs) and Administrators should be trained • Guidance should be updated • Data sharing agreements should be communicated • IAOs to provide SIRO with annual written assessment. | <p>In total, 11 recommendations were made, to date 5 have been implemented, 2 are partially implemented/in progress and 4 remain outstanding. A SIRO has been appointed and, it is encouraging that 25 out of 46 Information Asset Owners and 110 out of 138 Information Asset Assistants have recently been trained. Guidance for IAOs/IAAs require updating that should include the requirement to provide the SIRO with an annual written assessment and guidance on data sharing. Going forward the Information Governance Board are expected to provide further ongoing instruction and guidance.</p> |

3.3 Internal Audit Recommendations

3.3.1 A list of internal audit activity over the reporting period is attached at Appendix 1 detailing the audits completed and identifying opinions provided and a current RAG rating indicating the current status of the report and progress being made by officers to address identified issues.

3.3.2 There are currently a number of actions identified in audit reports for this period that have not yet been fully implemented. Many actions are in progress and some implementation timescales have been extended to accommodate operational issues identified by clients. These reports including a position/progress update statement are included at Section 3.2.4 of this report.

3.4 Internal Audit Performance Indicators

3.4.1 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 | Annual Target | Actual % Delivery to date |
|--|---------------|---------------------------|
| Percentage delivery of Internal Audit Plan 2019/20. | 90 | 68 |
| 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. | 90 | 100 |
| Percentage of internal audit reports issued within 10 days of the completion of fieldwork. | 100 | 100 |

3.4.2 There are currently no significant issues arising.

3.5 Internal Audit Developments

3.5.1 Continuous Improvement

3.5.2 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 is in operation 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:

- Ongoing development of risk management function and corporate risk register including the appointment of a Risk, Continuity and Compliance Manager from October 2019 reporting to the Chief Internal Auditor;
- Ongoing improvement of corporate counter fraud awareness across the Council as evidenced in Counter Fraud Update reports presented to this Committee and forthcoming publicity campaign;
- Ongoing development of the corporate business continuity function following the appointment of the Risk, Continuity and Compliance Manager reporting to the Chief Internal Auditor;

- Continued ongoing development of the Mersey Region Counter Fraud group led by Wirral Internal Audit to include more joint fraud exercises and training across the local region and the North West of England;
- Continuing development of the Wirral Assurance Map identifying areas of assurance for the Council for utilisation in audit planning and risk management process;
- Ongoing development of performance management and reporting database with enhanced reporting;
- Ongoing improvements to the audit reporting format;
- Development of Traded Services offer to Academy Schools for Internal Audit services and the subsequent purchase of the IA service by a number of prominent Academy Schools;
- Ongoing development of reciprocal arrangement with neighbouring authorities for audits of 'owned' non internal audit services
- Improvements to Maintained Schools audit provision through development of risk-based work programme;
- Ongoing development of client feedback through utilisation of survey monkey.

4.0 FINANCIAL IMPLICATIONS

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: STAFFING, ICT AND ASSETS

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.

10. ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The content and/or recommendations contained within this report are expected to:

Have no impact on emissions or CO2..

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APPENDICES

Appendix 1: Internal Audit Activity Summary

BACKGROUND PAPERS

Internal Audit Plan 2019/20

SUBJECT HISTORY (last 3 years)

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