



**COMMITTEENAME**

**Monday 25 January 2021**

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

**REPORT SUMMARY**

This report analyses and summarises the work of the Internal Audit Service for the period 1<sup>st</sup> November to 31<sup>st</sup> December 2020, identifying the significant impact of the Covid19 pandemic on scheduled audit work and includes an analysis of planned work for the remainder of 2020/21.

**RECOMMENDATION**

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 Chartered Institute of Public Finance Accountants (CIPFA) and the Chartered Institute of Internal Auditors (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 involves audit reports summarising audit work completed being presented to this Committee at scheduled meetings on a timely basis. Following the outbreak of the Covid19 pandemic scheduled normal routine planned audit work has had to be adjusted to accommodate a significantly changed operating environment as reported to this Committee in November 2020.
- 3.2 This report identifies some of the continuing impacts of the pandemic on the normal work of the team including the increased demands outside of the norm to address additional risks presented and the impact of this on routine planned work. This report therefore focusses on the following:
  - The ongoing impact of Covid19 on the Internal Audit Plan 20/21
  - Internal Audit Activity for the Nov - Dec 20 reporting period
  - Planned Internal Audit work for the remainder of the year
  - Any items of note arising from audit work undertaken that require action.
- 3.3. **Internal Audit Plan 20/21**
  - 3.3.1 The Internal Audit Plan for 2020/21 was reported to the Audit and Risk Management Committee in March 2020 and a revised plan following the arrival and impact of the Covid19 pandemic presented in November 2020 and endorsed by the Members for delivery during the remainder of the year.
  - 3.3.2 The pandemic has had a significant impact on the Internal Audit Service with many services across the Council unable to continue to deliver normally and many activities suspended. Consequently, many internal audits have had to be suspended with the team deliberately refocussing its activity towards supporting the corporate response to the pandemic, utilising its considerable expertise in governance, controls, and risk in the following areas:

- Supporting each of the governance cells established by the Council to oversee and manage corporate activity during the pandemic.
- Providing direct input to the development of processes and procedures and controls over systems implemented during the pandemic.
- Direct involvement in the control systems established for the payment of support grants during the pandemic.
- Evaluation of the threats posed by fraudsters and the subsequent development of a comprehensive publicity campaign.

3.3.3 In addition to the adjustments identified in the revised Audit Plan, the service has also looked at how it will deliver scheduled audit work for the remainder of the year. This has involved streamlining processes, procedures and work programmes as well as reducing the content and presentation of audit reports and supporting working papers to ensure that minimal resource is utilised on this activity and more time focussed productively upon actual review and testing. This type of operating does not fully comply with the requirements of the Public Sector Internal Auditing Standards so consequently will be a relatively short-term measure introduced for the duration of the pandemic and supported by the respective professional bodies during extraordinary circumstances.

#### 3.4 **Internal Audit Activity for the Nov to Dec 20 Reporting Period**

Internal Audit activity during the reporting period has been focussed in the following areas:

- 3.4.1 Continuing to support the governance cells established by the Council to oversee and manage corporate activity throughout the pandemic and designed to ensure that the Council's response was appropriate and proportionate and delivered regional and national schemes introduced to support both the public and local business, challenging activities where appropriate and providing active ongoing advice and guidance;
- 3.4.2 Providing direct input to the development of processes and procedures and controls over systems implemented to facilitate the delivery of various government schemes. Examples of this include Local Restrictions Support Grants and Track and Trace systems;
- 3.4.3 Evaluation of the threats posed by fraudsters and the subsequent development of a comprehensive publicity campaign designed to alert all stakeholders and the public to the risks and appropriate actions to take to mitigate.
- 3.4.4 An audit has been conducted of the Housing Benefit & Council Tax Support – Risk Based Verification Policy (RBV) as part of the revised Internal Audit Plan. The main aim of the audit was to evaluate the arrangements for the application of the RBV framework to ensure that the control environment is robust and provides management with reasonable assurance of compliance with the approved policy and guidance.

The review identified a number of areas to enhance the control environment in relation to compliance with approved policy that included undertaking a

comprehensive review of the continued utilisation of RBV and reporting outcomes to Members. The overall audit opinion was assessed as a 'Moderate' organisational risk and an action plan prepared and agreed with officers for implementation.

3.4.5 An audit assignment was undertaken during the period to sample test a number of actual decisions taken by the Council during the Covid19 pandemic to date, evaluating compliance with established procedures implemented and assessing the effectiveness of the supporting documentation utilised to undertake decisions. The conclusion and outcomes from this assignment were that from the sample of twelve key decisions examined from each of the cells all of the fundamental governance requirements were complied with, however a small number of procedural issues were identified, and actions agreed with senior management for implementation going forward. Further audit work of this nature is scheduled for the duration of the pandemic and whilst the operation of the emergency governance arrangements are in operation and all outcomes will be fed into the corporate lessons learnt exercise that is planned.

3.4.6 Audit work has been undertaken in the following areas and reports prepared identifying actions to improve arrangements in operation:

- Wirral Schools reviews against school's financial handbook
- Academy Schools - contracted work completed
- Horticultural Equipment – review of arrangements to prevent loss/theft

3.4.7 Scheduled audit work is currently underway in the following areas to evaluate and test the effectiveness of the control arrangements in operation:

- **Merseyside Pension Fund – Transfers Out:** The audit objective is to determine whether the controls within the risk areas for transfers out are robust and provide reasonable assurance that the associated financial transactions are valid and accurate.
- **Merseyside Pension Fund - Northern LGPS Custodian Arrangements:** Wirral Internal Audit Services have instigated the formulation of a working group representing the three pension funds that make up the Northern LGPS (Merseyside, Greater Manchester and West Yorkshire) that will meet regularly to exchange audit ideas and knowledge and undertake collaborative working. The first of these audits involves an evaluation of the arrangements in place over the use of the Northern Trust Bank as common custodian. The overall audit objective is to ensure that adequate systems and controls are in place to ensure that the risks are adequately controlled and minimised, so that the financial assets of the Northern LGPS are appropriately safeguarded.
- **Extended follow-up audits** in respect to the following reports to assess progress against agreed actions and to evaluate the current organisational risk within the system:
  - Capital Financing
  - Treasury Management
  - Insurance

- **Purchase Cards** - audit input as a member of a working group to the review and development of processes within the Council, reviewing existing procedural documentation and assisting in ensuring that streamlining and amending of existing arrangements maintained the necessary internal controls for a robust and secure financial control environment.
- **Wirral Growth Company: Creditors** – evaluation and appraisal of the payment system in operation including the sample testing of a range of ledger payments to prime data to ensure validity of payments, approval of supplier and appropriate authorisations of service delivery. This is the first of a number of scheduled audits at the WGC this year.

3.4.8 An audit is currently underway to examine and evaluate the effectiveness of the arrangements in operation to protect the Council from Cyber threats following recent incidents at Cleveland and Redcar and Hackney Councils. Research at these Councils and analysis of the nature of the incidents has allowed Internal Audit to develop a programme that will provide us with assurance regarding the effectiveness of arrangements in operation locally to combat this type of threat. These cyber-attacks resulted in system unavailability and in one Council staff were unable to use IT equipment for three weeks, thus impacting on services being provided to all stakeholders. Research at these Councils and analysis of the nature of the incidents has facilitated the development of a work programme that will provide us with some assurance regarding the effectiveness of arrangements in operation locally to combat this type of threat. In addition, we are also reviewing the Cyber Governance arrangements in line with guidance from the National Cyber Security Centre. Findings and conclusions from this piece of work will be included in a report to senior management including any required actions and summarised in the update report to this Committee.

### 3.5 **Planned Internal Audit Work for Qtr 4 of 2020/21**

3.5.1 The revised Internal Audit Plan as endorsed by this Committee in November 2020 includes targeted audit work aimed at evaluating the effectiveness of controls in operation in the following areas during the remainder of this quarter. Each piece of work has been identified for review based upon the significance of the risks presented in these areas and the corporate impact associated with failure of the control systems in operation. Each audit will culminate in a detailed report for senior management and identify any areas requiring attention/action and outcomes including progress updates be reported to this Committee:

- Cyber Security – Organisational review completion
- Wirral Growth Company – Governance and Financial Systems
- Business Grants - Post Assurance Checks
- Contract Procedure Rules Sample Compliance Testing
- Key Financial Systems utilising developed Covid19 programme
- Merseyside Pension Fund – Risk Management
- Financial Resilience – Budget Processes review
- Corporate Governance – Compliance Reporting
- Business Planning and Performance Management

- Information Governance – review of current arrangements
- Annual Governance Statement

### **3.6 Items of Note/Action**

3.6.1 There are currently no outstanding items that require escalation or action by this Committee.

### **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.

### **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 of CO2/greenhouse gases.

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### **APPENDICES**

None

**BACKGROUND PAPERS**

Internal Audit Plan 2020/21

Revised Internal Audit Plan – Nov 2020

**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. |