



## **AUDIT AND RISK MANAGEMENT COMMITTEE**

**Tuesday, 9 March 2021**

<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> January to 28 February 2021, 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**

The Audit and Risk Management Committee is recommended to 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 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 Jan – Feb 21 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, and as reported previously 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. Much of this activity has continued during the current reporting period:

- 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 response.

3.3.3 In addition to the adjustments identified in the revised Audit Plan, the service has also revised its approach to work being undertaken for the remainder of the year. As previously reported, 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 Jan to Feb 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 systems implemented to facilitate the delivery of various government schemes. Examples of this include Local Restrictions Support Grants and Track and Trace initiatives;
- 3.4.3 An extended follow up audit has been conducted of the Treasury Management system within the Finance Section of the Resources Directorate. The audit was completed determine the progress made in implementing the previously agreed audit recommendations and to re-evaluate the current organisational risk. This review identified that of the original seven recommendations, four had been fully implemented and three were still outstanding which has resulted in a moderate organisational risk. Progress with implementing the outstanding recommendations has been delayed due to the impact of the Covid19 situation on the Treasury Management function but assurances have been obtained that action will be taken and a new target date has been agreed. A further follow-up audit will be scheduled within the Audit Plan 2021/22.

3.4.4. Audit work has recently been completed to evaluate and appraise controls in operation over the Wirral Growth Company Payments systems 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. The audit report is currently being drafted and contains a number of actions to improve systems in operation in the following areas:

- Evidence trails for approvals;
- Access to payments records;
- Reconciliation of balance of partner costs.

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

- Two Wirral Schools reviews against school's financial handbook
- One Academy School - contracted work completed
- Mayors Charity Account – independent review

3.4.6. Scheduled audit work is continuing 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.
- **Key Financial Systems –** An audit programme has been developed in accordance with the best practice guidance issued by both CIPFA & CIIA as the method for reviewing the risks and impacts of the current Covid19 situation on the operation of the key financial systems. The audit objective is to determine the key impacts on the effective operation of the system emanating from the Covid19 situation and provide managers with reasonable assurance that the risks have been considered and mitigated where appropriate.
- **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:
  - CHEST Procurement System

- Capital Financing
- Insurance

3.4.7. As previously reported a Cyber Security 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 facilitated the development of a work programme that has allowed us to evaluate the effectiveness of arrangements in operation locally to combat this type of threat. Work in this area is concluding and the emerging findings indicate that the Council has some good controls in operation that are in line with current best professional practice, however it is also acknowledged that this particular threat is constantly evolving and becoming considerably more sophisticated and improvements to arrangements are required on an ongoing basis to combat this. It is recognised that the single greatest risk in this area to any organisation is its workforce and their awareness and understanding of the threats and their ability to respond properly. Internal Audit is currently working with colleagues in Digital to evaluate the audit findings to identify and implement actions to combat these risks that include enhanced procedures and effective completion of mandatory training. The outcome of these discussions will be captured within the audit report and action plan.

### 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, VAT Compliance, Benefits
- Client Finance Services – Covid19 impact assessment
- Financial Resilience – Budget Processes review
- Corporate Governance – Compliance Reporting
- Safeguarding Adults – Review and Testing
- Business Planning and Performance Management
- Information Governance – review of current arrangements
- Annual Governance Statement 2021

### 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.