



## **AUDIT AND RISK MANAGEMENT COMMITTEE**

**MONDAY 5 JULY 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> March to 31 May 2021, identifying the significant impact that the Covid19 pandemic continues to have on scheduled audit work and includes an analysis of planned work for the next quarter.

### **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 the 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, and updated in January and March 2021.
- 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 Service
  - Internal Audit Activity for the March – May 21 reporting period
  - Planned Internal Audit work for the next quarter of 2021/22
  - Any items of note arising from audit work undertaken that require action.
- 3.3. **Internal Audit Plan**
- 3.4 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. Updates on this were provided to Committee in January and March 2021 meetings.
- 3.5 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 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 with a slightly revised focus to accommodate the changing environment and the phased return to levels of normality and business as usual by some service areas:

- Supporting the revised governance operations established by the Council to oversee and manage corporate activity during this stage of the pandemic.
- Providing direct input to the development of processes and procedures and controls over systems implemented during the pandemic.
- Continued direct involvement in the control systems established for the payment of support grants during the pandemic and completion of post payment assurance checks.
- Evaluation of the threats posed by fraudsters and the subsequent development of a comprehensive publicity campaign.

3.6 In addition to the adjustments identified in the revised Audit Plan, the service has also revised its approach to work being undertaken for the immediate future. 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.

### 3.7 **Internal Audit Activity for the Mar to May 21 Reporting Period**

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

3.8 Continuing to support the revised governance arrangements established by the Council to oversee and manage corporate activity throughout the pandemic and designed to ensure that the Council's response remains appropriate and proportionate and delivers the many regional and national schemes introduced to support both the public and local business, challenging activities where appropriate and providing active ongoing advice and guidance;

3.9 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;

### **Key Financial Systems Covid19 Impact Reviews**

3.10 A generic audit programme was developed in accordance with the best practice guidance issued by both CIPFA & CIIA in order to review the risks and impacts of the Covid19 situation on the operation of the key financial systems. The aim of the programme was to identify the key risk areas for discussion with system managers.

The audit objective was to determine the key impacts on the effective operation of the system emanating from the Covid19 pandemic and provide managers with reasonable assurance that the risks have been considered and mitigated where appropriate. All the following systems have now been reviewed and actions agreed with the relevant System Managers which will be followed-up as part of the Internal Audit Plan for 2021/22:

Accounts Payable	Accounts Receivable
Benefits	Collection Fund
Income Control	Payroll
Client Finance Support Unit	Personal Finance Unit
Merseyside Pension Fund.	

### **Merseyside Pension Fund - Northern LGPS Custodian Arrangements**

- 3.11 The Northern LGPS (investment pool) was formed as a partnership between the Merseyside Pension Fund (Wirral Council), West Yorkshire Pension Fund (Bradford Council) and Greater Manchester Pension Fund (Tameside Council), in reaction to Central Governments, Local Government Pension Scheme Investment Reform Criteria and Guidance issued in November 2015. As part of the formation of the Northern LGPS, a procurement exercise was carried out to appoint a common custodial service provider. This exercise resulted in the appointment of the Northern Trust Bank as common custodial provider to the Northern NLGPS, an institution which was already being used for this purpose by Merseyside Pension Fund. The Audit Managers for each of the three Pension Funds, have formed a collaborative working group which now meet regularly, allowing for an exchange of audit ideas and knowledge. As part of this link up, there was a will to perform a collaborative piece of audit work to look at the arrangements which surround the use of the Northern Trust Bank as common custodian.
- 3.12 An audit was completed as part of the 2020/21 MPF Internal Audit Plan to ensure that the key risks associated with the systems and procedures with regard to the activities undertaken by the custodial provider, are appropriately addressed. The review identified that adequate systems and effective controls are in place to ensure that the financial assets of the Merseyside Pension Fund and Northern LGPS are appropriately safeguarded.

### **Merseyside Pension Fund – Transfers Out**

- 3.13 An audit has been undertaken of the Transfers Out system as part of the 2020/21 Internal Audit Plan at the request of the Head of Pensions Administration to ensure that the risks associated with this system are appropriately addressed. From the 6 April 2015, new pensions legislation came into effect, giving members of defined contribution (DC) schemes more flexibility in obtaining access to their pension savings. As the new flexibilities do not apply to defined benefit (DB) schemes, such as the LGPS, these changes have had the potential to increase the number of transfers from the LGPS, into DC schemes. The Pensions Regulator has issued guidance for transferring pensions from a DB Scheme to a DC Scheme. In 2019, the Pension Ombudsman dealt with a complaint from an LGPS member, who transferred their benefits out of the LGPS. The Ombudsman ruling was that the particular pension fund had failed to carry out appropriate due diligence before

transferring the member's benefits over, and as a result the pension fund was required to reinstate the member's accrued benefits and pay the member compensation for the distress and inconvenience caused. Further guidance has been issued by the LGA and the Pensions Regulator to ensure that Pension Funds have sufficient controls in place to prevent Members becoming the victims of pension transfer scams. During this current Covid 19 pandemic, there has been an increase in the number of scammers targeting individuals to transfer their benefits.

- 3.14 The audit objective was to determine whether the controls within the Transfers Out system are robust and provide reasonable assurance that the associated financial transactions are valid and accurate. The audit focused on the risk areas of: authorisation & supporting documentation; calculation; due diligence; regulatory compliance and potential scams. The review identified that overall a robust and effective control environment for the Transfers Out system that complies with regulatory requirements and an associated minimal risk of the Member / Fund being victim to an attempted pensions transfer scam.

### **Capital Financing**

- 3.15 An extended follow up audit has been conducted of the Capital Financing system within the Finance Section of the Resources Directorate. The original audit was completed in November 2019 and this audit was to determine the progress made in implementing the previously agreed audit recommendations and to re-evaluate the current organisational risk. The work identified that of the original five recommendations, one had been fully implemented, two partially implemented and two recommendations were still outstanding which has resulted in a moderate organisational risk rating. Progress with implementing the outstanding recommendations has been delayed due to the impact of the Covid19 situation on the function but assurances have been obtained that the necessary action will be taken and new target dates have been agreed. A further follow-up audit will be scheduled within the Internal Audit Plan 2021/22.

### **Cyber Security**

- 3.16 It is acknowledged that the Digital and Improvement Section have been under enormous pressure during the pandemic due to significant demands from the workforce for alternative and more agile ways of working combined with increasing requests for innovative solutions to delivery problems presented. As a result, Internal Audits ability to complete targeted work to evaluate the effectiveness of the Council's arrangements to combat enhanced cyber threats during the pandemic has been somewhat restricted. Audit work has however continued and is now nearing completion with emerging findings currently indicating that whilst there are a number of effective controls in place to protect the Councils network from cyber criminals who are constantly attacking it by using known and new innovative techniques, there are a number of areas that require development. The Council's network needs to be constantly monitored and reviewed which is currently being undertaken effectively, however reporting upon this is not currently as robust or effective as required. A number of recommendations in this area from a previous audit also remain incomplete and whilst understandable under the circumstances, have as a result had their priority rating increased and these actions reiterated to management and the Information Governance Board for implementation at the

earliest convenience. In our opinion one of the Council's biggest vulnerabilities, as with any other similarly sized public sector organisation is its users, either accidentally or maliciously, therefore we have recommended that additional attention should be focussed on ensuring that all Members and Staff complete the mandatory cyber security training as soon as possible and any risks associated with this are included on the service risk register and mitigated/managed appropriately.

### **Treasury Building Data Centre**

- 3.17 The Treasury Building is currently subject to a lease agreement, although remains the primary data centre for the Council's digital provision. The Data Centre houses servers that store all of the information about the Councils customers and financial transactions and is therefore highly sensitive and confidential, so it is imperative that it is secure. In addition, the digital kit in use at the centre has a financial value in the region of £2m.
- 3.18 Immediately prior to lease agreement being instigated Internal Audit undertook a site visit to the Data Centre to evaluate the effectiveness of the physical and environmental controls in operation that would remain in place after completion of the sale, including any additional measures planned. The audit has identified that whilst many operationally effective controls are in place improvements are required in a number of areas to ensure that the Councils data and physical assets remain robust and nine recommendations for implementation were agreed with management covering the following:
- Environmental protection controls
  - Physical security
- 3.19 Whilst Internal Audit have not conducted a follow up site visit at this time assurances have been provided by management that agreed actions have been undertaken and photographic evidence is being provided to support this.

### **Annual Governance Statement**

- 3.20 Work undertaken this quarter has included the annual review of the effectiveness of the Council's governance framework and drafting the Council's Annual Governance Statement (AGS) as the outcome of this review for 2020/21. Key elements of the review included:
- Completion of Governance Assurance Statements by each of the Council's Senior Leadership Team (SLT), with additional returns by the S151 and SIRO for their formal roles.
  - One to One discussions with each member of the SLT to gauge their views on progress and areas for improvement in respect of each of the seven principles in the CIPFA/SOLACE Framework for good governance.
  - Seeking updates from Directors in respect of actions taken for the Significant Governance Issues (SGIs) included in last year's AGS and actions planned in 2021/22 for SGIs identified in this year's annual review.
  - Review of Internal Audit work completed in the year.

- Consideration of any significant internal or external reviews of governance, including reviews by external audit and other review agencies / inspectorates as applicable.

The outcome of the annual review is set out in detail in the AGS, together with the overall assessment and is included elsewhere on the agenda for this meeting.

### **Liverpool City Council Best Value Inspection Report**

- 3.21 Following a request from the Chief Executive, Internal Audit are currently undertaking an exercise to identify the key action/learning points detailed in a report commissioned by the Secretary of State into the findings from Liverpool City Council's Best Value Inspection Report (LCC BVR) and to seek assurances regarding the robustness of Wirral Council's working arrangements, so that the Council can provide its stakeholders with assurances regarding the effectiveness of its systems and controls.
- 3.22 The LCC BVR focused on the Highways, Regeneration and Property Management functions and the following was identified during the review:
- Serious failings in both governance and practice in those areas of the council, subject to the inspection.
  - Major gaps in what would be normal documentary evidence to support the decisions and actions of the council at both member and officer level, particularly in Regeneration.
  - Insufficient resource at the top and in the corporate centre of the council to drive changes and embed them council-wide, given the recovery challenge.
  - A failure to demonstrate compliance with the statutory requirements with respect to 'Best Value' in the areas of the inspection.
  - The Highways service operating without a coherent business plan, direction or forward vision and a reluctance to make use of central procurement expertise and compliance with standing orders was poor.
  - The Property Asset Management service lacked senior direction and support to use property assets strategically to deliver sustainable regeneration projects in support of the corporate objectives of the council; and played a low-level role in property transactions.
  - Property disposals followed a "disappointingly familiar pattern" where the interests of the council were not always protected.
  - Both councillors and officers had a limited understanding of declarations of interest and hospitality registers.
  - There was a lack of appreciation of the Nolan principles and the requirements of the Members Code of Conduct.
- 3.23 Internal Audit developed a work template for this exercise that has subsequently been utilised across the region and has involved liaising with Senior Officers within Wirral Council to review findings and recommendations detailed in the LCC BVR relating to their area of operation and provide a response regarding the effectiveness of arrangements at Wirral Council, which Internal Audit subsequently challenged and tested as appropriate. Upon completion of this work a report will be

presented to the Chief Executive, relevant senior officers and Members as well as this Committee.

### **Planned Internal Audit Work for Qtr 1-2 of 2021/22**

3.24 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:

- Merseyside Pension Fund – Benefits Payable
- Wirral Growth Company – Governance and Financial Systems
- Business Grants - Post Assurance Checks
- 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
- Section 106 Compliance Arrangements review
- Schools / Academy Schools

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

3.25 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. This is mitigated by a robust system of follow up, reporting and escalation of audit matters.

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.

This is mitigated by comprehensive governance and reporting systems developed and implemented in compliance with relevant professional standards.

## **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.