



**AUDIT AND RISK MANAGEMENT COMMITTEE
MONDAY 27 SEPTEMBER 2021**

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 July to 31st August 2021. There are a number of 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

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 the Chartered Institute of Public Finance Accountants (CIPFA), the Chartered Institute of Internal Auditors (CIIA) as well as the Public Sector Internal Audit Standards (PSIAS).

2.0 OTHER OPTIONS CONSIDERED

- 2.1 No other options are considered appropriate as the Internal Audit Service is required to fully comply with the requirements of the PSIAS.

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 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 July to 31st August 2021.

3.2 Items of Note

Merseyside Pension Fund Benefits Payable

- 3.2.1 The Merseyside Pension Fund (MPF) Benefits Team calculate the retirement pension and lump sum payments following receipt of a request to process a benefits crystallisation event satisfying the choices made by the retiree. An audit has been undertaken of the Benefits Payable system as part of the Internal Audit Plan to ensure that the key risks associated with the system are appropriately addressed. The audit objective was to determine whether the controls within the risk areas for retirement benefit and new payroll payments are robust and provide reasonable assurance that the associated financial transactions are valid and accurate. The audit focused on the risk areas of audit trails, data accuracy and associated calculations for lump sum and recurring payroll payments. The audit methodology

also included detailed compliance testing on a sample of retirement cases selected from the 2020/21 financial year, to evaluate the effectiveness of the identified key controls. This testing was undertaken in a manner to support the co-operative arrangement with the external auditors for MPF, Grant Thornton. The review identified that there is an effective system that provides an audit trail from the request to process a benefit crystallisation event through to the retirement benefits calculation and payment. Reasonable assurance can also be provided that the immediate and recurring financial transactions for the sample tested are valid and accurate. One recommendation was agreed with management to maintain the effective control environment.

Merseyside Pension Fund – Complaint Referral

- 3.2.2 Internal Audit were commissioned by the Director of MPF to undertake a review of the handling of the pension for a member who had submitted a formal complaint to the Chief Executive. The objective of the audit was to review the complaint in order to determine if there was substance to the issues raised and to identify any associated actions required. An internal review by MPF officers had identified a number of issues in processing the member's pension and these were supported by the findings of the audit. Consequently, further resources, training, some revised processes and a number of audit recommendations have been introduced by the Director of Pensions to strengthen the control environment in the relevant areas. Follow-up audit work has subsequently confirmed that all of the necessary actions have now been effectively implemented.

Adult Safeguarding

- 3.2.3 Audit work on Adult Safeguarding is currently concluding and emerging findings indicate that satisfactory assurances have been provided regarding information input and maintenance within the relevant data systems, record-keeping and the establishment and monitoring of key performance targets. Further clarification is being sought concerning the level of reporting to Wirral Council officers regarding specific outcomes of safeguarding referrals, where a provider of care has been investigated and found liable or partially liable in relation to the safeguarding concern raised.
- 3.2.4 This audit work will be reported to relevant senior managers upon satisfactory clarification of this remaining outstanding issue and appropriate actions agreed to address any issues identified. Follow up audit work will be undertaken to ensure that agreed actions are implemented in a timely fashion and the outcome of this work reported to this Committee.

Wirral Growth Company - Governance

- 3.2.5 Internal Audit are currently finalising an audit of the governance arrangements in operation at the Wirral Growth Company (WGC), evaluating the effectiveness of the arrangements in operation and the robustness of the controls. The work has involved liaising with Local Partnerships who have provided the commissioned consultancy work on the WGC, plus discussions with Council and Muse officers regarding the development and operation of the Partnership. Testing has involved reviewing reports, plans and handover documents and their communication and approval

within the governance framework. As the formal Site Development Plan has recently been approved, further audit work on business plan reviews, timescales, funding and planned outcomes will now also commence.

- 3.2.6 The key issues arising from the governance review to date, covering both the Local Partnerships and Internal Audit assessments, include the following:
- Linking the objectives of the WGC to the Council's strategic objectives for the regeneration of the Borough.
 - Refreshing of the WGC performance reporting arrangements, including updating the business plan.
 - Client/shareholder board providing oversight of decisions requiring Council approval.
 - Continued marketing strategy to ensure demand for commercial, residential, and multi-use developments.
 - The strategy for creating a social value plan with our partner and the main contractor.
 - Any red rated items from the Programme and Projects risk registers being regularly updated to SLT.

- 3.2.7 Upon completion of the work a report identifying areas for action will be produced and the outcomes including agreed actions will be reported to this Committee.

Planning Services – Section 106

- 3.2.8 An audit review was conducted of the Section 106 (S106) Monies system. This is the system whereby legal agreements are made between Local Authorities and developers; these are linked to planning permissions and can also be known as planning obligations. The objective of the audit was to assess the adequacy and effectiveness of the internal controls in operation within the system.
- 3.2.9 The audit identified a number of risks within the system where controls were not deemed to be adequate to manage the risks effectively. These included a lack of a comprehensive and effective system for recording S106 monies and insufficient policies and procedures for managing and delivering on S106 agreements.
- 3.2.10 Internal Audit were made aware during the review of the Planning Sections intention to implement a new automated system for managing S106 finances in January 2022 and this should address many of the issues identified. In the interim a number of actions have been agreed with management to improve the overall controls in operation.
- 3.2.11 Follow up audit work is scheduled for February 2022 and progress towards the implementation of actions will be assessed and reported to senior management and this Committee.

Corporate Governance Group

- 3.2.12 The Corporate Governance Group (CGG) is made up of key members of the Senior Leadership Team and senior officers with particular responsibility for the oversight of

governance and risk management. The group oversees the Council's governance systems and processes for their effectiveness in practice, keeping them under review to ensure that they are up-to-date, and implementing appropriate monitoring and reporting. Key activities of the CGG include overseeing the preparation of the AGS, including monitoring the progress with the Significant Governance Issues reported in the AGS, and overseeing and monitoring progress with key compliance issues, including providing necessary challenge to senior officers as needed. The CGG is chaired by the Director of Resources. Audit and Risk leads make a significant contribution to the group; this includes taking the lead for agenda planning, working closely with the Chair, action tracking and progress reporting. A report on the role and activity of the CGG will be reported to the ARMC twice yearly, with the first report to the November 21 ARMC.

LCC Best Value Inspection Issues

- 3.2.13 An audit review has been undertaken 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 (LCC) - Best Value Review (BVR) at the request of the Chief Executive, to seek assurances regarding the robustness of Wirral Council's working arrangements. The LCC BVR focused on the Highways, Regeneration and Property Management functions and it was found that there were serious failings in both governance and practice in those areas of the LCC, subject to the inspection.
- 3.2.14 The objective of the audit review was to obtain assurance from Senior Officers regarding the effectiveness of arrangements at Wirral Council, relating to the findings and recommendations detailed in the LCC BVR and undertake targeted testing. The audit review identified that there are 22 actions required across the Council (WBC), many of which are either currently in the process of being implemented or have already been identified by the service area and are in the planning/development stages. Although the actions required do not pose a significant threat to the authority, they will increase the robustness and effectiveness of current systems/operations already in place, once fully implemented and should prevent any instances occurring, such as those significant issues experienced at LCC.
- 3.2.15 A report summarising the work completed and identifying the findings has been prepared and discussed with the Chief Executive and arrangements are being put in place to oversee progress on the implementation of all actions identified.

3.3 **Audit Recommendations**

- 3.3.1 All of the actions identified in audit reports for the period have been agreed with management and are being implemented within agreed timescales. The current BRAG status for these items are currently classified as amber or green as a consequence. Internal Audit will continue to monitor progress and report any slippages to senior management via the Power Bi dashboard on a monthly basis. Any significant items outstanding beyond agreed timescales and without sufficient mitigations will be reported to this Committee for any appropriate actions to be taken.

3.3.2 There are a number of historic actions from previous audit reports that remain outstanding as a direct consequence of delays experienced as a result of the Covid pandemic and its impact upon resources in some areas. These items are currently being discussed with management and revised timescales agreed as appropriate. If any of these items remain outstanding beyond these timescales then the escalation process will entail them being reported to this Committee for attention and action.

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. This is particularly important at present as the service returns to a normal level of operations following the disruptions caused by the Covid pandemic and the continued agile working:

IA Performance Indicator	Annual Target	Actual % Delivery to date
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 14 days of the completion of fieldwork.	100	100

3.4.2 There are currently no significant issues arising.

3.5 Internal Audit Planned Work for Qtr 3-4 2021/22

3.5.1 The revised flexible Internal Audit Plan as endorsed by this Committee and following disruptions arising from the Covid Pandemic 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 will be reported to this Committee:

- Personal Budgets – Children and Young People Department
- Business Grants - Post Assurance Checks
- Financial Resilience – Budget Processes

- Corporate Governance – Compliance Reporting
- Business Planning and Performance Management
- Information Governance
- Wirral Growth Company
- Contract Management
- Health and Safety
- SmartBusiness Project (ERP)
- Regeneration Projects
- Merseyside Pension Fund
- Climate Emergency Arrangements
- Local Plan
- Counter Fraud Initiatives

3.6 Internal Audit Developments

3.6.1 Continuous Improvement

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:

- 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;
- 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.

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 are 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 2021

SUBJECT HISTORY (last 3 years)

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