

APPENDIX 1

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| REPORT TITLE: | INTERNAL AUDIT UPDATE |
| ACTIVITY SUMMARY – 1 MARCH TO 31 MAY 2023 | |

1 Items of Note

1.1 Merseyside Pension Fund: Investments – GLIL Infrastructure Portfolio

1.2 GLIL was established in 2015 by Greater Manchester Pension Fund and the London Pensions Fund Authority to invest directly in infrastructure assets with a focus on the UK. In December 2016, Lancashire County Pension Fund, Merseyside Pension Fund and West Yorkshire Pension Fund were admitted as members of GLIL. Further changes to GLIL Infrastructure were made in 2018 to facilitate wider participation moving to an open-ended fund allowing admission of new members. GLIL is categorised as an Alternative Investment Fund (AIF) with Local Pensions Partnership Investments appointed as the AIF Manager and is authorised and regulated by the Financial Conduct Authority. Management is undertaken by the partners with four directors appointed by the four partners and a transaction team made up of staff seconded from the four partners. Current GLIL figures report committed capital is at £3.6 billion, of which £2.1 billion is currently deployed across 14 diverse assets.

1.3 The Audit Managers from the Administrative Councils, (Wirral, Bradford & Tameside) for each of the three Pension Funds within the Northern LGPS Pool, (Merseyside, West Yorkshire & Greater Manchester) have completed a collaborative review of GLIL from the perspective of each Fund. The review has identified that sound systems and effective controls are in place to provide reasonable assurance that GLIL investment operations for the Merseyside Pension Fund comply with approved strategy, policies, and procedures in respect to the following risk areas: Governance; FCA Regulation / Investment Guidelines; Due Diligence; Fraud; Transactional Activity; Income; Valuation; Performance Monitoring, (including Task Force on Climate Related Financial Disclosure); and Data Integrity / Business Continuity.

1.4 Merseyside Pension Fund – Treasury Management

An audit was completed this period to determine whether the controls within the Treasury Management function are robust and provide reasonable assurance that the associated transactions are performed in accordance with agreed policies and guidance. The audit focused on the key risk areas identified in 'CIPFA's Treasury Management in the Public Services: Code of Practice' as adopted by the Fund and assessed the adequacy and effectiveness of the associated controls. The audit included compliance testing on a sample of daily cash flow reconciliations selected from the 2022-23 financial year and decisions made in relation to counterparty deposits, to evaluate the effectiveness of the identified key controls.

1.5 Overall the findings indicate that the controls within the Treasury Management system are robust and the associated transactions are performed in accordance with

agreed policies and guidance. However, the review did identify areas where the existing controls could be strengthened further and a number of low priority audit recommendations have been agreed with the relevant Officers at the Fund. Effective implementation of these recommendations will be verified during the scheduled follow-up audit.

1.6 Annual Governance Statement

1.7 During the reporting period the team has been directly responsible for completing the annual Corporate Governance review that includes targeted work to evaluate the effectiveness of arrangements in accordance with the CIPFA/SOLACE Delivering Good Governance in Public Sector publication. The key elements of this include:

- Completion of Governance Assurance Statements by SLT Directors,
- 121 meetings with all Directors,
- Review of governance issues raised in external/internal assurance reports and audit work completed in-year
- Preparing the draft Annual Governance Statement
- Supporting the Council's Corporate Governance Group
- Input to revision of the Code of Conduct for Employees

1.8 This work has culminated in the production of a list of potential items for inclusion within the annual governance statement for consideration by the Strategic Leadership team and the subsequent production of the draft statement.

1.9 Agency Workers Contract

1.10 An audit is currently concluding on the agency workers contract with Matrix, with audit activity focussing on the utilisation and management of this key corporate contract, evaluating the effectiveness of control arrangements in place. Findings will include comment on corporate activity outside of this contract, the actual formalisation of the contract extension arrangements with Matrix, and the receipt and distribution of relevant performance information to effectively manage this contract. As the current contract expires in May 2024 it is important to commence a recommissioning exercise imminently rather than delay and be compelled to extend the existing contract for another year, as is an option in the current contract terms. A report is currently being finalised for senior management that will include a number of actions to be undertaken including consideration as to whether this option remains the most effective way of meeting the Council's resourcing needs in this regard. A further update on this will be reported to the next meeting of the Audit and Risk Management Committee and include actions agreed with management and identify any progress made.

1.11 Health and Safety

1.12 Internal audit work reported to this Committee in March 2023 identified key recommendations concerning the management of risks identified in health and safety audit reports on services across the Council, the timeframes for the responses to these reports, and the process to confirm satisfactory vetting of any onsite contractor prior to commencement of works. It is acknowledged that corporate

management have recently refreshed the Health and Safety Board with more senior leadership attendance, regular scheduled meetings and confirmed reporting lines which should further develop and enhance existing arrangements, building on improvement actions that have been taken in recent years. The operation of this process and its outcomes will form part of the internal audit follow up work on health and safety scheduled for later in the year, the outcomes of which will be reported to this Committee upon completion.

1.13 Liquidlogic System – Access Controls

1.14 A review of the access controls within the Liquidlogic (children’s) system was undertaken and a number of recommendations identified to improve the control environment and reduce the risk of unauthorised access. The findings and recommendations are currently being discussed and agreed with Senior Management but identified that an access control policy outlining user’s roles & responsibilities needs to be developed and disseminated, and that user access should be monitored on a routine basis to ensure that only authorised personnel have access to the system. The use of multi-factor authentication (MFA) should be explored as the Liquidlogic system is not covered by the corporate MFA settings for Microsoft applications. Additionally, the Business Continuity Plan requires retesting once it has been updated. Further follow up audit work will be undertaken later in the year to evaluate progress and test the effectiveness of the revised arrangements and this will be reported back to this Committee.

1.15 Covid Business Grants – Post Assurance Testing

1.16 Internal Audit completed a Covid-19 Business Grants Post Assurance review in May 2023, to ensure that grants awarded by the Council to businesses during the pandemic were in accordance with the Government eligibility criteria. Of the 35 cases examined during the audit review, evidence/assurance was provided in all cases to confirm that the grant payment was made correctly. This suggests that the comprehensive eligibility testing programme implemented by the Council prior to payment was effective in preventing and detecting potential frauds. Two minor findings were identified in relation to the retention of supporting evidence for grant applications, which resulted in one low priority recommendation.

1.17 The audit review also found that the Council achieved its primary objective to deliver financial support to businesses quickly during the COVID-19 pandemic. Working with BEIS, the Council paid £104,264,847 to businesses in two years. The Council acted quickly and implemented robust pre-payment checks, to ensure financial support was delivered correctly. This is reflected in the percentage of fraud and error identified across all business grant schemes which was £657,216 (0.6% value of fraud and error as a % of all spend).

1.18 The Council has recovered £488,208 and has referred £97,545 to the Department for Business and Trade, for transfer of the debt and consideration of further recovery action by Central Government. The remaining cases totalling £71,463 are either in the process of being recovered (i.e. have set up payment arrangements) or the Council is taking steps in accordance with Central Government guidance to pursue recovery.

- 1.19 Oracle Fusion (ERP)
- 1.20 Internal Audit have continued to support the implementation of the Oracle Fusion system, attending the Project Board meetings to advise on required controls and the management of identified risks, as well as providing direct ongoing challenge to the Project Team and Cutover sessions to ensure that Internal Audit were kept aware of progress and delivered appropriate advice and guidance as required.
- 1.21 During the current reporting period the team have been attending a number of applications walk through sessions and developed a program of tests to be performed during user acceptance testing to ensure that the system operated in a controlled environment and provided the assurance information that was expected as part of this detailed testing. The project focus is now on the Merseyside Pension Fund implementation and the team will continue to provide similar support and challenge as detailed.
- 1.22 Revenues and Benefits – Counter Fraud Activity
- 1.23 Allegations that fraudulent activity has taken place regarding the payment of benefits are regularly received by the Council. From this year these are reviewed by Internal Audits Counter Fraud team on an ongoing basis to establish if there is a potential loss or criminal offence that can be identified as being committed against the Council. Once this has been established an investigation will commence and culminate in the recovery of any financial losses and the application of appropriate sanctions being taken.
- 1.24 During the period the team have completed 67 reviews into fraud allegations received. These allegations relate to Housing Benefit, Council Tax Support, Discretionary Housing Payments, Direct Payments, Council Tax Discounts & Exemptions, etc.
- 1.25 The tables below represent the types of allegations leading to investigations concluded during this period and the financial savings identified.

| Result Type | Number | Value |
|--------------------------------------|-----------|-------------------|
| Housing Benefit | 3 | £13604.90 |
| Council Tax Support | 5 | £4825.11 |
| Council Tax Discounts | 4 | £4358.21 |
| New Council Tax Liability Identified | 1 | £6590.10 |
| Administration Penalty | 1 | £415.02 |
| Total | 14 | £29,793.34 |

2. Audit Recommendations

- 2.1 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 continue to monitor progress and report any slippages

to senior management and the Operational Performance Group 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. Internal Audit Performance Indicators

3.1 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:

| 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 | 95 |

3.2 There are currently no significant issues arising.

4. Internal Audit Planned Work Qtr 2 23/24

4.1 Audit work is currently being delivered in accordance with the Internal Audit Plan for 2023-24. 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. Work identified for the next quarter includes the following:

- Financial Resilience – Budget Processes
- Wirral Growth Company – BCD Contract Management
- Schools Audits
- Adults - Direct Payments
- Integrated Care System Implementation
- EVR Implementation
- Social Workers Transfer
- HB Subsidy Claim
- Direct Payments
- Business Rates
- Counter Fraud

5. Internal Audit Developments

5.1 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 developments involving the Mersey Region Counter Fraud group led by Wirral Internal Audit,
- 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 via a real time dashboard for Members,
- Ongoing development of reciprocal arrangement with neighbouring authorities for audits of 'owned' non internal audit services.