

**SUBJECT: INTERNAL AUDIT SECTION  
Outturn Report 2019/20**

**DIRECTORATE: Resources**  
**MEETING: Audit Committee**  
**DATE: September 2020**

**DIVISION/WARDS AFFECTED: All**

## 1. PURPOSE

To receive and consider the Annual Internal Audit Outturn Report for 2019/20.

## 2. RECOMMENDATION(S)

That the Audit Committee endorse the Outturn Report.

## 3. KEY ISSUES

3.1 The Chief Internal Auditor has to give an overall opinion on the adequacy of the internal control environment operated within the systems and establishments of Monmouthshire County Council.

3.2 The audit opinions issued reflect the level of assurance obtained; these are shown at Appendix B. 29 audit opinions were issued during 2019/20 ranging from Substantial to Limited. The overall opinion was **Reasonable**, which indicates *the systems were adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.*

3.3 9 reviews were given **Limited** assurance.

3.4 The Internal Audit team achieved 77% of the agreed 2019/20 audit plan against a target of 82%. The achievement of the plan was affected by Covid -19.

## 4. REASONS

4.1 Monmouthshire County Council, as a local government organisation, is subject to The Accounts and Audit (Wales) Regulations 2014 and

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therefore has a duty to make provision for internal audit in accordance with the Local Government Act.

- 4.2 Internal Audit is an independent function established by the management of Monmouthshire County Council to provide an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 4.3 In line with the Public Sector Internal Auditing Standards, the Chief Internal Auditor should present a formal annual report to the Council which gives an opinion on the overall adequacy and effectiveness of the Council's internal control environment. The Standards require an external review of Internal Audit to be completed at least every five years. At the latest review during 2017/18 the Internal Audit team were independently assessed against these standards and were found to be compliant.
- 4.4 This is the Internal Audit Annual Report.

## **5. RESOURCE IMPLICATIONS**

None.

## **6. CONSULTEES**

Chief Officer Resources

## **7. BACKGROUND PAPERS**

Annual Outturn Report 2019/20 - attached  
Operational Audit Plan 2019/20  
Strategic Audit Plan  
Public Sector Internal Auditing Standards

## **8. AUTHOR AND CONTACT DETAILS**

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**INTERNAL AUDIT SECTION  
ANNUAL OUTTURN REPORT  
2019/20**

**YEAR ENDED 31st MARCH 2020**

**Date: July 2020**

## **1. Introduction**

- 1.1 Monmouthshire County Council, as a local government organisation, is subject to The Accounts and Audit (Wales) Regulations 2014 and therefore has a duty to make provision for internal audit in accordance with the Local Government Act.
- 1.2 The Regulations state that the Responsible Finance Officer (S.151) of the organisation shall maintain an adequate and effective internal audit of the accounts of that organisation and its systems of internal control. Internal Audit undertakes this role on behalf of the S.151 Officer. Internal Audit is seen as an independent function established by the management of Monmouthshire County Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of resources.
- 1.3 In line with the Public Sector Internal Auditing Standards, the Chief Internal Auditor should present a formal annual report to the Audit Committee which gives an opinion on the overall adequacy and effectiveness of the Council's internal control environment. The annual report should also:
- a. disclose any qualifications to that opinion, together with reasons for the qualification;
  - b. present a summary of the audit work undertaken to formulate the opinion;
  - c. draw attention to any issues the Chief Internal Auditor judges particularly relevant to the preparation of the annual governance statement (to be reported separately);
  - d. compare the work actually undertaken with that planned and summarise the performance of the internal audit function against its performance measures and criteria; and
  - e. comment on compliance with these standards and communicate the results of the internal quality assurance programme.
- 1.4 This report is the Annual Internal Audit Report which meets the requirements of the Standards. It provides the overall audit opinion for Members on the internal controls operating within the County Council and provides a summary of the work completed during the year, identifying key findings and outcomes from the work undertaken. It also outlines the performance of the Internal Audit team during the year against agreed pre-set targets.

- 1.5 The internal controls operating within the Council are of a complex nature, reflecting the organisational arrangements. Internal Audit plans its work to address the major risks that the Authority faces. That work is not designed to check the work of others but to comment on the controls in place to protect the Council from loss of assets or inefficient operations, whatever the cause.
- 1.6 The objectives of the Section for the year were: -
- (a) To deliver an internal audit service in accordance with the Public Sector Internal Auditing Standards and meeting statutory requirements;
  - (b) To undertake risk-based assessments of the Authority's internal control environment and hence contribute to the Annual Governance Statement;
  - (c) To maintain and enhance the audit involvement in all areas as an aid to good financial stewardship;
  - (d) To assist external audit in forming their audit opinion as part of the Managed Audit arrangements;
  - (e) To assist the Senior Leadership Team in the improvement process and to review the Performance Indicators contained in Monmouthshire County Council's Improvement Plan.

## **2. Audit Opinion**

- 2.1 In 2019/20, based on the planned work undertaken during the year, overall, the systems and procedures in place were adequately controlled, although risks were identified which could compromise the overall control environment; improvements are required. The opinion definitions are noted at Appendix A.
- 2.2 The overall audit opinion for the internal controls operating within the Council in 2019/20 was **Reasonable**:

The Internal Audit team has completed its internal audit work for the year based upon the Operational Audit Plan approved by the Audit Committee in June 2019. The Plan was designed to ensure adequate coverage over the Council's financial and operational systems using a risk based assessment methodology.

The audit work included reviews, on a sample basis, of each of these systems/establishments sufficient to discharge the Authority's responsibilities for Internal Audit under section 151 of the Local Government Act 1972 and The Accounts and Audit (Wales) Regulations 2014. The opinion is based upon the work undertaken. Work was planned in order to provide sufficient evidence to give me reasonable assurance of the internal control environments tested.

Based on the planned work undertaken during the year, in my view the internal controls in operation are **Reasonable; Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.**

The opinion expressed relates only to the systems and areas reviewed during the year.

Andrew Wathan  
Chief Internal Auditor  
June 2020

- 2.3 On undertaking audit reviews in accordance with the Annual Audit Plan, an opinion is given on how well the internal controls of the system or establishment are operating. Internal audit reports provide a balanced view of the controls in place. The opinion is determined by the number of strengths and weaknesses identified during the course of the review and the risk rating and priority given to each. Each audit review undergoes a comprehensive review process by the Audit Manager and occasionally the Chief Internal Auditor before the draft report is sent out to management. The controls are generally measured against a predetermined matrix of expected internal controls for each system; for fundamental systems these are usually derived from CIPFA.
- 2.4 The overall opinion has been compiled from individual audit reviews undertaken during the year [see Appendix B].

<b>Audit Opinion</b>	<b>2017/18</b>	<b>%</b>	<b>2018/19</b>	<b>%</b>	<b>2019/20</b>	<b>%</b>
Substantial	2	5	2	6	2	7
Considerable	13	32	11	34	11	38
Reasonable	17	43	13	41	7	24
Limited	8	20	6	19	9	31
	40	100	32	100	29	100
<b>Overall Opinion</b>	<b>Reasonable</b>		<b>Reasonable</b>		<b>Reasonable</b>	

2.5 Managers within directorates need to ensure that robust internal controls are in place and adhered to in order to ensure that the systems in operation run efficiently and effectively and the scope for misappropriation, theft or error is minimised. Heads of Service have a responsibility to ensure that the Council's Financial Procedure Rules and Contract Procedure Rules are complied with at an operational level. Staff should be made aware of these and the requirements therein and the consequences of non-compliance.

### **3. Extent of Coverage**

3.1 It is considered that adequate audit coverage was provided to all service areas.

3.2 Overall, whilst not all planned audits were carried out, the actual number achieved is considered acceptable in view of the relative risk and priorities of other audit needs.

### **4. Audit Coverage**

4.1 The full list of audit reviews completed by the Section during the year is shown in the attached Appendix B, together with the relevant internal control opinion awarded recorded for each audit.

4.2 Control opinions range from Substantial to Limited in accordance with the definitions shown in Appendix A.



4.3 Audit reviews concluding with a control opinion of limited assurance are routinely reported (in summary form) to the Audit Committee. For 2019/20 there were 9 **Limited** opinions:

- i. Llandogo Primary School
- ii. Castle Park Primary School
- iii. Shire Hall
- iv. Tintern Old Station
- v. Caldicot Castle Follow-up
- vi. PTU Vehicle Maintenance
- vii. Procurement (Food) Follow-up
- viii. Direct Payments
- ix. Business Continuity \*

\*Business Continuity was in draft as at 31/03/20 and was given a **Limited** opinion; following further discussions and information provided the audit opinion changed to a **Reasonable** level of assurance.

4.4 Details of why these audit reviews resulted in limited assurance being given will be presented to Audit Committee separately.

4.5 The report format simplifies the outcome of the audit process and gives operational managers a clear indication of the audit opinion following the audit review. The audit opinions provide a level of assurance and are colour coded in line with the traffic light system (Appendix A).

## 5. Non-Audit Duties

5.1 The team now has a minimal involvement with controlled stationery, although still administers the imprest account process.

## 6. Fraud, Irregularity and Special Work/Investigations

6.1 During the year the Section undertook unplanned or special work, including the investigation of suspected fraud, irregularities and non-compliance:

Conflict of interest / Moonlighting / T&S Fraud
Grant payment fraud
Unauthorised payroll transactions

## **7. Training**

- 7.1 During the year a number of staff attended external courses / webinars on a variety of topics to ensure continued professional development. Currently 2 of the team are being supported through their professional Internal Audit qualifications; 1 successfully qualified during the year.
- 7.2 The Section also participates in a number of local audit groups including the Welsh Chief Auditors' Group and respective sub groups.
- 7.3 Management fully support the development and training of the audit staff and will continue to send staff to appropriate seminars/courses etc., to maintain an awareness of technical and legislative developments and to support user groups within the area in order to provide a more effective service. This will be beneficial on a personal and professional level.

## **8. Audit Team Performance**

- 8.1 To ensure a quality Internal Audit service is provided, the Section uses a range of performance indicators which it compares with other Welsh authorities via the Welsh Chief Auditors' Group.
- 8.2 As shown at Appendix D, the performance of the audit team during 2019/20 was good in that the team achieved 77% of the agreed plan against a target of 82%. One member of the Team was away on maternity leave from late November 2019 and hence the available staffing resources were reduced. In addition, the impact of Covid-19 in March 2020 was such that the audit plan could not be completed as intended; operational managers had to re-prioritise their work to deal with the pandemic which meant they were not always available to respond to internal audit queries.
- 8.3 Excluding finalisation work from 2018/19, 88 audit jobs were planned for 2019/20; 68 jobs were completed to at least draft report stage. [Not all jobs in the plan would warrant an audit opinion eg financial advice, Annual Governance Statement, NFI, external work, grant claims]. Productive audit days planned for the year amounted to 908; actual days charged were 820. Again the maternity leave absence was the key reason for this variance.
- 8.4 As a measure of the quality of the work produced, the Section was able to report that 98% of its recommendations were accepted by the relevant client managers. [This does not take into account reports that were in draft at year end]. The percentage of previously agreed recommendations which had been implemented or partially implemented will be reported later in the year.

- 8.5 Getting audit reports out to clients in a timely manner is a key aspect of maintaining relationships and ensuring control weakness are addressed at an early stage. As a result of management involvement with significant special investigations and unplanned work throughout the year, the team did not do as well as expected in getting reports out to operational managers. Priority will be given to more timely issue of reports in 2020/2021
- a. Final reports were sent out 20 days following receipt of management comments, against a target of 5 days.
  - b. Draft reports were sent out to clients 26 days after the completion of the audit work against a target of 17 days.
- 8.6 Of the audit evaluation questionnaires which were returned by operational managers, 100% were satisfied with the audit service they had received although it is recognised that timeliness of reporting needs to improve. The feedback received also gave an indication of the added value of undertaking audits across all directorates; examples of which are shown at Appendix E.

## **9. Conclusions**

- 9.1 It is considered that, over the course of the financial year, the objectives of the Section (as stated in paragraph 1.6) have been met.
- 9.2 The reporting procedures for all areas of the Section are now well established. Working practices are updated as a matter of course to underpin the quality of work undertaken. Team meetings are held on a regular basis to ensure all staff are kept aware of new developments.
- 9.3 The Section's management maintained a continuous review process throughout the year to ensure that the highest risk areas were targeted and the Section's Operational Plan for 2019/20 was also designed to ensure that any priority areas outstanding would be covered in the next financial year.
- 9.4 The objective of the Internal Audit team is to provide assurance to Management and Members of the adequacy of the internal control environment, governance arrangements and risk management processes within Monmouthshire. Reduced audit staff resources leads to less coverage across the services provided by the Council which limits the assurance that can be given. In addition the team becomes less flexible in its ability to undertake special investigations in response to allegations of fraud, theft or non compliance.
- 9.5 The Chief Internal Auditor will have to monitor the situation closely and use a range of options to ensure appropriate audit coverage is provided. Although demands on the resources are increasing, the Chief

Internal Auditor is confident that adequate and appropriate coverage will be provided throughout the Council; prioritisation may be required.

- 9.6 Finally, the support of all audit staff as well as senior management must be acknowledged in helping to continue to provide a comprehensive and valuable service to the Authority.

## Definitions of Internal Audit Opinions Used

LEVEL OF ASSURANCE	DESCRIPTION
SUBSTANTIAL	Very well controlled, with numerous strengths identified and any risks being less significant in nature.
CONSIDERABLE	Generally well controlled, although some risks identified which should be addressed.
REASONABLE	Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.
LIMITED	Poorly controlled, with unacceptable levels of risk. Fundamental improvements required urgently.

## Audit Opinions

<b>Overall Opinion</b>	<b>2019/20</b>	<b>Reasonable</b>
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## Summary

Substantial	2
Considerable	11
Reasonable	7
Limited	9
Total Opinions	29
Unqualified	4
Qualified	1

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Finalised at 31-3-20	Opinion given
P1920/28	Enterprise	Policy & Governance	National Performance Indicators	Medium	Finalised	Substantial
P1920/55	Resources	Finance	Bank Reconciliations	Medium	Draft	Substantial
P1920/07	Children & Young People	Schools	Caldicot School	Medium	Draft	Considerable
P1920/08	Children & Young People	Schools	Ysgol Y Fenni	Low	Finalised	Considerable
P1920/13	Children & Young People	Schools	Cantref Primary School	Low	Draft	Considerable
P1920/24	Enterprise	Tourism, Leisure & Culture	Youth Service Follow-up	Medium	Finalised	Considerable
P1920/47	Resources	People	Payroll	Medium	Draft	Considerable
P1920/48	Resources	People	Term Time Working - new contractual arrangements	Medium	Finalised	Considerable
P1920/52	Resources	Finance	Creditors 2018/19	Medium	Finalised	Considerable
P1920/53	Resources	Finance	Cashiers	Medium	Draft	Considerable

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Finalised	Opinion given
P1920/76	Social Care & Health	Social Services Finance Unit	SCH Debtors	Medium	Draft	Considerable
P1920/78	Corporate	Cross Cutting	National Fraud Initiative	High	Draft	Considerable
P1920/81	Corporate	Cross Cutting	Corporate Complaints, Compliments and Feedback	Low	Draft	Considerable
P1920/11	Children & Young People	Schools	Undy Primary School	Low	Draft	Reasonable
P1920/12	Children & Young People	Schools	Llanfoist Fawr Primary School	Low	Draft	Reasonable
P1920/23	Enterprise	Tourism, Leisure & Culture	Evolve - Educational Visits Management	Medium	Draft	Reasonable
P1920/45	Enterprise	County Highways Operations	Highways Operations	Medium	Draft	Reasonable
P1920/60	Resources	Commercial & Integrated Landlord Services	Investment Property Acquisitions	High	Finalised	Reasonable
P1920/84	Corporate	Cross Cutting	Compliance with Bribery Act Follow-up	High	Draft	Reasonable
P1920/85	Corporate	Cross Cutting	General Data Protection Regulation	High	Finalised	Reasonable
P1920/09	Children & Young People	Schools	Llandogo Primary School	Low	Finalised	Limited
P1920/10	Children & Young People	Schools	Castle Park Primary School	Low	Finalised	Limited
P1920/21	Enterprise	Tourism, Leisure & Culture	Shire Hall	Medium	Draft	Limited
P1920/22	Enterprise	Tourism, Leisure & Culture	Tintern Old Station	Medium	Draft	Limited
P1920/25	Enterprise	Tourism, Leisure & Culture	Caldicot Castle Follow-up	Medium	Finalised	Limited
P1920/34	Enterprise	Passenger Transport Unit	PTU Vehicle Maintenance	High	Draft	Limited

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Finalised	Opinion given
P1920/62	Resources	Commercial & Integrated Landlord Services	Procurement (Food) Follow-up	High	Draft	Limited
P1920/66	Social Care & Health	Integrated Services	Direct Payments	Medium	Draft	Limited
P1920/80	Corporate	Cross Cutting	Business Continuity *	High	Draft	Limited
P1920/03	Children & Young People	Standards	Pupil Development Grant	Low	Finalised	Unqualified
P1920/04	Children & Young People	Standards	Outside School Childcare Grant	Low	Finalised	Unqualified
P1920/68	Social Care & Health	Integrated Services	Supporting People Grant - Outcomes Data (July)	High	Finalised	Unqualified
P1920/69	Social Care & Health	Integrated Services	Supporting People Grant - Financial Data (Sept)	Medium	Finalised	Unqualified
P1920/02	Children & Young People	Standards	Education Improvement Grant	Medium	Finalised	Qualified

**Unqualified** – the terms and conditions of the grant were complied with

**Qualified** - the terms and conditions of the grant were not complied with

\*Business Continuity was in draft as at 31/03/20 and was given a **Limited** opinion; following further discussions information provided the audit opinion changed to a **Reasonable** level of assurance.



**Non opinion related audit work**

<b>Job number</b>	<b>Directorate</b>	<b>Service</b>	<b>Job Name</b>
P1920/01	Children & Young People	21st Century Schools	Audit Advice
P1920/05	Children & Young People	Standards	Monitoring Implementation of Audit Recommendations
P1920/14	Children & Young People	Schools	Monitoring Implementation of Audit Recommendations
P1920/15	Children & Young People	Schools	Audit Advice
P1920/17	Children & Young People	CYP Resources	Audit Advice
P1920/20	Enterprise	Business Growth & Enterprise	Audit Advice
P1920/26	Enterprise	Tourism, Leisure & Culture	Monitoring Implementation of Audit Recommendations
P1920/27	Enterprise	Tourism, Leisure & Culture	Audit Advice
P1920/29	Enterprise	Policy & Governance	Local Performance Indicators
P1920/30	Enterprise	Policy & Governance	Audit Advice
P1920/32	Enterprise	Planning, Housing & Place Shaping	Monitoring Implementation of Audit Recommendations
P1920/33	Enterprise	Planning, Housing & Place Shaping	Audit Advice
P1920/36	Enterprise	Passenger Transport Unit	Audit Advice
P1920/38	Enterprise	SWTRA & Street Lighting	Monitoring Implementation of Audit Recommendations
P1920/41	Enterprise	Transport	Audit Advice
P1920/42	Enterprise	Waste & Street Operations	Audit Advice
P1920/44	Enterprise	Highways & Flood Management	Audit Advice
P1920/46	Enterprise	County Highways Operations	Audit Advice
P1920/50	Resources	People	Audit Advice
P1920/51	Resources	Digital Programme Office	Audit Advice
P1920/58	Resources	Finance	Monitoring Implementation of Audit Recommendations
P1920/59	Resources	Finance	Audit Advice
P1920/63	Resources	Commercial & Integrated Landlord Services	Monitoring Implementation of Audit Recommendations
P1920/64	Resources	Commercial & Integrated Landlord Services	Audit Advice

<b>Job number</b>	<b>Directorate</b>	<b>Service</b>	<b>Job Name</b>
P1920/65	Resources	Business Planning & Redesign	Audit Advice
P1920/70	Social Care & Health	Integrated Services	Audit Advice
P1920/72	Social Care & Health	Children's Services	Audit Advice
P1920/74	Social Care & Health	Public Protection	Monitoring Implementation of Audit Recommendations
P1920/75	Social Care & Health	Public Protection	Audit Advice
P1920/77	Social Care & Health	Social Services Finance Unit	Audit Advice
P1920/79	Corporate	Cross Cutting	Annual Governance Statement
P1920/87	Corporate	Cross Cutting	Monitoring Implementation of Audit Recommendations

## Performance of the Internal Audit Section

Performance Indicator	2016/17	2017/18	2018/19	Annual Target	2019/20
Percentage of planned audits completed	75%	82%	84%	82%	77%
Average no. of days from audit closing meeting to issue of a draft report	22	52	9days	17 days	26 days
Average no. of days from receipt of response to draft report to issue of the final report	11	19	18 days	5 days	20 days
Percentage of recommendations made that were accepted by the clients	98%	96%	98%	95%	98%
Percentage of clients at least 'satisfied' by audit process	100%	89%	100%	95%	100%
Percentage of Directly Chargeable Time (actual versus planned)	107%	108%	107%	100%	90%



**Example Feedback Comments from Client Questionnaires**

*“Felt listened to which is important – thank you”*

*“We were able to agree a suitable timescale which fitted in with other deadlines/ pressures we had”*

*“Although some amendments were made based on our feedback, we still felt the overall rating of “reasonable” was not proportionate given the number of strengths”*

*“HR has had too many audits within a given period of time”*

*“The process was not explained prior to the Audit.”*

*“The feedback meeting helped clarify the outcomes of the audit in a timely manner.”*

*“I don’t feel that all the comments were taken on board from the school staff.”*

*“The feedback meeting was helpful to help ensure the outcomes were fully understood.”*

*“The recommendations are fair, and the continued flexibility from Internal Audit to meet the deadlines is appreciated. Meeting recommendations on timescales of completing information for audit will continue to be challenging to address due to externally prescribed timescales and in some cases further time will be required to ensure data quality.”*

*“I would like to thank Rachel for making the process a painless one and for her support whilst she was here.”*

*“Many thanks to you and your department for the work you have invested in the compilation of the report.”*

*“Thank you - Advice appreciated as ever.”*