

**SUBJECT: INTERNAL AUDIT SECTION
Progress Reports for 9 Months into 20120/21**

**DIRECTORATE: Resources
MEETING: Audit Committee
DATE: February 2021
DIVISION/WARDS AFFECTED: All**

1. PURPOSE

To consider the adequacy of the internal control environment within the Council based on the outcomes of audit reviews and subsequent opinions issued to the 31st December 2020.

To consider the performance of the Internal Audit Section over the first 9 months of the current financial year.

2. RECOMMENDATION(S)

That the Committee note the audit opinions issued.

That the Committee note the progress made by the Section towards meeting the 2020/21 Operational Audit Plan and the Section's performance indicators at the 9 months stage of the financial year.

3. KEY ISSUES

- 3.1 As reported previously to Audit Committee, the Internal Audit staff have been redeployed to support the 'test trace protect' initiative, business support grants process and undertake counter fraud checks since March 2020 as a result of the national pandemic, Covid-19. The realistic start date for the audit plan was 5th October 2020. The Auditor has already been seconded out of the team to support the Covid-19 business grants administration.
- 3.2 Audit work commenced from this date, undertaking the programme of audits in accordance with the revised 2020/21 agreed Operational Audit Plan where possible and in line with Covid-19 restrictions; the majority of site visits were put on hold.
- 3.3 This report gives brief details of the work undertaken in the year to date. The report also gives details of the Section's performance indicators for the 9 months to 31st December 2020.

- 3.4 The Public Sector Internal Audit Standards came into force in April 2013 (updated March 2017) which the Internal Audit team needs to demonstrate it is compliant with; these replaced the former Code of Practice for Internal Audit within Local Government.
- 3.5 A requirement of the PSIAS is for the Internal Audit team to be externally assessed once every five years to ensure compliance with these Standards. The Welsh Chief Auditors' Group proposed an option of a peer review in order to meet the requirements of this external assessment, which has been agreed by respective S 151 Officers of local authorities in Wales. Monmouthshire's peer review took place during 2017/18 with the outcome being that the team is generally compliant; no significant areas of non compliance.
- 3.6 Due to Covid 19 pandemic the 2020/21 Revised Audit Plan was agreed by the Audit Committee in September 2020.
- 3.7 The year end opinion for 2020/21 will be based on the audit work undertaken during the year, cumulative audit knowledge from previous years on key financial systems along with any assurance gained from other parties where relevant.

4. REASONS

- 4.1 Since the start of the financial year, the Internal Audit Section has completed 16 audit jobs to draft stage from its revised 2020/21 Operational Audit Plan; 3 of these being opinion related and these are shown in the table at Appendix 1. The team was involved with grant claim certification; 3 claims audited.
- 4.2 In relation to the normal audit opinion related reports, 3 have been issued in draft by the end of the 3rd Quarter; all with *Considerable Assurance*. Work was also undertaken on the National Fraud Initiative (NFI), preparing data for submission. The team was involved with auditing grant claims which they have certified as either *qualified* or *unqualified*; all 3 were *Unqualified*, which is positive.
- 4.3 Extensive work has also been undertaken on the progress of the implementation of Internal Audit Recommendations from previously issued audit reports to schools, Finance and Corporate functions, along with the provision of financial advice across directorates. Of the 95% Internal Audit recommendations made in previously issued audit reports which management agreed to implement, the audit team sample checked 65%; 65% of the recommendations tested have been implemented or partially implemented. This is lower than previous years. The intention is to report this into the Senior Leadership team (SLT) for consideration and timely action.

- 4.4 The team have not been able to undertake audits at schools as they ordinarily involve site visits which have been restricted due to Covid-19, as have other site visits. Follow up audits of MonLife tourist sites have not been able to have been undertaken as many of these are seasonal and have not been open as a result of Covid-19. Other work has not been progressed as intended as some service managers are still dealing with the pressures of Covid-19.
- 4.5 At the time of writing this report, the call on Internal Audit resources to support TTP in Q4 has been reduced; the audit resource can therefore be used to work through a further re-prioritised audit programme which will concentrate on opinion related audit jobs and getting draft reports out by the year end.
- 4.6 The definitions of the four internal audit opinions and the finding ratings used by the Section are provided at Appendix 2 for Members' information.
- 4.7 Finalisation work from 2019/20 continued; of the 20 reviews at draft report stage at 31 March 2020, 15 have subsequently been finalised. Audit Management are working on finalising all 2019/20 reports by 31st March 2021.
- 4.8 There has been minimal work undertaken on special investigations during 2020/21 so far by the team. Extensive work was undertaken during Q1 and Q2 on counter fraud relating to the issue of the Welsh Government business grants. Where the team was involved in frauds resulting from this work these were not identified as separate special investigations.
- 4.9 Appendix 3 of the report gives details of the Section's performance indicators as at 31st December 2020. As a result of the team not starting on its revised operational plan until October 2020, the focus will be to get opinion related audit reports out in draft to service managers. Therefore the normal suite of performance indicators will not be reported on this quarter.
- 4.10 25% of the revised Audit Plan has been completed as at 31 December 2020.
- 4.11 The team started the year with a full complement of staff in the team.
- 4.12 In Quarter 1 the team was involved with the verification and validation of the Council's annual performance indicators before they were submitted to Welsh Government. The team is also involved with the administration of the National Fraud Initiative (NFI) data sets on behalf of the Council.

5. SERVICE MANAGEMENT RESPONSIBILITIES

- 5.1 Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and demonstrate this by including their management responses within the audit reports. When management agree the audit action plans they are accepting responsibility for addressing the issues identified within the agreed timescales.
- 5.2 Ultimately, managers within MCC are responsible for maintaining adequate internal controls within the systems they operate and for ensuring compliance with Council policies and procedures. All reports, once finalised, are sent to the respective Heads of Service for information and appropriate action where necessary.

6. FOLLOW UP AUDIT REVIEWS

- 6.1 Where 'Limited Assurance' opinions are issued, they are followed up within a twelve month timescale to ensure that the agreed actions have been taken by management and that the internal control systems are improved. These will be reported separately to the Audit Committee.

7. RESOURCE IMPLICATIONS

None.

8. CONSULTEES

Chief Officer Resources

Results of Consultation:

N/A

9. BACKGROUND PAPERS

Operational Audit Plan 2020/21

10. AUTHORS AND CONTACT DETAILS

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AUDIT COMMITTEE FEBRUARY 2021

INTERNAL AUDIT SECTION PROGRESS REPORT 2020/21 – 9 MONTHS

APPENDIX 1

Internal Audit reviews from the 2020/21 Operational Audit Plan where fieldwork has been completed and/or final reports issued since 1/4/20 are listed in the table below.

Internal Control Opinions give the auditor's overall conclusion on the control environment operating in each system/establishment under review. Opinions range from Substantial Assurance through to Limited Assurance.

Draft issued indicates that a draft report has been issued and a response is awaited from the client before the report can be finalised.

Status of reports as at 31st December 2020

Internal Audit Services - Management Information for 2020/21 – Quarter 3

Opinion Summary	
Substantial	0
Considerable	3
Reasonable	0
Limited	0
Total	3

Job number	Directorate	Service	Job Name	Finalised	Opinion given
P2021/37	Resources	Finance	Business World Systems Administration	Finalised	Considerable
P2021/48	Social Care & Health	Children's Services	Review of Imprest Account	Draft	Considerable
P2021/61	Corporate	Cross Cutting	Safeguarding Arrangements	Draft	Considerable
P2021/03	Children & Young People	Achievement & Extended Services	Education Improvement Grant	Finalised	Unqualified
P2021/04	Children & Young People	Achievement & Extended Services	Pupil Deprivation Grant	Finalised	Unqualified
P2021/13	Enterprise	Enterprise & Community Animation	Housing Support Grant	Finalised	Unqualified

Non – opinion / Added Value Audit Work

Job number	Directorate	Service	Job Name
P2021/09	Children & Young People	Schools	Monitoring Implementation of Audit Recommendations
P2021/38	Resources	Finance	Monitoring Implementation of Audit Recommendations
P2021/64	Corporate	Cross Cutting	Monitoring Implementation of Audit Recommendations
P2021/10	Children & Young People	Schools	Audit Advice
P2021/12	Children & Young People	CYP Resources	Audit Advice
P2021/20	Enterprise	MonLife	Audit Advice
P2021/24	Enterprise	Placemaking, Housing, Highways & Flood	Audit Advice
P2021/34	Resources	People	Audit Advice
P2021/47	Social Care & Health	Integrated Services	Audit Advice
P2021/50	Social Care & Health	Children's Services	Audit Advice

Internal Audit Opinions

Each report contains an opinion which is an overall assessment of the control environment reviewed.

SUBSTANTIAL	<p>Substantial level of assurance.</p> <p>Very well controlled, with numerous strengths identified and any risks being less significant in nature.</p>
CONSIDERABLE	<p>Considerable level of assurance</p> <p>Generally well controlled, although some risks identified which should be addressed.</p>
REASONABLE	<p>Reasonable level of assurance.</p> <p>Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.</p>
LIMITED	<p>Limited level of assurance.</p> <p>Poorly controlled, with unacceptable levels of risk. Fundamental improvements required urgently.</p>

The table below summarises the finding ratings used during our audits:

RATING	RISK DESCRIPTION	IMPACT
1	Significant	<p>(Significant) – Major / unacceptable risk identified.</p> <p>Risks exist which could impact on the key business objectives. Immediate action required to address risks.</p>
2	Moderate	<p>(Important) – Risk identified that requires attention.</p> <p>Risks identified which are not business critical but which require management attention as soon as possible.</p>
3	Minor	<p>(Minimal) – Low risk partially mitigated but should still be addressed.</p> <p>Audit comments highlight a suggestion or idea that management may want to consider.</p>
4	Strength	<p>(No risk) – Good operational practices confirmed.</p> <p>Well controlled processes delivering a sound internal control framework.</p>

For grant claim audits:

Unqualified opinion - the terms and conditions of the grant were generally complied with;

Qualified opinion - the terms and conditions of the grant were not fully complied with; the identified breaches of terms and conditions will be reported to the grantor and internally to relevant Head of Service/Chief Officer.

AUDIT COMMITTEE FEBRUARY 2021

INTERNAL AUDIT SECTION PROGRESS REPORT 2020/21 – 9 MONTHS

APPENDIX 3

Performance Indicators

N / A – not available

	2019/20	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	11%	27%	51%	77%	50% (84% pa)
2	Average no. of days from audit closing meeting to issue of a draft report	2 days	2 days	30 days	26 days	12 days
3	Average no. of days from receipt of response to draft report to issue of the final report	26 days	23 days	22 days	20 days	5 days
4	Percentage of recommendations made that were accepted by the clients	98%	98%	98%	98%	90%
5	Percentage of clients at least 'satisfied' by audit process	N/A	100%	100%	100%	90%
6	Percentage of directly chargeable time (actual v planned)	90%	98%	94%	90%	100%
7	Number of special investigations	2	3	3	3	Cumulative

	2020/21	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	N/A	N/A	25%		50%
2	Average no. of days from audit closing meeting to issue of a draft report	N/A	N/A	N/A		N/A
3	Average no. of days from receipt of response to draft report to issue of the final report	N/A	N/A	N/A		N/A
4	Percentage of recommendations made that were accepted by the clients	N/A	N/A	N/A		N/A
5	Percentage of clients at least 'satisfied' by audit process	N/A	N/A	N/A		N/A
6	Percentage of directly chargeable time (actual v planned)	N/A	N/A	N/A		N/A
7	Number of special investigations	N/A	N/A	N/A		