

**SUBJECT: INTERNAL AUDIT
Progress Report for 6 Months into 2021/22**

DIRECTORATE: Resources

MEETING: Governance and Audit Committee

DATE: 3rd November 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 30th September 2021.

To consider the performance of the Internal Audit Section over the first 6 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 2021/22 Operational Audit Plan and the Section's performance indicators at the 6 month stage of the financial year.

3. KEY ISSUES

- 3.1 As reported previously to the Governance & Audit Committee, the Internal Audit staff were redeployed to support the 'test trace protect' initiative, business support grants process and undertake counter fraud checks from March 2020 as a result of the national pandemic, Covid-19. Therefore there are no year on year comparison figures for the Team's performance.
- 3.2 One member of the team had been seconded out of the team to support the Covid-19 business grants administration. This member of staff has subsequently left the team. The team has gone through a recruitment exercise and the post will be filled mid November.
- 3.3 Although audit work has started in line with the 2021/22 agreed audit plan, approved by the Governance & Audit Committee in July 2021, the majority of site visits were still on hold in Q1 & Q2 due to Covid-19 restrictions

- 3.4 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 6 months to 30th September 2021.
- 3.5 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.
- 3.6 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. The next review will be due in 2023
- 3.7 The year end opinion for 2021/22 will be based on the audit work undertaken during the year, cumulative audit knowledge from previous years on key financial systems where necessary, 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 23 audit jobs to draft stage from its 2021/22 Operational Audit Plan; 6 of these being opinion related and are shown in the table at Appendix 1. The team was involved with ongoing grant claim certification and some additional counter fraud work regarding Welsh Government Covid grants.
- 4.2 In relation to the normal audit opinion related reports issued in draft by the end of the 2nd Quarter:
- 2 had a *Substantial Assurance opinion*,
 - 2 had a *Considerable Assurance opinion* and
 - 2 had a *Reasonable Assurance opinion*.
 - No *Limited Assurance opinions* issued to date.

Work was also undertaken on the National Fraud Initiative (NFI), verifying data matches and the preparation of the Annual Governance Statement.

- 4.3 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. Progress will be

reported to the Governance & Audit Committee and the Strategic Leadership team (SLT) later in the year for consideration and 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 has stopped; the audit resource can therefore be used to work through the 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 2020/21 continued; of the 6 reviews at draft report stage at 31 March 2021, all 6 have subsequently been finalised.
- 4.8 There has been minimal work undertaken on special investigations and unplanned work during 2021/22 so far by the team. Extensive work was undertaken previously 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 30th September 2021.
 - 28% of the 2021/22 Audit Plan has been completed as at 30th September 2021
 - Draft reports are being issued within 5 days, against a target of 15 days
 - Final report are being issued within 4 days, against a target of 10 days.
- 4.10 The team co-ordinates 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 Chief Officers and 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 Governance & Audit Committee.

7. RESOURCE IMPLICATIONS

None.

8. CONSULTEES

Deputy Chief Executive / Chief Officer Resources

Results of Consultation:

N/A

9. BACKGROUND PAPERS

Operational Audit Plan 2021/22

10. AUTHORS AND CONTACT DETAILS

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GOVERNANCE & AUDIT COMMITTEE NOVEMBER 2021

INTERNAL AUDIT SECTION PROGRESS REPORT 2021/22 – 6 MONTHS

APPENDIX 1

Internal Audit reviews from the 2021/22 Operational Audit Plan where fieldwork has been completed and/or final reports issued since 1/4/21 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.

Internal Audit Services - Management Information for 2021/22 – Quarter 2 September 2021

| Opinion Summary | |
|-----------------|---|
| Substantial | 2 |
| Considerable | 2 |
| Reasonable | 2 |
| Limited | 0 |
| Total | 6 |

| Job number | Directorate | Service | Job Name | Risk Rating / Priority | DRAFT or FINAL | Opinion given |
|------------|-------------|--|----------------------------|------------------------|----------------|---------------|
| P2122/36 | Enterprise | Placemaking, Housing, Highways & Flood | Local Development Plan | Medium | Draft | Substantial |
| P2122/57 | Resources | Finance | Housing Benefits | High | Draft | Substantial |
| | | | | | | |
| P2122/25 | Corporate | Cross Cutting | National Fraud Initiative | High | Final | Considerable |
| P2122/35 | Enterprise | Placemaking, Housing, Highways & Flood | Civil Enforcement | Medium | Draft | Considerable |
| | | | | | | |
| P2122/80 | Resources | Commercial, Property, Facilities & Fleet | Investments | High | Draft | Reasonable |
| P2122/81 | Enterprise | Enterprise & Community Animation | Disabled Facilities Grants | Medium | Final | Reasonable |

Non – opinion / Added Value Audit Work

| Job number | Directorate | Service | Job Name |
|------------|-------------------------|--|--|
| P2122/01 | Chief Executive's | Policy, Performance & Scrutiny | Audit Advice |
| P2122/05 | Children & Young People | Achievement & Extended Services | Monitoring Implementation of Audit Recommendations |
| P2122/11 | Children & Young People | Schools | Audit Advice |
| P2122/18 | Children & Young People | Schools | Monitoring Implementation of Audit Recommendations |
| P2122/21 | Corporate | Cross Cutting | Annual Governance Statement |
| P2122/27 | Enterprise | Enterprise & Community Animation | Audit Advice |
| P2122/34 | Enterprise | Placemaking, Housing, Highways & Flood | Audit Advice |
| P2122/38 | Enterprise | Strategic Projects | Audit Advice |
| P2122/41 | Mon Life | Mon Life | Audit Advice |
| P2122/47 | People & Governance | People | Audit Advice |
| P2122/49 | Resources | Commercial, Property, Facilities & Fleet | Audit Advice |
| P2122/56 | Resources | Finance | Audit Advice |
| P2122/61 | Resources | Finance | Monitoring Implementation of Audit Recommendations |
| P2122/63 | Resources | Payroll | Audit Advice |
| P2122/64 | Resources | Payroll | Monitoring Implementation of Audit Recommendations |
| P2122/65 | Social Care & Health | Children's Services | Audit Advice |
| P2122/67 | Social Care & Health | Integrated Services | Audit Advice |

APPENDIX 2

Internal Audit Opinions

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

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

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

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

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.

GOVERNANCE & AUDIT COMMITTEE NOVEMBER 2021

**INTERNAL AUDIT SECTION PROGRESS REPORT
2021/22 – 6 MONTHS**

APPENDIX 3

Performance Indicators

N /A – not available

| | 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 | | |
| | | | | | | |
| | | | | | | |

| | 2021/22 | Q1 | Q2 | Q3 | Q4 | Target |
|---|---|-----------|-----------|-----------|-----------|---------------------|
| 1 | Percentage of planned audits completed | 11% | 28% | | | 30% in Q2 80% pa |
| 2 | Average no. of days from audit closing meeting to issue of a draft report | 9 days | 5 days | | | 15 days |
| 3 | Average no. of days from receipt of response to draft report to issue of the final report | 3 days | 4 days | | | 10 days |
| 4 | Percentage of recommendations made that were accepted by the clients | 97% | 97% | | | 95% |
| 5 | Percentage of clients at least 'satisfied' by audit process | 100% | 100% | | | 95% |
| 6 | Percentage of directly chargeable time (actual v planned) | 77% | 90% | | | 60% |
| 7 | Number of special investigations | 1 | 1 | | | |
| | | | | | | |
| | | | | | | |