

**SUBJECT: IMPLEMENTATION OF INTERNAL AUDIT
RECOMMENDATIONS – 2019/20**

DIRECTORATE: Resources
MEETING: Audit Committee
DATE: 25th November 2021

DIVISION/WARDS AFFECTED: All

1. PURPOSE

To receive and consider the progress operational managers have made against implementing Internal Audit Recommendations made in reports issued up to and including 2019/20. Reported previously to the former Audit Committee in July 2019. Implementation of Internal Audit recommendations strengthens good governance.

2. RECOMMENDATION(S)

That the Governance & Audit Committee consider this report, identify any concerns of non-implementation of audit recommendations and where appropriate consider calling-in any managers for further explanation as to why the implementation of actions has not been as productive as expected.

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. This is based on the opinions given on individual audit jobs undertaken as per the agreed annual audit plan.
- 3.2 Each audit opinion is based on the strengths and weaknesses identified during the course of each audit; definitions of which are shown at Appendix 1. Where weaknesses in control have been identified an audit recommendation is made in order to improve the internal control environment which should lead to an overall improvement of service provision or the financial stewardship of the area audited. The recommendation is categorised as a level of risk.

- 3.3 Generally operational management agree with the audit recommendations made and agree to implement the action required to make the improvements; on average 98% of Internal Audit recommendations are agreed by operational managers.
- 3.4 In order to verify that improvements have been made in the financial stewardship within services that have been audited, the Internal Audit team has to check that the agreed actions have actually been implemented by service / operational managers. The Team therefore undertake follow up audit reviews to ensure this is done within 6 to 12 months after the final audit report has been issued.
- 3.5 Where a Limited Assurance opinion has been given a full follow up audit is undertaken and these are reported into Governance an Audit Committee separately. This report provides data on recommendations made in audit reports with more favourable audit opinions.
- 3.6 Due to limited resources within the Internal Audit Team not all audit recommendations can be physically followed up, so this is undertaken on a sample basis. Although some audits were followed up by the Internal Audit team and evidence tested to ensure that agreed actions had been implemented, for the majority there was significant reliance on the operational managers' honesty in providing an update on the progress of the implementation of agreed actions back to the Internal Audit Team.
- 3.7 As at 31-3-21, 375 recommendations were due to be followed up, (excludes recommendations made within Limited Assurance opinion audits). These recommendations were made in 2019/20 or previous years and have not previously been signed off as implemented. Work on these had been restricted during the year due to members of the Audit Team being involved in activities related to the Authority's Covid-19 response.
- 3.8 In summary:

Measure	Performance
Number of recommendations accepted by manager	98%
% Tested	29%
Of which % Implemented	36%
% of significant recommendations Implemented	25%

- 3.9 As well as the effects of the pandemic on the resources of the Audit Team, this also significantly affected services across the Authority and limited the time available to participate in our follow-up work. In some

circumstances services have been closed or resources have had to be diverted. In many cases servicing the demands upon services has had to take more immediate priority with managers assessing the risk therefore of outstanding recommendations not being implemented.

- 3.10 As a result, 107 recommendations had been followed up during the year (29% of the population). The further analysis below focuses on the 107 recommendations that were followed up during 2020/21.
- 3.11 For the 107 recommendations followed up in 2020/21, 36% of audit recommendations had been implemented, a further 19% partially implemented, 36% had not been implemented, with 5% ongoing. 4% were considered no longer relevant and for the remaining 1%, managers had now accepted the risk of not implementing the recommendation.
- 3.12 The overall percentage of audit recommendations implemented within services has decreased from 68% in 2017/18 to 36% in 2020/21, as shown at Appendix 2.
- 3.13 A total of 12 /107 recommendations made were 'significant'; Internal Audit was able to ascertain that 25% of these had been fully implemented and a further 8% partially implemented (see Appendix 3 – Significant Recommendations per Directorate). This indicates that implementation of the highest risk recommendations was, in fact, less than for the population of all recommendations as a whole. Clearly we would expect to see management prioritise these 'significant' recommendations and so this outcome is of concern.
- 3.14 Of the 268 recommendations not followed up, 47 (18%) were categorised as 'significant'.
- 3.15 An analysis of the implementation of recommendations across Council Directorates can be found at Appendix 3 (Recommendation per Directorate) below. As can be seen from the data in the Appendix, there are outstanding recommendations across all Directorates within the Authority where the status of the recommendation had been checked. (SCH was not included within the audit sample checked).
- 3.16 Details of the individual audit jobs followed up and the status of the 107 recommendations made as at 31-3-21 are shown at Appendix 4.
- 3.17 The percentage of recommendations implemented is significantly lower than we would have expected given that the action plans are agreed with management prior to the audit reports being finalised. Furthermore, the data identified a decrease in the number audit recommendations implemented or partially implemented over the past four years. This is concerning from an internal control / governance point of view.

3.18 This data on the implementation of Internal Audit recommendations has been reported into SLT along with the details of the individual audit reports in which the recommendations were made. SLT have acknowledged the reduction in the number of recommendations not completed and also the context and the period of the pandemic through which service managers have had to prioritise. Notwithstanding this SLT and Chief Officers individually have committed to working through their DMTs to ensure that targeted progress is being made and that this is reported back to Internal Audit on a timely basis. Furthermore it was accepted as entirely reasonable that a further report come back to Governance & Audit Committee in six months' time to report back on progress made.

4. REASONS

4.1 Part of Internal Audit's responsibility is to provide assurances to senior management that there are sound processes in place across all service areas to ensure effective, efficient and economic use of public money and to safeguard the assets of the Council. Audit reviews are undertaken to check what controls are actually in place to ensure this against what are expected to be in place.

4.2 The Internal Audit Team's work helps to ensure appropriate internal controls, governance arrangements and risk management processes are in place.

4.3 Where weaknesses in process or procedure are identified an audit recommendation is made in order to improve the financial stewardship of public money or governance arrangements to enable the Council to better meet its objectives and service delivery.

5. RESOURCE IMPLICATIONS

None.

6. CONSULTEES

Deputy Chief Executive / Chief Officer Resources / Head of Finance

7. BACKGROUND PAPERS

Annual Outturn 2019/20
Public Sector Internal Auditing Standards
Internal Audit Management Information System

8. AUTHOR AND CONTACT DETAILS

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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.

Status of Internal Audit Recommendations

Status	2017/18		2018/19		2019/20		2020/21	
	Number	%	Number	%	Number	%	Number	%
Implemented	87	68	183	56	94	45	38	36
Partially Implemented	7	6	50	15	43	20	20	19
Not implemented	25	20	67	21	49	23	39	36
Ongoing	2	2	0	0	2	1	5	5
No Longer Relevant	6	5	16	6	14	7	4	4
Risk Accepted	0	0	8	2	8	4	1	1
Total	127		324		210		107	

Recommendations per Directorate as at 31-03-21

Directorate	Implemented	No Longer Relevant	Not Due	Not Implemented	Partially Implemented	Risk Accepted (Evidence Received)	Grand Total	Percentage fully implemented
Children & Young People	21	0	1	10	8	0	40	52%
Enterprise	3	0	3	7	1	0	14	21%
Governance & People	0	1	0	0	1	0	2	0%
Resources	11	2	1	10	8	1	33	33%
Corporate	3	1	0	12	2	0	18	17%
Total	38	4	5	39	20	1	107	36%

Significant Recommendations per Directorate

Directorate	Implemented	No Longer Relevant	Not Due	Not Implemented	Partially Implemented	Risk Accepted (Evidence Received)	Grand Total	Percentage fully implemented
Children & Young People	1	0	0	0	0	0	1	100%
Corporate	1	0	0	3	0	0	4	25%
Resources	1	1	1	3	1	0	7	14%
Total	3	1	1	6	1	0	12	25%

Status of Agreed Audit Recommendations per Audit Job as at 31-3-21

Audit Job Title	Implemented	No Longer Relevant	Not Due	Not Implemented	Partially Implemented	Risk Accepted (Evidence Received)	Grand Total
Abergavenny Markets Follow Up	4			1	4		9
Chepstow School	1						1
Control, Suspense & Holding	1						1
Corporate Sundry Debtors	6			1	1		8
Gilwern Primary School	3			2			5
HR Policies		1			1		2
IT Procurement	1			2			3
Kymin View	8		1	2	4		15
Leisure Centre Payroll				4			4
Magor Primary	4			1	2		7
Mobile Phones		1		6	3		10
Overmonnow Primary School	3			5	2		10
Payroll		1					1
S106 Agreements				3			3
Shirenewton Primary	2						2
Strategic Risk Management	1	1		1			3
Treasury Management			1			1	2
Volunteering				10			10
Wellbeing of Future Generations Act	1			1	2		4
Youth Service	3		3		1		7
Grand Total	38	4	5	39	20	1	107