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Wednesday, 28 February 2018

Notice of Reports Received following Publication of Agenda.

Audit Committee

Thursday, 8th March, 2018 at 2.00 pm,
County Hall, The Rhadyr, Usk, NP15 1GA

Attached are reports that the committee will consider as part of the original agenda but were submitted to democratic services following publication of the agenda.

Item No	Item	Pages
11.	Internal Audit Progress Report 2017/18 quarter 3	1 - 10

Paul Matthews
Chief Executive

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**SUBJECT: INTERNAL AUDIT SECTION
PROGRESS REPORT 9 Months into 2017/18**

DIRECTORATE: Resources
MEETING: Audit Committee
DATE: 8th March 2018
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 2017.

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 2017/18 Operational Audit Plan and the Section's performance indicators at the nine months stage of the financial year.

3. KEY ISSUES

3.1 The Section has started to undertake its programme of audits in accordance with the 2017/18 Operational Audit Plan.

3.2 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 2017.

3.3 The Public Sector Internal Audit Standards came into force in April 2013 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. The new standards have been reported to the Audit Committee separately.

3.4 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 will take place during 2017/18.

- 3.5 The 2017/18 Draft Audit Plan was agreed by the Audit Committee on 16th March 2017; final approved on 6th July 2017.

4. REASONS

- 4.1 Since the start of the financial year, the Internal Audit Section has completed 57 audit jobs from its 2017/18 Operational Audit Plan, with 7 being opinion related; these are listed in the table shown in Appendix 1.
- 4.2 In relation to the normal audit opinion related reports, 7 have been issued by the end of the 3rd Quarter. 1 was given a *Considerable* assurance opinion; 4 were Reasonable, 2 were given a *Limited* assurance opinion. One report related to the annual governance statement where no opinion was given, but this forms part of the Council's annual financial statements and financial advice was given in several areas. The team were involved with auditing grant claims which they have certified as either *qualified* or *unqualified*.
- 4.3 The definitions of the four internal audit opinions and the finding ratings used by the Section are provided at Appendix 2 for Members' information.
- 4.4 Finalisation work from 2016/17 continues; of the 19 reviews at draft report stage at 31 March 2017, 12 have subsequently been finalised; 1 x Substantial opinion, 4 x Considerable opinion, 3x Reasonable opinion, 4 x Limited opinion.
- 4.5 Audit management have also been involved with 5 special investigations to date this year, some of which have continued from 2016/17; these are often very sensitive and time consuming. Work has been undertaken on 3 unplanned area, providing additional advice and support for service managers.
- 4.6 Appendix 3 of the report gives details of the Section's performance indicators as at 31st December 2017.
- 4.7 Although only 10 audit reviews have been finalised, the acceptance of audit recommendations was good at 99%. Evaluation questionnaires have only been returned from 2 operational managers the data is not representative in terms of how satisfied they were with the audit service they had received.
- 4.8 Draft reports have taken 59 days to issue following receipt of management comments. It has taken 32 days to issue final reports.

- 4.9 Getting audit reports out to service managers are key indicators. The audit management will endeavour to continue to turnaround the work within the target time set for draft and final reports.
- 4.10 The percentage coverage of the audit plan at 36% (42% 2016/17) is lower than the same period of the previous year and below the profiled target of 50% at this stage of the financial year. Management will keep this indicator under careful review for the rest of the year to ensure that the audit coverage by the year end is as comprehensive as possible. The operational plan will be re-prioritised to ensure the higher risk areas are covered by the year end if resources become an issue again.
- 4.11 The team started the year with a full complement of staff in the team.
- 4.12 In Quarter 1 the team got involved with the verification and validation of the Council's annual performance indicators before they are submitted to Welsh Government. This is often a time consuming exercise with tight timescales. The team are 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

Head of Finance

Results of Consultation:

N/A

9. BACKGROUND PAPERS

Operational Audit Plan 2017/18

10. AUTHORS AND CONTACT DETAILS

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AUDIT COMMITTEE MARCH 2018

INTERNAL AUDIT SECTION PROGRESS REPORT 2017/18 – 9 MONTHS

APPENDIX 1

Internal Audit reviews from the 2017/18 Operational Audit Plan where fieldwork has been completed and/or final reports issued since 1/4/17 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 2017

Internal Audit Services - Management Information for 2017/18 – Quarter 3

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1718/33	Children & Young People	Schools	Chepstow School	High		Considerable
P1718/26	Children & Young People	Schools	Mounton House Special School	Medium		Reasonable
P1718/27	Children & Young People	Schools	Deri View Primary School	Low		Reasonable
P1718/54	Operations	Traffic Network	Kerbcraft	Medium	Finalised	Reasonable
P1718/64	Resources	Finance	Procurement Cards follow-up	Medium		Reasonable
P1718/04	Enterprise	Tourism, Leisure & Culture	Borough Theatre Trust	High	Finalised	Limited
P1718/32	Children & Young People	Schools	Raglan Primary School	Medium	Finalised	Limited
P1718/01	Enterprise	Economy and Enterprise	Agri-Urban URBACT Scheme June 2017	Low	Finalised	Unqualified

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1718/23	Children & Young People	Achievement & Extended Services	Outside School Childcare Grant	Low	Finalised	Unqualified
P1718/38	Children & Young People	CYP Resources	School Uniform Grant	Low	Finalised	Unqualified
P1718/77	Social Care & Health	Integrated Services	Supporting People Grant	High	Finalised	Unqualified
P1718/21	Children & Young People	Achievement & Extended Services	Education Improvement Grant	Medium	Finalised	Qualified
P1718/22	Children & Young People	Achievement & Extended Services	Pupil Deprivation Grant	Low	Finalised	Qualified

Non – opinion / Added Value Audit Work

Job number	Directorate	Service	Job Name	Opinion given
P1718/03	Enterprise	Economy and Enterprise	Audit Advice	Not applicable
P1718/10	Enterprise	Tourism, Leisure & Culture	Audit Advice	Not applicable
P1718/37	Children & Young People	Schools	Audit Advice	Not applicable
P1718/40	Children & Young People	CYP Resources	Audit Advice	Not applicable
P1718/43	Operations	SWTRA & Street Lighting	SWTRA Agreement	Not applicable
P1718/51	Operations	Property Services & Facilities	Audit Advice	Not applicable
P1718/53	Operations	Waste and Street Operations	Audit Advice	Not applicable
P1718/61	Resources	People & Information Governance	Audit Advice	Not applicable
P1718/72	Resources	Finance	Audit Advice	Not applicable
P1718/75	Resources	Community-led Delivery	Audit Advice	Not applicable
P1718/79	Social Care & Health	Integrated Services	Audit Advice	Not applicable
P1718/81	Social Care & Health	Children's Services	Audit Advice	Not applicable
P1718/85	Social Care & Health	Social Care & Health Finance Unit	Audit Advice	Not applicable
P1718/87	Corporate	Cross Cutting	Annual Governance Statement	Not applicable
P1718/95	Corporate	Cross Cutting	Future Monmouthshire Audit Advice	Not applicable

Internal Audit Opinions

Each report contains an opinion which is an overall assessment of the control environment reviewed. Opinions were revised during 2015/16 to reflect a better understanding of the level of assurance given. The full list of audit opinions to be used from 2016/17 onwards is shown below:

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 MARCH 2018

**INTERNAL AUDIT SECTION PROGRESS REPORT
2017/18 – 9 MONTHS**

APPENDIX 3

Performance Indicators

	2016/17	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	13%	33%	42%	75%	(80% pa)
2	Percentage of audits completed within planned time	0%	56%	40%	55%	60%
3	Average no. of days from audit closing meeting to issue of a draft report	3 days	30 days	39 days	22 days	12 days
4	Average no. of days from receipt of response to draft report to issue of the final report	12 days	30 days	20 days	11 days	5 days
5	Percentage of recommendations made that were accepted by the clients	100%	98%	98%	98%	90%
6	Percentage of clients at least 'satisfied' by audit process	N/A	100%	100%	100%	90%
7	Percentage of directly chargeable time (actual v planned)	102%	103%	102%	107%	100%
8	Number of special investigations	2	4	5	6	

	2017/18	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	13%	23%	36%		50% (80% pa)
2	Percentage of audits completed within planned time	0%	0%	30%		60%
3	Average no. of days from audit closing meeting to issue of a draft report	8 days	21 days	59 days		12 days
4	Average no. of days from receipt of response to draft report to issue of the final report	17 days	16 days	32 days		5 days
5	Percentage of recommendations made that were accepted by the clients	98%	99%	97%		90%
6	Percentage of clients at least 'satisfied' by audit process	100%	100%	100%		90%
7	Percentage of directly chargeable time (actual v planned)	102%	108%	110%		100%
8	Number of special investigations	4	4	5		

N /A – not available