

**SUBJECT: INTERNAL AUDIT SECTION  
PROGRESS REPORT 3 Months into 2017/18**

**DIRECTORATE: Chief Executive's  
MEETING: Audit Committee  
DATE: 19<sup>th</sup> September 2017  
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 30<sup>th</sup> June 2017.

To consider the performance of the Internal Audit Section over the first 3 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 three 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 3 months to 30<sup>th</sup> June 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.

- 3.5 The 2017/18 Audit Plan was agreed by the Audit Committee on 16<sup>th</sup> March 2017.

#### **4. REASONS**

- 4.1 Since the start of the financial year, the Internal Audit Section has completed 12 audit jobs from its 2017/18 Operational Audit Plan, although none were opinion related; these are listed in the table shown in Appendix 1.
- 4.2 In relation to the normal audit opinion related reports, none have yet been issued during the first quarter. 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.
- 4.3 The definitions of the four internal audit opinions and the risk 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, 6 have subsequently been finalised; 1 x Substantial opinion, 3 x Considerable opinion, 1x Reasonable opinion, 1 x no opinion.
- 4.5 Audit management have also been involved with 4 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 1 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 30<sup>th</sup> June 2017.
- 4.7 Although only 6 audit reviews were finalised in the quarter, the acceptance of audit recommendations was good at 98%. Evaluation questionnaires have only been returned from one operational manager 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 8 days to issue following receipt of management comments. It has taken 17 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 13% (13% 2016/17) is lower than the same period of the previous year and below the profiled target of 20% 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 get 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 unsatisfactory and unsound 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 SEPTEMBER 2017

### INTERNAL AUDIT SECTION PROGRESS REPORT 2017/18 – 3 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 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 30 June 2017

### Internal Audit Services - Management Information for 2017/18 – Quarter 1

Job number	Directorate	Service	Job Name	Date of issue of DRAFT report
P1718/10	Enterprise	Tourism, Leisure & Culture	Audit Advice	30/06/17
P1718/37	Children & Young People	Schools	Audit Advice	30/06/17
P1718/43	Operations	SWTRA & Street Lighting	SWTRA Agreement	14/06/17
P1718/51	Operations	Property Services & Facilities	Audit Advice	30/06/17
P1718/53	Operations	Waste and Street Operations	Audit Advice	30/06/17
P1718/61	Resources	People & Information Governance	Audit Advice	30/06/17
P1718/72	Resources	Finance	Audit Advice	30/06/17
P1718/75	Resources	Community-led Delivery	Audit Advice	30/06/17
P1718/79	Social Care & Health	Integrated Services	Audit Advice	30/06/17
P1718/81	Social Care & Health	Children's Services	Audit Advice	30/06/17
P1718/85	Social Care & Health	Social Care & Health Finance Unit	Audit Advice	30/06/17
P1718/87	Corporate	Cross Cutting	Annual Governance Statement	05/06/17

## APPENDIX 2

### 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:

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

### Recommendation Ratings

Each recommendation contained within the Internal Audit report has a 2 part priority rating. The number refers to Internal Audit assessment attached to the relevant weakness identified, whilst the letter relates to the urgency with which we believe the recommendation should be implemented (see tables below).

Rating	Assessment of the Weakness Identified
1	Fundamental weakness.
2	Highly significant weakness.
3	Significant weakness.
4	Minor weakness.

Rating	Proposed Timescale for Implementation
A	Should be actioned immediately
B	Should be implemented as soon as possible but within 3 months.
C	Ongoing requirements or within 12 months.

**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

**AUDIT COMMITTEE SEPTEMBER 2017**

**INTERNAL AUDIT SECTION PROGRESS REPORT  
2017/18 – 3 MONTHS**

**APPENDIX 3**

**Performance Indicators**

	<b>2016/17</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Target</b>
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	

	<b>2017/18</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Target</b>
1	Percentage of planned audits completed	13%				20% (80% pa)
2	Percentage of audits completed within planned time	0%				60%
3	Average no. of days from audit closing meeting to issue of a draft report	8 days				12 days
4	Average no. of days from receipt of response to draft report to issue of the final report	17 days				5 days
5	Percentage of recommendations made that were accepted by the clients	98%				90%
6	Percentage of clients at least 'satisfied' by audit process	100%				90%
7	Percentage of directly chargeable time (actual v planned)	102%				100%
8	Number of special investigations	4				

N /A – not available