

**SUBJECT: INTERNAL AUDIT SECTION
PROGRESS REPORT 9 Months into 2018/19**

**DIRECTORATE: Resources
MEETING: Audit Committee
DATE: 31 January 2019
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 2018.

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 2018/19 Operational Audit Plan and the Section's performance indicators at the 9 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 2018/19 agreed 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 2018.
- 3.3 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.
- 3.4 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 took place during 2017/18 with the outcome being that the team is generally compliant; no significant areas of non compliance.

- 3.5 The 2018/19 Draft Audit Plan was agreed by the Audit Committee on 16th March 2018; final approved on 6th July 2018.

4. REASONS

- 4.1 Since the start of the financial year, the Internal Audit Section has completed 49 audit jobs to draft stage from its 2018/19 Operational Audit Plan. 14 of these being opinion related and these are shown in the table at Appendix 1.
- 4.2 In relation to the normal audit opinion related reports, 14 have been issued by the end of the 3rd Quarter; 1 provided *Substantial Assurance*, 4 *Considerable Assurance*, 6 *Reasonable* and 3 *Limited Assurance*. One report related to the AGS where no opinion was given, but this forms part of the Council's annual financial statements and financial advice was given in several areas; work was also undertaken on the National Fraud Initiative (NFI). The team was 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 2017/18 continued; of the 24 reviews at draft report stage at 31 March 2018, 21 have subsequently been finalised; 2 x Substantial opinions, 7 x Considerable opinions, 7 x Reasonable opinions, 4 x Limited opinions and 1 qualified grant claim.
- 4.5 Audit management have also been involved with 5 ongoing special investigations to date this year, some of which have continued from 2017/18; these are often very sensitive and time consuming. Work has been undertaken on 3 unplanned areas, 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 2018.
- 4.7 Of the finalised audit reviews, the acceptance of audit recommendations was good at 99%; of these, evaluation questionnaires have been returned from 6 operational managers therefore the data is not yet representative in terms of how satisfied they were with the audit service they had received.

- 4.8 Draft reports have taken 10 days to issue following completion of audit work and the review process. It has taken 16 days to issue final reports following the receipt of management comments.
- 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 53% (36% 2017/18) is higher than the same period of the previous year and above 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 was involved with the verification and validation of the Council's annual performance indicators before they were 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

Chief Officer Resources

Results of Consultation:

N/A

9. BACKGROUND PAPERS

Operational Audit Plan 2018/19

10. AUTHORS AND CONTACT DETAILS

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APPENDIX 1

Internal Audit reviews from the 2018/19 Operational Audit Plan where fieldwork has been completed and/or final reports issued since 1/4/18 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 2018

Internal Audit Services - Management Information for 2018/19 – Quarter 3

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1819/12	Children & Young People	Schools	Gilwern Primary School	Low	Draft	Substantial
P1819/11	Children & Young People	Schools	Kymin View Primary School	Low	Finalised	Considerable
P1819/13	Children & Young People	Schools	Goytre Fawr Primary School	Low	Finalised	Considerable
P1819/30	Enterprise	Policy & Governance	National Performance Indicators	Medium	Draft	Considerable
P1819/48	Resources	People	Payroll	Medium	Draft	Considerable
P1819/16	Children & Young People	Schools	Raglan Primary School Follow-up	Medium	Finalised	Reasonable
P1819/17	Children & Young People	Schools	Ysgol Y Ffin Primary School Follow-up	Medium	Finalised	Reasonable
P1819/60	Resources	Finance	IR35	Medium	Draft	Reasonable
P1819/61	Resources	Finance	Direct Bank Payments	Medium	Draft	Reasonable

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1819/70	Social Care & Health	Integrated Services	Former Monmouthshire Enterprises Services Follow-up	Medium	Draft	Reasonable
P1819/75	Social Care & Health	Children's Services	External Placements Follow-up	High	Draft	Reasonable
P1819/26	Enterprise	Tourism, Leisure & Culture	Caldicot Castle	Medium	Draft	Limited
P1819/76	Social Care & Health	Children's Services	Review of Imprest Account	Medium	Draft	Limited
P1819/86	Corporate	Cross Cutting	Agency Workers	Medium	Draft	Limited
P1819/22	Enterprise	Enterprise and Community Delivery	Agri-Urban URBACT Scheme Final Claim	Low	Finalised	Qualified
P1819/71	Social Care & Health	Integrated Services	Supporting People Grant - Outcomes Data (May)	High	Draft	Qualified
P1819/03	Children & Young People	Achievement & Extended Services	Education Improvement Grant	Medium	Finalised	Unqualified
P1819/04	Children & Young People	Achievement & Extended Services	Pupil Development Grant	Low	Finalised	Unqualified
P1819/05	Children & Young People	Achievement & Extended Services	Outside School Childcare Grant	Low	Finalised	Unqualified
P1819/72	Social Care & Health	Integrated Services	Supporting People Grant - Financial Data (Sept)	Medium	Finalised	Unqualified

Non – opinion / Added Value Audit Work

Job number	Directorate	Service	Job Name	Opinion
P1819/07	Children & Young People	Achievement & Extended Services	Audit Advice	Not applicable
P1819/19	Children & Young People	Schools	Audit Advice	Not applicable
P1819/20	Children & Young People	CYP Resources	Monitoring Implementation of Audit Recommendations	Not applicable
P1819/21	Children & Young People	CYP Resources	Audit Advice	Not applicable
P1819/23	Enterprise	Enterprise and Community Delivery	Audit Advice	Not applicable
P1819/28	Enterprise	Tourism, Leisure & Culture	Monitoring Implementation of Audit Recommendations	Not applicable
P1819/29	Enterprise	Tourism, Leisure & Culture	Audit Advice	Not applicable
P1819/31	Enterprise	Policy & Governance	Local Performance Indicators	Not applicable
P1819/32	Enterprise	Policy & Governance	Monitoring Implementation of Audit Recommendations	Not applicable
P1819/33	Enterprise	Policy & Governance	Audit Advice	Not applicable
P1819/35	Enterprise	Planning, Housing and Place Shaping	Audit Advice	Not applicable
P1819/38	Operations	Passenger Transport Unit	Audit Advice	Not applicable
P1819/42	Operations	Transport	Audit Advice	Not applicable
P1819/44	Operations	Waste & Street Operations	Audit Advice	Not applicable
P1819/45	Operations	Highways and Flood Management	Monitoring Implementation of Audit Recommendations	Not applicable
P1819/46	Operations	Highways and Flood Management	Audit Advice	Not applicable
P1819/52	Resources	People	Audit Advice	Not applicable
P1819/53	Resources	Digital & Agile	Audit Advice	Not applicable

Job number	Directorate	Service	Job Name	Opinion
P1819/62	Resources	Finance	Monitoring Implementation of Audit Recommendations	Not applicable
P1819/63	Resources	Finance	Audit Advice	Not applicable
P1819/67	Resources	Commercial & Integrated Landlord Services	Audit Advice	Not applicable
P1819/68	Resources	Business Planning and Redesign	Audit Advice	Not applicable
P1819/74	Social Care & Health	Integrated Services	Audit Advice	Not applicable
P1819/78	Social Care & Health	Children's Services	Audit Advice	Not applicable
P1819/80	Social Care & Health	Public Protection	Audit Advice	Not applicable
P1819/81	Social Care & Health	Social Services Finance Unit	Audit Advice	Not applicable
P1819/82	Corporate	Cross Cutting	National Fraud Initiative	Not applicable
P1819/83	Corporate	Cross Cutting	Annual Governance Statement	Not applicable
P1819/93	Corporate	Cross Cutting	Future Monmouthshire Audit Advice	Not applicable

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:

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.

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APPENDIX 3

Performance Indicators

	2017/18	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	13%	23%	36%	82%	12% (80% pa)
2	Percentage of audits completed within planned time	0%	0%	30%	43%	60%
3	Average no. of days from audit closing meeting to issue of a draft report	8 days	21 days	59 days	52 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	19 days	5 days
5	Percentage of recommendations made that were accepted by the clients	98%	99%	97%	96%	90%
6	Percentage of clients at least 'satisfied' by audit process	100%	100%	100%	82%	90%
7	Percentage of directly chargeable time (actual v planned)	102%	108%	110%	108%	100%
8	Number of special investigations	4	4	5	6	

	2018/19	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	17%	30%	53%		50% (84% pa)
2	Percentage of audits completed within planned time	N/A	100%	67%		60%
3	Average no. of days from audit closing meeting to issue of a draft report	3 days	4 days	10 days		12 days
4	Average no. of days from receipt of response to draft report to issue of the final report	12 days	17 days	16 days		5 days
5	Percentage of recommendations made that were accepted by the clients	100%	98%	99%		90%
6	Percentage of clients at least 'satisfied' by audit process	100%	100%	100%		90%
7	Percentage of directly chargeable time (actual v planned)	112%	108%	108%		100%
8	Number of special investigations	2	4	5		

N /A – not available