

**SUBJECT: INTERNAL AUDIT SECTION  
Outturn Report 2018/19**

**DIRECTORATE: Chief Executive  
MEETING: Audit Committee  
DATE: 13 June 2019**

**DIVISION/WARDS AFFECTED: All**

**1. PURPOSE**

To receive and consider the Annual Audit Outturn Report for 2018/19.

**2. RECOMMENDATION(S)**

That the Audit Committee endorse the Outturn Report.

**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.

3.2 The audit opinions issued reflect the level of assurance obtained; these are shown at Appendix A. 32 audit opinions were issued during 2018/19 ranging from Substantial to Limited. The overall opinion was **Reasonable**, which indicates *the systems were adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.*

3.3 6 reviews were given **Limited** assurance.

3.4 The Internal Audit team achieved 84% of the agreed 2018/19 audit plan against a target of 82%.

**4. REASONS**

4.1 Monmouthshire County Council, as a local government organisation, is subject to The Accounts and Audit (Wales) Regulations 2014 and therefore has a duty to make provision for internal audit in accordance with the Local Government Act.

- 4.2 Internal Audit is an independent function established by the management of Monmouthshire County Council to provide an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 4.3 In line with the Public Sector Internal Auditing Standards, the Chief Internal Auditor should present a formal annual report to the Council which gives an opinion on the overall adequacy and effectiveness of the Council's internal control environment. During 2017/18 the Internal Audit team were independently assessed against these standards and were found to be compliant.
- 4.4 This is the Internal Audit Annual Report.

**5. RESOURCE IMPLICATIONS**

None.

**6. CONSULTEES**

Chief Officer Resources

**7. BACKGROUND PAPERS**

Annual Outturn Report 2018/19 - attached  
Operational Audit Plan 2018/19  
Strategic Audit Plan  
Public Sector Internal Auditing Standards

**8. AUTHOR AND CONTACT DETAILS**

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**INTERNAL AUDIT SECTION  
ANNUAL OUTTURN REPORT  
2018/19**

**YEAR ENDED 31st MARCH 2019**

**Date: May 2019**

## **1. Introduction**

- 1.1 Monmouthshire County Council, as a local government organisation, is subject to The Accounts and Audit (Wales) Regulations 2014 and therefore has a duty to make provision for internal audit in accordance with the Local Government Act.
- 1.2 The Regulations state that the Responsible Finance Officer (S.151) of the organisation shall maintain an adequate and effective internal audit of the accounts of that organisation and its systems of internal control. Internal Audit undertakes this role on behalf of the S.151 Officer. Internal Audit is seen as an independent function established by the management of Monmouthshire County Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of resources.
- 1.3 In line with the Public Sector Internal Auditing Standards, the Chief Internal Auditor should present a formal annual report to the Council which gives an opinion on the overall adequacy and effectiveness of the Council's internal control environment. The annual report should also:
- a. disclose any qualifications to that opinion, together with reasons for the qualification;
  - b. present a summary of the audit work undertaken to formulate the opinion;
  - c. draw attention to any issues the Chief Internal Auditor judges particularly relevant to the preparation of the annual governance statement (to be reported separately);
  - d. compare the work actually undertaken with that planned and summarise the performance of the internal audit function against its performance measures and criteria; and
  - e. comment on compliance with these standards and communicate the results of the internal quality assurance programme.
- 1.4 This report is the Annual Internal Audit Report which meets the requirements of the Standards. It provides the overall audit opinion for Members on the internal controls operating within the County Council and provides a summary of the work completed during the year, identifying key findings and outcomes from the work undertaken. It also outlines the performance of the Internal Audit team during the year against agreed pre-set targets.

- 1.5 The internal controls operating within the Council are of a complex nature, reflecting the organisational arrangements. Internal Audit plans its work to address the major risks that the Authority faces. That work is not designed to check the work of others but to comment on the controls in place to protect the Council from loss of assets or inefficient operations, whatever the cause.
- 1.6 The objectives of the Section for the year were: -
- (a) To deliver an internal audit service in accordance with the Public Sector Internal Auditing Standards and meeting statutory requirements;
  - (b) To undertake risk-based assessments of the Authority's internal control environment and hence contribute to the Annual Governance Statement;
  - (c) To maintain and enhance the audit involvement in all areas as an aid to good financial stewardship;
  - (d) To assist external audit in forming their audit opinion as part of the Managed Audit arrangements;
  - (e) To assist the Senior Leadership Team in the improvement process and to review the Performance Indicators contained in Monmouthshire County Council's Improvement Plan.

## **2. Audit Opinion**

- 2.1 In 2018/19, based on the planned work undertaken during the year, overall, the systems and procedures in place were adequately controlled, although risks were identified which could compromise the overall control environment; improvements are required. The opinion definitions are noted at Appendix A.
- 2.2 The overall audit opinion for the internal controls operating within the Council in 2018/19 was **Reasonable**:

The Internal Audit team has completed its internal audit work for the year based upon the Operational Audit Plan approved by the Audit Committee in March 2018. The Plan was designed to ensure adequate coverage over the Council's accounting and operational systems using a risk based assessment methodology.

The audit work included reviews, on a sample basis, of each of these systems/establishments sufficient to discharge the Authority's responsibilities for Internal Audit under section 151 of the Local Government Act 1972 and The Accounts and Audit (Wales) Regulations 2014. The opinion is based upon the work undertaken. Work was planned in order to provide sufficient evidence to give me reasonable assurance of the internal control environments tested.

Based on the planned work undertaken during the year, in my view the internal controls in operation are **Reasonable; Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.**

The opinion expressed relates only to the systems and areas reviewed during the year.

Andrew Wathan  
Chief Internal Auditor  
May 2019

- 2.3 On undertaking audit reviews in accordance with the Annual Audit Plan, an opinion is given on how well the internal controls of the system or establishment are operating. Internal audit reports provide a balanced view of the controls in place. The opinion is determined by the number of strengths and weaknesses identified during the course of the review and the risk rating and priority given to each. Each audit review undergoes a comprehensive review process by the Audit Manager and occasionally the Chief Internal Auditor before the draft report is sent out to management. The controls are generally measured against a predetermined matrix of expected internal controls for each system; for fundamental systems these are usually derived from CIPFA.
- 2.4 The overall opinion has been compiled from individual audit reviews undertaken during the year [Appendix B].

<b>Audit Opinion</b>	<b>2016/17</b>	<b>%</b>	<b>2017/18</b>	<b>%</b>	<b>2018/9</b>	<b>%</b>
Substantial	3	11	2	5	2	6
Considerable	10	36	13	32	11	34
Reasonable	7	25	17	43	13	41
Limited	8	28	8	20	6	19
	28	100	40	100	32	100
<b>Overall Opinion</b>	<b>Reasonable</b>		<b>Reasonable</b>		<b>Reasonable</b>	

- 2.5 Managers within directorates need to ensure that robust internal controls are in place and adhered to in order to ensure that the systems in operation run efficiently and effectively and the scope for misappropriation, theft or error is minimised. Heads of Service have a responsibility to ensure that the Council's Financial Procedure Rules and Contract Procedure Rules are complied with at an operational level. Staff should be made aware of these and the requirements therein and the consequences of non-compliance.

### **3. Extent of Coverage**

- 3.1 It is considered that adequate audit coverage was provided to all service areas.
- 3.2 Overall, whilst not all planned audits were carried out, the actual number achieved is considered acceptable in view of the relative risk and priorities of other audit needs.

### **4. Audit Coverage**

- 4.1 The full list of audit reviews completed by the Section during the year is shown in the attached Appendix B, together with the relevant internal control opinion awarded recorded for each audit.
- 4.2 Control opinions range from Substantial to Limited in accordance with the definitions shown in Appendix A.

4.3 Audit reviews concluding with a control opinion of limited assurance are routinely reported (in summary form) to the Audit Committee. For 2018/19 there were 6 **Limited** opinions.

- i. Caldicot Castle
- ii. Fuel Cards Follow up
- iii. Attendance Management
- iv. H&S of Council buildings
- v. Imprest Account – Children’s Services
- vi. Agency Workers

4.4 Details of why these audit reviews resulted in limited assurance being given will be presented to Audit Committee separately.

4.5 The report format simplifies the outcome of the audit process and gives operational managers a clear indication of the audit opinion following the audit review. The audit opinions provide a level of assurance and are colour coded in line with the traffic light system (Appendix A).

## **5. Non-Audit Duties**

5.1 The team now has a minimal involvement with controlled stationery, although still administers the imprest account process.

## **6. Fraud, Irregularity and Special Work/Investigations**

6.1 During the year the Section undertook unplanned or special work, including the investigation of suspected fraud, irregularities and non-compliance:

Safeguarding & H&S concerns
Data Subject Access Request
Poor control over income records / favouritism
Maladministration
Unauthorised payroll transactions
Conflict of interest / Moonlighting



## **7. Training**

- 7.1 During the year a number of staff attended external courses / seminars on a variety of topics to ensure continued professional development. Currently 2 of the team are being supported through their professional Internal Audit qualifications.
- 7.2 The Section also participates in a number of local audit groups including the Welsh Chief Auditors' Group, the South Wales Chief Auditors' Group and respective sub groups.
- 7.3 Management fully support the development and training of the audit staff and will continue to send staff to appropriate seminars/courses etc., to maintain an awareness of technical and legislative developments and to support user groups within the area in order to provide a more effective service. This will be beneficial on a personal and professional level.

## **8. Audit Team Performance**

- 8.1 To ensure a quality Internal Audit service is provided, the Section uses a range of performance indicators which it compares with other Welsh authorities via the Welsh Chief Auditors' Group.
- 8.2 As shown at Appendix C, the performance of the audit team during 2018/19 was good in that the team achieved 84% of the agreed plan against a target of 80%. This was despite being involved with a number of special investigations.
- 8.3 Excluding finalisation work from 2017/18, 93 audit jobs were planned for 2018/19; 78 jobs were completed to at least draft report stage. [Not all jobs in the plan would warrant an audit opinion eg financial advice, Annual Governance Statement, NFI, external work, grant claims]. Productive audit days planned for the year amounted to 982; actual days charged were 980.
- 8.4 The team's performance of completion of work within planned time showed the team completed 64% of jobs within planned time compared to 43% in the previous year. This is something audit management will continue to look to improve in the current year.
- 8.5 As a measure of the quality of the work produced, the Section was able to report that 98% of its recommendations were accepted by the relevant client managers. [This does not take into account reports that were in draft at year end]. The percentage of previously agreed recommendations which had been implemented or partially implemented will be reported later in the year.

- 8.6 Getting audit reports out to clients in a timely manner is a key aspect of maintaining relationships and ensuring control weakness are addressed at an early stage. As a result of management involvement with significant special investigations and unplanned work throughout the year, the team did not do as well as expected in getting reports out to operational managers, although this was a significant improvement on the previous year.
- a. Final reports were sent out 18 days following receipt of management comments, against a target of 5 days.
  - b. Draft reports were sent out to clients 9 days after the completion of the audit work against a target of 17 days.
- 8.7 Of the audit evaluation questionnaires which were returned by operational managers, 100% were satisfied with the audit service they had received although it is recognised that timeliness of reporting needs to improve. The feedback received also gave an indication of the added value of undertaking audits across all directorates; examples of which are shown at Appendix D.

## **9. Conclusions**

- 9.1 It is considered that, over the course of the financial year, the objectives of the Section (as stated in paragraph 1.6) have been met.
- 9.2 The reporting procedures for all areas of the Section are now well established. Working practices are updated as a matter of course to underpin the quality of work undertaken. Team meetings are held on a regular basis to ensure all staff are kept aware of new developments.
- 9.3 However, due to the impact of special work, there were certain areas in the Audit Plan that could not be covered in the year. The Section's management maintained a continuous review process throughout the year to ensure that the highest risk areas were targeted and the Section's Operational Plan for 2018/19 was also designed to ensure that any priority areas outstanding would be covered in the next financial year.
- 9.4 The objective of the Internal Audit team is to provide assurance to Management and Members of the adequacy of the internal control environment, governance arrangements and risk management processes within Monmouthshire. Reduced audit staff resources leads to less coverage across the services provided by the Council which limits the assurance that can be given. In addition the team becomes less flexible in its ability to undertake special investigations in response to allegations of fraud, theft or non compliance.
- 9.5 The Chief Internal Auditor will have to monitor the situation closely and use a range of options to ensure appropriate audit coverage is

provided. Although demands on the resources are increasing, the Chief Internal Auditor is confident that adequate and appropriate coverage will be provided throughout the Council; prioritisation may be required.

- 9.6 Finally, the support of all audit staff as well as senior management must be acknowledged in helping to continue to provide a comprehensive and valuable service to the Authority.

Definitions of Internal Audit Opinions Used

LEVEL OF ASSURANCE	DESCRIPTION
SUBSTANTIAL	Very well controlled, with numerous strengths identified and any risks being less significant in nature.
CONSIDERABLE	Generally well controlled, although some risks identified which should be addressed.
REASONABLE	Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.
LIMITED	Poorly controlled, with unacceptable levels of risk. Fundamental improvements required urgently.

## Audit Opinions

Overall Opinion 2018/19

Reasonable

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1819/09	Children & Young People	Schools	Shirenewton Primary School	Low	Draft	Substantial
P1819/12	Children & Young People	Schools	Gilwern Primary School	Low	Final	Substantial
P1819/08	Children & Young People	Schools	Monmouth Comprehensive School	Medium	Draft	Considerable
P1819/11	Children & Young People	Schools	Kymin View Primary School	Low	Final	Considerable
P1819/13	Children & Young People	Schools	Goytre Fawr Primary School	Low	Final	Considerable
P1819/14	Children & Young People	Schools	Usk CiW VC Primary School	Low	Draft	Considerable
P1819/15	Children & Young People	Schools	Magor Primary School Follow-up	Medium	Draft	Considerable
P1819/30	Enterprise	Policy & Governance	National Performance Indicators	Medium	Final	Considerable
P1819/48	Resources	People	Payroll	Medium	Draft	Considerable
P1819/51	Resources	People	HR Policy Review Follow-up	High	Draft	Considerable
P1819/55	Resources	Finance	Creditors 2017/18	Medium	Draft	Considerable
P1819/56	Resources	Finance	Corporate Sundry Debtors 2017/18	Medium	Draft	Considerable
P1819/58	Resources	Finance	Treasury Management	Medium	Draft	Considerable
P1819/10	Children & Young People	Schools	St. Mary's RC Primary School	Low	Draft	Reasonable
P1819/16	Children & Young People	Schools	Raglan Primary School Follow-up	Medium	Final	Reasonable
P1819/17	Children & Young People	Schools	Ysgol Y Ffin Primary School Follow-up	Medium	Final	Reasonable
P1819/24	Enterprise	Tourism, Leisure & Culture	Borough Theatre	Medium	Draft	Reasonable
P1819/37	Operations	Passenger Transport Unit	Personal Transport Budgets	Low	Draft	Reasonable
P1819/43	Operations	Waste & Street Operations	Waste & Recycling	High	Draft	Reasonable

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1819/60	Resources	Finance	IR35	Medium	Final	Reasonable
P1819/61	Resources	Finance	Direct Bank Payments	Medium	Final	Reasonable
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
P1819/85	Corporate	Cross Cutting	Wellbeing of Future Generations Act	Medium	Draft	Reasonable
P1819/90	Corporate	Cross Cutting	Volunteering Follow-up	Medium	Draft	Reasonable
P1819/91	Corporate	Cross Cutting	Mobile Phones Follow-up	Medium	Draft	Reasonable
P1819/26	Enterprise	Tourism, Leisure & Culture	Caldicot Castle	Medium	Draft	Limited
P1819/41	Operations	Transport	Fuel Cards Follow-up	Medium	Draft	Limited
P1819/49	Resources	People	Attendance Management	Medium	Draft	Limited
P1819/65	Resources	Commercial & Intergrated Landlord Services	Health & Safety of Authority's existing buildings	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	Final	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	Final	Unqualified
P1819/04	Children & Young People	Achievement & Extended Services	Pupil Development Grant	Low	Final	Unqualified
P1819/05	Children & Young People	Achievement & Extended Services	Outside School Childcare Grant	Low	Final	Unqualified
P1819/72	Social Care & Health	Integrated Services	Supporting People Grant - Financial Data (Sept)	Medium	Draft	Unqualified

## Performance of the Internal Audit Section

<b>Performance Indicator</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>Annual Target</b>	<b>2018/19</b>
Percentage of planned audits completed	74%	75%	82%	82%	84%
Percentage of audits completed within planned time	27%	55%	43%	67%	64%
Average no. of days from audit closing meeting to issue of a draft report	75 days	22	52	17 days	9days
Average no. of days from receipt of response to draft report to issue of the final report	22 days	11	19	5 days	18 days
Percentage of recommendations made that were accepted by the clients	97%	98%	96%	95%	98%
Percentage of agreed recommendations that were implemented by the clients	N/A	68%	75%	90%	TBC
Percentage of clients at least 'satisfied' by audit process	100%	100%	89%	95%	100%
Percentage of Directly Chargeable Time (actual versus planned)	91%	107%	108%	100%	107%

## Appendix D

### Non opinion related audit work

Job number	Directorate	Service	Job Name
P1819/01	Children & Young People	21st Century Schools	Monitoring Implementation of Audit Recommendations
P1819/02	Children & Young People	21st Century Schools	Audit Advice
P1819/07	Children & Young People	Achievement & Extended Services	Audit Advice
P1819/18	Children & Young People	Schools	Monitoring Implementation of Audit Recommendations
P1819/19	Children & Young People	Schools	Audit Advice
P1819/20	Children & Young People	CYP Resources	Monitoring Implementation of Audit Recommendations
P1819/21	Children & Young People	CYP Resources	Audit Advice
P1819/23	Enterprise	Enterprise and Community Delivery	Audit Advice
P1819/27	Enterprise	Tourism, Leisure & Culture	Events Follow-up
P1819/28	Enterprise	Tourism, Leisure & Culture	Monitoring Implementation of Audit Recommendations
P1819/29	Enterprise	Tourism, Leisure & Culture	Audit Advice
P1819/31	Enterprise	Policy & Governance	Local Performance Indicators
P1819/32	Enterprise	Policy & Governance	Monitoring Implementation of Audit Recommendations
P1819/33	Enterprise	Policy & Governance	Audit Advice
P1819/34	Enterprise	Planning, Housing and Place Shaping	Monitoring Implementation of Audit Recommendations
P1819/35	Enterprise	Planning, Housing and Place Shaping	Audit Advice
P1819/38	Operations	Passenger Transport Unit	Audit Advice
P1819/39	Operations	SWTRA & Street Lighting	Monitoring Implementation of Audit Recommendations
P1819/42	Operations	Transport	Audit Advice
P1819/44	Operations	Waste & Street Operations	Audit Advice
P1819/45	Operations	Highways and Flood Management	Monitoring Implementation of Audit Recommendations
P1819/46	Operations	Highways and Flood Management	Audit Advice
P1819/47	Operations	County Highways Operations	Audit Advice



<b>Job number</b>	<b>Directorate</b>	<b>Service</b>	<b>Job Name</b>
P1819/52	Resources	People	Audit Advice
P1819/53	Resources	Digital & Agile	Audit Advice
P1819/62	Resources	Finance	Monitoring Implementation of Audit Recommendations
P1819/63	Resources	Finance	Audit Advice
P1819/66	Resources	Commercial & Intergrated Landlord Services	Monitoring Implementation of Audit Recommendations
P1819/67	Resources	Commercial & Intergrated Landlord Services	Audit Advice
P1819/68	Resources	Business Planning and Redesign	Audit Advice
P1819/74	Social Care & Health	Integrated Services	Audit Advice
P1819/78	Social Care & Health	Children's Services	Audit Advice
P1819/79	Social Care & Health	Public Protection	Monitoring Implementation of Audit Recommendations
P1819/80	Social Care & Health	Public Protection	Audit Advice
P1819/81	Social Care & Health	Social Services Finance Unit	Audit Advice
P1819/82	Corporate	Cross Cutting	National Fraud Initiative
P1819/83	Corporate	Cross Cutting	Annual Governance Statement
P1819/92	Corporate	Cross Cutting	Monitoring Implementation of Audit Recommendations
P1819/93	Corporate	Cross Cutting	Future Monmouthshire Audit Advice