

**SUBJECT: INTERNAL AUDIT SECTION
PROGRESS REPORT 6 Months into 2015/16**

**DIRECTORATE: Chief Executive's
MEETING: Audit Committee
DATE: 14th January 2016
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 2015.

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 2015/16 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 2015/16 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 2015.
- 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.

4. REASONS

- 4.1 Since the start of the financial year, the Internal Audit Section has completed 25 audit jobs from its 2015/16 Operational Audit Plan, six of which were opinion related. As at 31st December 2015, 3 'Good' and 3 'Reasonable' audit opinions have been issued; 4 grant claims have been given an unqualified audit opinion. These reports are listed in the table shown in Appendix 1.
- 4.2 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 five internal audit opinions and the risk ratings used by the Section are provided at Appendix 2 for Members' information. These audit opinions are currently under review, as is the format of the audit reports.
- 4.4 Finalisation work from 2014/15 continues; of the 14 reviews at draft report stage at 31 March 2015, 8 have subsequently been finalised:

Audit Review	Audit Opinion
Treasury Management	Very Good
Cashiers	Good
Bank Reconciliation	Good
Car Parks	Reasonable
Procurement	Unsatisfactory
Llandogo Primary	Reasonable
Usk Primary	Good
Chepstow Leisure Centre	Good

- 4.5 Audit management have also been involved with 9 special investigations to date this year, some of which have continued from 2014/15; 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 2015.
- 4.7 3 audit reviews started in the year have been finalised; the acceptance of audit recommendations was good at 99%. Evaluation questionnaires have not yet been returned from operational managers so no data is available to measure how were satisfied they were with the audit service they had received.
- 4.8 On average, draft reports have taken 52 days to issue. It has taken an average of 46 days to issue final reports following receipt of

management comments. The main reason for the delay in getting reports reviewed and then issued was the team's involvement with three very time consuming special investigations, one of which was at the request of Senior Management in Education and a Cabinet Member.

- 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 40% (47% 2014/15) 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 an ongoing vacancy. An Interim Principal Auditor was appointed during May to help support the resources within the team and help achieve more of the audit plan. One of the Senior Auditors left the team during quarter one to take up a new post within the Authority. These two vacancies have subsequently been filled on a permanent basis. There was an unexpected absence within the team and further on the job training was required for inexperienced staff new to the team.
- 4.12 The team also took time out of planned work to develop a new reporting format to improve the efficiency and effectiveness of audit work. Audit opinions are also in the process of being revised and updated in order to give a better understanding of the level of assurance gained from undertaking the audit work. These will be presented to Audit Committee in due course.
- 4.13 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 2015/16

10. AUTHORS AND CONTACT DETAILS

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AUDIT COMMITTEE JANUARY 2016

INTERNAL AUDIT SECTION PROGRESS REPORT 2015/16 – 9 MONTHS

APPENDIX 1

Internal Audit reviews from the 2015/16 Operational Audit Plan where fieldwork has been completed and/or final reports issued since 1/4/15 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 very good through to unsound.

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 31 December 2015 2015/16 Quarter 3

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Complete when FINALISED	Opinion given
P15/16/10	Chief Executive's	Policy & Engagement	NSI's & SID's Pis	Medium		Good
P15/16/11	Chief Executive's	Policy & Engagement	Local Pis	Medium		Good
P15/16/31	Children & Young People	Schools	Caldicot Comprehensive	Medium		Good
P15/16/05	Chief Executive's	Finance	Debtors (14/15)	Medium		Reasonable
P15/16/08	Chief Executive's	Democracy & Regulatory Services	Building Control	Medium		Reasonable
P15/16/37	Enterprise	Commercial & People Development	Payroll (14/15)	Medium		Reasonable
P15/16/19	Children & Young People	Standards	Foundation Phase Revenue Grant	Medium	Finalised	Unqualified
P15/16/20	Children & Young People	Standards	Out of School Childcare Grant	Low	Finalised	Unqualified
P15/16/43	Enterprise	Community-led Delivery	Digital Inclusion Grant	Low	Finalised	Unqualified
P15/16/57	Social Care & Health	Commissioning	Supporting People Grant Claim			Unqualified

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Complete when FINALISED	Opinion given
P15/16/07	Chief Executive's	Finance	Audit Advice			
P15/16/09	Chief Executive's	Democracy & Regulatory Services	Audit Advice			
P15/16/17	Chief Executive's	Operations	Audit Advice			
P15/16/18	Children & Young People	Resources	Audit Advice			
P15/16/34	Children & Young People	Schools	Audit Advice			
P15/16/35	Children & Young People	Youth Service	Audit Advice			
P15/16/39	Enterprise	Commercial & People Development	Audit Advice			
P15/16/44	Enterprise	Community-led Delivery	Audit Advice			
P15/16/47	Enterprise	Tourism, Leisure & Culture	Audit Advice			
P15/16/52	Social Care & Health	Children's Services	Audit Advice			
P15/16/56	Social Care & Health	Adult Services	Audit Advice			
P15/16/58	Social Care & Health	Commissioning	Audit Advice			
P15/16/60	Social Care & Health	Resources & Performance	Audit Advice			
P15/16/62	Corporate	Corporate	Annual Governance Statement	Not Applicable		

APPENDIX 2

Internal Audit Opinions

Each report contains an opinion which is an overall assessment of the control environment reviewed. The full list of audit opinions used is shown below:

Opinion	Description
VERY GOOD	Very well controlled with minimal risk identified; a few minor recommendations.
GOOD	Well controlled although some risk identified which needs addressing.
REASONABLE	Adequately controlled although some risks identified which may compromise the overall control environment.
UNSATISFACTORY	Not very well controlled; unacceptable levels of risk identified; changes required urgently.
UNSOUND	Poorly controlled; major risk exists; fundamental improvements are required with immediate effect.

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 JANUARY 2016

**INTERNAL AUDIT SECTION PROGRESS REPORT
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APPENDIX 3

Performance Indicators

	2014-15	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	32%	43%	47%	65%	50% (80% pa)
2	Percentage of audits completed within planned time	0%	0%	0%	0%	60%
3	Average no. of days from audit closing meeting to issue of a draft report	9 days	35 days	40 days	52 days	12 days
4	Average no. of days from receipt of response to draft report to issue of the final report	4 days	12 days	33 days	29 days	5 days
5	Percentage of recommendations made that were accepted by the clients	100%	99%	95%	96%	90%
6	Percentage of clients at least 'satisfied' by audit process	N/A	100%	100%	91%	90%
7	Percentage of directly chargeable time (actual v planned)	94%	92%	86%	85%	100%
8	Number of special investigations	3	5	6	6	

	2015/16	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	14%	23%	40%		50% (80% pa)
2	Percentage of audits completed within planned time	0%	50%	33%		60%
3	Average no. of days from audit closing meeting to issue of a draft report	3 days	17 days	52 days		12 days
4	Average no. of days from receipt of response to draft report to issue of the final report	12 days	34 days	46 days		5 days
5	Percentage of recommendations made that were accepted by the clients	100%	99%	99%		90%
6	Percentage of clients at least 'satisfied' by audit process	N/A	N/A	N/A		90%
7	Percentage of directly chargeable time (actual v planned)	94%	81%	120%		100%
8	Number of special investigations	6	7	9		

N /A – not available