

SUBJECT:	INTERNAL AUDIT Annual Report 2020/21
DIRECTORATE:	Resources
MEETING:	Governance and Audit Committee
DATE:	29 July 2021
DIVISION/WARDS AFFECTED: All	

1. PURPOSE

To receive and consider the Annual Internal Audit Report for 2020/21.

2. RECOMMENDATION(S)

That the Governance and Audit Committee endorse the Annual Report.

3. KEY ISSUES

- 3.1 The Public Sector Internal Audit Standards require the Chief Internal Auditor to provide an annual opinion based upon and limited to the work performed on the overall adequacy and effectiveness of Monmouthshire County Council's framework of governance, risk management and internal control. This is achieved through a risk-based plan of work, agreed with management, which should provide a reasonable level of assurance. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.
- 3.2 The audit opinions issued reflect the level of assurance obtained; these are shown at Appendix B. **9** audit opinions were issued during 2020/21 ranging from Substantial to Reasonable assurance (29 in 19/20). The overall opinion was **Reasonable assurance**, which indicates *the systems were adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.*
- 3.3 No reviews were given **Limited assurance**.
- 3.4 The work of Internal Audit was significantly impacted by Covid-19 pandemic during 2020/21 which resulted in less audit work being

undertaken than originally planned. The team was heavily involved with counter fraud work in relation to business support grants from Welsh Government in relation to Covid-19 and supported the track, trace and prevent (TTP) process as previously reported to Members. The 2020/21 Audit opinion is therefore reliant on previous work undertaken by the team where a Reasonable Assurance opinion was issued for 2019/20; there have been no significant changes to the organisation's systems or key personnel and no major frauds were identified. Internal Audit opinions on the work undertaken at the SRS by Torfaen Internal Audit team were also taken into consideration.

- 3.5 The Internal Audit team achieved 57% of the agreed 2020/21 revised audit plan against a target of 82% (77% in 2019/20). The achievement of the plan was significantly affected by Covid-19 for reasons previously reported into Committee.

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 (PSIAS), 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, governance arrangements and risk management processes. The Standards require an external review of Internal Audit to be completed at least every five years. At the latest review during 2017/18 the Internal Audit team was independently assessed against these Standards and were found to be compliant.
- 4.4 This is the Internal Audit Annual Report for 2020/21.

5. RESOURCE IMPLICATIONS

None.

6. CONSULTEES

Deputy Chief Executive & Chief Officer Resources (S151 Officer)

7. BACKGROUND PAPERS

Internal Audit Annual Report 2020/21 - attached
Operational Revised Audit Plan 2020/21
Strategic Audit Plan
Public Sector Internal Auditing Standards
Shared Resource Service (SRS) – Internal Audit Annual Report
2020/21

8. AUTHOR AND CONTACT DETAILS

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**INTERNAL AUDIT
ANNUAL REPORT
2020/21**

YEAR ENDED 31st MARCH 2021

Date: July 2021

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 enhances and protects organisational value by providing risk-based and objective assurance, advice and insight.
- 1.3 In line with the Public Sector Internal Auditing Standards, the Chief Internal Auditor should present a formal annual report to the Governance and Audit Committee 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
- 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.

2. Audit Opinion

- 2.1 In 2020/21, 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 2020/21 was **Reasonable assurance**:

The Internal Audit team has completed its internal audit work for the year based upon the Revised Operational Audit Plan approved by the Audit Committee in October 2020. The Plan was designed to ensure adequate coverage over the Council's financial 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.

As the planned work of Internal Audit was significantly impacted by Covid-19 pandemic during 2020/21, the 2020/21 Audit opinion is therefore also reliant on previous work undertaken by the team where a Reasonable Assurance opinion was issued for 2019/20; there have been no significant changes to the organisation's systems or key personnel and no major frauds were identified. Internal Audit opinions on the work undertaken at the SRS by Torfaen Internal Audit team were also taken into consideration.

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

The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

Andrew Wathan
Chief Internal Auditor
June 2021

- 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 [see Appendix B] and consideration of the previous year's Internal Audit opinion:

Audit Opinion	2018/19	%	2019/20	%	2020/21	%
Substantial	2	6	2	7	2	22
Considerable	11	34	11	38	6	67
Reasonable	13	41	7	24	1	11
Limited	6	19	9	31	0	0
	32	100	29	100	9	100

Overall Opinion	Reasonable	Reasonable	Reasonable

2.5 Internal Audit opinions on the work undertaken at the SRS by Torfaen Internal Audit team were also taken into consideration. SRS are the Council's IT providers, so assurances have been provided on the adequacy of controls in place within that organisation to demonstrate effective governance, risk management and internal control processes.

2.6 Extract from the Annual Internal Audit Report 2020/21 of the Shared Resource Centre (Torfaen Internal Audit Team) - "The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control. Overall Opinion is **Satisfactory**:

- A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and
- None of the individual assignment reports have an overall report classification of either high or critical risk.

2.7 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 2020/21 was an exceptional year which significantly impacted on the work of the Internal Audit team and how it would normally provide the appropriate levels of assurance. Normal audit work could not be undertaken due to the Covic-19 pandemic and many of the audit jobs included within the original audit plan have been carried forward into 2021/22. As reported to Committee in year, for the first 6 months the team was extensively involved with counter fraud work in relation to the business support grants provided by Welsh Government and then it was stood down for a period to support the TTP process. In addition one of the team was seconded out to manage the distribution of the many business grant schemes.
- 3.2 As a result of the limited work undertaken in 2020/21, the Chief Internal Auditor has taken into consideration the audit opinion work issued in 2019/20 as there have been no significant changes in systems or personnel in key positions and no major frauds have been uncovered.
- 3.3 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. The revised IA plan was agreed by Audit Committee in October 2020.

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 issued for each audit.
- 4.2 Control opinions range from Substantial to Limited assurance 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 Governance and Audit Committee. For 2020/21, no **Limited assurance** opinions were issued.
- 4.4 The Annual Internal Audit report for the SRS showed that 9 internal audit reviews (2 systems, 5 follow ups, 2 advisory) were completed in year. This resulted in the identification of 33 findings (25 medium, and 8 low) to improve weaknesses in the design of controls and/or operating effectiveness. All final reports have agreed action plans, dates and responsible officers for improving the internal control environment. The audit reviews undertaken are shown at Appendix B.
- 4.5 The report format for MCC 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 Team undertook extensive work on counter fraud in relation to the Welsh Government business support grants schemes.
- 6.2 Although no major frauds were identified during the year in relation to Monmouthshire's normal business operations, a number of frauds were identified by Internal Audit in relation to the Welsh Government business support grants schemes. These were reported to the police, Action Fraud and the Council's bank where appropriate. The value of the frauds was not material when compared to the total value of grants paid out on behalf of Welsh Government. The Council recovered 25% of the frauds which were identified.

7. Training

- 7.1 During the year a number of staff attended external courses / webinars on a variety of topics to ensure continued professional development.
- 7.2 The Section also participates in a number of local audit groups including the Welsh 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 D, 57% of the agreed plan was completed against a target of 82%, as explained above, due to the impact of Covid-19. Much of the original audit plan could not be completed as

intended; operational managers had to re-prioritise their work to deal with the pandemic which meant they were not always available to respond to internal audit queries. The team was re-purposed for the majority of the year on counter fraud work and supporting TTP.

- 8.3 Excluding finalisation work from 2019/20, 65 audit jobs were included in the revised audit plan for 2020/21; 37 jobs were completed to at least draft report stage. [Not all jobs in the plan would warrant an audit opinion eg audit advice, Annual Governance Statement, NFI, external work, grant claims].
- 8.4 As a measure of the quality of the work produced, the Team was able to report that 99% of its recommendations were accepted by the service 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.
- 8.5 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 the Team being re-purposed for the majority of the year, getting reports out to operational managers was not always timely. Priority will be given to more timely issue of reports in 2021/22.
- a. Final reports were sent out 38 days following receipt of management comments, against a target of 5 days.
 - b. Draft reports were sent out to clients 16 days after the completion of the audit work against a target of 17 days.
- 8.6 A significant factor in the delay of issuing final reports was the number of finalisation audits where client responses were received in quarter 1 of 2020/2021 at a time when the team were heavily involved in Covid business grant administration and counter-fraud work, hence not able to finalise the reports promptly.
- 8.7 Of the audit evaluation questionnaires which were returned by operational managers, 100% were 'satisfied' or 'very satisfied' with the audit service they had received although it is recognised that timeliness of reporting needs to improve.

9. Conclusions

- 9.1 It is considered that, over the course of the financial year, the objectives of the Team (as stated in paragraph 1.6) have been met.
- 9.2 The reporting procedures for all areas of the Team 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 and management can monitor progress of work against the plan.

- 9.3 The Team's management maintained a continuous review process throughout the year to ensure, where possible, that the highest risk areas were targeted and the Operational Plan for 2021/22 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	2020/21	Reasonable
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Summary

Substantial	2
Considerable	6
Reasonable	1
Limited	0
Total Opinions	9
Unqualified	3
Qualified	0

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Finalised at 31-3-21	Opinion given
P2021/26	Enterprise	Commercial, Property, Facilities & Fleet	Fuel Cards Follow-up	Medium	Final	Substantial
P2021/45	Social Care & Health	Integrated Services	Financial Assessments	Medium	Draft	Substantial
P2021/29	Enterprise	Neighbourhood Services	Street Lighting	High	Draft	Considerable
P2021/37	Resources	Finance	Business World Systems Administration	Medium	Final	Considerable
P2021/48	Social Care & Health	Children's Services	Review of Imprest Account Follow-up	Medium	Draft	Considerable
P2021/61	Corporate	Cross Cutting	Safeguarding Arrangements	High	Final	Considerable
P2021/62	Corporate	Cross Cutting	Culture	High	Draft	Considerable
P2021/65	Resources	Finance	Procurement Cards	Medium	Draft	Considerable
P2021/32	Resources	People	Attendance Management Follow-up	Medium	Draft	Reasonable

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Finalised at 31-3-21	Opinion given
P2021/03	Children & Young People	Achievement & Extended Services	Education Improvement Grant	Medium	Final	Unqualified
P2021/04	Children & Young People	Achievement & Extended Services	Pupil Deprivation Grant	Low	Final	Unqualified
P2021/13	Enterprise	Enterprise & Community Animation	Housing Support Grant	Medium	Final	Unqualified

Unqualified – the terms and conditions of the grant were complied with
Qualified - the terms and conditions of the grant were not complied with

Extract from SRS Annual Internal Audit Report 2020/21

Ref	Review	Opinion
SRS - 20001	Business Management (System)	SUBSTANTIAL
SRS – 20002	CCTV / Control Room (Follow Up)	Opinion level increased from MODERATE to SUBSTANTIAL
SRS - 20003	Cybersecurity (Follow Up)	Opinion level increased from MODERATE to FULL
SRS - 20004	Enterprise Architecture Management (Follow Up)	Opinion level increased from LIMITED to SUBSTANTIAL
SRS – 20005	Firewall (Follow Up)	Opinion level increased from SUBSTANTIAL to FULL.
SRS - 20007	Software Asset Management (Follow Up)	Opinion level increased from MODERATE to SUBSTANTIAL
SRS - 20008	Risk Management (Special)	N/A
SRS - 20009	Information Security Management System (Special)	N/A
SRS - 20010	Data Centre (System)	FULL

Appendix C

Non opinion related audit work 2020/21

Job number	Directorate	Service	Job Name
P2021/01	Chief Executive's	Policy & Governance	Audit Advice
P2021/02	Chief Executive's	Legal & Monitoring Officer	Audit Advice
P2021/05	Children & Young People	Achievement & Extended Services	Monitoring Implementation of Audit Recommendations
P2021/09	Children & Young People	Schools	Monitoring Implementation of Audit Recommendations
P2021/10	Children & Young People	Schools	Audit Advice
P2021/11	Children & Young People	CYP Resources	Monitoring Implementation of Audit Recommendations
P2021/12	Children & Young People	CYP Resources	Audit Advice
P2021/15	Enterprise	Enterprise & Community Animation	Monitoring Implementation of Audit Recommendations
P2021/16	Enterprise	Enterprise & Community Animation	Audit Advice
P2021/19	Enterprise	MonLife	Monitoring Implementation of Audit Recommendations
P2021/20	Enterprise	MonLife	Audit Advice
P2021/23	Enterprise	Placemaking, Housing, Highways & Flood	Monitoring Implementation of Audit Recommendations
P2021/24	Enterprise	Placemaking, Housing, Highways & Flood	Audit Advice
P2021/27	Enterprise	Commercial, Property, Facilities & Fleet	Monitoring Implementation of Audit Recommendations
P2021/28	Enterprise	Commercial, Property, Facilities & Fleet	Audit Advice
P2021/30	Enterprise	Neighbourhood Services	Monitoring Implementation of Audit Recommendations
P2021/31	Enterprise	Neighbourhood Services	Audit Advice
P2021/33	Resources	People	Monitoring Implementation of Audit Recommendations
P2021/34	Resources	People	Audit Advice
P2021/35	Resources	Digital	Audit Advice
P2021/38	Resources	Finance	Monitoring Implementation of Audit Recommendations
P2021/39	Resources	Finance	Audit Advice

Job number	Directorate	Service	Job Name
P2021/41	Resources	Commercial, Property, Facilities & Fleet	Monitoring Implementation of Audit Recommendations
P2021/42	Resources	Commercial, Property, Facilities & Fleet	Audit Advice
P2021/43	Resources	Business Planning & Redesign	Audit Advice
P2021/46	Social Care & Health	Integrated Services	Monitoring Implementation of Audit Recommendations
P2021/47	Social Care & Health	Integrated Services	Audit Advice
P2021/49	Social Care & Health	Children's Services	Monitoring Implementation of Audit Recommendations
P2021/50	Social Care & Health	Children's Services	Audit Advice
P2021/52	Social Care & Health	Public Protection	Monitoring Implementation of Audit Recommendations
P2021/53	Social Care & Health	Public Protection	Audit Advice
P2021/54	Social Care & Health	Social Services Finance Unit	Audit Advice
P2021/55	Corporate	Cross Cutting	National Fraud Initiative
P2021/56	Corporate	Cross Cutting	Annual Governance Statement
P2021/64	Corporate	Cross Cutting	Monitoring Implementation of Audit Recommendations

Performance of the Internal Audit Section

Performance Indicator	2017/18	2018/19	2019/20	Annual Target	2020/21
Percentage of planned audits completed	82%	84%	77%	82%	57%
Average no. of days from audit closing meeting to issue of a draft report	52	9days	26 days	17 days	16 days
Average no. of days from receipt of response to draft report to issue of the final report	19	18 days	20 days	5 days	38days
Percentage of recommendations made that were accepted by the clients	96%	98%	98%	95%	99%
Percentage of clients at least 'satisfied' by audit process	89%	100%	100%	95%	100%
Percentage of Directly Chargeable Time (actual versus planned)	108%	107%	90%	100%	N/A