

<b>SUBJECT:</b>	<b>INTERNAL AUDIT Progress Report for Q3, 9 Months into 2021/22</b>
<b>DIRECTORATE:</b>	<b>Resources</b>
<b>MEETING:</b>	<b>Governance and Audit Committee</b>
<b>DATE:</b>	<b>28 February 2022</b>
<b>DIVISION/WARDS AFFECTED:</b>	<b>All</b>

## 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 31<sup>st</sup> December 2021.

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 2021/22 Operational Audit Plan and the Section's performance indicators at the 9 month stage of the financial year.

## 3. KEY ISSUES

- 3.1 As reported previously to the Governance & Audit Committee, the Internal Audit staff were redeployed to support the 'test trace protect' initiative, business support grants process and undertake counter fraud checks from March 2020 as a result of the national pandemic, Covid-19. Therefore there are no year on year comparison figures for the Team's performance.
- 3.2 One member of the team had been seconded out of the team to support the Covid-19 business grants administration. This member of staff has subsequently left the team. The team has gone through a recruitment exercise and the post was filled mid November.
- 3.3 By the time this report is presented to the Governance & Audit Committee the Audit Manager will have left the organisation. The Chief Internal Auditor will start a recruitment exercise to get a new Audit

Manager on board as soon as possible, but there will be an impact on the team's performance and workload in the interim.

- 3.4 Although audit work has started in line with the 2021/22 agreed audit plan, approved by the Governance & Audit Committee in July 2021, the majority of site visits were still on hold in Q1, Q2 & Q3 due to Covid-19 restrictions
- 3.5 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 31<sup>st</sup> December 2021.
- 3.6 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.
- 3.7 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. The next review will be due in 2023
- 3.8 The year end opinion for 2021/22 will be based on the audit work undertaken during the year, cumulative audit knowledge from previous years on key financial systems where necessary, along with any assurance gained from other parties where relevant.

#### **4. REASONS**

- 4.1 Since the start of the financial year, the Internal Audit Section has completed 34 audit jobs to draft stage from its 2021/22 Operational Audit Plan; 8 of these being opinion related and are shown in the table at Appendix 1. The team was involved with ongoing grant claim certification and some additional counter fraud work regarding Welsh Government Covid grants.
- 4.2 In relation to the normal audit opinion related reports issued in draft by the end of the 3<sup>rd</sup> Quarter:
  - 3 had a *Substantial Assurance opinion*,
  - 2 had a *Considerable Assurance opinion* and
  - 2 had a *Reasonable Assurance opinion*.
  - 1 had a *Limited Assurance opinions* issued.

Work was also undertaken on the National Fraud Initiative (NFI), verifying data matches, the preparation of the Annual Governance Statement and 3 grant claims.

- 4.3 Work has also been undertaken on the progress of the implementation of Internal Audit Recommendations from previously issued audit reports to schools, Finance and Corporate functions, along with the provision of financial advice across directorates. Progress has been reported to the Governance & Audit Committee and the Strategic Leadership team (SLT).
- 4.4 The team have not been able to undertake audits at schools as they ordinarily involve site visits which have been restricted due to Covid-19, as have other site visits. Follow up audits of MonLife tourist sites have not been able to have been undertaken as many of these are seasonal and have not been open as a result of Covid-19. Other work has not been progressed as intended as some service managers are still dealing with the pressures of Covid-19.
- 4.5 At the time of writing this report, the call on Internal Audit resources to support TTP has stopped; the audit resource can therefore be used to work through the audit programme which will concentrate on opinion related audit jobs and getting draft reports out by the year end.
- 4.6 The definitions of the four internal audit opinions and the finding ratings used by the Section are provided at Appendix 2 for Members' information.
- 4.7 Finalisation work from 2020/21 continued; of the 6 reviews at draft report stage at 31 March 2021, all 6 have subsequently been finalised.
- 4.8 There has been minimal work undertaken on special investigations and unplanned work during 2021/22 so far by the team. Extensive work was undertaken previously on counter fraud relating to the issue of the Welsh Government business grants. Where the team was involved in frauds resulting from this work these were not identified as separate special investigations.
- 4.9 Appendix 3 of the report gives details of the Section's performance indicators as at 31<sup>st</sup> December 2021.
  - 40% of the 2021/22 Audit Plan has been completed as at 31<sup>st</sup> December 2021
  - Draft reports are being issued within 6 days, against a target of 15 days
  - Final report are being issued within 4 days, against a target of 10 days.
- 4.10 The main reason the team has completed less of the plan than expected was that the Auditor was seconded out of the team to manage the Covid business grants process and then subsequently left for an internal promotion. 9 audit jobs were planned for the Auditor up

to the end of Q3 which, if completed, would have taken the performance up to 51% and just ahead of the target. A new member of the team joined us in November 2021 with limited experience of Internal Audit but is on an internal training programme in order to develop her skills up to the level required.

- 4.11 Prior to the Audit Manager leaving the team the Chief Internal Audit estimated that 65% of the agreed audit plan would have been completed by the year end; actual performance is likely to be lower than estimated given the fact the team will be without an Audit Manager going into year end.
- 4.12 The Chief Internal Auditor has started the planning process for the 2022/23 IA Audit Plan which, as always, will be risk assessed. Any work not covered in this year's plan will be rolled forward into the planning process and included within the risk assessment.
- 4.13 The team co-ordinates the administration of the National Fraud Initiative (NFI) data sets on behalf of the Council. Investigation of the matches from the main 2020/21 exercise has been concluded and our report issued. Additionally the Team has overseen the collection and upload of Council Tax and Electoral Registration data for the 2021/22 exercise and data matches have now been returned for review by the Shared Revenues and Benefits Service in line with the service level agreement in place.

## **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 Chief Officers and Heads of Service for information and appropriate action where necessary.

## **6. FOLLOW UP AUDIT REVIEWS**

- 6.1 Where 'Limited Assurance' opinions are issued, we aim to follow them 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 Governance & Audit Committee.

**7. RESOURCE IMPLICATIONS**

None.

**8. CONSULTEES**

Deputy Chief Executive / Chief Officer Resources

**Results of Consultation:**

N/A

**9. BACKGROUND PAPERS**

Operational Audit Plan 2021/22

**10. AUTHORS AND CONTACT DETAILS**

Andrew Wathan, Chief Internal Auditor

Telephone: x.4243

Email: [andrewwathan@monmouthshire.gov.uk](mailto:andrewwathan@monmouthshire.gov.uk)

## GOVERNANCE & AUDIT COMMITTEE FEBRUARY 2022

### INTERNAL AUDIT SECTION PROGRESS REPORT 2021/22 – Q3 9 MONTHS

#### APPENDIX 1

Internal Audit reviews from the 2021/22 Operational Audit Plan where fieldwork has been completed and/or final reports issued since 1/4/21 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.

#### Internal Audit Services - Management Information for 2021/22 – Quarter 3 December 2021

Opinion Summary	
Substantial	3
Considerable	2
Reasonable	2
Limited	1
Total	8

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Draft or Final	Opinion given
P2122/36	Enterprise	Placemaking, Housing, Highways & Flood	Local Development Plan	Medium	Final	Substantial
P2122/57	Resources	Finance	Benefits	High	Final	Substantial
P2122/59	Resources	Finance	Control, Suspense & Holding Accounts	Medium	Draft	Substantial
P2122/25	Corporate	Cross Cutting	National Fraud Initiative	High	Final	Considerable
P2122/35	Enterprise	Placemaking, Housing, Highways & Flood	Civil Enforcement	Medium	Final	Considerable

<b>Job number</b>	<b>Directorate</b>	<b>Service</b>	<b>Job Name</b>	<b>Risk Rating / Priority</b>	<b>Draft or Final</b>	<b>Opinion given</b>
P2122/80	Resources	Commercial, Property, Facilities & Fleet	Investments	High	Draft	Reasonable
P2122/81	Enterprise	Enterprise & Community Animation	Disabled Facilities Grants	Medium	Final	Reasonable
P2122/50	Resources	Commercial, Property, Facilities & Fleet	Fleet - Health & Safety and Driver Management	Medium	Final	Limited

P2122/06	Children & Young People	Achievement & Extended Services	Pupil Development Grant	Low	Final	Unqualified
P2122/07	Children & Young People	Achievement & Extended Services	School Improvement Grant	Low	Final	Unqualified
P2122/28	Enterprise	Enterprise & Community Animation	Housing Support Grant	Medium	Final	Unqualified

## Non – opinion / Added Value Audit Work

Job number	Directorate	Service	Job Name
P2122/01	Chief Executive's	Policy, Performance & Scrutiny	Audit Advice
P2122/05	Children & Young People	Achievement & Extended Services	Monitoring Implementation of Audit Recommendations
P2122/08	Children & Young People	CYP Resources	Audit Advice
P2122/11	Children & Young People	Schools	Audit Advice
P2122/18	Children & Young People	Schools	Monitoring Implementation of Audit Recommendations
P2122/27	Enterprise	Enterprise & Community Animation	Audit Advice
P2122/31	Enterprise	Neighbourhood Services	Audit Advice
P2122/32	Enterprise	Neighbourhood Services	Monitoring Implementation of Audit Recommendations
P2122/34	Enterprise	Placemaking, Housing, Highways & Flood	Audit Advice
P2122/38	Enterprise	Strategic Projects	Audit Advice
P2122/41	Mon Life	Mon Life	Audit Advice
P2122/47	People & Governance	People	Audit Advice
P2122/49	Resources	Commercial, Property, Facilities & Fleet	Audit Advice
P2122/56	Resources	Finance	Audit Advice
P2122/61	Resources	Finance	Monitoring Implementation of Audit Recommendations
P2122/63	Resources	Payroll	Audit Advice
P2122/64	Resources	Payroll	Monitoring Implementation of Audit Recommendations
P2122/65	Social Care & Health	Children's Services	Audit Advice
P2122/66	Social Care & Health	Children's Services	Monitoring Implementation of Audit Recommendations
P2122/67	Social Care & Health	Integrated Services	Audit Advice



**Internal Audit Opinions**

Each report contains an opinion which is an overall assessment of the control environment reviewed.

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

The table below summarises the finding ratings used during our audits:

RATING	RISK DESCRIPTION	IMPACT
1	Significant	(Significant) – Major / unacceptable risk identified. Risks exist which could impact on the key business objectives. Immediate action required to address risks.
2	Moderate	(Important) – Risk identified that requires attention. Risks identified which are not business critical but which require management attention as soon as possible.
3	Minor	(Minimal) – Low risk partially mitigated but should still be addressed. Audit comments highlight a suggestion or idea that management may want to consider.
4	Strength	(No risk) – Good operational practices confirmed. Well controlled processes delivering a sound internal control framework.

**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.

**GOVERNANCE & AUDIT COMMITTEE FEBRUARY 2022**

**INTERNAL AUDIT SECTION PROGRESS REPORT  
2021/22 – Q3 9 MONTHS**

**APPENDIX 3**

**Performance Indicators**

N /A – not available

	<b>2020/21</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Target</b>
1	Percentage of planned audits completed	N/A	N/A	25%		50%
2	Average no. of days from audit closing meeting to issue of a draft report	N/A	N/A	N/A		N/A
3	Average no. of days from receipt of response to draft report to issue of the final report	N/A	N/A	N/A		N/A
4	Percentage of recommendations made that were accepted by the clients	N/A	N/A	N/A		N/A
5	Percentage of clients at least 'satisfied' by audit process	N/A	N/A	N/A		N/A
6	Percentage of directly chargeable time (actual v planned)	N/A	N/A	N/A		N/A
7	Number of special investigations	N/A	N/A	N/A		

	<b>2021/22</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Target</b>
1	Percentage of planned audits completed	11%	28%	40%		50% in Q3 80% pa
2	Average no. of days from audit closing meeting to issue of a draft report	9 days	5 days	6 days		15 days
3	Average no. of days from receipt of response to draft report to issue of the final report	3 days	4 days	4 days		10 days
4	Percentage of recommendations made that were accepted by the clients	97%	97%	98%		95%
5	Percentage of clients at least 'satisfied' by audit process	100%	100%	100%		95%
6	Percentage of directly chargeable time (actual v planned)	77%	90%	72%		60%
7	Number of special investigations	1	1	1		