

SUBJECT:	INTERNAL AUDIT Assessment of Internal Audit Team Capacity and Resource
DIRECTORATE:	Resources
MEETING:	Governance & Audit Committee
DATE:	16th February 2023
DIVISION/WARDS AFFECTED:	All

1. PURPOSE

To make Members of the Governance & Audit Committee aware of the impact of the budget saving proposal to take one FTE Senior Auditor out of the current Internal Audit Team establishment.

2. RECOMMENDATION(S)

That the Committee consider the points made in this report and if they feel appropriate express their comments or concerns formally to the Deputy Chief Executive and Cabinet as part of the Council's formal budget consultation process.

3. KEY ISSUES

- 3.1 All Internal Audit teams working in the public sector in the UK are required to comply with the Public Sector Internal Audit Standards (PSIAS) in application of the Institute of Internal Auditors (IIA) International Standards. The Public Sector Internal Audit Standards came into force in April 2013 (updated March 2017).
- 3.2 Internal auditing is 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. It provides that assurance to senior management and the Governance & Audit Committee within Monmouthshire Council.
- 3.3 The Internal Audit Team provides this assurance via opinions issued on the audit work undertaken, the definition of which is shown at Appendix 1. The opinions are based on strengths and weaknesses identified where the weaknesses are risk rated, as shown at Appendix 1.

- 3.4 The Chief Internal Auditor must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Where the Chief Internal Auditor believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the Governance & Audit Committee.
- 3.5 Prior to the Covid pandemic the Internal Audit (IA) Team had been fairly stable, with its resources static for the previous 7 years. The Auditor was seconded out of the team to support the administration of the Welsh Government Covid grants to local businesses mid 2020 and then achieved an internal promotion and didn't return to the team. The Audit Manager successfully gained a promotion with an external organisation and left Monmouthshire in February 2022. One of the Senior Auditors then left the team to pursue a career with an external internal audit provider. The Auditor vacancy was filled through an internal promotion in November 2021.
- 3.6 Although the team was carrying vacancies moving into the 2022/23 IA plan, the structure remained the same as the previous 7 years as shown at Appendix 2a. The establishment is currently 5.5 FTEs as the Chief Internal Auditor works on a 50:50 collaborative basis with a neighbouring council.
- 3.7 The 2022/23 IA Plan is based on delivering 658 operational audit days and was prepared on the assumption that both the Audit Manager and Senior Audit vacancies would be filled by September 2022. Both posts were advertised externally through a recruitment campaign but the Chief Internal Auditor was unable to appoint into either post. As the vacancies have still not been filled an external internal audit provider has been brought in to complete audit jobs in line with the agreed plan.
- 3.8 The original 2022/23 IA Plan includes 35 opinion related audit jobs across all directorates, as shown at Appendix 3. Additional opinion audits have been added regarding follow up audits required in year taking the total to 38 opinions. A summary of audit opinions issued over the past 3 years along with the overall annual opinion is shown at Appendix 3.
- 3.9 On average, a Senior Auditor would contribute 180 operational days to the annual IA Plan and will deliver approximately 10 opinion related audit jobs during the year in addition to added value financial advice to ensure sound financial stewardship across all Council services. The gross cost of a Senior Auditor in the team per annum is £44,500.

4. REASONS

- 4.1 Due to the significant financial pressures currently facing the Council the service managers within the Resources Directorate were required to provide a contribution to efficiency / cost savings.
- 4.2 The proposal submitted from Internal Audit is to take the vacant Senior Auditor post out of the establishment in order to contribute a £44,500 saving. The Council's budget proposals are currently out for public consultation. The proposed structure would be as shown at Appendix 2b.
- 4.3 The impact of this would be to reduce the annual audit plan by 180 operational audit days and reduce the number of opinion related audit jobs by at least 10. This would lead to less audit coverage across the services provided by the Council and a much reduced level of assurance to management and the Governance & Audit Committee on the adequacy of the governance, internal control and risk management arrangements in place within the Council.
- 4.4 The Chief Internal Auditor's annual opinion would be based on less assurance based opinions issued in the year. Some key risks may not get audited or would need to be pushed back in the audit planning cycle; areas of concern or high risk would be audited less frequently.
- 4.5 There would be reduced capacity within the team to provide financial advice across services to ensure sound and appropriate financial stewardship of public money. The capacity to investigate allegations of fraud or theft would also be reduced within the team.
- 4.6 Additional pressure will be put on remaining staff to deal with ongoing audit work and provide financial advice across a greater number of services. Remaining staff will need to broaden their knowledge and experience across a wider range of services.
- 4.7 Reduced resource in the team could impact on proactive auditing, providing training on sound financial management, fraud prevention. A smaller team is more difficult to recruit into and limits development opportunities for those remaining; also impacts negatively on the morale of the staff remaining.

5. RESOURCE IMPLICATIONS

IA Team establishment could be reduced to 4.5 FTEs.

6. CONSULTEES

Deputy Chief Executive

Results of Consultation:

N/A

7. BACKGROUND PAPERS

Internal Audit Management Information 2022/23
Public Sector Internal Auditing Standards

8. AUTHORS AND CONTACT DETAILS

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APPENDIX 1

Internal Audit Opinions

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

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:

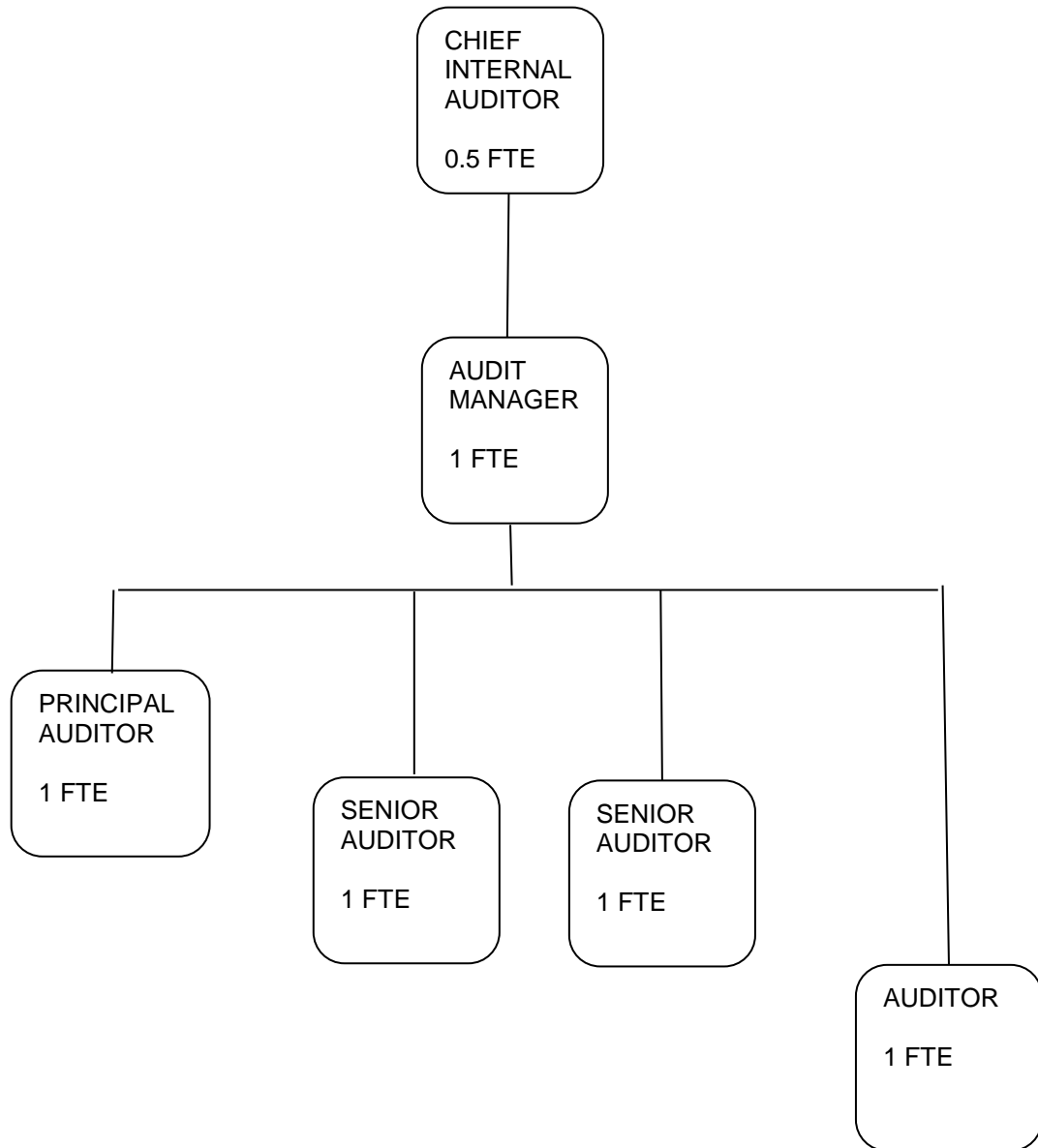
RATING	RISK DESCRIPTION	IMPACT
1	Significant	<p>(Significant) – Major / unacceptable risk identified.</p> <p>Risks exist which could impact on the key business objectives. Immediate action required to address risks.</p>
2	Moderate	<p>(Important) – Risk identified that requires attention.</p> <p>Risks 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:

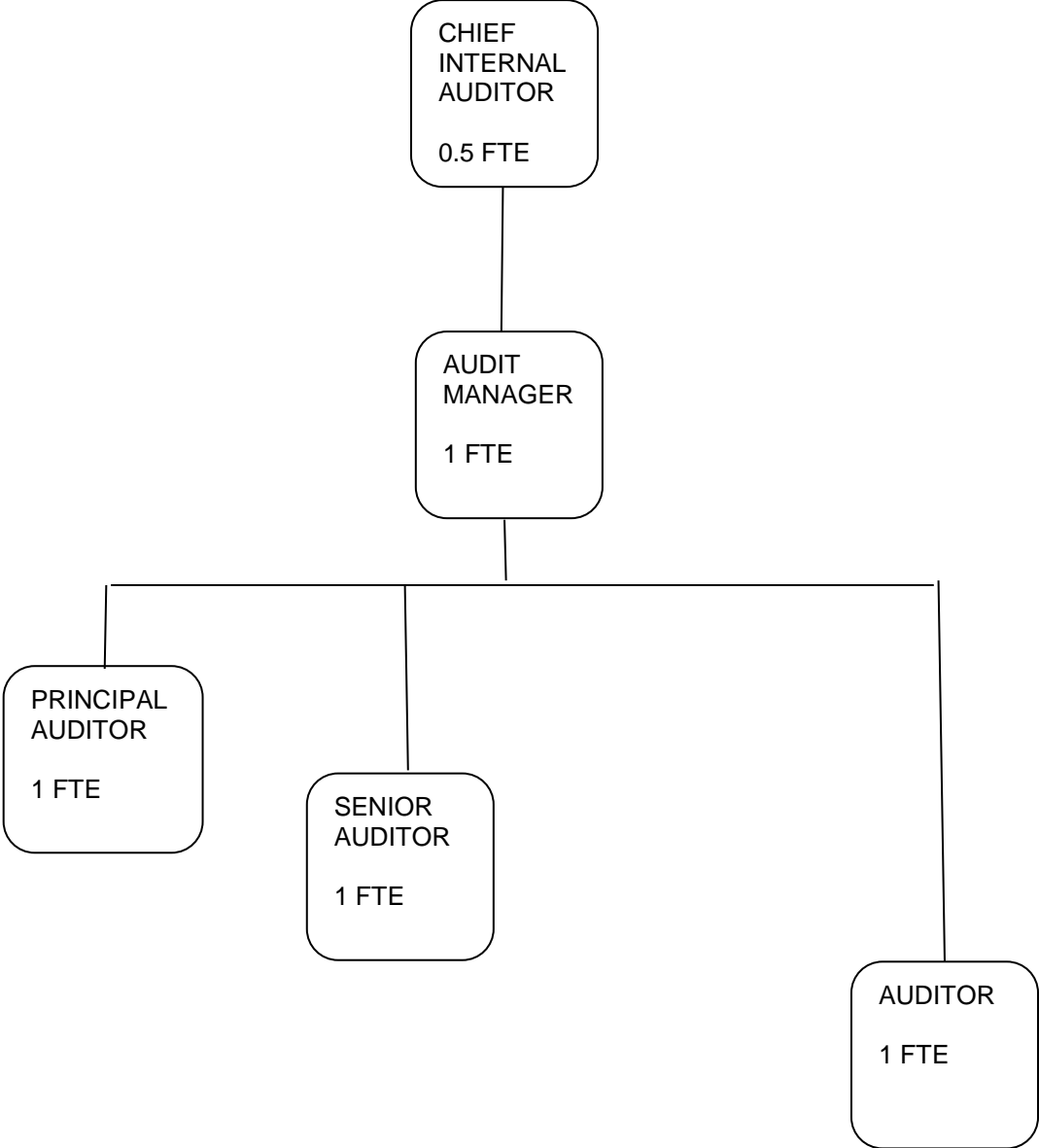
Unqualified opinion - the terms and conditions of the grant were generally complied with;

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.

IA Team Establishment 2022/23



Proposed IA Team Establishment 2023/24



APPENDIX 3

Extract of 2022/23 IA Plan

DIRECTORATE SUMMARY			
	Days	Allocation of Audit Resources	Opinion jobs
Resources	115	17%	8
People & Governance	40	6%	2
Children & Young People	122	19%	7
Social Care, Health & Safeguarding	116	18%	7
Enterprise	89	14%	5
MonLife	45	7%	3
Chief Executives	11	2%	1
Corporate Work	51	8%	2
	588		35
Special Investigations	70	11%	
Available Productive Audit Days	658	100%	

EXTRACT FROM IA ANNUAL REPORT 2021/22:

Audit Opinion	2019/20	%	2020/21	%	2021/22	%
Substantial	2	7	2	22	5	25
Considerable	11	38	6	67	6	30
Reasonable	7	24	1	11	7	35
Limited	9	31	0	0	2	10
	29	100	9	100	20	100

Overall Opinion	Reasonable	Reasonable	Reasonable
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