

**SUBJECT: INTERNAL AUDIT SECTION  
Outturn Report 2015/16**

**DIRECTORATE: Chief Executive  
MEETING: Audit Committee  
DATE: 26<sup>th</sup> May 2016**

**DIVISION/WARDS AFFECTED: All**

## 1. PURPOSE

To receive and consider the Annual Audit Outturn Report for 2015/16.

## 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 28 audit opinions were issued during 2015/16 ranging from Good to Unsatisfactory. The overall opinion was **Reasonable**, which indicates the systems were well controlled although some risk identified which needs addressing.
- 3.3 No reviews were deemed to be *Unsound*.
- 3.4 The Internal Audit team achieved 74% of the agreed 2015/16 audit plan against a target of 80%.

## 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.

4.4 This is the Internal Audit Annual Report.

## **5. RESOURCE IMPLICATIONS**

None.

## **6. CONSULTEES**

Head of Finance

## **7. BACKGROUND PAPERS**

Annual Outturn Report 2015/16 - attached  
Operational Audit Plan 2015/16  
Strategic Audit Plan  
Public Sector Internal Auditing Standards  
CIPFA Local Government Internal Audit Manual

## **9. AUTHOR AND CONTACT DETAILS**

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**INTERNAL AUDIT SECTION**  
**ANNUAL OUTTURN REPORT**  
**2015/16**

**YEAR ENDED 31st MARCH 2016**

**Date: May 2016**

## 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 Corporate Management 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 2015/16, based on the planned work undertaken during the year, overall, the systems and procedures in place were well controlled although some risk identified which needs addressing. The opinion definitions are noted at Appendix A.
- 2.2 The overall audit opinion for the internal controls operating within the Council in 2015/16 was **Reasonable**:

We have completed our internal audit work for the year based upon the Operational Audit Plan approved by the Audit Committee in June 2015. The Plan was designed to ensure adequate coverage over the Council's accounting and operational systems using a risk based assessment methodology.

Our 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. We planned our work to provide us with sufficient evidence to give us 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**; well controlled although some risk identified which needs addressing.

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

Andrew Wathan  
Chief Internal Auditor  
May 2016

- 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 issues 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 opinions given for each directorate during 2015/16 are shown at Appendix B; these have been compiled from individual audit reviews undertaken during the year [Appendix C].

Audit Opinion	2012/13	%	2013/14	%	2014/15	%	2015/16	%
Very Good	1	3	0	0	1	4	0	
Good	16	42	8	53	9	32	9	35
Reasonable	19	50	7	47	12	43	14	54
Unsatisfactory	2	5	0	0	6	21	3	11
Unsound	0	0	0	0	0	0	0	
	38	100	15	100	28	100	26	100
<b>Overall Opinion</b>	<b>Reasonable</b>		<b>Good</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 Regulations 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 clients, although staff vacancies have led to certain areas receiving less audit coverage than planned.

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 C, together with the relevant internal control opinion awarded at the end of each audit.

4.2 Control opinions range from Good to Unsound in accordance with the definitions shown in Appendix A.

4.3 Audit reviews concluding with a control opinion of unsatisfactory or unsound are routinely reported (in summary form) to the Audit

Committee. For 2015/16 there were 3 Unsatisfactory opinions but no Unsounds.

- 4.4 During the year a new report format was piloted to simplify the outcome of the audit process and give operational managers a clear indication of the audit opinion following the audit review. The audit opinions were revised to provide a level of assurance and were colour coded in line with the traffic light system (Appendix A). Following feedback these opinions will be further refined for 2016/17 and will be reported to Audit Committee in due course.

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

- 5.1 The team now has a minimal involvement with controlled stationery, although still administers the imprest account process and the school meal income returns.

## **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.

- 6.2 The team was also involved in unplanned work:

- (a) Skate Park
- (b) NOVUS/GENESIS Grant
- (c) Community Council Training
- (d) Monmouthshire Enterprises Development Fund Audit
- (e) Follow up of Previous Recommendations

## **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.

- 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 for Capital, Social Services, Computer, Core Financial Systems and Education.

- 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, the performance of the audit team during 2015/16 was mixed, but considering the team was not at full establishment during 2015/16 those in post did very well to achieve a greater percentage of the audit plan than the previous year. Moving forward into 2016/17, the team has a full complement of staff.
- 8.3 74% of the agreed audit plan was achieved against 65% in the previous year; target was 80%.
- 8.4 Excluding finalisation work from 2014/15, 65 audit jobs were planned for 2015/16; 48 were completed to at least draft report stage, hence 74% of the plan was achieved, despite not having a full complement of staff for the whole year. [Not all jobs in the plan would warrant an audit opinion eg financial advice, Annual Governance Statement, NFI, external work]. Productive audit days planned for the year amounted to 913; actual days charged were 808.
- 8.5 The team's performance of completion of work within planned time showed the team completed 27% of jobs within planned time compared to 50% in the previous year. This is something audit management will continue to look to improve in the current year.
- 8.6 As a measure of the quality of the work produced, the Section was able to report that 97% of its recommendations were accepted by the relevant client managers, which was the same as the previous year's figure of 97%. [This does not take into account reports that were in draft at year end]. In future years we will aim to capture data on the implementation of agreed recommendations.
- 8.7 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 lack of resource in the team and management involvement with significant special investigations throughout the year, the team did not do as well as expected in getting reports out to operational managers.
- 8.8 Final reports were sent out 22 (16) days following receipt of management comments, against a target of 5 days.

- 8.9** Draft reports were sent out to clients 75 (37) days after the completion of the audit work against a target of 17 days. Given that the resources issue has subsequently been resolved, improvements will be made in this area moving forward.

## **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 will be 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, sickness and other staffing issues 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 2015/16 was also designed to ensure that any priority areas outstanding from 2015/16 will be covered in the new 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 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 although prioritisation is 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 Control Opinions Used**

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

**AUDIT OPINIONS PILOTED DURING 2015/16**

<b>SUBSTANTIAL</b>	<p>Substantial level of assurance.</p> <p>Well controlled although some minor risks may have been identified which require addressing;</p>
<b>REASONABLE</b>	<p>Reasonable level of assurance.</p> <p>Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required;</p>
<b>LIMITED</b>	<p>Limited level of assurance.</p> <p>Poorly controlled, with unacceptable levels of risk. Fundamental improvements required immediately.</p>

**AUDIT OPINIONS TO BE USED DURING 2016/17**

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

Summary of Opinions

<b>Overall Opinion</b>	<b>2015/16</b>	<b>Reasonable</b>
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	OPINION			
	2012/13	2013/14	2014/15	2015/16
<b>Chief Executives</b>	Good	--	Reasonable	Reasonable
<b>Children &amp; Young People</b>	Reasonable	Good	Reasonable	Good
<b>Cross Cutting</b>	Good	Good	-	-
<b>Regeneration &amp; Culture</b>	Reasonable	Good	-	-
<b>Social Care &amp; Health</b>	Reasonable	Reasonable	Reasonable	Reasonable
<b>Enterprise</b>				Reasonable

Internal Audit Opinions 2015/16

	2014/15	2015/16
<b>Very Good</b>	<b>1</b>	<b>0</b>
<b>Good</b>	<b>9</b>	<b>9</b>
<b>Reasonable</b>	<b>12</b>	<b>14</b>
<b>Unsatisfactory</b>	<b>6</b>	<b>3</b>
<b>Unsound</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>28</b>	<b>26</b>
<b>Qualified</b>	<b>1</b>	<b>0</b>
<b>Un-qualified</b>	<b>3</b>	<b>4</b>
<b>Not Applicable (N/A)</b>	<b>3</b>	

**Monmouthshire County Council**  
**Internal Audit Section Annual Outturn Report 2015/16**

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	Finalised	Good
P15/16/11	Chief Executive's	Policy & Engagement	Local Pis	Medium	Finalised	Good
P15/16/23	Children & Young People	Schools	Llanvihangel Crucorney	Low	Draft	Good
P15/16/27	Children & Young People	Schools	Durand Primary	Low	Draft	Good
P15/16/28	Children & Young People	Schools	Dewstow Primary	Low	Draft	Good
P15/16/31	Children & Young People	Schools	Caldicot Comprehensive	Medium	Finalised	Good
P15/16/50	Social Care & Health	Children's Services	Fostering	High	Finalised	Good
P15/16/59	Social Care & Health	Resources & Performance	SCH Debtors (14/15)	Medium	Draft	Good
P15/16/65	Corporate	Corporate	Eisteddfod Planning	Medium	Finalised	Good
P15/16/04	Chief Executive's	Finance	Benefits	High	Draft	Reasonable
			Archbishop Rowan Williams Primary			
P15/16/26	Children & Young People	Schools	Archbishop Rowan Williams Primary	Low	Draft	Reasonable
P15/16/45	Enterprise	Tourism, Leisure & Culture	Outdoor Education	Medium	Finalised	Reasonable
P15/16/54	Social Care & Health	Adult Services	Community Meals	Low	Draft	Reasonable
P15/16/01	Chief Executive's	Finance	Creditors (14/15)	Medium	Draft	Reasonable
P15/16/02	Chief Executive's	Finance	Creditors	Medium	Draft	Reasonable
P15/16/05	Chief Executive's	Finance	Debtors (14/15)	Medium	Finalised	Reasonable
P15/16/06	Chief Executive's	Finance	Agresso System Admin	Medium	Draft	Reasonable
P15/16/08	Chief Executive's	Democracy & Regulatory Services	Building Control	Medium	Finalised	Reasonable
P15/16/14	Chief Executive's	Operations	Grounds Ops	Low	Draft	Reasonable
			King Henry VIII Comprehensive			
P15/16/32	Children & Young People	Schools	King Henry VIII Comprehensive	Medium	Draft	Reasonable
P15/16/37	Enterprise	Commercial & People Development	Payroll (14/15)	Medium	Draft	Reasonable
P15/16/49	Social Care & Health	Children's Services	Safeguarding	Medium	Draft	Reasonable
P15/16/51	Social Care & Health	Children's Services	Youth Offending Team	Medium	Draft	Reasonable
P15/16/03	Chief Executive's	Finance	Procurement Cards	Medium	Draft	Unsatisfactory
P15/16/25	Children & Young People	Schools	Magor Primary	Low	Draft	Unsatisfactory
P15/16/41	Enterprise	Community-led Delivery	Markets	Medium	Finalised	Unsatisfactory
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		Draft	Unqualified

Performance of the Internal Audit Section

Performance Indicator	2012/13	2013/14	2014/15	Annual Target	2015/16
Percentage of planned audits completed	74%	60%	65%	80%	74%
Percentage of audits completed within planned time	45%	50%	50%	67%	27%
Average no. of days from audit closing meeting to issue of a draft report	17 days	37 days	52 days	17 days	75 days
Average no. of days from receipt of response to draft report to issue of the final report	4 days	16 days	29 days	5 days	22 days
Percentage of recommendations made that were accepted by the clients	87%	97%	96%	95%	97%
Percentage of planned audits for which a questionnaire was issued		78%	88%	90%	78%
Percentage of clients at least 'satisfied' by audit process	100%	100%	91%	95%	100%
Percentage of Directly Chargeable Time (actual versus planned)	100%	91%	85%	100%	91%