

**SUBJECT: INTERNAL AUDIT SECTION  
PROGRESS REPORT 9 Months into 2016/17  
– Q3**

**DIRECTORATE: Resources  
MEETING: Audit Committee  
DATE: 2<sup>nd</sup> February 2017  
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 31<sup>st</sup> December 2016.

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 2016/17 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 is progressing through its programme of audits in accordance with the 2016/17 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 31<sup>st</sup> December 2016.

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.

3.4 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 will take place during 2017.

- 3.5 The 2016/17 Audit Plan was agreed by the Audit Committee on 26<sup>th</sup> May 2016.

#### 4. REASONS

- 4.1 Since the start of the financial year, the Internal Audit Section has completed 33 audit jobs from its 2016/17 Operational Audit Plan, with several opinions issued; **Substantial x1, Considerable x4, Reasonable x3, Limited x2 with x3 Unqualified** and **x1 Qualified** Grant claims - these are listed in the table shown in Appendix 1.
- 4.2 The definitions of the four internal audit opinions and the risk ratings used by the Section are provided at Appendix 2 for Members' information.
- 4.3 Finalisation work from 2015/16 continues; of the 17 reviews at draft report stage at 31 March 2016, 16 have subsequently been finalised.
- 4.4 Audit management have also been involved with 5 special investigations to date this year, some of which have continued from 2015/16; these are often very sensitive and time consuming. Work has been undertaken on 4 unplanned area, providing additional advice and support for service managers.
- 4.5 Appendix 3 of the report gives details of the Section's performance indicators as at 31<sup>st</sup> December 2016.
- 4.6 The acceptance of audit recommendations was good at 98%. 31% of evaluation questionnaires have been returned from operational managers with 100% satisfaction rate; this measures how satisfied they were with the audit service they had received.
- 4.7 Draft reports have taken 39 days to issue following receipt of management comments. It has taken 20 days to issue final reports. The main reason for this is the involvement of key staff in the audit team with special investigations during the year.
- 4.8 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.
- 4.9 The percentage coverage of the audit plan at 42% (40% 2015/16) is much the same as the period of the previous year but 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 in order to provide as much assurance 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.

- 4.10 The team started the year with a full complement of staff in the team and this has continued.
- 4.11 The new reporting format, aimed at improving the efficiency and effectiveness of audit work, is working well and has been positively received from operational management. Audit opinions have also been revised and updated in order to give a better understanding of the level of assurance gained from undertaking the audit work. These have previously been presented to Audit Committee and are shown at Appendix 2.
- 4.12 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 limited assurance opinions (previously 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.

6.2 For other audit reports, updates on the progress towards implementation of the agreed action plans are requested from Managers and these are subject to verification testing on a sample basis.

## **7. RESOURCE IMPLICATIONS**

None.

## **8. CONSULTEES**

Head of Finance

### **Results of Consultation:**

N/A

## **9. BACKGROUND PAPERS**

Operational Audit Plan 2016/17

## **10. AUTHORS AND CONTACT DETAILS**

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**AUDIT COMMITTEE FEBRUARY 2017**

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2016/17 – 9 MONTHS**

**APPENDIX 1**

Internal Audit reviews from the 2016/17 Operational Audit Plan where fieldwork has been completed and/or final reports issued since 1/4/16 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 2016/17 – Quarter 3**

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Status	Opinion given
P16/17/38	Children & Young People	Schools	Llantilio Pertholey	Low	Final	Substantial
P16/17/21	Chief Executive's	Policy & Engagement	Performance Indicators - NSI, PAM, SIDS	Medium	Draft	Considerable
P16/17/40	Children & Young People	Schools	Pupil Referral Service	Low	Final	Considerable
P16/17/45	Enterprise	Community-led Delivery	County Farms	Medium	Final	Considerable
P16/17/64	Social Care & Health	Older People's Direct Care Services	Mardy Park	Low	Final	Considerable
P16/17/14	Chief Executive's	Operations	Transport Unit - Leased Vehicles	Medium	Draft	Reasonable
P16/17/18	Chief Executive's	Operations	Garden Waste	Low	Final	Reasonable
P16/17/78	Corporate		Annual Governance Statement	Not Applicable	Draft	Reasonable
P16/17/16	Chief Executive's	Operations	School Meals	Medium	Draft	Limited
P16/17/47	Enterprise	Community-led Delivery	Events (in progress)	Medium	Draft	Limited
P16/17/26	Children & Young People	Standards	Education Improvement Grant	Medium	Final	Unqualified
P16/17/27	Children & Young People	Standards	Pupil Deprivation Grant	Low	Final	Unqualified
P16/17/28	Children & Young People	Standards	Outside of School Childcare Grant	Low	Final	Unqualified
P16/17/60	Social Care & Health	Adult Services	Supporting People Grant Claim	Medium	Draft	Qualified

## Value Added Work

<b>Job Number</b>	<b>Directorate</b>	<b>Service</b>	<b>Job Name</b>	<b>Opinion given</b>
P16/17/04	Chief Executive's	Democracy & Regulatory Services	Audit Advice	Not applicable
P16/17/12	Chief Executive's	Finance	Audit Advice	Not applicable
P16/17/20	Chief Executive's	Operations	Audit Advice	Not applicable
P16/17/25	Children & Young People	Resources	Audit Advice	Not applicable
P16/17/30	Children & Young People	Standards	Audit Advice	Not applicable
P16/17/31	Children & Young People	21st Century Schools	Audit Advice	Not applicable
P16/17/41	Children & Young People	Schools	Audit Advice	Not applicable
P16/17/43	Children & Young People		Follow-up of Audit Recommendations	Not applicable
P16/17/49	Enterprise	Community-led Delivery	Audit Advice	Not applicable
P16/17/53	Enterprise	Commercial & People Development	Audit Advice	Not applicable
P16/17/57	Enterprise	Tourism, Leisure & Culture	Audit Advice	Not applicable
P16/17/61	Social Care & Health	Adult Services	Audit Advice	Not applicable
P16/17/63	Social Care & Health	Children's Services	Audit Advice	Not applicable
P16/17/65	Social Care & Health	Older People's Direct Care Services	Audit Advice	Not applicable
P16/17/66	Social Care & Health	Social Care & Health Finance Unit	Audit Advice	Not applicable
P16/17/70	Corporate		BACS - Compliance with SHA-2 protocols	Not applicable
P16/17/76	Corporate		National Fraud Initiative	Not applicable
P16/17/78	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. Opinions were revised during 2015/16 to reflect a better understanding of the level of assurance given. The full list of audit opinions to be used from 2016/17 onwards is shown below:

<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.

**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



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**APPENDIX 3**

**Performance Indicators**

	<b>2015/16</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Target</b>
1	Percentage of planned audits completed	14%	23%	40%	74%	(80% pa)
2	Percentage of audits completed within planned time	0%	50%	33%	27%	60%
3	Average no. of days from audit closing meeting to issue of a draft report	3 days	17 days	52 days	75 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	22 days	5 days
5	Percentage of recommendations made that were accepted by the clients	100%	99%	99%	97%	90%
6	Percentage of clients at least 'satisfied' by audit process	N/A	N/A	N/A	100%	90%
7	Percentage of directly chargeable time (actual v planned)	94%	81%	120%	91%	100%
8	Number of special investigations	6	7	9	10	

	<b>2016/17</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Target</b>
1	Percentage of planned audits completed	13%	33%	42%		35% (80% pa)
2	Percentage of audits completed within planned time	0%	56%	40%		60%
3	Average no. of days from audit closing meeting to issue of a draft report	3 days	30 days	39 days		12 days
4	Average no. of days from receipt of response to draft report to issue of the final report	12 days	30 days	20 days		5 days
5	Percentage of recommendations made that were accepted by the clients	100%	98%	98%		90%
6	Percentage of clients at least 'satisfied' by audit process	N/A	100%	100%		90%
7	Percentage of directly chargeable time (actual v planned)	102%	103%	102%		100%
8	Number of special investigations	2	4	5		

N /A – not available