

**SUBJECT: INTERNAL AUDIT SECTION
Outturn Report 2016/17**

**DIRECTORATE: Chief Executive
MEETING: Audit Committee
DATE: 6 July 2017**

DIVISION/WARDS AFFECTED: All

1. PURPOSE

To receive and consider the Annual Audit Outturn Report for 2016/17.

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 The audit opinions were revised at the beginning of 2016/17 to reflect a better understanding of the level of assurance obtained; these are shown at Appendix A. 28 audit opinions were issued during 2016/17 ranging from Substantial to Limited (the opinion categorisation changed in 2016/17 to provide a level of assurance). The overall opinion was **Reasonable**, which indicates *the systems were adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.*
- 3.3 8 reviews were given **Limited** assurance.
- 3.4 The Internal Audit team achieved 75% of the agreed 2016/17 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 2016/17 - attached
Operational Audit Plan 2016/17
Strategic Audit Plan
Public Sector Internal Auditing Standards
CIPFA Local Government Internal Audit Manual

8. AUTHOR AND CONTACT DETAILS

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**INTERNAL AUDIT SECTION
ANNUAL OUTTURN REPORT
2016/17**

YEAR ENDED 31st MARCH 2017

Date: June 2017

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 2016/17, 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. These were updated in 2016/17 to better reflect the level of assurance gained from undertaking the audit work.
- 2.2 The overall audit opinion for the internal controls operating within the Council in 2016/17 was **Reasonable**:

We have completed our internal audit work for the year based upon the Operational Audit Plan approved by the Audit Committee in May 2016. 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; Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.**

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

Andrew Wathan
Chief Internal Auditor
June 2017

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 overall opinion has been compiled from individual audit reviews undertaken during the year [Appendix B].

Audit Opinion	2013/14	%	2014/15	%	2015/16	%
Very Good	0	0	1	4	0	
Good	8	53	9	32	9	35
Reasonable	7	47	12	43	14	54
Unsatisfactory	0	0	6	21	3	11
Unsound	0	0	0	0	0	
	15	100	28	100	26	100
Overall Opinion	Good		Reasonable		Reasonable	

Audit Opinion	2016/17	%
Substantial	3	11
Considerable	10	36
Reasonable	7	25
Limited	8	28
	28	100
Overall Opinion	Reasonable	

- 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 Substantial to Limited in accordance with the definitions shown in Appendix A.

- 4.3 Audit reviews concluding with a control opinion of limited assurance (previously unsatisfactory or unsound) are routinely reported (in summary form) to the Audit Committee. For 2016/17 there were 8 **Limited** opinions.

- i. School Dinner Money System (in progress)
- ii. Ysgol Y Ffin Primary School
- iii. Events (in progress)
- iv. Policy Review
- v. External Placements
- vi. Compliance with Bribery Act
- vii. Volunteering
- viii. Mobile Phones

- 4.4 Details of why these audit reviews resulted in limited assurance being given will be presented to Audit Committee separately.

- 4.5 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).

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) Ysgol Y Ffin Financial Management
- (b) Youth Service - Skate Shop
- (c) 21st Century Schools programme
- (d) Investigation of anonymous allegation
- (e) Employment Tribunal Review
- (f) Borough Theatre
- (g) Mon Enterprises Development Fund audit of accounts
- (h) Financial Appraisals of key care homes and other external service providers
- (i) Financial Appraisal in respect of Abergavenny TC Loan scheme (VVP)
- (j) Additional testing of Outcomes - SP Grant
- (k) Agri-Urban EU Grant (URBACT)
- (l) Events follow-up

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 C, the performance of the audit team during 2016/17 was good in that the team achieved 75% of the agreed plan.

- 8.3 75% of the agreed audit plan was achieved against a target of 80%. This was mainly due to spending a considerable amount of time on unplanned work.
- 8.4 Excluding finalisation work from 2015/16, 81 audit jobs were planned for 2016/17; this was reduced to 77 in year as a result of jobs that could not be done which were outside the control of the audit team. 58 jobs were completed to at least draft report stage, hence 75% of the plan was achieved. [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 917; actual days charged were 986.
- 8.5 The team's performance of completion of work within planned time showed the team completed 55% of jobs within planned time compared to 27% 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 98% of its recommendations were accepted by the relevant client managers, which was in line with the previous year's figure of 97%. [This does not take into account reports that were in draft at year end]. 68% of agreed recommendations had been implemented.
- 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 management involvement with significant special investigations and unplanned work throughout the year, the team did not do as well as expected in getting reports out to operational managers, although this was a significant improvement on the previous year.
- a. Final reports were sent out 11 (22) days following receipt of management comments, against a target of 5 days.
 - b. Draft reports were sent out to clients 25 (75) days after the completion of the audit work against a target of 17 days.
- 8.8 Of the audit evaluation questionnaires which were returned by operational managers, 100% were satisfied with the audit service they had received although it is recognised that timeliness of reporting needs to improve. The feedback received also gave an indication of the added value of undertaking audits across all directorates; examples of which are shown at Appendix D.

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, 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 2016/17 was also designed to ensure that any priority areas outstanding from 2016/17 will 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 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 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.

Previous opinion definitions:

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

Overall Opinion 2016/17

Reasonable

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Complete when FINALISED	Opinion given
P16/17/24	Children & Young People	Resources	School Admissions	Medium	Draft	Substantial
P16/17/38	Children & Young People	Schools	Llantilio Pertholey (In progress)	Low	Finalised	Substantial
P16/17/72	Corporate	Cross Cutting	Capital Receipts	Medium	Draft	Substantial
P16/17/02	Chief Executive's	Democracy & Regulatory Services	Registrars	Medium	Draft	Considerable
P16/17/06	Chief Executive's	Finance	Insurances	Medium	Draft	Considerable
P16/17/10	Chief Executive's	Finance	Suspense, Control & Holding Account Reconciliation	Medium	Draft	Considerable
P16/17/21	Chief Executive's	Policy & Engagement	Performance Indicators - NSI, PAM, SIDS	Medium	Finalised	Considerable
P16/17/22	Chief Executive's	Policy & Engagement	Performance Indicators - Local	Medium	Finalised	Considerable
P16/17/32	Children & Young People	Schools	The Dell Primary School	Low	Draft	Considerable
P16/17/34	Children & Young People	Schools	Pembroke Primary School	Low	Draft	Considerable
P16/17/40	Children & Young People	Schools	Pupil Referral Service (In progress)	Low	Finalised	Considerable
P16/17/45	Enterprise	Community-led Delivery	County Farms (in progress)	Medium	Finalised	Considerable
P16/17/64	Social Care & Health	Older People's Direct Care Services	Mardy Park	Low	Finalised	Considerable
P16/17/14	Chief Executive's	Operations	Transport Unit - Leased Vehicles	Medium	Finalised	Reasonable
P16/17/18	Chief Executive's	Operations	Garden Waste	Low	Finalised	Reasonable
P16/17/35	Children & Young People	Schools	Our Lady & St. Michael's Primary School	Low	Draft	Reasonable

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Complete when FINALISED	Opinion given
P16/17/37	Children & Young People	Schools	Magor (Follow-up)	Medium	Draft	Reasonable
P16/17/46	Enterprise	Community-led Delivery	Homelessness	Medium	Draft	Reasonable
P16/17/48	Enterprise	Community-led Delivery	Community Hubs	Medium	Draft	Reasonable
P16/17/73	Corporate	Cross Cutting	Capital Programme (in progress)	High	Draft	Reasonable
P16/17/16	Chief Executive's	Operations	School Dinner Money System (in progress)	Medium	Finalised	Limited
P16/17/36	Children & Young People	Schools	Ysgol Y Ffin Primary School	Low	Draft	Limited
P16/17/47	Enterprise	Community-led Delivery	Events (in progress)	Medium	Finalised	Limited
P16/17/51	Enterprise	Commercial & People Development	Policy Review	Medium	Draft	Limited
P16/17/62	Social Care & Health	Children's Services	External Placements	Medium	Draft	Limited
P16/17/68	Corporate	Cross Cutting	Compliance with Bribery Act	Medium	Draft	Limited
P16/17/77	Corporate	Cross Cutting	Volunteering	Medium	Draft	Limited
P16/17/81	Corporate	Cross Cutting	Mobile Phones	Medium	Draft	Limited

Performance of the Internal Audit Section

Performance Indicator	2013/14	2014/15	2015/16	Annual Target	2016/17
Percentage of planned audits completed	60%	65%	74%	80%	75%
Percentage of audits completed within planned time	50%	50%	27%	67%	55%
Average no. of days from audit closing meeting to issue of a draft report	37 days	52 days	75 days	17 days	22
Average no. of days from receipt of response to draft report to issue of the final report	16 days	29 days	22 days	5 days	11
Percentage of recommendations made that were accepted by the clients	97%	96%	97%	95%	98%
Percentage of agreed recommendations that were implemented by the clients	N/A	N/A	N/A	90%	68%
Percentage of planned audits for which a questionnaire was issued	78%	88%	78%	90%	100%
Percentage of clients at least 'satisfied' by audit process	100%	91%	100%	95%	100%
Percentage of Directly Chargeable Time (actual versus planned)	91%	85%	91%	100%	107%

**Feedback comments from operational managers
(some examples)**

	Best approach and attitude to Audit that we have ever experienced.
	The audit was carried out very professionally and worked around the needs of the service area. The new reporting style is easy to understand and the traffic light systems make it easy to prioritise concerns. The audit process felt more like a “critical friend” than criticism and allowed us to really reflect on the current processes instead of trying to defend service delivery. It was helpful as a service area to have the support of Audit to ensure we are following due process
	Both Sarah and Mark were very helpful in explaining the audit process, discussing and agreeing the audit scope and objectives and answering any questions. The audit took place at a time convenient to the service with little disruption to the day to day operational activities of the service. I was kept fully informed of the progress of the audit throughout and given the opportunity to provide additional information/clarity where necessary to assist the process. The initial findings were discussed in a timely manner and a draft report provided within the agreed timescales. I was given the opportunity to comment upon the draft report and the recommendations and provide additional comment where necessary
	This was useful as we were able to act on these immediately, which we did. The team listened to any queries and actioned these in the final report
	It highlights weaknesses and also strengths which need to be taken into account – it also helps to determine what needs to be completed in a particular way and also the best working practice to achieve it.
	The audit was conducted professionally however the timescale for the draft and final report are too long
	A very professional team. My only negative comment is this is a joint report with my self and Finance and I would have preferred it if they were separate.
	It took a little longer than I expected to receive the draft report