

**SUBJECT: INTERNAL AUDIT SECTION  
PROGRESS REPORT ON UNFAVOURABLE  
AUDIT OPINONS**

**DIRECTORATE: Resources**  
**MEETING: Audit Committee**  
**DATE: 31<sup>st</sup> January 2019**  
**DIVISION/WARDS AFFECTED: All**

## **1. PURPOSE**

To update Members on the progress of unfavourable (Unsatisfactory / Unsound/Limited Assurance) audit opinions issued since 2012/13 by the Internal Audit team. The previous update was presented to Audit Committee in May 2018.

## **2. RECOMMENDATION(S)**

2.1 That the Audit Committee note the improvements made by service areas following the original unfavourable audit opinions issued.

Or

2.2 That if the Members of the Audit Committee are concerned about any of the audit opinions issued or lack of improvement made after the follow up audit review, consideration be given to calling in the operational manager and the Head of Service to provide justification for lack of progress and hold them to account for future improvements.

## **3. KEY ISSUES**

3.1 The number of unfavourable audit opinions issues by Internal Audit is not that significant compared to the total number of audit opinions issued in any one year, but nonetheless, they are issued where serious weaknesses in internal control have been identified.

3.2 The majority of the systems / establishments issued with an unfavourable audit opinion originally which have been followed up, have improved to some extent prior to the audit team undertaking a follow up review. The majority of reviews were given a more favourable opinion which recognises that issues identified originally were subsequently addressed by management.

3.3 During 2015/16 the audit opinions were reviewed to better reflect the level of assurance that could be gained from the review of internal controls in operation. The new audit opinions in use from April 2016 are Substantial, Considerable, Reasonable, Limited; the definitions of which are shown at Appendix 1.

#### 4. REASONS

4.1 The audit opinions previously used within the team were introduced into the audit reports at the beginning of 2008/09 and are as set out in Appendix 2. The opinion gives an indication of the adequacy of the internal control environment of the system or establishment under review. During the audit planning process the reviews are risk assessed as High, Medium or Low.

4.2 The previous report was presented to Audit Committee January 2018; this information is updated and presented to Audit Committee on a six monthly basis.

4.3 The following unfavourable audit opinions have been issued since 2012/13:

	Unsatisfactory	Unsound
2013/14	0	0
2014/15	6	0
2015/16	7	0

	Limited (Assurance)
2016/17	8
2017/18	8
2017/18 (to 31-12-18)	3

4.4 In 2013/14, no audit reports were issued with an Unsatisfactory or Unsound audit opinion. The team did audit some grant claims during the year; one of which resulted in a qualified audit opinion being issued.

4.5 In 2014/15, 6 audit reports were issued with an Unsatisfactory audit opinion:

- a) Passenger Transport Unit
- b) Procurement - Off Contract Purchasing
- c) Llandogo Primary (13/14) – Revised opinion issued in August 2015 was Reasonable
- d) Chepstow School (13/14)
- e) Llanfair Kilgeddin Primary School – school subsequently closed
- f) Monmouthshire Enterprises

4.6 In 2015/16, 7 audit reports were issued with an Unsatisfactory audit opinion, 4 of which were carried forward from 2013/14 and 2014/15;

	Assignment	Risk H/M/L	Rating	Revised Opinion	Date Issued
2015/16	Procurement Cards	Medium	Unsatisfactory	Reasonable (Draft)	December 2017
	Magor Primary	Low	Unsatisfactory	Reasonable	March 2017
	Markets	Medium	Unsatisfactory	Reasonable (Draft)	March 2018
	Passenger Transport Unit (14/15)	Medium	Unsatisfactory	Reasonable (Draft)	March 2018
	Procurement - Off Contract Purchasing (14/15)	Medium	Unsatisfactory	Reasonable	March 2018
	Chepstow School (13/14)	Medium	Unsatisfactory	Considerable (Draft)	September 2017
	Monmouthshire Enterprises (Social Care) (14/15)	Medium	Unsatisfactory	Reasonable (Draft)	June 2018

4.7 Ideally these audit reviews will be followed up by the audit team within 9 to 12 months of the final report being issued to ensure that action has been taken to address the weakness identified. Some delays may have arisen as a result of the operational manager deferring the follow up audit. These reviews will be followed up in 2017/18.

4.8 During 2016/17, 8 reports were issued with a **Limited** opinion. This is the equivalent of the previous Unsatisfactory opinion. These were as follows:

	Assignment	Risk H/M/L	Rating	Revised Opinion	Date Issued
2016/17	School Meals (Final)	Medium	Limited	Reasonable	March 2018
	Ysgol Y Ffin Primary School	Low	Limited	Reasonable	March 2018
	Events (Final)	Medium	Limited	Limited	March 2018
	HR Policy Review	Medium	Limited	Further follow up Q4 2018/19	
	External Placements	Medium	Limited	Q4 2018/19	
	External Placements	Medium	Limited	Reasonable (Draft)	December 2018
	Compliance with Bribery Act	Medium	Limited	Limited	March 2018
				Further follow up	

				Q4 2018/19	
	Mobile Phones	Medium	Limited	Q4 2018/19	
	Volunteering	Medium	Limited	Q4 2018/19	

4.9 The audit review of the Events provision resulted in a second consecutive **Limited** audit opinion. The Audit Committee Members agreed to call the senior managers responsible for this service into Audit Committee which they did at a recent Audit Committee meeting in December 2017. Senior Managers provided assurances that, should the Events programme be run on such a large scale again, significant improvements in the control environment would be made. Due to the confidential nature of some of the discussion this matter will be reported separately at Audit Committee.

4.10 Members will also note that the follow up audit of Compliance with the Bribery Act has also resulted in a consecutive **Limited** assurance audit opinion. The Chief Officer Resources, responded to Members' questions and challenge around the concerns raised and he provided assurances that improvements with compliance will be made moving forward.

4.11 For the Limited audit opinions issued during 2016/17, the main issues have previously been reported to Audit Committee.

4.12 During 2017/18, 8 reports were issued with a **Limited** opinion. These were as follows:

	Assignment	Risk H/M/L	Rating	Revised Opinion	Date Issued
<b>2017/18</b>	Borough Theatre Trust	High	Limited	Q4 2018/19	
	Raglan Primary School	Medium	Limited	Reasonable	July 2018
	Youth Service (Draft)	Medium	Limited	2019/20	
	Events Follow-Up	High	Limited	Q4 2018/19	
	Fuel Cards	Medium	Limited	Q4 2018/19	
	Food Procurement (Draft)	High	Limited	2019/20	
	Health & Safety (Draft)	Medium	Limited	2019/20	
	Compliance with Bribery Act Follow-Up (Draft)	High	Limited	Q4 2018/19	

4.13 During 2018/19 (up to 31/12/18), 3 reports were issued with a **Limited** opinion. These were as follows:

	Assignment	Risk H/M/L	Rating	Revised Opinion	Date Issued
2018/19	Caldicot Castle (Draft)	Medium	Limited		
	Imprest Account – Children’s Services (Draft)	Medium	Limited		
	Agency Workers (Draft)	Medium	Limited		

4.14 The Limited Assurance audit reports noted above have been issued to the operational managers in draft and the Audit team have not yet had the opportunity to discuss the issues raised with them. An overview of concerns will therefore be reported to Audit Committee following these discussions.

4.15 As part of all audit reviews, the issues identified at the previous audit are followed up to ensure that they have been adequately addressed, which should provide assurance on the effectiveness of the internal control environment for that particular service, system or establishment.

**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. RESOURCE IMPLICATIONS**

None.

**7. CONSULTEES**

**8. BACKGROUND PAPERS**

Audit management Information 2013/14, 2014/15, 2015/16, 2016/17, 2017/18, 2018/19

**9. AUTHOR AND CONTACT DETAILS**

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**Internal Audit Opinions (wef 2016/17)**

<b>SUBSTANTIAL</b>	Substantial level of assurance. Well controlled although some minor risks may have been identified which require addressing.
<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 immediately.

The table below summarises the ratings used during the reviews:

RATING	RISK DESCRIPTION	IMPACT	TOTAL IDENTIFIED DURING REVIEW
1	Significant	<p>(Significant) – Major / unacceptable risk identified.</p> <p>Risk 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>Risk identified which are not business critical but which require management 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>	

## APPENDIX 2

### Previous Audit Opinions

Each report contains an opinion which is an overall assessment of the control environment reviewed. The full list of audit opinions used is shown below:

Opinion	Description
<b>VERY GOOD</b>	Very well controlled with minimal risk identified; a few minor recommendations.
<b>GOOD</b>	Well controlled although some risk identified which needs addressing.
<b>REASONABLE</b>	Adequately controlled although some risks identified which may compromise the overall control environment.
<b>UNSATISFACTORY</b>	Not very well controlled; unacceptable levels of risk identified; changes required urgently.
<b>UNSOUND</b>	Poorly controlled; major risk exists; fundamental improvements are required with immediate effect.

### Recommendation Ratings

Each recommendation contained within the Internal Audit report has a 2 part priority rating. The number refers to Internal Audit assessment attached to the relevant weakness identified, whilst the letter relates to the urgency with which we believe the recommendation should be implemented (see tables below).

Rating	Assessment of the Weakness Identified
1	Fundamental weakness.
2	Highly significant weakness.
3	Significant weakness.
4	Minor weakness.

Rating	Proposed Timescale for Implementation
A	Should be actioned immediately
B	Should be implemented as soon as possible but within 3 months.
C	Ongoing requirements or within 12 months.