

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

**DIRECTORATE: Resources  
MEETING: Audit Committee  
DATE: 9<sup>th</sup> January 2020  
DIVISION/WARDS AFFECTED: All**

## **1. PURPOSE**

To update Members on the progress of unfavourable (Limited Assurance) audit opinions issued since 2016/17 by the Internal Audit team. The previous update was presented to Audit Committee in January 2019.

## **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 and which have since 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 audit opinions in use from April 2016 are Substantial, Considerable, Reasonable and Limited Assurance; the definitions of which are shown at Appendix 1.

#### 4. REASONS

- 4.1 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 2019; this information should be updated and presented to Audit Committee on a six monthly basis.
- 4.3 The following unfavourable audit opinions have been issued since 2016/17:

	Limited (Assurance)
2016/17	8
2017/18	8
2018/19	6
2019/20 (to 30-11-19)	2

- 4.4 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 weaknesses identified. Some delays may have arisen as a result of the operational manager deferring the follow up audit.
- 4.5 During 2016/17, 8 reports were issued with a **Limited** opinion. These were as follows:

	Assignment	Risk H/M/L	Opinion	Revised Opinion / Status	Date Issued
<b>2016/17</b>	School Meals (Final)	Medium	Limited	Reasonable	March 2018
	Ysgol Y Ffin Primary School	Low	Limited	Reasonable	March 2018
	Events (Final)	Medium	Limited	Limited Further follow up 2019/20	March 2018
	HR Policy Review	Medium	Limited	Considerable	April 2019
	External Placements	Medium	Limited	Reasonable	June 2019
	Compliance with Bribery Act	Medium	Limited	Limited Further follow up 2019/20	March 2018
	Mobile Phones	Medium	Limited	Reasonable	November 2019
	Volunteering	Medium	Limited	Reasonable	November 2019

4.6 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 the 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.

4.7 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. A further follow up report undertaken during 2019/20 resulted in an opinion of Reasonable Assurance..

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

	Assignment	Risk H/M/L	Opinion	Revised Opinion / Status	Date Issued
<b>2017/18</b>	Borough Theatre Trust	High	Limited	Reasonable	December 2019

	Raglan Primary School	Medium	Limited	Reasonable	July 2018
	Youth Service (Draft)	Medium	Limited	Considerable	Draft December 2019
	Events Follow-Up	High	Limited	*	Final November 2019
	Fuel Cards	Medium	Limited	Limited	Final June 2019
	Food Procurement (Draft)	High	Limited	Q4 2019/20	
	Health & Safety (Draft)	Medium	Limited	Q4 2019/20	
	Compliance with Bribery Act Follow-Up (Draft)	High	Limited	Reasonable	December 2019

\* - previous report was based on large scale events held; to date no further large scale events held therefore unable to test majority of recommendations.

4.9 During 2018/19, 6 reports were issued with a **Limited** opinion. These were as follows:

	Assignment	Risk H/M/L	Opinion	Revised Opinion / Status	Date Issued
<b>2018/19</b>	Caldicot Castle (Final sent June 2019)	Medium	Limited	Q4 2019/20	
	Imprest Account – Children’s Services (Final sent June 2019)	Medium	Limited	2020/21	
	Agency Workers (Draft)	Medium	Limited	2020/21	
	Fuel Cards Follow-up (Final sent June 2019)	Medium	Limited	Q4 2019/20	
	Attendance Management (Final sent November 2019)	Medium	Limited	2020/21	
	Health & Safety of	Medium	Limited	2020/21	

	Authority's existing buildings (Draft)				

4.10 The main reasons why these audit reviews resulted in unfavourable opinions were as follows:

#### Caldicot Castle

- Income was not always recorded on the Clarity system. Not all income, including deposits, was being receipted.
- VAT was not calculated correctly. Items were not input correctly through Clarity meaning that they were not coded appropriately for VAT.
- There were no procedure notes or guidance documents setting out what information was required when booking an event
- Pricing was not consistent and there was no evidence of events being properly costed to ensure that a profit would be made.
- Hire agreements were not in place for event bookings.
- Documentation to support additional costs was not sufficient. No proof of debt was available to support additional charges. Some additional charges had not been invoiced.

#### Imprest Account – Children's Services

- Business Support Assistants are unaware of their roles and responsibilities within the petty cash process. Too many individuals have access to the petty cash account.
- The insurance cover limit for the Children's Services team safe under the MCC Money policy had not been confirmed.
- Forms requesting payment from the imprest account were not signed by the requestor (14/61 cases) and there was a lack of appropriate authorisations in some instances (6/61 cases).
- Evidence of the expenditure was not retained consistently and attached the relevant claim form.
- Staff members were being paid for additional hours via petty cash.
- VAT was not claimed in all eligible cases.

#### Agency Workers

- Although guidance around agency workers exists, this does not provide an adequate procedural framework and there appears to be little awareness of the policy among Hiring Managers.

- There were consistent breaches to Financial Regulations and Contract Procedure Rules where agencies other than the preferred suppliers (of R [REDACTED] and N [REDACTED] D [REDACTED] have been used).
- There was no clear evidence that a business need for the agency workers had been identified, or that factors such as budgetary considerations had been given due consideration prior to engagement. There was no secondary approval for the use of agency workers outside of the recruiting manger.
- Non-Preferred suppliers have been used to bring in agency workers for assignments.
- Contracts were not in place with any of the non-framework agencies used (i.e. outside of R [REDACTED] or N [REDACTED] D [REDACTED]).
- The Appointment of Agency Staff form was not being completed by recruiting managers. Furthermore, People Services were unclear what to do with any forms received.
- Hiring Managers were not always ensuring DBS checks were completed for agency workers engaged for roles where a DBS was required.
- The Authority currently employees six previous employees through R [REDACTED].
- R [REDACTED] were being provided with the names of specific individuals, whom the Authority wanted to engage for particular assignments. No additional CV's were requested as a comparison.
- There was no formal monitoring of off-contract agency spend nor any action taken to identify why or to take corrective action.
- There was no guidance around the length of agency engagements and no review process exists. This has resulted in the reliance in some areas on agency members of staff on a long-term basis.

#### Fuel Cards Follow-up

- **SCHEDULE 12A LOCAL GOVERNMENT ACT 1972  
EXEMPTION FROM DISCLOSURE OF DOCUMENTS**
- Separate Appendix

## Attendance Management

- There was no guidance within the Policy regarding the storage of sickness documentation.
- MyView was not used to record sickness meaning that ResourceLink was not updated appropriately as a result. Not all information was captured in MyView. Sickness information was not recorded accurately in all cases. Sickness episodes were input in to MyView per fit note rather than per episode resulting in multiple episodes being recorded mistakenly.
- Most of a sample of individuals were not referred to Occupational Health in line with Policy when their sickness episode exceeded 28 days duration. Employees who had shorter absences, but whose managers requested to be referred to Occupational Health on their Return to Work forms, were not all referred.
- Return to work meetings were not undertaken on return to the workplace after each sickness episode. Return to Work interviews were not all undertaken in a timely manner. Issues raised within the return to work meetings were not followed up.
- Where trigger points were hit, attendance review meetings were not undertaken consistently. Attendance Management meetings were not always undertaken on a timely basis.
- Locally stored sickness information was unavailable due to changes in management.

## Health & Safety of Authority's existing buildings

- There was no corporate policy or procedure manual in place which detailed the processes and responsibilities for ensuring good Health and Safety arrangements in MCC buildings. Guidance documents were limited and not held in an accessible location to allow the necessary people to access them.
- Required Surveys were not undertaken in a timely manner. The current survey spreadsheet recorded only the date of the last survey and not when the next one was due.

4.11 During 2019/20 (up to 30-11-19), 2 reports have so far been issued with a **Limited** opinion. These were as follows:

	Assignment	Risk H/M/L	Opinion	Revised Opinion/ Status	Date Issued
2019/20	Llandogo Primary School	Low	Limited	2020/21	
	Castle Park Primary School	Low	Limited	2020/21	

4.12 The main reasons why these audit reviews resulted in unfavourable opinions were as follows:

#### Llandogo Primary School

- The School was in breach of the Data Protection Act 2018 and found to have been processing personal data unlawfully having allowed their data protection registration to lapse.
- The School balances held at the end of the previous financial year were in deficit, a recovery plan had been put in place to address this but had not yet been finalised or fully balanced and had not been signed off by CYP Finance or the Headteacher.
- In the cases of 2 recent new starters, the Authority's safe recruitment procedures had not been complied with in full and employees were appointed without jobs being advertised and prior to the completion of the required DBS checks. Furthermore, additional charges had been incurred due to emergency payments being required to pay the new starters after payroll deadlines were missed.

#### Castle Park Primary School

- The School was in breach of the General Data Protection Regulations and processing personal data unlawfully having allowed their data protection registration to lapse.
- Evidence that risk assessments had been undertaken relating to the trips tested could not be provided.
- The School's financial records were incomplete and information required to carry out our normal audit process could not be located or provided by the School.



- 4.13 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**

Chief Officer, Resources

## **8. BACKGROUND PAPERS**

Audit management Information 2016/17, 2017/18, 2018/19, 2019/20

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

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**APPENDIX 1**

**Internal Audit Opinions**

<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>CONSIDERABLE</b>	<p>Considerable level of assurance.</p> <p>Generally well controlled, although some risks identified which should be addressed.</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>

The table below summarises the ratings used during the reviews:

RATING	RISK DESCRIPTION	IMPACT
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>

