

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

DIRECTORATE: Resources
MEETING: Governance & Audit Committee
DATE: 24th November 2022
DIVISION/WARDS AFFECTED: All

1. PURPOSE

To update Members on the progress of unfavourable (**Limited Assurance**) audit opinions issued since 2017/18 by the Internal Audit team, and identify in particular, where sufficient progress has not been made. This report is for the period ending 30 September 2022. The previous update was presented to the Governance & Audit Committee in June 2022 and related to the period ending 30 September 2021.

2. RECOMMENDATION(S)

- 2.1 That the Governance & Audit Committee note the improvements made by service areas following the original **Limited** assurance audit opinions issued.
- 2.2 That if the Members of the Governance & 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.
- 2.3 Given that Members have already called in the Head of Service and service managers for Concessionary Travel and Fleet – Health & Safety & Driver Management having **Limited** assurance opinions in 2021/22, the Chief Internal Auditor is not recommending any further call-ins at this stage.

3. KEY ISSUES

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

Audit Opinion	2019/20	%	2020/21	%	2021/22	%
Substantial	2	6	2	22	5	25
Considerable	11	38	6	67	6	30
Reasonable	8	28	1	11	7	35
Limited	8	28	0	0	2	10
	29	100	9	100	20	100

- 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 The audit opinions 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 Governance and Audit Committee in June 2022; this information should be updated and presented to the Governance and Audit Committee on a six monthly basis.
- 4.3 The following unfavourable audit opinions have been issued since 2017/18:

	Limited (Assurance) audit opinions
2017/18	8
2018/19	6
2019/20	8
2020/21	0
2021/22	2
2022/23 (to 30 th September 2022)	0

- 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; subject to appropriate audit resources being available. Follow up audits may need to take priority over planned audit work in future to ensure resources are made available and assurance is fed back to Governance and Audit Committee in a more timely manner.
- 4.5 All audit reports resulting in a consecutive **Limited** assurance opinion will be reported back to Governance and Audit Committee. Some delays may have arisen as a result of the operational manager deferring the follow up audit.
- 4.6 During 2017/18, 8 reports were issued with a **Limited** opinion. 7 out of 8 reports have been followed up and have been given an improved opinion. 1 review related to the Events audit *. Food Procurement was followed up and received a more favourable audit opinion of Considerable Assurance. Relevant managers previously attended the former Audit Committee and gave assurances that improvements would be made.

	Audit	Risk H/M/L	Opinion	Revised Opinion / Status	Date Issued
2017/18					
	Food Procurement	High	Limited Follow Up November 2020 - Limited	Considerable	Draft issued June 2022

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

4.7 During 2018/19, 6 reports were issued with a **Limited** opinion. All have now been followed up and received more favourable opinions (3 were previously reported into Governance and Audit Committee).

	Audit	Risk H/M/L	Opinion	Revised Opinion / Status	Date Issued
2018/19	Caldicot Castle	Medium	Limited Follow up March 2020 - Limited	Considerable	Draft issued September 2022
	Agency Workers	Medium	Limited	Reasonable	Final issued September 2022
	Health & Safety of Authority's existing buildings	Medium	Limited	Considerable	Final issued September 2022

4.8 During 2019/20, 8 reports were 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	Q4 2022/23	
	Castle Park Primary School	Low	Limited	Q4 2022/23	
	Shire Hall	Medium	Limited	Considerable	Final issued March 2022
	Tintern Old Station	Medium	Limited	2023/24	o/s
	Caldicot Castle follow up	Medium	Limited	Considerable (Covered in table at 4.6 above)	
	PTU Vehicle Maintenance	High	Limited	Substantial	Draft issued June 2022

	Procurement (Food) follow up	High	Limited	Considerable (Covered in table at 4.5 above)	
	Direct Payments	Medium	Limited	Reasonable	Final issued June 2022

4.9 It should be noted that due to the impact of the Covid pandemic, Shire Hall, Tintern Old Station and Caldicot Castle had been closed for much of 2020 and 2021; due to limited audit resources only 2 of these have been followed up.

4.10 Of the 9 opinions issued in 2020/21, no **Limited** opinions were issued.

4.11 Of the 20 opinions issued in 2021/22, 2 **Limited** opinions were issued.

	Assignment	Risk H/M/L	Opinion	Revised Opinion/ Status	Date Issued
2021/22	Concessionary Travel	M	Limited	Q4 2022/23	Final issued May 2022
	Fleet – Health & Safety & Driver Management	M	Limited	Q4 2022/23	Final issued December 2021

4.12 Following the presentation of the IA Annual Report 2021/22 to Governance and Audit Committee in July 2022, members called in the Head of Service and service managers for both of the above reports in order for them to provide assurances that improvements will be made in the control environment of the services provided.

4.13 Of the 9 opinions issued in 2022/23 to 30th September, no **Limited** opinions were issued.

4.14 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. All Internal Audit opinions are also reported into the Senior Leadership Team (SLT) every six months. SLT's focus is, along with Chief Officers and DMTs, ensuring that satisfactory progress is being made to address control weaknesses highlighted in the audit reports, in particular Limited assurance reports.

6. RESOURCE IMPLICATIONS

None.

7. CONSULTEES

Deputy Chief Executive and Chief Officer, Resources

8. BACKGROUND PAPERS

Audit management Information 2018/19, 2019/20, 2020/21, 2021/22, 2022/23.

9. AUTHOR AND CONTACT DETAILS

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Internal Audit Opinions

SUBSTANTIAL	<p>Substantial level of assurance.</p> <p>Well controlled although some minor risks may have been identified which require addressing.</p>
CONSIDERABLE	<p>Considerable level of assurance.</p> <p>Generally well controlled, although some risks identified which should be addressed.</p>
REASONABLE	<p>Reasonable level of assurance.</p> <p>Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.</p>
LIMITED	<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>