

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

**DIRECTORATE: Chief Executive's  
MEETING: Audit Committee  
DATE: 25<sup>th</sup> May 2017  
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.

## **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 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 All 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 November 2016; 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 2011/12:

	Unsatisfactory	Unsound
2011/12	4	1
2012/13	2	0
2013/14	0	0
2014/15	6	0
2015/16	7 (see 4.6)	0

	Limited (Assurance)
2016/17	7

- 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;

	<b>Assignment</b>	<b>Risk H/M/L</b>	<b>Rating</b>	<b>Revised Opinion</b>	<b>Date Issued</b>
<b>2015/16</b>	Procurement Cards	Medium	Unsatisfactory	In progress	
	Magor Primary	Low	Unsatisfactory	Reasonable	31-3-17
	Markets	Medium	Unsatisfactory	To be followed up in 2017-18	
	Passenger Transport Unit (14/15)	Medium	Unsatisfactory	In progress	
	Procurement - Off Contract Purchasing (14/15)	Medium	Unsatisfactory	In progress	
	Chepstow School (13/14)	Medium	Unsatisfactory	In progress	
	Monmouthshire Enterprises (Social Care) (14/15)	Medium	Unsatisfactory	To be followed up in 2017-18	

4.7 Chepstow School concerns have been reported to Audit Committee previously (March 2015) and members of the School management team have attended to respond to concerns raised in the audit report. A follow-up draft audit report on the School is due to be issued in May 2017.

4.8 Officers from Passenger Transport Unit and Monmouthshire Enterprises have previously been invited to and subsequently attended Audit Committee in order to respond to Members' questions and to provide assurances that appropriate actions would be taken to improve the financial control environment.

4.9 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.

4.10 During 2016/17, 6 reports were issued with a **Limited** opinion. This is the equivalent of the previous Unsatisfactory opinion. 2 had been finalised by the year end (31<sup>st</sup> March 2017) with 5 being in draft, to be finalised. These were as follows:

	Assignment	Risk H/M/L	Rating	Revised Opinion	Date Issued
<b>2016/17</b>	School Meals (Final)	Medium	Limited		
	Ysgol Y Ffin Primary School	Low	Limited		
	Events (Final)	Medium	Limited	In progress	
	HR Policy Review	Medium	Limited		
	External Placements	Medium	Limited		
	Compliance with Bribery Act	Medium	Limited		
	Mobile Phones	Medium	Limited		

4.11 The main issues were:

**a. School Meals**

- Previously reported to Audit Committee

**b. Ysgol Y Ffin Primary School**

- No Collection & Deposit (C&D) returns or Income Analysis sheets were subject to review and copies were not retained at the School; income collection records were inadequate.
- For the sample of 10 bankings viewed there was no evidence that these had been subject to a secondary check.
- The School was forecasting a significant budget over spend for 2016/17 (as at month 9 forecast) which, if realised, would lead to a significant budget deficit at year end.

### **c. Events**

- Signed contracts for goods and services procured were not available to view at the time of the audit.
- Income reconciliation did not incorporate a physical check of stock of tickets, as per each point of sale location and therefore stock remaining was unknown.
- Lack of record keeping for staff time in lieu and no evidence that time was taken within one month of being accrued, as per Policy.
- No evidence of tender and selection exercise for the professional management of the Status Quo event.
- Final position for Three Choirs event could not be established (the event took place in June 2016). Income recorded on Agresso was low compared to expected sales. Associated costs were placed in a different cost centre and therefore final position could not be assessed.

### **d. HR Policy Review**

- Future Generations Evaluations were not fully completed for policies taken to Committee, Cabinet or for Individual Member Decision.
- The recruitment/new starter and induction processes did not make potential employees aware of relevant key policies from the start of their employment.
- Offer of employment acceptance slips were not received from new starters to confirm their agreement to the terms and conditions of the role.
- No evidence was available to demonstrate HR informed staff of new/ revised policies in the sample of policies tested.
- Processes to demonstrate that staff have read and understood policies were not in place.
- Policies were not reviewed on a timely basis.

### **e. External Placements**

- The accreditation process for dealing with off framework providers was not fully developed and some key checks were not evident at time of review
- Signed individual placement contracts were not consistently in place for the sample reviewed. Children's Services in-house review identified that contracts were not in place as expected.
- Contract management not fully developed in Children's Services.
- The PLANT system reported the number of Social Worker visits for whole of Children's Services; this showed overdue cases (LAC Stats visits and LAC Stats Visits Overdue).

#### **f. Compliance with the Bribery Act**

- Most new members of staff were not receiving corporate induction training despite this being considered a mandatory requirement.
- There was no designated officer within the Authority with responsibility for compliance with the Bribery Act 2010.
- The Anti-Fraud and Corruption Strategy Policy Statement had not been reviewed or updated to reflect the principles of the Bribery Act 2010. Employees were not made aware that bribery is a criminal offence and the potential repercussions of non-compliance with the Bribery Act.
- The Authority had not performed risk assessments to ascertain the likelihood or impact of potential bribery.
- Limited information was in place for employees to guide them on the disclosure of financial interests, potential conflicts of interest and the receipt of gifts and hospitality.
- No authorised signatory list was maintained for procurement decisions. Contracts were being agreed and purchases made that were non-compliant with section 16.2 (Contract Formalities) of the Authority's Contract Procedure Rules.

#### **g. Mobile Phones**

- Lack of evidence of MCC approval for the EE contract;

- Absence of a signed copy of the final contract
- The contract had expired at the time of the audit with a delay in securing a new corporate contract;
- A 'tech fund' included as part of the terms of the EE contract allowed for new or upgraded devices to be claimed from the contractor free of charge, but the Authority had yet to utilise the credit available, which would expire when the EE service was terminated;
- A significant proportion of the phones being paid for had no current registered user recorded and so could not be confirmed as appropriate expenditure;
- Actions to address high cost use of mobile phones were applied inconsistently; and
- The Mobile Phone Policy was lacking detail of the Confidential Data Agreement, managers' responsibilities in relation to mobile phone use by their staff and did not make clear that wilful or negligent misuse of mobile phones could lead to action under the Authority's Disciplinary Procedures.

4.12 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**

Head of Finance

**8. BACKGROUND PAPERS**

Audit management Information 2013/14, 2014/15, 2015/16, 2016/17

**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 review:

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.