



WALES AUDIT OFFICE
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Auditor General for Wales

Monmouthshire County Council / Wales Audit Office Joint Progress Document – **Monmouthshire County Council**

Audit year: 2016-17

Date issued: December 2017

Document reference: 314A2017-18



Status of report

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Summary

Introduction

- 1 Our *2016-17 - Audit of Financial Statements report* was presented to the Audit Committee on 19 September 2017 and summarised the more significant matters arising from our audit. It highlighted the 'corrected' and 'uncorrected' misstatements in the final financial statements. None of the issues in the report prevented the Auditor General from issuing an unqualified audit opinion. However, action is required by the Council to address some of these issues when preparing its 2017-18 financial statements. These are set out in [Exhibit 1](#).
- 2 We also identified other important matters during our audit that were not reported to the Audit Committee within our *2016-17 Audit of Financial Statements report*. These issues are set out in [Exhibit 2](#). As part of our audit we also carry out a high level review of the Council's key computer systems. The findings of this work have been discussed and agreed with key officers and are included in this exhibit.
- 3 We have also reviewed the progress in implementing the agreed issues that we reported in our *2015-16 Joint Progress report*. We are pleased to report that the Council has implemented the majority of the agreed actions, there is one that remains outstanding. This is included in the report in [Exhibit 3](#).
- 4 The Council needs to address the issues reported above during 2017-18 and we will review implementation as part of the forthcoming year's audit. We also recommend that management update the Audit Committee with progress made in implementing the agreed actions when presenting the draft 2017-18 Financial Statements. The issues raised in this report have already been discussed with the Head of Finance and her team.
- 5 The deadlines to produce and certify the accounts remain unchanged for 2017-18 but will be brought forward to 31 July by the year 2019-20. The Council is in a strong position as it was able to present its accounts for audit by 9 June 2017, which is not far off the anticipated deadline of the end of May by the year 2019-20. The intervening years will be important as we work towards the earlier deadlines. It will also be vitally important to have early working papers to a good quality standard to support the accounts, as this will enable our audit work to start much sooner with an earlier audit opinion issued. For the Council, this requirement will need to be balanced against the resources and the finite number of staff that it has available to work on the accounts, and the pressures of the routine work of the finance team.

Exhibit 1: summary of issues raised in the Audit of Financial Statements Report

Issue/Recommendation	Agreed Action/Date	Progress
<p>1. Vehicle additions not reflected in Property, Plant and Equipment When vehicles are purchased they are not recognised in Fixed Assets until a funding decision is made, either via borrowing (retaining ownership) or leasing. Where the decision is made in a different financial year then a cut-off error arises.</p> <p>Recommendation The Council review this process to ensure there are no cut-off errors for the 2017-18 accounts.</p>	<p>Agree to seek financing advice at an early juncture to avoid the need for matters to be transferred between financial years.</p>	<p>Will be added to the closedown plan for 2017/18</p>
<p>2. Reversal of impairments credited to CIES instead of the Revaluation Reserve During revaluation testing of Property, Plant and Equipment (PPE), we identified eight assets where the reversal of impairment had been incorrectly credited to the Comprehensive Income and Expenditure Statement (CIES) instead of the Revaluation Reserve. These impairment losses had been reversed in a prior period (ie credited to the CIES), but this was not recognised on the 'Logotech' asset management system. Therefore, instead of posting the upwards revaluation to the revaluation reserve, it was again credited to the CIES.</p> <p>Recommendation The Council should undertake year-end reconciliation/review regarding reversals of previously impaired assets to ensure this process is not repeated in the 2017-18 accounts.</p>	<p>Process to be added to the closedown plan for 2017/18 to ensure full review is carried out.</p>	<p>Will be added to the closedown plan for 2017/18</p>

Issue/Recommendation	Agreed Action/Date	Progress
<p>3. Vehicles included in Property, Plant and Equipment that have been disposed of</p> <p>During our review of the Fixed Asset Register (FAR) we noted numerous vehicles with a low or nil Net Book Value (NBV). Further work identified that 45 assets had been disposed of, but not removed from the FAR and they were therefore included in PPE.</p> <p>Recommendation</p> <p>The Council should ensure better capture and timely sharing of disposal information from services.</p>	<p>Work to be undertaken to ensure the number of vehicles included in the FAR reconciles with transport and/or insurance records.</p>	<p>Process started and reconciliation to be carried out as part of year-end processes</p>
<p>4. Capital additions for Voluntary Controlled Schools incorrectly included in Property, Plant and Equipment</p> <p>During review of the Fixed Asset Register there was £265,079 of capital additions regarding Voluntary Controlled Schools. As per CIPFA guidance and section E1 of the 'Code', these schools are to be held off-Balance Sheet. Therefore any capital expenditure should have been treated as Revenue Expenditure Funded from Capital under Statute (REFCUS).</p> <p>Recommendation</p> <p>The Council should ensure thorough review of in-year additions to ensure no expenditure regarding Voluntary Controlled Schools is capitalised.</p>	<p>Work ongoing to enable the conveyance process to be resolved prior to 2017-18 closure to avoid the continued potential for human error.</p>	<p>Work ongoing within Estates department</p>
<p>5. Cash received before year-end but not included in Cash and Cash equivalents</p> <p>A review of the bank reconciliations identified there was £451,999 of unreconciled bank receipts. This represented cash that was received prior to year-end, but had not been recognised in the financial statements.</p> <p>Recommendation</p> <p>The Council should review the year-end process to ensure all bank receipts received prior to year-end are correctly recognised in the financial statements.</p>	<p>Banking team to review larger items of unreconciled bank receipts at year-end to attempt to reduce the amount outstanding.</p>	<p>Process to be added to year-end closedown plan</p>

Issue/Recommendation	Agreed Action/Date	Progress
<p>6. Expenditure overstated as prepayment journals not posted at year-end Testing identified that certain year-end prepayment journals were not being posted for certain types/classes of expenditure (eg licences and subscriptions). This resulted in expenditure being overstated.</p> <p>Recommendation The Council should review the year-end process regarding prepayments and in particular these types of expenditure.</p>	<p>The reality is the Accounts reasonably reflect 12 months' worth of service and expenditure, and to correct would introduce artificial variance in any comparison between years. Audit colleagues calculate the effect as being £177,000, but ignore the adjustments made in bringing forward expenditure from previous financial year such that the net effect of the adjustment is anticipated to have a trivial effect on bottom line of Accounts.</p>	<p>No further action proposed</p>
<p>7. Re-charges incorrectly classified in the Expenditure and Funding Analysis and the CIES Re-charges of central overhead costs are not shown on the report to management (report to Cabinet). They are shown in the original place they are debited. There is an adjustment in column II of the EFA to allocate recharges (overheads and support costs) to the various segments in the CIES. Under the Code 2016-17 (section 3.4.2.39) and per CIPFA guidance on the reporting of corporate expenditure in the CIES 'Expenditure will be reported where it was originally debited'. Therefore, as re-charges are not included on the report to management, these adjustments should not be reflected in the CIES.</p> <p>Recommendation The Council should review in-year management the reporting process (regarding allocation of overheads) and then replicate this in the financial statements for 2017-18.</p>	<p>Revised guidance received March 2017 now indicates that in respect of recharges that Statement of Accounts information should be prepared on the same basis as management information reported during the year. MCC's management information does not traditionally involve the regular recharging of central support services, as the focus is on central support managers having the same responsibility as service managers in managing their budgets, but given the timing of revised guidance it wasn't possible to alter arrangements retrospectively. The recharges exercise is commonly undertaken at the year-end as the Statement of Accounts service expenditure has historically been required to be prepared on a 'Total Cost' basis. That total cost approach is still useful from a benchmarking and comparison point of view, and important in the consideration of service re-design or outsourcing. Management advocate a period of reflection to decide the pros and cons of advocating changing the in-year</p>	<p>Consideration to be given prior to year-end</p>

Issue/Recommendation	Agreed Action/Date	Progress
	<p>management reporting or dismiss the year-end recharging exercise for Statement of Accounts purposes.</p> <p>In conclusion, given multiple demands on management's time, increasingly it is necessary to consider whether the additional efforts advocated by the audit process has an effect on the bottom line of the Accounts, and it is important to note that audit colleagues conclude the Accounts represent a 'true and fair' view despite these adjustments not being made.</p>	
<p>8. Rounding errors identified in the draft financial statements We identified numerous rounding errors in the draft financial statements.</p> <p>Recommendation The Council should use rounding formulas in the preparation of next year's accounts to eliminate these errors.</p>	<p>Agreed</p>	<p>To be introduced for 2017/18 year-end statements</p>
<p>9. Disclosure requirements Some disclosures did not comply with the Code of Practice for Local Authority Accounting. Additional disclosures were required for the Fair Value of Investment Properties, the 2016/17 Action Plan in the Annual Governance Statement and a Nature of Expenses note was omitted from the draft financial statements.</p> <p>Recommendation The Council should use the CIPFA Disclosure checklist to ensure compliance with the Code.</p>	<p>Consideration to be given to the use of the disclosure checklist for 2017/18 closure.</p>	<p>Ongoing</p>

Exhibit 2: summary of issues arising not previously reported

Issue/Recommendation	Agreed Action/Date	Progress
<p>1. Accumulated absences</p> <p>From our review of the data used to calculate the Non-teaching Accumulated Compensated Absences provision, we identified that the annual entitlement for three of the 24 employees listed was overstated. This did not have material impact on the provision and resulted in a trivial error. However, it raises some concerns over the process for recording annual entitlement, as these members of staff had been taking annual leave in excess of their entitlement for a number of years, which is a cost borne by the Council.</p> <p>Recommendation</p> <p>The Council should review the holiday entitlement of all staff with entitlement greater than the standard 30 days.</p>	<p>Intention is to state clearly the position in HR policy and advise managers accordingly. As such, we intend to insert the following wording into the Hours & Leave Policy & circulate:</p> <p>'Employees who had 15 years' continuous LG service only with the former Gwent County Council or Monmouth Borough Council, as at 1 April 2000, will retain their entitlement on a personal protection basis to 32 days' annual leave. This entitlement will continue to be phased out over time and does not apply to any other groups of employees.'</p>	<p>In progress</p>
<p>2. IT Control Environment – Monmouthshire County Council</p> <p>Some controls under the Council's responsibility should be strengthened as follows:</p> <ul style="list-style-type: none"> a. There are five people with system administrator access rights to the payroll system. It is not clear whether they require this level of access. b. Security checks are not undertaken when resetting passwords for payroll user access. c. There are 11 people who have access to create/amend user access in the Northgate SX3 system, which is quite a high number. <p>There are no formal arrangements for removing leaver system access to the material financial systems. The Council is at risk of unauthorised system access.</p> <p>Recommendations</p> <p>The Council should:</p>	<ul style="list-style-type: none"> a. This was highlighted by NGA as part of their system review. As part of the actions arising from that review is a full-scale analysis of all operator profiles and access as well as screen, menu and task access. This is one of the priorities to ensure that 'Resourcelink' is a secure system holding vital information (David Bartlett – People Services). b. This ties in with the review of 'Resourcelink' users above (David Bartlett). c. We have reviewed the list of users and removed where needed. The list currently 	<p>Implementation date:</p> <p>April 2018</p> <p>April 2018</p> <p>August 2017</p>

Issue/Recommendation	Agreed Action/Date	Progress
<ul style="list-style-type: none"> a. Identify whether the number of people with system admin rights within the payroll system is appropriate and, where possible, limit the access to only those that require it. b. Implement adequate security checks when resetting user passwords for the payroll system. c. The Council to review if the number of people who can create/amend/ remove user access within the Northgate SX3 system and limit the access to only those that require it. d. HR should notify each relevant department of each leaver in a timely manner so that access to the material financial systems can be removed appropriately. 	<p>stands at five (Main system administrators). We have been doing quite a bit of work across our systems recently in terms of housekeeping and will be adding this check to the list. This will be reviewed on a regular basis by the systems admin team (Leanne Harper - Financial Systems Support Manager).</p> <p>d. We receive e-mails regarding leavers relating to our Agresso system. These are then shut down and records kept. With regards to Northgate, Civica and Comino we acknowledged a while ago that we needed to improve the process around these systems and have been continually working with colleagues to develop this (Leanne Harper).</p>	<p>September 2017</p>
<p>3. IT Control Environment – SRS</p> <p>Some controls under the SRS' responsibility should be strengthened as follows:</p> <ul style="list-style-type: none"> a. There are a high number of users with access to add/amend/remove network user accounts. Those with domain admin rights (around 25 users) and 'IT Servicedesk' (around 40 users) access have the ability to create/amend/delete user access. There are also some service accounts, which SRS are planning to minimise. b. Monmouthshire County Council network users are allowed/able to have up to 20 failed attempts at logging into the network. This is a high number of attempts, increasing the risk of unauthorised access to the network (and more relevant to this audit, the key financial systems). c. Back-up tapes are stored on the same industrial estate in Blaenavon. These may be at risk (including material financial data) if a serious incident were to occur. 	<ul style="list-style-type: none"> a. Domain Admin access is currently under review across MCC as part of the recent PSN penetration tests. This is to be resolved by 1 October (Jon Price – SRS Service Manager). b. Failed Login attempts numbers are currently under review across MCC as part of the recent PSN penetration tests. In order to match the other authorities, these have been reduced to ten attempts. c. Risk Assessments will be undertaken and discussion onto where tapes can be held away from Blaenavon can be considered. 	<p>October 2017</p> <p>Completed 01.09.17</p> <p>January 2018</p>

Issue/Recommendation	Agreed Action/Date	Progress
<p>Recommendations</p> <p>The Council should:</p> <ul style="list-style-type: none"> a. SRS should identify whether the number of people with domain admin rights and IT service desk rights is appropriate and, where possible, limit the access to only those that require it. b. Monmouthshire County Council network users are allowed to have up to 20 failed attempts at logging into the network. This is a high number of attempts, increasing the risk of unauthorised access to the network (and more relevant to this audit, the key financial systems). c. Risk assess and consider the locality of back-up tapes and, if required, relocate them to somewhere more suitable and further away. 		

Exhibit 3: summary of progress against issues reported in the prior-year joint progress document

Issue/Recommendation	2015-16 Audit Finding	Agreed Action/Date
<p>1. Osbaston School – transfer of legal title The Council needs to formally complete the transfer of legal title for Osbaston School.</p>	<p>Partially implemented (Priority – High) We noted the Council had begun the process to transfer legal title in 2015-16, but had not been able to complete it by the time the accounts were produced. Recommendation to be addressed in 2017-18.</p>	<p>Work ongoing to transfer title by 2017/18 year-end</p>

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone.: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru