

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

DIRECTORATE: Resources
MEETING: Audit Committee
DATE: 11th January 2018
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 2017.

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 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 May 2017; 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	0

	Limited (Assurance)
2016/17	8
2017/18 (up to 31/12/17)	2

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	In progress	
	Magor Primary	Low	Unsatisfactory	Reasonable	31-3-17
	Markets	Medium	Unsatisfactory	In progress	
	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	Considerable (Draft)	Sept 17
	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 has now been issued, which identified an improved internal control framework at the School. A draft opinion of 'Considerable Assurance' has been included in the report and a meeting is scheduled for later this month to seek to finalise the report and Action Plan.
- 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, 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	In progress	
	Ysgol Y Ffin Primary School	Low	Limited	2017/18	
	Events (Final)	Medium	Limited	Limited	
	HR Policy Review	Medium	Limited	2017/18	

	External Placements	Medium	Limited	2017/18	
	Compliance with Bribery Act	Medium	Limited	In progress	
	Mobile Phones	Medium	Limited	2017/18	
	Volunteering	Medium	Limited	2017/18	

4.11 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. 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.

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

4.13 The main issues of the audit work not previously reported were:

a. Volunteering

- Guidance is in place for co-ordinators, however this was not interpreted and applied in a consistent manner;
- Volunteer information is held inconsistently and in some cases, inappropriately;
- Inconsistent information is shared with volunteers;
- Safe recruitment could not be demonstrated in all instances;
- Potential breaches of the Data Protection Act 1998 and Equalities Act 2010 were noted, particularly regarding Equal Opportunities and Occupational Health forms; and
- Induction and training could not be evidenced consistently.

4.14 During 2017/18 (up to 31-12-17), 2 reports were issued with a **Limited** opinion. These were as follows:

	Assignment	Risk H/M/L	Rating	Revised Opinion	Date Issued
2017/18	Borough Theatre Trust	High	Limited		
	Raglan Primary School	Medium	Limited		

4.15 The Main issues were:

a. Borough Theatre Trust

This audit was initially undertaken as an unplanned piece of audit work specifically at the request of the Chief Officer Enterprise and the Cabinet Member for Innovation, Enterprise and Leisure. Independent advice was requested over the financial and administrative operations at the Theatre. The Internal Audit team provided a report back to Management in June 2017, but given current legal undertakings are not in a position to report back to Audit Committee at this stage.

b. Raglan Primary School

- Bankings were not subject to a secondary check
- Unforeseen expenditure has led to a substantial over spend against budget for 2016/17
- At the time of the audit, investigations were being carried out by People Services, CYP and the School into claims by a group of staff that they had been consistently under paid for additional hours worked at the School
- Pre-signed blank cheques were found for the School's Private Fund account
- Private Fund payments were not suitably controlled
- No reconciliations had been performed on the Private Fund bank account for approximately 18 months
- The Private Fund account had not been audited for the last two academic years.

4.16 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

9. AUTHOR AND CONTACT DETAILS

Andrew Wathan, Chief Internal Auditor

Telephone: x.4243

Email: andrewwathan@monmouthshire.gov.uk

Internal Audit Opinions (wef 2016/17)

SUBSTANTIAL	Substantial level of assurance. Well controlled although some minor risks may have been identified which require addressing.
CONSIDERABLE	Considerable level of assurance. Generally well controlled, although some risks identified which should be addressed.
REASONABLE	Reasonable level of assurance. Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.
LIMITED	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
VERY GOOD	Very well controlled with minimal risk identified; a few minor recommendations.
GOOD	Well controlled although some risk identified which needs addressing.
REASONABLE	Adequately controlled although some risks identified which may compromise the overall control environment.
UNSATISFACTORY	Not very well controlled; unacceptable levels of risk identified; changes required urgently.
UNSOUND	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.