

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

**DIRECTORATE: Resources
MEETING: Audit Committee
DATE: 24th May 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 January 2018.

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 January 2018; 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 2012/13:

	Unsatisfactory	Unsound
2012/13	2	0
2013/14	0	0
2014/15	6	0
2015/16	7	0

	Limited (Assurance)
2016/17	8
2017/18	8

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	Reasonable (Draft)	December 2017
	Magor Primary	Low	Unsatisfactory	Reasonable	March 2017
	Markets	Medium	Unsatisfactory	Reasonable (Draft)	March 2018
	Passenger Transport Unit (14/15)	Medium	Unsatisfactory	Reasonable (Draft)	March 2018
	Procurement - Off Contract Purchasing (14/15)	Medium	Unsatisfactory	Reasonable	March 2018
	Chepstow School (13/14)	Medium	Unsatisfactory	Considerable (Draft)	September 2017
	Monmouthshire Enterprises (Social Care) (14/15)	Medium	Unsatisfactory	2018/19	

4.7 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.

4.8 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	Reasonable	March 2018
	Ysgol Y Ffin Primary School	Low	Limited	Reasonable	March 2018
	Events (Final)	Medium	Limited	Limited	March 2018
	HR Policy Review	Medium	Limited	2018/19	
	External Placements	Medium	Limited	2018/19	
	Compliance with Bribery Act	Medium	Limited	Limited	March 2018
	Mobile Phones	Medium	Limited	2018/19	
	Volunteering	Medium	Limited	2018/19	

- 4.9 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. Due to the confidential nature of some of the discussion this matter will be reported separately at Audit Committee.
- 4.10 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. Members should consider calling in the respective Head of Service responsible for this matter in order for assurances to be received that improvements with compliance will be made moving forward.
- 4.11 For the Limited audit opinions issued during 2016/17, the main issues have previously been reported to Audit Committee.
- 4.12 During 2017/18, 8 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		
	Youth Service (Draft)	Medium	Limited		
	Events Follow-Up	High	Limited		
	Fuel Cards	Medium	Limited		
	Food Procurement (Draft)	High	Limited		
	Health & Safety (Draft)	Medium	Limited		
	Compliance with Bribery Act Follow-Up (Draft)	High	Limited		

- 4.13 The Main issues were:

a. Borough Theatre Trust

Previously reported.

b. Raglan Primary School

Previously reported.

c. Youth Service

- Management and cash handlers were unaware of and not compliant with the Authority's Financial Procedure Rules;
- There was inappropriate sign-off of grant claims;
- Term time staff were not receiving annual leave as per contractual rights;
- The existence of a separate bank account outside of MCC arrangements and operated with a lack of suitable control; and
- Lack of approval, risk assessments and consent information for trips.

d. Events Follow-Up

- This matter will reported separately at Audit Committee due to the confidential aspect.

e. Fuel Cards

- Tendering information could not be obtained for the Fuel Cards procurement exercise which resulted in the contract being awarded to Arval in 2009, and no subsequent tender has been undertaken since.
- MCC were using the NPS contract in part, however, no signed contract was available for this showing both parties' responsibilities. A signed agreement did exist for the Allstar Fuel Cards, however this was a credit agreement rather than a contract; this did not contain relevant detail and had not been revisited since 2009.
- Evidence was not retained for the ordering of fuel cards confirming budget holder approval and no application process existed.
- No monitoring occurs to ensure the most cost effective fuelling stations are used by card holders.

f. Food Procurement

- There was no overall responsible officer for food procurement, across the organization as a whole.

- There was no officer responsible for the oversight and monitoring of food procurement.
- For the sample, tested, awareness of approved food suppliers amongst was inconsistent and knowledge incomplete.
- Off framework spend was routinely undertaken via supplier invoice and using petty cash. Purchases include higher risk food such as fresh meat, frozen, dairy and groceries.
- For the sample of frameworks tested, the Authority did not hold evidence of pre-checks and on-going monitoring undertaken by third parties. Additionally, evidence of any in-house pre-checks of a supplier was not retained where the Authority was the lead.
- For the sample of staff contacted, there was a lack of awareness about the need to perform appropriate vetting to due diligence checks on a food supplier before buying from them. There was lack of clarity about staff roles and responsibilities in terms of pre-checks and on-going quality assurance.
- No evidence that contracts were in place between the Authority and its food providers.
- Lack of evidence, in the case of “off framework” providers, to show that the Authority has complied with the Pennington report recommendation.

g. Health & Safety

- There was no Health and Safety Strategy in place in MCC.
- Evidence of health and safety training needs analyses were not available at the time of the audit.
- Reportable incidents were not always escalated to the HSE in a timely manner.

h. Compliance with Bribery Act – Follow Up

- Managers should ensure that all staff who are new to the Authority attend the corporate induction training provided on a timely basis – not implemented.
- Periodic risk assessments should be undertaken to evaluate the Authority’s exposure to the risk of bribery and to highlight particular areas of risk within the Authority. The frequency, scope and responsibility for carrying out this process should be included in the Anti-Fraud and Corruption Policy document.
- An Authorised Signatory List should be maintained detailing approval levels for individual officers against cost codes. All approval of purchases or

awarding of contracts should be performed in agreement with this list. – not implemented.

- 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.

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

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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.