

**SUBJECT: INTERNAL AUDIT SECTION  
PROGRESS REPORT ON  
UNSATISFACTORY / UNSOUND AUDIT  
OPINONS**

**DIRECTORATE: Chief Executive's  
MEETING: Audit Committee  
DATE: 22<sup>nd</sup> October 2015  
DIVISION/WARDS AFFECTED: All**

## **1. PURPOSE**

To update Members on the progress of Unsatisfactory / Unsound 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 Unsatisfactory / Unsound 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 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.

#### 4. REASONS

4.1 The audit opinions currently used within the team were introduced into the audit reports at the beginning of 2008/09 and are as set out in Appendix 1. The opinion gives an indication of the adequacy of the internal control environment of the system or establishment under review and ranges from *Very Good* to *Unsound*. The reviews are now risk assessed as High, Medium or Low. The audit opinions are currently under review.

4.2 Previous report was presented to Audit Committee March 2015.

4.3 The following unfavourable audit opinions have been issued since 2008/09 (Details at Appendix 2):

	Unsatisfactory	Unsound
2008/09	2	3
2009/10	4	1
2010/11	2	0
2011/12	4	1
2012/13	2	0
2013/14	0	0
2014/15	6	

4.4 In 2012/13 the reports were as follows:

	Assignment	Risk H/M/L	Rating	Revised Opinion	Date Issued
<b>2012-13</b>	Community Recreation Centres – Usk (Follow Up)	N/A	Unsatisfactory	Reasonable	March 2014
	Monmouthshire Enterprises (Social Care)	Medium	Unsatisfactory	*	

\* This review turned into a special investigation; the issues identified will be picked up within future audits within this area; see para 4.6 below.

4.5 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.

4.6 In 2014/15, 6 audit reports have been issued with an Unsatisfactory audit opinion;

- a. Passenger Transport Unit
- b. Procurement - Off Contract Purchasing
- c. Llandogo Primary (13/14)
- d. Chepstow School (13/14)
- e. Llanfair Kilgeddin Primary School
- f. Monmouthshire Enterprises

	Assignment	Risk H/M/L	Rating	Revised Opinion	Date Issued
<b>2014/15</b>	Passenger Transport Unit	Medium	Unsatisfactory		
	Procurement - Off Contract Purchasing	Medium	Unsatisfactory		
	Llandogo Primary (13/14)	Medium	Unsatisfactory		
	Chepstow School (13/14)	Medium	Unsatisfactory		
	Llanfair Kilgeddin Primary School	Medium	Unsatisfactory		
	Monmouthshire Enterprises (Social Care)	Medium	Unsatisfactory		

4.7 Llandogo Primary School and Chepstow School (Draft) have been reported to Audit Committee previously (March 2015).

4.8 The main issues were:

**a. Passenger Transport Unit**

- Vehicle procurement was not openly advertised as required prior to the selection process taking place;
- The process for selecting successful suppliers of used vehicles was not open and transparent;
- Mechanical inspections of second hand vehicles were not adequately evidenced prior to purchase;

- It was unclear during the review if the use of external maintenance (for some maintenance) was a cost effective solution for the Authority;
- A maintenance contract (above EU Procurement thresholds) was signed without any tender process taking place;
- One vehicle was identified which was not serviced within the required timeframe but remained operational;
- There was no system in place to actively monitor individual vehicle maintenance costs to inform future budgetary and vehicle replacement decisions;
- Information could not be provided on a sample of private hire bookings selected as information relating to those bookings had not been retained;
- The real cost of providing private hire bookings was unclear. The current costing system does not take into account vehicle maintenance, purchase costs or any administration in the booking process. In addition, inaccuracies were found in the costing used;
- Clients of private hire bookings were not informed of the terms and conditions of booking and at the time of review the conditions requiring payment before the journey was not being implemented;
- The 2013/14 budget was overspent, and an overspend is already being forecast for 2014/15. This was caused by both an overspend on expenditure and also failure to hit the budgeted income;
- High levels of debt continue to exist with private hire bookings.

#### **b. Procurement - Off Contract Purchasing**

- The operating model in place with employees from across each Directorate undertaking procurement and then reporting the information centrally was found to be flawed, and potentially exposes the authority to an unacceptable level of risk. There were also issues with the key control documentation being outdated and not readily available to staff.
- The review undertaken highlighted that the communication levels between Directorate staff and the Strategic Procurement team is poor. Fundamentally there seemed to be a lack of information sharing taking place
- In 2012 The Welsh Government (WG) set out their aims for procurement within Local Authorities – MCC had an overall

procurement maturity score of just 31%. These results were significantly below the Welsh and UK averages.

- there are currently just two procurement professionals in the team - 25% of the required number.
- there were a number of the other key WG procurement principles that MCC could not demonstrate compliance with
  - Contract Procedure Rules had not been updated for over 5 years;
  - The Authority's Procurement Strategy set in 2008 had expired at the end of December 2013;
  - There was no Register of Corporate Contracts;
  - Strategic Procurement were not routinely notified when contracts valued at above £25k were awarded by directorate staff;
  - There was no evidence of regular and effective review of off contract spending (although without a register of Corporate Contracts this would be extremely difficult to do).

#### **e. Llanfair Kilgeddin Primary School**

- There was no formal approval of the 2014/2015 budget;
- Collection and deposit sheets had not been produced since April 2014 and the copies on file from this time had not been reviewed by the former Headteacher;
- No paying-in slips were signed or initialled by the former Headteacher to indicate checks between deposit values and income analysis;
- School meal debt was extremely high for the number of pupils on roll. At 15<sup>th</sup> October 2014 debt stood at £2,071.08, with 24 pupils owing dinner money and eight of these pupils owing in excess of £100. Parents were encouraged to pay on a termly basis. A review of debt letters showed parents with debt were sent reminder letters in May, July and October 2014 by the School;
- The School currently faces a forecasted year end deficit balance of £22,405 mainly due to unplanned employee costs. Despite this, there was no recovery plan in place at the time of the audit;

- The School had not used the Agresso POPs system for any payments made between April 2014 and September 2014;
- Since the local authority assumed control of the budget there were issues with both purchase orders and supplier invoices building up in the system awaiting approval. For supplier invoices paid in the summer term there was no evidence that the previous Headteacher had approved the expenditure either by signing the invoice or approving using the Agresso system;
- A review of personnel files held at the School revealed there was missing documentation;
- An employee had finished one of their posts on 31<sup>st</sup> July 2014, however the School Administrator had been unable to terminate the post on the Resourcelink system and the changes were not processed until September 2014. As a result of this the employee was over paid for both August and September 2014;
- There was no monthly bank reconciliation of the Private Fund;
- There was no bank mandate for the Private Fund held at the School however discussions with staff confirmed signatory details held by the bank were out of date;
- Controls over the School's occasional use of the Jigsaw minibus were lacking;
- Private fund payments included one reimbursement for items that were related to school budget; and
- The audited statement of the Private Fund accounts was not available at the time of the audit.

**f. Monmouthshire Enterprises**

- The operation of the Development Fund was inappropriate and in breach of the Authority's previous Financial Regulations (in place at the time the Fund was established). The Fund is now only used for limited purposes – collecting income on behalf of the residual ME services and reimbursing MCC budgets for relevant costs. However, a final decision is required on the winding up of the Fund and the redistribution of remaining balances to ongoing services;
- Formal bank reconciliations for the Development Fund were not being undertaken;
- The lease for Swan Craft Studio was found to have expired, although the service is continuing to occupy the site and pay rent to the landlord;

- No insurance cover had been arranged for the contents of Swan Craft Studio, nor for the safes in use at any of the three Monmouthshire Enterprise Services;
- No formal agreements covering pricing, commission, VAT, personal tax liabilities, etc. have been established with the individuals whose products are sold at Swan Craft Studio – many of whom are understood not to be service users, raising questions over the purpose of the Studio; and
- The Service budgets were not appropriately aligned for the current delivery arrangements and needed amendment to reflect the changes introduced by My Day, My Life. In Audit's view the opportunity should also be taken to delegate budget responsibility to individual service managers closer to the point of delivery rather than retain with the Group Manager.

4.9 These audit reviews will be followed up by the audit team within 6 to 12 months of the final report being issued to ensure that action has been taken to address the weakness identified.

4.10 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 2012/13, 2013/14, 2014/15. 2015/16

**9. AUTHOR AND CONTACT DETAILS**

Andrew Wathan, Chief Internal Auditor

Telephone: x.4243

Email: [andrewwathan@monmouthshire.gov.uk](mailto:andrewwathan@monmouthshire.gov.uk)



### Internal 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:

<b>Opinion</b>	<b>Description</b>
<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).

<b>Rating</b>	<b>Assessment of the Weakness Identified</b>
1	Fundamental weakness.
2	Highly significant weakness.
3	Significant weakness.
4	Minor weakness.

<b>Rating</b>	<b>Proposed Timescale for Implementation</b>
A	Should be actioned immediately
B	Should be implemented as soon as possible but within 3 months.
C	Ongoing requirements or within 12 months.