



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

MCC/WAO Joint Progress Document

Monmouthshire County Council

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Status of report

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Summary

Introduction

1. Our *2017-18 - Audit of Financial Statements report* was presented to the Audit Committee on 13 September 2018 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 2018-19 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 *2017-18 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 with implementing the agreed issues that we reported in our *2016-17 Joint Progress report*. We are pleased to report that the Council has implemented the majority of the agreed actions. There are three that remain outstanding and these are shown in [Exhibit 3](#).
4. The Council needs to address the issues reported above during 2018-19 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 2018-19 Financial Statements. The issues raised in this report have already been discussed with the Assistant Head of Finance and his team.
5. The deadlines to produce and certify the accounts remain unchanged for 2018-19, but will be brought forward to 31 July by the year 2020-21. The Council is in a strong position as it was able to present its accounts for audit by 4 June 2018, 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 is 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>6. Accrued income and deferred income overstated by £1,372,006</p> <p>For internal monitoring purposes the accountant responsible had tried to split (via journal postings) the income from Welsh Government over two ongoing projects to reflect their year-end positions. These postings resulted in an overstatement of both accrued income (Debtors) and deferred income (Creditors). However, there was no impact on income per the Comprehensive Income and Expenditure Statement (CIES). The impact on the financial statements is that Short-term Creditors and Short-term Debtors is overstated by £1,372,006.</p> <p>Recommendation</p> <p>The Council should ensure that any journals posted for internal monitoring purposes, do not result in the accounts being misstated.</p>	<p>This is considered a one off error, however closure journals in this area will be reviewed carefully to ensure future postings are correct</p>	<p>Ongoing</p>
<p>7. Termination Benefits understated by £15,000</p> <p>During testing of termination benefits we identified a commitment to terminate the employment for one individual, which was not included in the accounts. The impact on the financial statements is that both Accruals and Termination Costs (included in Employee Benefit Expenses) are understated by £15,000.</p> <p>Recommendation</p> <p>The Council should review their year-end process regarding termination benefits to ensure there are no cut-off errors for the 2018-19 accounts.</p>	<p>Note to be circulated to finance teams as part of closure documents to remind them of the requirements of the code:</p> <p><i>For termination benefits payable as a result of an employee's decision to accept an offer of redundancy, the time when an authority can no longer withdraw the offer is the earlier of when:</i></p> <ul style="list-style-type: none"> • <i>the employee accepts the offer; and</i> • <i>a legal, regulatory or contractual restriction on the authority's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.</i> 	<p>To be included in 2018/19 year end procedures</p>

Issue/Recommendation	Agreed Action/Date	Progress
<p>8. Property, Plant and Equipment overstated by £1,020,000</p> <p>During testing of Property, Plant and Equipment (PPE) we identified one asset (Monmouthshire Leisure Centre) that was under reconstruction and was not considered for an impairment review at year-end. The Authority has capitalised all the costs for the renovation under Assets Under Construction (AUC) but had not undertaken an impairment of the 'old' leisure centre that was included in Land and Buildings (L&B). The impact on the financial statements is that Property, Plant and Equipment (PPE) is overstated by £1,020,000 and the Revaluation Reserve/Surplus on revaluation of PPE Assets in the CIES is overstated by £1,020,000.</p> <p>Recommendation</p> <p>The Council should review its process for impairment review. In particular, any assets that are being re-constructed and included in both L&B and AUC, to ensure this error is not repeated in the 2018-19 accounts.</p>	<p>An annual review will be carried out to assess any assets held in two places in the asset register to prevent duplication. Demolition has been added to Revaluation request procedure given to Estates as a reason for impairment.</p>	<p>Duplication assessment to be completed during 18/19 closure.</p> <p>Impairment due to demolition already discussed with Estates/documentated.</p>
<p>9. Grant income and expenditure understated by £343,825</p> <p>During income cut-off testing, we identified one 2017-18 bank receipt (from Welsh Government) for the Schools Maintenance Revenue Grant that was not recognised in grant income. Instead, an incorrect posting/journal had reduced both income and expenditure. The impact on the financial statements is that both Cost of Services Income (Grant Income) and Cost Services Expenditure are understated by £343,825.</p> <p>Recommendation</p> <p>The Council should remind finance teams of the correct procedure and at year-end review expenditure codes for any grant income incorrectly coded.</p>	<p>Directorate finance team have been reminded of the need not to net off grant income on income codes when transferring the funding to school cost centres from central areas</p>	<p>Complete</p>

Issue/Recommendation	Agreed Action/Date	Progress
<p>10. The Council is failing to ‘de-recognise’ existing infrastructure assets when these assets are replaced or where improvements are made</p> <p>We noted that the Council is failing to ‘de-recognise’ existing infrastructure assets when these assets are replaced or where improvements are made. This is because the Council is unable to identify the individual assets, due to insufficient detail being contained in the asset register.</p> <p>Recommendation</p> <p>The Council needs improve the description of assets within the fixed assets register, to ensure that infrastructure assets are more clearly identifiable and can be ‘de-recognised’. We are comfortable that the net book value of the assets included in the accounts at 31 March 2018 is not materially misstated.</p>	<p>The inference is that members may conclude management being deficient against the code of practice. The code of practice requires a depreciated historic cost model to be used for infrastructure assets. The authority is required to ensure assets are carried at their cost less any accumulated depreciation & impairment losses and the Authority is satisfied that we are complying with that requirement.</p> <p>There is currently no requirement to further split down the historic infrastructure base into individual assets or de-recognise individual pieces of roads, bridges, culverts or street lighting for example.</p> <p>Moving forward, we will continue to introduce improvements in better identifying new infrastructure assets when capital expenditure is incurred in preparation for any new code requirements that could potentially arise.</p>	<p>Improvements in identifying new capital expenditure in the register to be progressed as part of 2018/19 closure of accounts</p>
<p>11. Revaluations</p> <p>The revaluation of Caldicot Comprehensive School was treated in the financial statements as two separate valuations, when it should have been treated as one (single asset). This resulted in an impairment of the old school asset debited to the CIES and an upwards revaluation of the new school asset credited to the Revaluation Reserve. The Authority</p>	<p>An annual review will be carried out to assess any assets that potentially fall into this scenario. Each will need to be assessed on their own merit to establish the sequence of events and the subsequent accounting treatment</p>	<p>To be included as part of 2018/19 year end closure procedures</p>

Issue/Recommendation	Agreed Action/Date	Progress
<p>should have recorded the net movement as it is a single asset. The value of the correction was £6,886,100.</p> <p>Recommendation</p> <p>The Council should review its process for revaluations. In particular, any assets that are being re-constructed and included in both L&B and AUC, to ensure this error is not repeated in the 2018-19 accounts.</p>		
<p>12. Classification / presentational errors</p> <p>There were a number of classification / presentational errors identified in the financial statements, as follows:</p> <p>i) <u>Note 11.2 Nature of Expenditure</u> Fees, charges and other service income decreased by £8,059,000 and External grants and contributions increased by £8,059,000.</p> <p>ii) <u>Note 13.4 Nature and extent of risks arising from financial instruments</u> Short-Term Borrowings PWLB increased by £998,873 and Long-Term Borrowings BWLB decreased by £998,873. Loans Mature between one and two years decreased by £5,000,000 and Loans Mature between two to five years increased by £5,000,000.</p> <p>Recommendation</p> <p>The Council should review its process to ensure there are no presentational errors for the 2018-19 accounts.</p>	<p>With the significant amount of time being taken out of the accounts closure process due to statutory requirements it is accepted that the time pressure this puts on finance teams means that isolated errors that impact the disclosure notes may become more common practice.</p> <p>The quality review process will be re-looked at for 2018/19 closure to see if any enhancements can be made to reduce the risk of presentational errors.</p>	<p>To be reviewed as part of 2018/19 closure</p>

Exhibit 2: summary of issues arising not previously reported

Issue/Recommendation	Agreed Action/Date	Progress
<p>1. IT Risk Register</p> <p>There is no IT risk register, or a clear way of identifying IT risks at the council.</p> <p>Recommendations</p> <p>The Council should consider the need for IT risk register. This would enable the Council to have a coordinated overview of its IT risks.</p>	Agreed/TBC	Ongoing

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

Issue/Recommendation	2016-17 Agreed action & implementation date	Agreed Action 2018-19
<p>1. Osbaston School – transfer of legal title</p> <p>The Council needs to formally complete the transfer of legal title for Osbaston School. We noted the Council had begun the process to transfer legal title in 2015-16, but had not complete it by the time the accounts were produced. This transfer did not progress in 2017-18.</p>	<p>Work ongoing to transfer title by 2017/18 year-end.</p>	<p>Work still ongoing with further complications due to change in Authority personnel</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"> i) There are 5 people with system administrator access rights to the payroll system. It is not clear whether they require this level of access. ii) Security checks are not undertaken when resetting passwords for payroll user access. <p>Recommendations</p> <p>The Council to:</p> <ul style="list-style-type: none"> i) Identify whether the number or people with system admin rights within the payroll system is appropriate, and where possible, limit the access to only those that require it ii) Implement adequate security checks when resetting user passwords for the payroll system 	<ul style="list-style-type: none"> i) 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 (People Services). Implementation date: April 2018 ii) This ties in with the review of ‘Resourcelink’ users above. Implementation date: April 2018 	<ul style="list-style-type: none"> i) Payroll have been waiting for the most recent Northgate upgrade release (R21) in February 2019 to fix this issue. The release has now been installed and work has commenced with effect from March 2019 to implement the access rights issue. ii) Payroll can no longer reset passwords. They are now system generated to a user e-mail account.

Exhibit 3 Summary of progress against issues reported in the prior year joint progress document

Issue/Recommendation	2016-17 Agreed action & implementation date	Agreed Action 2018-19
<p>3. IT Control Environment – SRS</p> <p>Some controls under the SRS’s responsibility should be strengthened as follows:</p> <ul style="list-style-type: none"> i) 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. ii) Backup 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 <p>Recommendations</p> <ul style="list-style-type: none"> i) 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 ii) Risk assess and consider the locality of backup tapes, and if required relocate them to somewhere more suitable and further away 	<ul style="list-style-type: none"> i) 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. Implementation date: October 2018 ii) Risk Assessments will be undertaken and discussion onto where tapes can be held away from Blaenavon can be considered. Implementation date: January 2018 	<ul style="list-style-type: none"> i) A review of domain admins has taken place, and the SRs have reduced access down to the minimum required to ensure we provide the necessary service to MCC, and removed access to Domain Admins for staff who no longer require it. i.e. the Server team & Service Desk staff covering MCC only. We have implemented a script whereby it automatically removes anyone added to Domain Admins who has not been approved. ii) Backup tapes - Have reduced the amount of backup tapes required by only backing up personal drive data to tape. The rest is replicated to DR SAN equipment in Pontypool. We are also implementing VEEAM

Exhibit 3 Summary of progress against issues reported in the prior year joint progress document

Issue/Recommendation	2016-17 Agreed action & implementation date	Agreed Action 2018-19
		solutions to further increase our resilience for backups by holding data in a secure cloud solution provided by VEEAM. Any tapes that are used are removed from the Data Centre and placed in a fire proof safe held in Ty Cyd 2.