

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

DIRECTORATE: Resources
MEETING: Audit Committee
DATE: 26th November 2020
DIVISION/WARDS AFFECTED: All

1. PURPOSE

To update Members on the progress of unfavourable (Limited Assurance) audit opinions issued since 2016/17 by the Internal Audit team, and identify in particular, where sufficient progress has not been made. The previous update was presented to Audit Committee in January 2020.

2. RECOMMENDATION(S)

- 2.1 That the Audit Committee note the improvements made by service areas following the original **Limited** assurance audit opinions issued.
- 2.2 As a result of a second consecutive **Limited** assurance opinion, Members consider calling in the respective Head of Service responsible for:
 - Food Procurement
 - Caldicot Castle Follow up
- 2.3 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 significant weaknesses in internal control have been identified.
- 3.2 The majority of the systems / establishments issued with an unfavourable audit opinion originally and which have since 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 The audit opinions reflect the level of assurance that could be gained from the review of internal controls in operation. The audit opinions in use from April 2016 are Substantial, Considerable, Reasonable and Limited Assurance; the definitions of which are shown at Appendix 1.

4. REASONS

- 4.1 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 2020; this information should be updated and presented to Audit Committee on a six monthly basis.
- 4.3 The following unfavourable audit opinions have been issued since 2016/17:

	Limited (Assurance)
2016/17	8
2017/18	8
2018/19	6
2019/20	9

- 4.4 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 weaknesses identified. All audit reports resulting in a consecutive Limited assurance opinion will be reported back to Audit Committee. Some delays may have arisen as a result of the operational manager deferring the follow up audit.

4.5 During 2016/17, 8 reports were issued with a **Limited** opinion. These were as follows:

	Audit	Risk H/M/L	Opinion	Revised Opinion / Status	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 Further follow up 2019/20 No large scale events taken place – unable to follow up	March 2018
	HR Policy Review	Medium	Limited	Considerable	April 2019
	External Placements	Medium	Limited	Reasonable	June 2019
	Compliance with Bribery Act	Medium	Limited	Limited Further follow up 2019/20 Reasonable (Draft)	March 2018 December 2019
	Mobile Phones	Medium	Limited	Reasonable	November 2019
	Volunteering	Medium	Limited	Reasonable	November 2019

4.6 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 the Audit Committee meeting in December 2017. 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.

- 4.7 Members will note that a further follow up audit of Compliance with the Bribery Act has also resulted in a **Reasonable** assurance audit opinion.
- 4.8 During 2017/18, 8 reports were issued with a **Limited** opinion. These were as follows:

	Audit	Risk H/M/L	Opinion	Revised Opinion / Status	Date Issued
2017/18	Borough Theatre Trust	High	Limited	Reasonable	December 2019
	Raglan Primary School	Medium	Limited	Reasonable	July 2018
	Youth Service (Draft)	Medium	Limited	Considerable	Draft December 2019
	Events Follow-Up	High	Limited	*	Final November 2019
	Fuel Cards	Medium	Limited	Limited	Final June 2019
	Food Procurement	High	Limited	Limited	Draft December 2019
	Health & Safety	Medium	Limited	Reasonable	Draft March 2020
	Compliance with Bribery Act Follow-Up	High	Limited	Reasonable	Draft December 2019

* - previous report was based on large scale events held; to date no further large scale events held therefore unable to test majority of recommendations.

- 4.9 During 2018/19, 6 reports were issued with a **Limited** opinion. These were as follows:

	Audit	Risk H/M/L	Opinion	Revised Opinion / Status	Date Issued
2018/19	Caldicot Castle (Final sent June 2019)	Medium	Limited	Limited	Final March 2020
	Imprest Account – Children’s Services (Final sent June 2019)	Medium	Limited	2020/21	

	2019)				
	Agency Workers (Draft)	Medium	Limited	2021/22	
	Fuel Cards Follow-up (Final sent June 2019)	Medium	Limited	2020/21	
	Attendance Management (Final sent November 2019)	Medium	Limited	2020/21	
	Health & Safety of Authority's existing buildings (Final sent February 2020)	Medium	Limited	2020/21	

4.10 During 2019/20, 9 reports were issued with a **Limited** opinion. These were as follows:

	Assignment	Risk H/M/L	Opinion	Revised Opinion/ Status	Date Issued
2019/20	Llandogo Primary School	Low	Limited	2020/21	
	Castle Park Primary School	Low	Limited	2020/21	
	Shire Hall	Medium	Limited	2021/22	
	Tintern Old Station	Medium	Limited	2021/22	
	Caldicot Castle follow up	Medium	Limited	2021/22	
	PTU Vehicle Maintenance	High	Limited	2020/21	
	Procurement (Food) follow up	High	Limited	2021/22	
	Direct Payments	Medium	Limited	2021/22	
	Business Continuity	High	Limited *	N/A	

4.11 An overview of why Llandogo Primary School and Castle Park Primary School were deemed to provide Limited assurance was presented to Audit Committee previously.

4.12 The main reasons why the other 2019/20 audit reviews resulted in unfavourable opinions were as follows:

Shire Hall

- Concerns were noted around the security and location of the safe and cashing-up procedures.
- There were no procedure notes or guidance documents setting out what information was required when booking a wedding or event.
- Pricing was not consistent with brochure pricing.
- Lack of consistency in hire agreements. Terms and Conditions were not attached to all hire agreements. Hire Agreements were not signed by an MCC representative.
- Payment terms were not adhered to or communicated appropriately. Payment terms not appropriate. No system in place to monitor payment dates as they come due. Payment was not received in advance of event. Breaches of Financial Procedure Rules in extending credit to certain customers.

Tintern Old Station

- The site was not covered appropriately with a first aid provision during all its hours of operation and training needs had not been identified.
- The system used for recording stock, did not reflect the current stock levels.
- The length of the Catering Concession contract was increased to a potential 5 year period (initial 3 years plus an optional additional 2 years) from the advertised 2 year contract during the tender award process.
- There was no signed contract in place for the Catering Concession. Expected standards could not be effectively imposed or enforced.
- A campsite was operated at the Old Station, but did not have the necessary licence or planning permission. No risk assessment had been carried out to identify the risks of running the campsite and current provision does not match the minimum expectations of the Authority's Environmental Health department. There was no evidence that individuals using the campsite had sight of, or had agreed to, the campsite terms and conditions. Record keeping was poor, appropriate information was not always recorded and income did not reconcile.

Caldicot Castle Follow up

- There were no procedure notes or guidance documents setting out what information was required when booking a wedding or other event.
- Prices charged were not consistent with brochure pricing.
- Lack of consistency in booking processes and documentation. Hire agreements were not in place for wedding and party bookings.
- Documentation to support additional costs charged was not sufficient. No proof of debt was available to support additional charges. Some additional charges had not been invoiced.
- Weddings and parties were not being invoiced for in line with the payment terms. Invoices were late in being sent out, leading to significant delay in the collection of income. Payment Card Industry Data Security Standard (PCI DSS) compliance breaches were evident. Payment terms were not adhered to.

PTU Maintenance

- Paperwork was not in place to support all servicing and repairs undertaken. The absence of such paperwork make it impossible to ascertain whether services have been undertaken within the required service schedule.
- MOTs were not always undertaken on a timely basis.
- Lack of evidence of daily safety inspections being undertaken, which means it's difficult to establish timeliness of defect reporting and resolution.
- There was no evidence of appropriate tender processes being undertaken for vehicle servicing and repair. In addition, the current agreements did not include any performance measures to aid with contract monitoring over the standard and timeliness of works.
- There was no current framework of approved contractors for vehicle hire. Suppliers were utilised and OJEU limits breached with no framework or contract in place.
- The maintenance budget was currently significantly overspent.

Procurement (Food) Follow up

- Products purchased by the Authority were not categorised by risk. Inconsistent views of food procurement risk amongst staff.
- There was no overall responsible officer for food procurement, across the organization as a whole. Therefore, there was no officer responsible for the oversight and monitoring of food procurement
- Off framework spend was noted in some cases, including the continued use of imprest accounts for food purchases.
- No evidence that contracts were in place between the Authority and some of its food providers.
- There was a lack of evidence, in the case of “off framework” providers, to show that the Authority has complied with a key Pennington report recommendation.

Direct Payments

- Direct Payment signed agreements were not in place consistently for the sample tested. Direct Payment Agreements were not used by Children’s Services. There was no overall summary of how many signed Direct Payment Agreements were outstanding. Direct Payment agreement was unclear in terms of GDPR, agency DBS checks and actions regarding use of unregistered agencies.
- For a sample of deceased service users, closing audits had not yet taken place.
- Monitoring review visits were not undertaken in a timely manner. The Direct Payments monitoring spreadsheet did not provide evidence of timeliness of all visits for all users.
- No evidence of the use of the direct payments was retained to support the work described on the monitoring review form. Service users were under no obligation to submit evidence of spend or compliance to the Authority.

* Business Continuity

- Further information was subsequently provided which moved the year end opinion to a **Reasonable** level of assurance.

- 4.13 It should be noted that due to the impact of the Covid pandemic, Shire Hall, Tintern Old Station and Caldicot Castle have been closed for much of 2020.
- 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. All Internal Audit opinions are also reported into the Senior Leadership Team (SLT) every six months. SLT's focus is, along with Chief Officers and DMTs, ensuring that satisfactory progress is being made to address control weaknesses highlighted in the audit reports, in particular Limited assurance reports.

6. RESOURCE IMPLICATIONS

None.

7. CONSULTEES

Chief Officer, Resources

8. BACKGROUND PAPERS

Audit management Information 2016/17, 2017/18, 2018/19, 2019/20

9. AUTHOR AND CONTACT DETAILS

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APPENDIX 1

Internal Audit Opinions

SUBSTANTIAL	<p>Substantial level of assurance.</p> <p>Well controlled although some minor risks may have been identified which require addressing.</p>
CONSIDERABLE	<p>Considerable level of assurance.</p> <p>Generally well controlled, although some risks identified which should be addressed.</p>
REASONABLE	<p>Reasonable level of assurance.</p> <p>Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.</p>
LIMITED	<p>Limited level of assurance.</p> <p>Poorly controlled, with unacceptable levels of risk. Fundamental improvements required immediately.</p>

The table below summarises the ratings used during the reviews:

RATING	RISK DESCRIPTION	IMPACT
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>