

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

DIRECTORATE: Resources
MEETING: Audit Committee
DATE: 25th March 2021
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 November 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 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 in November 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
2020/21 (to 31/12/20)	nil

- 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. 7 out of 8 have been followed up and have been given an improved opinion. With regards the Events audit, senior managers previously attended Audit Committee and were held to account (December 2017); subsequently no large scale events have been held for Internal Audit to undertake a follow up audit. 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.

	Audit	Risk H/M/L	Opinion	Revised Opinion / Status	Date Issued
2016/17	Events (Final)	Medium	Limited	Limited Further follow up 2019/20 No large scale events taken place – unable to follow up	March 2018

- 4.6 During 2017/18, 8 reports were issued with a **Limited** opinion. 5 out of 8 reports have been followed up and have been given an improved opinion. 1 review related to the Events audit as noted above. 2 out of 8 reviews were followed up and resulted in a second consecutive Limited opinion; this has been reported to Audit Committee previously. These were as follows:

	Audit	Risk H/M/L	Opinion	Revised Opinion / Status	Date Issued
2017/18	Events Follow-Up	High	Limited	*	Final November 2019
	Fuel Cards	Medium	Limited	Limited	Final June 2019
	Food Procurement	High	Limited	Limited	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.

- 4.7 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	Medium	Limited	Limited	Final

	(Final sent June 2019)				March 2020
	Imprest Account – Children’s Services (Final sent June 2019)	Medium	Limited	Considerable	Draft December 2020
	Agency Workers (Draft)	Medium	Limited	2021/22	
	Fuel Cards Follow-up (Final sent June 2019)	Medium	Limited	Substantial	Draft February 2021
	Attendance Management (Final sent November 2019)	Medium	Limited	2020/21 - ongoing	
	Health & Safety of Authority's existing buildings (Final sent February 2020)	Medium	Limited	2021/22	

4.8 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	2021/22	
	Castle Park Primary School	Low	Limited	2021/22	
	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	2021/22	
	Procurement (Food) follow up	High	Limited	2021/22	
	Direct Payments	Medium	Limited	2021/22	

- 4.9 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 and 2021; they have therefore not had a follow up audit.
- 4.10 During 2020/21, up to 31/12/20, no **Limited** opinions have been issued
- 4.11 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 2018/19, 2019/20. 2020/21

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>