

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

**DIRECTORATE: Chief Executive's  
MEETING: Audit Committee  
DATE: 21<sup>st</sup> April 2016  
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 October 2015.

4.3 The following unfavourable audit opinions have been issued since 2011/12 (Details at Appendix 2):

	Unsatisfactory	Unsound
2011/12	4	1
2012/13	2	0
2013/14	0	0
2014/15	6	0
2015/16		

4.4 In 2012/13 the reports were as follows:

	Assignment	Risk H/M/L	Rating	Revised Opinion	Date Issued
2012-13	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

4.7 In 2015/16, 7 audit reports have been issued with an Unsatisfactory audit opinion, 6 of which were carried forward from 2014/15;

	Assignment	Risk H/M/L	Rating	Revised Opinion	Date Issued
<b>2015/16</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		
	Markets	Medium	Unsatisfactory		

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

4.9 Officers from Passenger Transport Unit, Chepstow School and Monmouthshire Enterprises have previously been invited to and subsequently attended Audit Committee in order to respond to Members questions and to provide assurances that appropriate actions would be taken to improve the financial control environment.

4.10 The main issues were:

**a. Passenger Transport Unit**

- Previously reported to Audit Committee

**b. Procurement - Off Contract Purchasing**

- Previously reported to Audit Committee

**e. Llanfair Kilgeddin Primary School**

- Previously reported to Audit Committee

**f. Monmouthshire Enterprises**

- Previously reported to Audit Committee

**g. Markets**

- The workforce planning arrangements need to be reviewed to reduce the level of overtime paid to salaried staff with particular attention being given to the practice of paying overtime to staff while they were on sick;
- The rates charged to traders could vary from the price list approved by Cabinet for a variety of reasons. The decisions were made by the Market Supervisor, often in conjunction with the Area Manager. However there was a lack of audit trail regarding these decisions and in some cases arrangements had been in place for a number of years with no recent review to ensure that rates were still fit for purpose;
- Arrears records were maintained on spreadsheet and were updated in retrospect based on the paper daily income lists. It was noted that the format of the arrears spreadsheet did not provide a clear enough record of charges and income or where allowances were given. In several cases it was noted that the arrears figures were not correctly calculated and had therefore resulted in incorrect balances being reported;
- Traders were allowed to reach a £300 maximum level of arrears. Although traders were marked as 'finished' on records there was a lack of evidence of further debt recovery;
- There was no formal evidence of a rota in place at Abergavenny Market. Staff input number of hours and reason for the hours

directly on My View, however there were no supporting timesheets to show the times worked by employees in excess of the standard week;

- Additional hours for Markets staff at Abergavenny were approved by the Facilities Officer, who did not line manage the staff concerned;
- Traders' insurance details were not up to date; and
- The insurance limit for cash held in the safe was exceeded on four occasions, and at one time this was exceeded by £5,065.

4.11 Following a draft report discussion with the Estates Manager, the Markets Report has subsequently been finalised with him agreeing to implement the recommendations in order to address the weaknesses identified as part of the audit review. Controls will be further strengthened as a new Market and Facilities Supervisor has started with the Authority. A follow up audit will be undertaken during 2016/17.

4.12 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. These reviews will be followed up in 2016/17.

4.13 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**

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### 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.

Revised Internal Audit Opinions from 2015/16

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

The tables below summarise the ratings used during the review and the number of occurrences of each rating identified during this review.

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>	



