

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

**DIRECTORATE: Chief Executive's  
MEETING: Audit Committee  
DATE: 17<sup>th</sup> November 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 which have 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 During 2015/16 the audit opinions changed to better reflect the level of assurance that could be gained from the review of internal controls in operation. The new audit opinions are Substantial, Reasonable, Limited; the definitions of which are shown at Appendix 1.

#### 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 April 2016; this information is updated and presented to Audit Committee on a six monthly basis..
- 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	7 (see 4.7)	0

	Limited (Assurance)
2016/17	1

- 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	*	

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\* 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 were issued with an Unsatisfactory audit opinion:

- a) Passenger Transport Unit
- b) Procurement - Off Contract Purchasing
- c) Llandogo Primary (13/14) – Revised opinion issued in August 2015 was Reasonable
- d) Chepstow School (13/14)
- e) Llanfair Kilgeddin Primary School – school closed
- f) Monmouthshire Enterprises

4.7 In 2015/16, 7 audit reports were issued with an Unsatisfactory audit opinion, 4 of which were carried forward from 2014/15;

	Assignment	Risk H/M/L	Rating	Revised Opinion	Date Issued
<b>2015/16</b>	Procurement Cards	Medium	Unsatisfactory		
	Magor Primary	Low	Unsatisfactory		
	Markets	Medium	Unsatisfactory		
	Passenger Transport Unit (14/15)	Medium	Unsatisfactory		
	Procurement - Off Contract Purchasing (14/15)	Medium	Unsatisfactory		
	Chepstow School (13/14)	Medium	Unsatisfactory		
	Monmouthshire Enterprises (Social Care) (14/15)	Medium	Unsatisfactory		

4.8 Chepstow School concerns have been reported to Audit Committee previously (March 2015) and members of the School management team have attended to respond to concerns raised in the audit report.

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. Procurement Cards**

- The initial set up of one card was based on the request from the Department that the card was in the name of one individual but would be shared between staff.
- A business case was submitted but the relevant cost centre manager's sign off was not completed in all cases.
- There was no evidence of approval by the VAT Accountant / Head of Finance of the business cases reviewed.
- Staff using lodged cards on a day to day basis were not authorised or subject to regular review. In particular, budget holder approval of "buyers" was not clear in respect of ESPO or Holdsworth.
- A purchasing card had not been surrendered when an employee left MCC, and it was still in use 3 months after the employee left the Authority.
- Expenditure was not supported by VAT receipts in all cases.
- Sanctions have not yet been applied despite the failure of some areas to submit supporting receipts consistently.

**b. Magor Primary School**

- There was no clear audit trail between receipts and bankings.
- Purchase orders were not being used to purchase goods in many cases.
- No current cash book for the Private fund could be located at the School. In addition there was no evidence of any recent Private

Fund transactions – either receipts or payments.

- No recent bank statements for the Private Fund account could be located at the School and so no recent bank reconciliations had been performed. The School had lost control of its Private Fund bank account.
- The School no longer has a valid data protection registration with the Office of the Information Commissioner. Such a registration is a legal requirement for an organisation processing personal data.

**c. Markets**

- Previously reported to Audit Committee

**d. Passenger Transport Unit**

- Previously reported to Audit Committee

**e. Procurement - Off Contract Purchasing**

- Previously reported to Audit Committee

**e. Chepstow School**

- Previously reported to Audit Committee

**f. Monmouthshire Enterprises**

- Previously reported to Audit Committee

4.11 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.

4.12 To date in 2016/17, one report has been issued in draft with a **Limited** opinion. This is the equivalent of the previous Unsatisfactory opinion. This review related to **School Meals**. The main issues were:

- There was no official documentation in place outlining the roles, responsibilities and expectations of both the schools and Property Services.

- School Meals income data is not monitored to ensure that it is maintained accurately and up to date.
- Differences were noted between information held at the schools and data reported by the system to Property Services
- Property Services were not actively resolving cases of high debt being referred to them.
- There is no reconciliation of the cooks' in charge records to the income or meals ordered records.

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, 2016/17

**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>	

