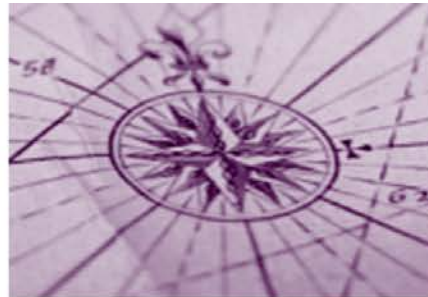




# Warwickshire County Council Internal Audit Service

## External Quality Assessment February/March 2018



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# Introduction and Purpose of assignment

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The Internal Audit service for Stratford District Council, Warwickshire Council, Worcestershire Council, Warwickshire and West Mercia Police, Warwickshire and West Mercia Police and Crime Commissioners is provided by a shared services team under the leadership of Garry Rollason as Internal Audit and Insurance Manager (HoIA).

The team have responded to the introduction of the Public Sector Internal Audit Standards, receiving external advice regarding their standard methodology during 2017 and have as a result increasingly worked to a more consistent approach to delivery of internal audit services since expanding to include Worcestershire. Performance against the standard has been self-assessed on an annual basis and appropriate reports provided to member authority committee meetings.

The purpose of this review is to provide an external and independent quality review in accordance with standard 1312. We see this as not merely a compliance exercise and have also highlighted aspects of the service that we regard as best practice as well as summarised our thoughts as to where further development can be made to enhance the value of the service being provided.

The team of 18 FTE staff has significant experience, with a range of relevant qualifications and it has been recognised that there is a need to ensure a consistent approach to delivering assurance, as this is beneficial regarding communication with clients, working practices, reporting and therefore associated supervision and training needs. At a corporate level, this is established through the presence of an Internal Audit Charter, which effectively defines the standards to which the service will carry out its work and is supported by use of the Galileo software which introduces accepted processes and templates which the internal audit team utilises. The team adopts its own format for communication regarding the Terms of Reference for assignments and Internal Audit Reports.

The report reflects our opinion regarding the services currently provided as measured against the Public Sector Internal Audit Standards (PSIAS), which we trust will be of benefit to individual staff, the team and the local authorities serviced by the Internal Audit Service. Our observations and recommendations have been summarised within categories relating to the Resources, Constitution, and Delivery and the team graded as being at one of three stages within each category, grades are related to our opinion as to whether the service is developing, established or excelling.

The internal audit service has successfully responded to the expansion of the internal audit team and the introduction of new clients which inevitably led to a period of stabilisation in which the team moved towards a common approach that is now consistent with the PSIAS.

The significant change within the PSIAS reflects the focus on a requirement to implement a risk based internal audit approach to all aspects of internal audit work – significantly in relation to planning at a strategic and assignment level as well as in reporting. The service does adopt a risk based approach through the development of its own risk assessment at a strategic planning level, at an assignment level through recognition of risk register content and in testing schedules, although further development would be beneficial both in terms of recognising inherent risk and in terms of reflecting wider sector risk experience of the internal audit team within audit planning documents and terms of reference.

The client authorities have risk management strategies and associated frameworks; as a consequence, it would be beneficial for internal audit to further increase the alignment of its processes with the risk appetite of each client as this would promote effective communication, structure audit work on ‘what really matters’ and use risk as the basis for reporting. In this respect, we have recommended that future opinions and recommendations relate directly to established risk definitions within each client.

Further development of clients’ risk management approaches regarding the inherent risks being faced and upon those controls in place and assurances available would allow internal audit to more clearly define risks and key mitigating controls and therefore provide a robust basis for communication with managers and with other assurance providers.

The internal audit service has experienced periods of staff vacancies during 2017 which has hindered development however this position has been stabilised and as a result services are anticipated to benefit from a period of stability in which staff will remain consistent from April 2018. A further internal audit management position has been included within the new structures, at Deputy level, which will help in moving forward with a consistent quality of service. The HoIA makes use of external support, when appropriate, to ensure delivery of internal audit assurance needs, particularly in relation to IT audit.

A robust internal audit standard has therefore been maintained and delivered using an experienced team. This has allowed the service to demonstrate a level of compliance with the PSIAS which compares favourably against its peers.

Nevertheless, with increasing pressures on client budgets, significant change to service delivery and as a result increasing risk; there is a need for the service to continue to enhance its delivery through greater awareness of the relevance of risk to both the clients and its own approach, in order to ensure that it focuses on the most appropriate areas and as a result demonstrates that it provides a service that effectively contributes towards the achievement of each client’s objectives.

- The internal audit provision provided to Stratford on Avon District Council, Warwickshire County Council, Worcestershire County Council, Warwickshire and West Mercia Police, Warwickshire and West Mercia Police and Crime Commissioners by the Internal Audit Service at Warwickshire County Council complies with the expectations of the Public Sector Internal Audit Standards and compares favourably to other provision within the sector.
- The service receives positive feedback from the Audit Committee and Executive Management although there is recognition that restructuring of the team have caused problems with performance at a time when the service was also engaged in expanding its client base and retendering its IT audit framework contract.
- There are a number of areas in which the service can be further improved in relation to the use of risk based auditing which will provide increased levels of assurance to the clients and assist in improving its profile as well as the subsequent feedback that is received:
  - the service should continue to move to an approach that reflects full recognition of the risk factors recognised by each client both at a strategic planning level and when planning and conducting assignments, although this is to an extent dependent on further embedding risk management by clients.
  - the annual internal audit plan should be compiled on the basis of each clients risk register and documented discussions with Chief Officers,
  - the use of risk in relation to grading of recommendations and overall opinions should be reviewed to better reflect the risk appetite of each client and should reflect identification and escalation of recommendations graded as high that match risk definitions graded as 'red' or 'amber' within risk management systems.
  - the Annual Report of the HoIA should be enhanced to reflect the Internal Audit Charter and the PSIAS with assurance being related to awareness of the significant risks being faced by each client.
- The further development of risk management systems within each client to reflect an Assurance Framework would enable greater recognition of key mitigating controls and the other sources of assurance with which internal audit effort can be co-ordinated in order to support the Governance Statements process. It is envisaged that such progress will also enable the members of Audit Committees to become better engaged in internal audit planning as well as in terms of analysing recommendations and opinions contained in internal audit reports.
- Some revisions to the internal audit processes may be beneficial in terms of improving efficiency and transparency of the assurance being provided.

# Summary of good practice identified within EQA

Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with the Audit Committees	The Charter is comprehensive and establishes an appropriate framework against which internal audit services can be delivered in accordance with the PSIAS.
1312	The service has conducted annual self assessment exercises resulting in an annual development plan which is reported in the HoIA annual report.	Demonstrates a process and commitment to continuous improvement which is considered by Audit Committees
2020	Active engagement at officer and member level	Represents the establishment of a good understanding of key issues through interaction with positive feedback from officers.
2030	The service routinely assesses its training needs and discusses requirements with the Head of Law and Governance.	This represents a firm basis for the consideration of recruitment and training needs as well as the use of external support
2030	Detailed job descriptions are available against which appraisal and development meetings take place routinely.	Provides an established basis for recruitment and training within a scheme that is accredited by CIPFA.
2040	A detailed internal audit manual is in place.	Provides for a consistent methodology, within the service this is delivered through use of Galileo software and a series of templates within which a high standard of cross referencing between documents is achieved.
2060	Reports are produced using a standard template which is consistently applied. Customer feedback is routinely obtained following conduct of an audit.	Demonstration of a consistent approach for communication which is well received by management and the Audit Committees
2200/ 2300	The service uses an Engagement Planning Document, Terms of Reference and Risk Matrix template which are reviewed by a supervisor at an appropriate time.	Provides a basis for a methodical assignment in consultation with clients.

1	<b>RESOURCES</b>		<b>Excelling</b> – Processes in this area are fully embedded within every day practices and reflect best practice that is at least consistent with PSIAS expectations.
2	<b>CONSTITUTION</b>		<b>Established</b> – Processes in this area are embedded within every day practices, the EQA has identified a number of areas in which further development is desirable.
3	<b>DELIVERY</b>		<b>Established</b> – Processes in this area are embedded within every day practices, the EQA has identified a number of areas in which further development is desirable.



## Summary stakeholder feedback (Chairs)

Question	A	B	C	D
Purpose	✓	✓	✓	✓
Understanding of Council requirements	✓	✓	✓	✓
Adequate assurance provided	✓	✓	✓	✓
Independence with contact outside of meetings	✓	✓	✓	✓
Status	✓	✓	✓	✓
Experience, skills and effective communication	✓	✓	✓	✓
Effective performance	✓	✓	✓	✓
Effective planning and priorities	✓	✓	✓	✓
Other relevant observations				

- a) It is anticipated that there are good working relationship with officers within the Council
- b) Embedding risk management as a concept throughout the organisation would help us all to understand assurances required and available
- c) There is still work to do on ensuring everyone understands risk management particularly at an operational level.
- d) Increased knowledge of risks would allow Audit Committee to provide greater input into internal audit plans.
- e) I welcome the pre-meetings with the HoIA before Audit Committees
- f) Contact with the HoIA outside of the Committee process does occur by phone and email
- g) Some training of the Audit Committee regarding PSIAS would be beneficial

Note: ✓ reflects positive feedback with observations above recognising that there are areas where further attention may be beneficial.



## Summary stakeholder feedback (Officers)

Question	A	B	C	D	E
Purpose	✓	✓	✓	✓	✓
Understanding of organisations requirements	✓	✓	✓	✓	✓
Adequate assurance provided	✓	✓	✓	✓	✓
Independence with contact outside of meetings	✓	✓	✓	✓	✓
Status	✓	✓	✓	✓	✓
Experience, skills and effective communication	✓	✓	✓	✓	✓
Effective performance	✓	✓	✓	✓	✓
Effective planning and priorities	✓	✓	✓	✓	✓
Other relevant observations					

- a) Good contact with S151/Line Manager on a regular basis
- b) Good working relationship with officers within the Council
- c) Welcome the co-operation provided through advisory work
- d) Need to further embed risk management throughout the Council
- e) Some discussion regarding grading of recommendations
- f) The HoIA has regular contact with departments and Senior Managers and responds to issues raised
- g) Some delays in reporting have been experienced particularly when there were issues with staffing
- h) Would welcome greater benchmarking ability

Note: ✓ reflects positive feedback with observations above recognising that there are areas where further attention may be beneficial.

## Compliance with PSIAS

- **Resources**

Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

- **Constitution**

Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

- **Delivery**

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels


## Grading of recommendations

- The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).

Recommendation grading	Explanation
Enhance	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control.
Review	The internal audit service should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services



- In grading our recommendations, we have considered the wider environment within the clients in terms of both the degree of transformation that is currently taking place as well as our assessment of the level of risk maturity that currently exists as these will have a consequence for the conduct of internal audit planning as well as subsequent communication.





Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

	Issue identified	Recommended action
1	<p><b>Supervision</b></p> <p>The service demonstrates effective supervision of the progression of assignments when drafting terms of reference, the risk control matrix, testing and in clearance of draft/final reports.</p> <p>During each assignment staff undertaking fieldwork can discuss progress during 121 sessions or as needed however other than for 121s such supervision is not usually documented.</p>	<p>A record of supervision should be maintained throughout the assignment.</p> <p>This need not be an exhaustive commentary however key points arising from consultation should be recorded, perhaps as notes on the progress summary within Galileo.</p> 




	Issue identified	Recommended action
1	<p><b>Internal Audit Planning</b></p> <p>Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends at present on assessment devised by internal audit; rather than being able to transparently reflect the wider risk issues within operational areas due to the degree to which risk management is embedded.</p> <p>It is accepted that meetings with key stakeholders assist in defining the plan however notes of meetings reflect the nature of issues discussed and not those existing risks contained in strategic and operational risk registers (whether available or not)</p> <p>There is an identified link between the internal audit plan, content discussed with Management and the Audit Committee and the risk based reasoning for inclusion of the assignment in the audit plan, although this does not take a form that reflects an assurance framework or the consistent adoption of three lines of defence theory. The plan approved should focus on the perceived needs of all parties for independent assurance regarding key policies, procedures, controls and assurances upon which each client relies and in particular what risks exist that match the highest levels of impact as defined in risk management strategies. As clients embark upon and progress Transformation Plans this will become increasingly relevant.</p> <p>In turn this should drive preparation of the terms of reference for each assignment. The focus for assignments can therefore be shown to directly relate to the value of the 'control risk' and as a result an opinion based upon the robustness of the controls and assurances available to management and each client.</p>	<p>a. The audit planning process should increasingly be designed to reflect the assurance needs of the client through transparent alignment with the clients approach to risk management.</p> <p>The formation of a direct link with the client's risk register and the key mitigating controls, supported by documented discussions with Chief Officers and other managers regarding business critical risk would provide an effective risk based basis for future internal audit plans and create increased understanding and ability of members of the Audit Committee to contribute to the assurance agenda.</p> <p>Further embedding of robust risk management within clients would therefore be beneficial regarding all aspects of internal audit planning.</p> <p>b. The internal audit planning process should continue to be developed to identify and document other sources of assurance that are available and upon which the client can place reliance, and which may if available be formally recorded within the annual HoIA report and subsequently the Governance Statement.</p>











# Constitution continued


	Issue identified	Recommended action
2	<p><b>Audit Manual</b></p> <p>The internal audit manual represents a comprehensive record of the practices to be followed by internal audit staff and aligns with the PSIAS.</p> <p>The significant emphasis of the PSIAS reflects the use of a risk based approach to internal audit work and in this respect it is felt that greater alignment with the risk management policies and appetite of each client would be beneficial.</p>	<p>a. The internal audit manual should be updated to reflect greater alignment with the risk management policies of the Council.</p> <p>Consideration should be given to amending the internal audit methodology by:</p> <ul style="list-style-type: none"> <li>- Including an initial focus on what are the managements objectives for the area under review;</li> <li>- Changing the focus of each audit from identifying risk areas to identifying and agreeing with management the specific key risks to which the area under review is exposed.</li> <li>- increasing the focus on identifying, evaluating and testing controls and sources of assurance that demonstrate that residual risk is as stated within the client risk management process</li> </ul> 
3	<p><b>Performance and Development Review (PDR)</b></p> <p>The annual performance review of the Head of Internal Audit Services is undertaken by the line manager as Head of Law and Governance at Warwickshire Council, in accordance with the approved policy.</p>	<p>The PDR process should be informed by inviting the Chairs of the Audit Committee and client s151 officers to provide input to the process.</p> 

	Issue identified	Recommended action
1.	<p><b>Assignment Planning</b></p> <p>The team use the Galileo system for tracking progress on assignments however use is not made of facilities to establish dates for completion of stages of the audit or completion of the assignment. Whilst it is recognised that there are occasions when auditee availability prevents early closure, setting of maximum time frames by which draft and final reports should be completed would assist in planning, communication with clients and timely completion of reports.</p> <p>The team recognise this as an issue and has been trying to address the matter internally and with clients.</p>	<p>a) Target times for completion of assignments should be established and communicated to clients at the outset of the work and be more rigorously enforced. </p> <p>b) Reporting deadlines should be imposed for the time allowed following completion of fieldwork for draft and final reports to be received by management. </p>
2.	<p><b>Terms of reference</b></p> <p>These are currently based upon a variety of sources and outline key risk areas or areas of focus which are then supported by a range of controls which will then be tested.</p> <p>As such the key risks are not explicitly identified.t.</p> <p>A better basis for developing the assignment may be to think in terms of management objectives and then reflect upon the clients risk register and if not transparent, a discussion with local management regarding what risks will prevent achievement of the management objective. Assurance would then provide comfort that the position stated reflected the control risk and that residual risk was a correct reflection of the client's risk appetite.</p>	<p>a) Terms of Reference should reflect the control risks specified within the clients Risk Management Strategy as this would both enhance embedding risk management within the client and provide for a better basis of communication with stakeholders. </p> <p>b) Where the risk management system does not include such detail planning documents should be based upon a discussion with management to establish management objectives and the inherent risks to the area under review. </p>




	Issue identified	Recommended action
3	<p><b>Closing meetings</b></p> <p>The Internal Audit manual refers to creating a document to inform discussion at the closing/exit meeting with clients. At present, it is understood that the draft audit report is often used as a basis for an exit meeting with management, although there are instances where either a wrap-up meeting does not occur or is not documented on a consistent basis.</p> <p>Such an inconsistent approach may cause two problems being:</p> <ul style="list-style-type: none"> <li>a) Discussion with the client is delayed until the draft report is drafted and agreed by internal audit management.</li> <li>b) Factual inaccuracies or misunderstanding arising from internal audit fieldwork may not be revealed until the draft report is produced leading to potential additional delays in completion of assignments.</li> </ul> <p>The HoIA expects staff to raise significant issues with management as they arise, although this does not negate the need for and benefit that arises from conduct of a formal exit meeting.</p>	<ul style="list-style-type: none"> <li>a) The HoIA should consider whether in using production of the eventual draft report as the basis for the closure meeting, this fully engages the auditee in the outcomes process on a timely basis at the completion of the fieldwork stage. </li> <li>b) An exit meeting template could be introduced to support communication regarding the findings of the audit however if auditors are to use the draft report as the basis for discussion they should as a matter of course scan and save on the system any notes taken as part of the exit meeting process in order to support and evidence communication and production and finalisation of the report. </li> </ul>
4	<p><b>Reports</b></p> <p>The review observed considerable time between commencement of an audit and delivery of a final report. Some of the delays have occurred due to staff changes and vacancies, with other reasons relating to timescales in receipt of feedback on Terms of Reference and management responses from clients.</p> <p>Nevertheless it is important that reports are delivered on a timely basis in order to ensure that recommendations are identified and acted upon in a timely manner.</p>	<p>In connection with point 1 above, assignment planning should include a planned start and completion time which should be co-ordinated with schedules for reporting to both management teams and Audit Committees. </p>

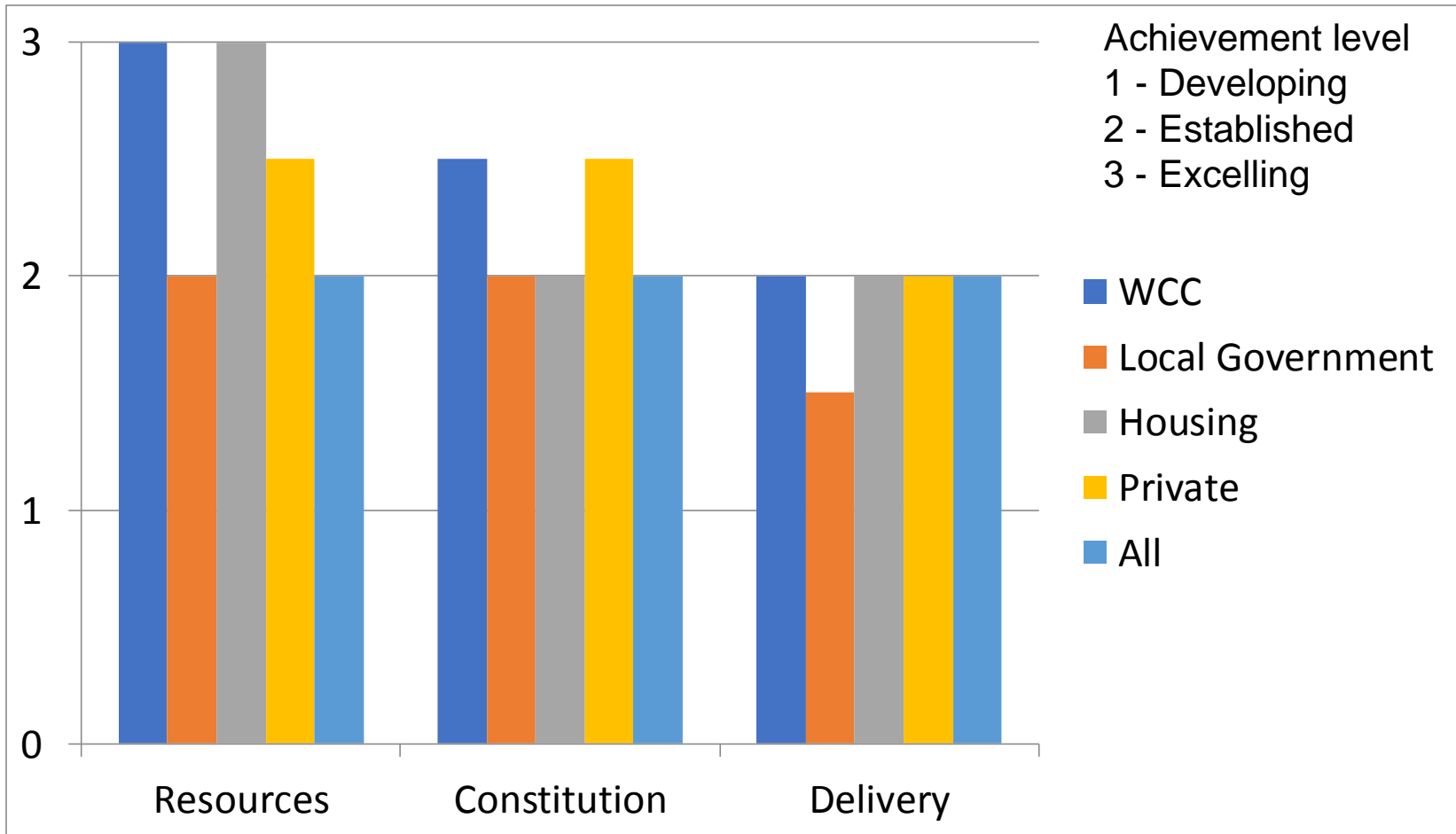
	Issue identified	Recommended action								
5	<p><b>Audit Opinions - Recommendations</b></p> <p>These are currently developed and assessed by each internal auditor, prior to release of the draft report and which include a grading of the recommendations being made against definitions of risk and shown as priority indicators</p> <table border="1" data-bbox="204 625 993 1033"> <thead> <tr> <th>Priority</th> <th>Explanation</th> </tr> </thead> <tbody> <tr> <td></td> <td> <b>Fundamental:</b>            Action that is considered imperative to ensure that the organisation is not exposed to high risks. Major adverse impact on achievement of organisation's objectives if not adequately addressed.         </td> </tr> <tr> <td></td> <td> <b>Significant:</b>            Action that is considered necessary to avoid exposing the organisation to significant risks.         </td> </tr> <tr> <td></td> <td> <b>Merits Attention:</b>            Action that is considered desirable and should result in enhanced control or better value for money. Minimal adverse impact on achievement of the organisation's objectives if not adequately addressed.         </td> </tr> </tbody> </table> <p><small>These definitions are illustrative only and professional judgement is exercised when determining the priority rating of recommendations</small></p> <p>These definitions are generic and leave room for significant personal judgement of the internal auditor and supervisor.</p> <p>Each client risk management system contains specific guidance regarding to how impact risk is defined and use of these would enable gradings to be directly aligned with the clients risk appetite.</p> <p>(Continued over)</p>	Priority	Explanation		<b>Fundamental:</b> Action that is considered imperative to ensure that the organisation is not exposed to high risks. Major adverse impact on achievement of organisation's objectives if not adequately addressed.		<b>Significant:</b> Action that is considered necessary to avoid exposing the organisation to significant risks.		<b>Merits Attention:</b> Action that is considered desirable and should result in enhanced control or better value for money. Minimal adverse impact on achievement of the organisation's objectives if not adequately addressed.	<p>a) Risk definitions used by internal audit should be developed to reflect the risk appetite within each organisation, and the definitions of impact and likelihood used by the client. Explanation of the use of these gradings should be included in all reports.</p> <p>It is recognised best practice to use terminology such as High, Medium and Low or Fundamental, Significant and Merits Attention (as used by the team) when making recommendations and linked to the client's risk management system.</p> 
Priority	Explanation									
	<b>Fundamental:</b> Action that is considered imperative to ensure that the organisation is not exposed to high risks. Major adverse impact on achievement of organisation's objectives if not adequately addressed.									
	<b>Significant:</b> Action that is considered necessary to avoid exposing the organisation to significant risks.									
	<b>Merits Attention:</b> Action that is considered desirable and should result in enhanced control or better value for money. Minimal adverse impact on achievement of the organisation's objectives if not adequately addressed.									

	Issue identified	Recommended action
5 cont		<p>c) Consideration should be given to removing the need to include 'low' rated recommendations in formal audit reports; alternatively reflecting on these in discussion at the closure meeting and confirmed in a side letter or email to the manager. This would aid the profile of internal audit through concentrating on things that really matter in relation to significant risk as defined within risk management policies.</p> <p>It is recognised that current practice provides for minor points to be subject to discussion rather than be included in the formal report.</p> 

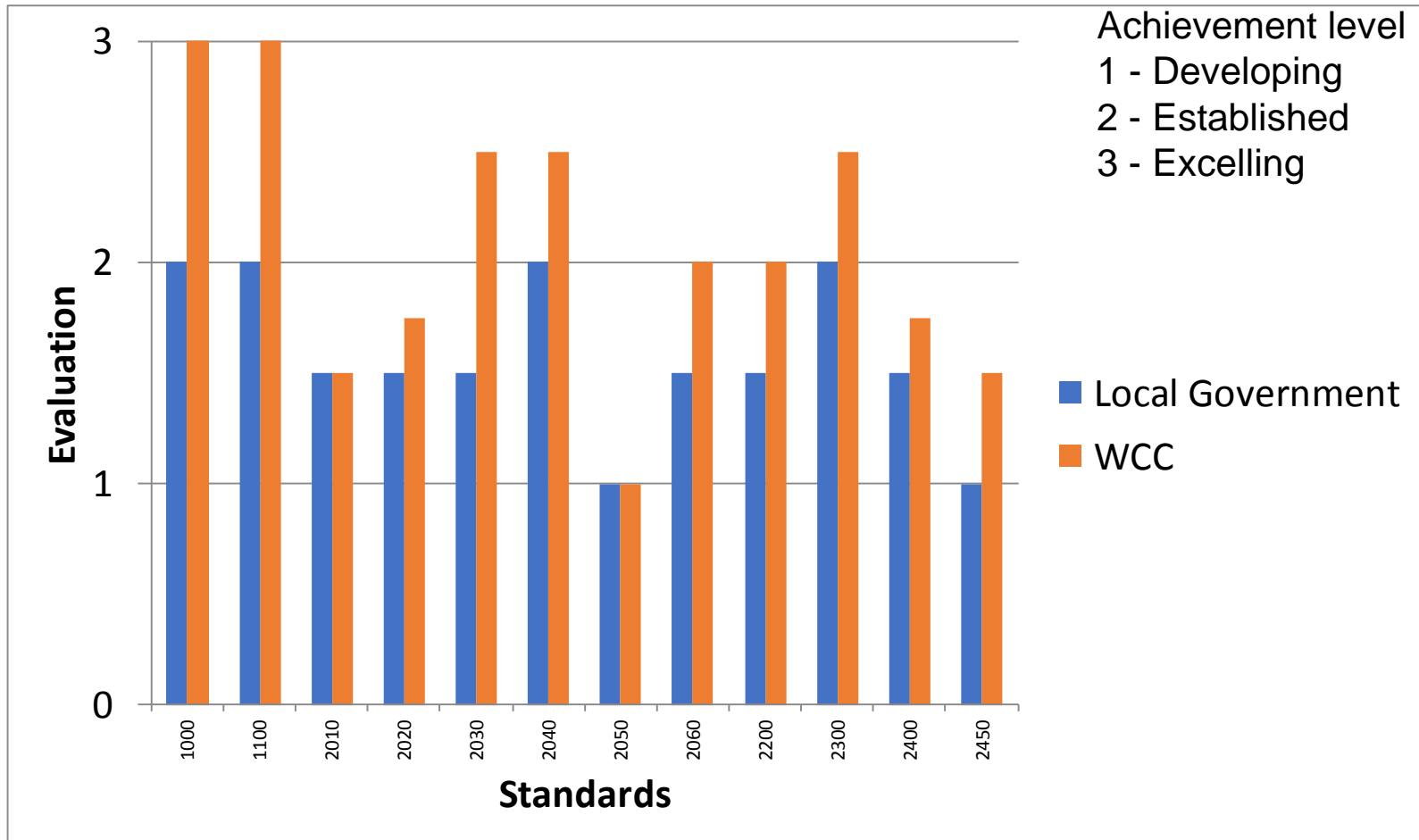
	Issue identified	Recommended action								
6	<p><b>Audit Opinions - Overall opinions</b></p> <p>These are currently based upon the personal judgement of each auditor, relating to the degree of risk perceived, although the definition of high risk is not related to that stated in the clients Risk Management Strategy (refer to observations above) and is subject to review by the supervisor and HoA of the draft report prior to release.</p> <p>The overall opinion is based largely on the aggregate of the number of recommendations and their level as shown below.</p> <div data-bbox="247 772 823 1296" style="border: 1px solid green; border-radius: 50%; padding: 10px; margin: 10px auto; width: 80%;"> <p><b>Professional judgement</b> has to be exercised when deciding on the overall opinion but as a guide and to promote consistency:</p> <table border="1" data-bbox="324 949 736 1133"> <tbody> <tr> <td>Full</td> <td>2 or less merits attention recommendations.</td> </tr> <tr> <td>Substantial</td> <td>1 or 2 substantial recommendations combined with some merits attention</td> </tr> <tr> <td>Moderate</td> <td>3 to 5 significant recommendations with some merits attention</td> </tr> <tr> <td>Limited</td> <td>1 or 2 fundamental recommendations (may also have some substantial recommendations) OR 6 or more significant recommendations</td> </tr> </tbody> </table> <p>All audit recommendations and overall opinions should be <b>substantiated by evidence</b> gathered throughout the audit</p> </div> <p>(continued over)</p>	Full	2 or less merits attention recommendations.	Substantial	1 or 2 substantial recommendations combined with some merits attention	Moderate	3 to 5 significant recommendations with some merits attention	Limited	1 or 2 fundamental recommendations (may also have some substantial recommendations) OR 6 or more significant recommendations	<p>a) The grading of reports should be based upon the level of risk exposure identified within the review and reflect the highest ranked recommendation being reported upon.</p> <p>Best practice would reflect:</p> <ul style="list-style-type: none"> <li>- Where a fundamental risk (red) is identified that limited assurance is given.</li> <li>- Where significant risks (amber) are identified then adequate assurance is given, and</li> <li>- Where ‘merits attention’ (green) risks are identified these are not referred to in the report and substantial assurance is given.</li> </ul> <p>An example basis for arriving at opinions is included as Appendix A.</p> <p>b) Reducing the levels of opinion to three would provide a clearer indication of the assurance being provided and represent a more straight-forward and consistent approach for internal audit staff to administer.</p> <p>We do not believe that the use of the term ‘full assurance’ remains realistic given that the scope of each review cannot consider the entirety of the process within a risk based approach.</p>
Full	2 or less merits attention recommendations.									
Substantial	1 or 2 substantial recommendations combined with some merits attention									
Moderate	3 to 5 significant recommendations with some merits attention									
Limited	1 or 2 fundamental recommendations (may also have some substantial recommendations) OR 6 or more significant recommendations									

	Issue identified	Recommended action
6 cont	<p>Audit Opinions - Overall opinions (cont)</p> <p>The internal audit service currently uses four levels of opinion being – Full, Substantial, Moderate and Limited, with the diagram above being included in the final report to support the opinion.</p> <p>The combination of the adequacy of the control framework and its application should be linked to the risk management strategy and reflects the highest levels of risk identified. That is to say if a recommendation attracts a red rating this reflects a fundamental business risk and the report should immediately attract a limited assurance rating rather than give flexibility.</p> <p>Wider best practice provides for three levels of opinion being substantial, adequate (reasonable) or limited as this provides a clear indication to stakeholders of the level of assurance that can be gained. It is suggested therefore that an opinion expressing ‘full assurance’ should be avoided due to the focused nature of each assignment.</p> <p>This opinion can then be aligned directly with the nature of the risks being identified and the grading of those recommendations being made.</p>	

	Issue identified	Recommended action
7	<p><b>Annual Report</b></p> <p>The HoIA produces an Annual Internal Audit report which summarises the years work and includes analysis of performance. The opinion provided within the report should reflect a format that takes account of all information and sources of assurance available to the HoIA and therefore:</p> <p><i>‘must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board’.</i></p> <p>The Internal Audit Charter reflects this guidance and states in page 2 that the Authority will:</p> <p><i>“undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”</i></p> <p>The HoIA Annual Report uses the following terminology:</p> <p><i>“In undertaking its work, Internal Audit has a responsibility under PSIAS to provide an annual internal audit opinion on the overall adequacy and effectiveness of the organisation’s governance, risk and control framework (i.e. the control environment) and a summary of the audit work from which the opinion is derived”.</i></p> <p>The opinion is then restricted to an opinion regarding the control environment.</p>	<p>In alignment with recommendations made earlier, the internal audit plan should be constructed to provide an explicit link to risk and the other assurances available, so that the HoIA is able to provide wider assurance to the client in support of the governance statement.</p> <p>It is accepted practice that the opinion should reflect the adequacy and effectiveness of risk management, governance and control rather than use the generic term ‘control environment’.</p> <p>Best practice is that the Annual Report should also contain reference to all significant risks and therefore co-ordination with and an understanding of issues being raised by the range of assurance sources available is essential in order to meet this broader scope. There is evidence that such assurances are being made in annual reports in relation to major pieces of work providers by other parties.</p> <p>An example of the words which may be used has been provided in Appendix B.</p> 







# Key PSIAS Standards assessed

(for benchmarking purposes)

Standard		Focus
1000	Purpose, Authority and Responsibility	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> . The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100	Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.
2010	Planning	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
2020	Communication and approval	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.
2030	Resource Management	The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
2040	Policies	The chief audit executive must establish policies and procedures to guide the internal audit activity.
2050	Co-ordination	The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
2060	Reporting	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
2200	Engagement planning	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
2300	Work programme	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.
2400	Communicating results	Internal auditors must communicate the results of engagements
2450	Overall opinions	When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

# Appendix A

## - an example 'Basis for opinions'

### KEY FOR RECOMMENDATIONS (IN RELATION TO THE SYSTEM REVIEWED)

<b>Fundamental (F)</b>	- The organisation is subject to levels of fundamental risk where immediate action should be taken to implement an agreed action plan. In the Colleges Risk Management Policy this approximates to the Risk Grading - Catastrophic
<b>Significant (S)</b>	- Attention to be given to resolving the position as the organisation may be subject to significant risks. In the Colleges Risk Management Policy this approximates to the Risk Grading - Major
<b>Merits Attention (MA)</b>	- Desirable improvements to be made to improve the control, risk management or governance framework or strengthen its effectiveness. In the Colleges Risk Management Policy this approximates to the Risk Grading - Minor

OVERALL OPINION (ASSURANCE)	FRAMEWORK OF CONTROL	APPLICATION OF CONTROL	EXPLANATION	TYPICAL INDICATORS
Substantial (Positive opinion)	Good	Good	The control framework is robust, well documented and consistently applied therefore managing the business-critical risks to which the system is subject.	There are no fundamental or significant recommendations attributable to either the Framework or Application of Control.
Adequate (Positive opinion)	Good	Appropriate	As above however the audit identified areas of non-compliance which detract from the overall assurance which can be provided and expose areas of risk.	There are no fundamental recommendations surrounding the Framework of Control; coupled with no fundamental and no more than two significant recommendations attributable to the Application of those controls.
	Appropriate	Good	The control framework was generally considered sound but with areas of improvement identified to further manage the significant risk exposure; controls were consistently applied.	There are no fundamental recommendations attributable to the Framework of Control.
	Appropriate	Appropriate	As above however the audit identified areas of non-compliance which expose the organisation to increased levels of risk.	There are no fundamental recommendations attributable to the Framework and Application of Control.
Limited (Negative opinion)	Good / Appropriate	Weak	As above however the extent of non-compliance identified prevents the Framework of Control from achieving its objectives and suitably managing the risks to which the organisation is exposed.	There are more than two significant recommendations attributable to the Application of Controls.
	Weak	Good / Appropriate	The control framework despite being suitably applied is insufficient to manage the risks identified.	There are more than two significant recommendations attributable to the Framework of Controls.
	Weak	Weak	Both the Framework of Control and its Application are poorly implemented and therefore fail to mitigate the business-critical risks to which the organisation is exposed.	There are fundamental recommendation(s) attributable to either or both the Framework and Application of Controls which if not resolved are likely to have an impact on the organisations sustainability.

The above is for guidance only; professional judgement is exercised in all instances.

## Example wording for positive annual opinion

As the internal audit service provider to the organisation, I am required as the Head of Internal Audit to provide the organisation and the Chief Executive with a statement on the adequacy and effectiveness of the organisation's risk management, control and governance processes.

In giving an opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the organisation is a reasonable assurance there are no major weaknesses in the organisation's risk management, control and governance processes.

In assessing the level of assurance to be given, the following have been taken into account::

- All audits undertaken during the year;
- Any follow-up action taken in respect of audits from previous periods;
- Significant recommendations not accepted by management or acted upon and the consequent risks;
- The effects of any significant changes in the organisation's objectives or systems;
- Matters arising from previous reports to the organisation;
- Any limitations which may have been placed on the scope of internal audit;
- The extent to which resources constraints may impinge on the Head of Internal Audit's ability to meet the full audit needs of the organisation;
- What proportion of the organisation's audit need has been covered to date; and
- The results of work performed by other assurance providers including the work of the financial statement auditors (if applicable).

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness (or inadequacy and ineffectiveness) of the organisation's risk management, control and governance processes.

Overall in our opinion, based upon the reviews performed during the year, the organisation:

- has adequate and effective risk management arrangements;
- has adequate and effective governance; and
- has adequate and effective control processes.