

Report to the Audit and Governance Committee



Report reference: **AGC-021-2015/16**
Date of meeting: **31 March 2016**

**Epping Forest
District Council**

Portfolio: **Governance and Development Management**
Subject: **Audit Assurance and Recommendation Ratings**
Responsible Officer: **Sarah Marsh (01992 564446).**
Democratic Services: **Gary Woodhall (01992 564470).**

Recommendations/Decisions Required:

- (1) That the Committee approves the revised assurance and recommendation ratings.**

Executive Summary:

This report details the proposed revised assurance and recommendation ratings to be used for all audits undertaken from 1 April 2016.

Reasons for Proposed Decision:

The Public Sector Internal Audit Standards (PSIAS) gives clear guidance on criteria for communicating results and expectations regarding the audit engagement's opinion (see Appendix 1) although it is silent on grading recommendations.

Other Options for Action:

Not to change reporting processes.

Report:

Current Approach

1. Both Broxbourne and Harlow Councils use the same criteria for assessing the priority rating of recommendations as being Fundamental, Significant and Merits Attention. Epping Forest District Council (EFDC) also has three levels but use a numbering system (1 to 3) instead. A comparison of current recommendation priorities and criteria is made in Appendix 2.

2. As with recommendation priorities, both Broxbourne and Harlow use the same level of assurances for their audit reports: full, substantial, moderate, limited and no. EFDC has four levels of assurance: full, substantial, limited and none. Appendix 3 details the criteria for each Council.

Proposed Changes

3. The PSIAS makes it clear that the work of the internal audit function should be risk based and the proposed criteria both for recommendation priorities and level of assurances has taken this into consideration.

4. The evaluation is based on the risk criteria used by Broxbourne Council in their risk management strategy and it is proposed the same criteria is adopted by Harlow and Epping Forest District Councils in deciding the recommendation priorities and level of assurances to ensure consistency across all three councils.

Proposed Recommendation Priorities

5. It is proposed that each recommendation is linked to a category of risk, with most recommendations falling into high, medium or low. A more scientific approach can be made to assessing recommendation ratings by using the risk criteria defined in Appendix 4.

6. In only exceptional circumstances would the use of critical/catastrophic be used and senior management would be informed immediately if such a serious control failing was being observed or suspected during audit fieldwork.

Proposed Level of Assurances

7. No system of control/assurance can provide absolute assurance against material loss or misstatement, nor can Internal Audit give that assurance. Therefore, the use of full assurance has been discontinued. Instead it is proposed the following assurance levels are used: substantial, limited and no.

8. Broxbourne and Harlow currently have moderate as an option and the difference between a moderate and limited assurance opinion is subjective and having such granularity adds little value to management's and Audit Committee understanding of the risks involved.

9. The suggested criteria for the proposed assurance levels of substantial, limited and no is detailed in Appendix 5.

Next Steps

10. If agreement is reached on the new approach by all three Audit Committees (Broxbourne, Harlow and Epping Forest) then the new levels of assurance and recommendation priorities will be used for audits undertaken as part of the 2016/17 Audit Plan and beyond.

Resource Implications:

Within the report.

Legal and Governance Implications:

None.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Public Sector Internal Audit Standards.

Risk Management:

None.

2400 Communicating Results

Internal Auditors must communicate the results of engagements.

2410 Criteria for Communicating

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans.

2410.A1

Final communication of engagement results must, where appropriate, contain internal auditor's opinion and/or conclusion. When issued, an opinion or conclusion must take account of the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

Interpretation: Opinions at the engagement level may be ratings, conclusions, or other descriptions of results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance

Appendix 2: Comparison of current recommendation priorities

Recommendation Priority	Criteria
Broxbourne and Harlow Councils	
Fundamental	Recommendations relate to major weaknesses, which present material risks to objectives and require urgent attention by management, CMT and the Audit and Standards Committee. (Immediate action required).
Significant	Recommendations relate to significant control weaknesses who impact or frequency presents a risk which needs addressed by management.
Requires Attention	Recommendations relate to control weaknesses which need to be addressed by management.
Epping Forest District Council	
1	Observations refer to issues that are fundamental to the system of internal control. We believe that these issues have caused or will cause a system objective not to be met and therefore require management action as a matter of urgency to avoid risk of major error, loss, fraud or damage to reputation.
2	Observations refer mainly to issues that have an important effect on the system of internal control but do not require immediate management action. System objectives are unlikely to be breached as a consequence of these issues, although Internal audit suggested improvement to system design and / or more effective operation of controls would minimise the risk of system failure in this area.
3	Observations refer to issues that would if corrected, improve internal control in general and ensure good practice, but are not vital to the overall system of internal control.

Appendix 3: Comparison of current level of assurances

Level of Assurance	Criteria
Broxbourne and Harlow Councils	
Full	There is a comprehensive system of control designed to achieve the system objectives and manage the risks in achieving those objectives. No weaknesses have been identified.
Substantial	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Moderate	Basically sound control, with areas of weakness, which put system objectives at risk. (Any fundamental recommendations will prevent this level of assessment).
Limited	There are significant weaknesses in key control areas, which could put system objectives at risk.
No	There are fundamental control weaknesses, leaving the system open to material error or abuse.
Epping Forest District Council	
Full	There is a sound system of control designed to achieve system objectives, and the controls are being consistently applied.
Substantial	There is a sound system of control designed to achieve system objectives, and the controls are generally being consistently applied. However, there are some minor weaknesses in control, and/or evidence of non-compliance, which are placing some system objectives at risk.
Limited	There is a system of control in place designed to achieve system objectives. However, there are significant weaknesses in the application of control in a number of areas, and / or evidence of significant non-compliance, which are placing some system objectives at risk.
No	The system of control is weak, and / or there is evidence of significant non-compliance, which exposes the system to the risk of significant error or unauthorised activity.

Appendix 4: Proposed risk criteria for audit recommendations

Probability	Definite 96%+	Almost Certain	5	10	15	20	25
	Occurs in most circumstances 66%-95%	Likely	4	8	12	16	20
	Occurs in certain circumstances 36%-65%	Possible	3	6	9	12	15
	Occurs exceptionally 6%-35%	Unlikely	2	4	6	8	10
	Very unlikely 0-5%	Rare	1	2	3	4	5
		Impact					
		Category	Low	Medium	High	Critical	Catastrophic
		<i>Financial</i>	Loss / overspend under £20,000.	Loss / overspend £20,001 - £50,000.	Loss / overspend under £50,001 - £100,000	Loss / overspend under £100,001 - £500,000	Loss / overspend over £500,001+
		<i>Service</i>	No reduction in mandatory service / good mandatory service .	Marginal reduction in mandatory service / satisfactory mandatory service.	Significant reduction in mandatory service / unsatisfactory mandatory service.	Failure to provide adequate mandatory service / poor mandatory service.	Failure to provide mandatory service resulting in being classed as a failing authority leading to intervention.
			Marginal reduction in discretionary service / satisfactory discretionary service.	Significant reduction in discretionary service / unsatisfactory discretionary service.	Failure to provide an adequate discretionary service / poor discretionary service.	Failure to deliver the Council's corporate priorities	
			No significant disruption to service capability.	Short term disruption to service.	Short term loss of service.	Medium term loss of service.	
			Unlikely to cause complaint / litigation.	High potential for complaint with possible litigation.		Litigation almost certain and difficulty to defend.	
		<i>Reputation</i>	No adverse publicity.	Minor adverse publicity	Adverse national publicity / significant adverse local publicity	Significant adverse national publicity	
		<i>Legal / Regulatory</i>	Breaches of local procedures / standards.	Breaches of regulations / standards.	Breaches of law punishable by fine	Breaches of law punishable by imprisonment .	
		<i>Environmental / Public Health</i>	Incident with no lasting effect.	Short term incident (weeks)	Medium term major incident (1 month - 1 year).	Long term major incident (1 year +)	
		<i>People</i>	First aid' level injury.	Medical treatment required - long-term injury.	Extensive permanent injury - long-term absence.		

Appendix 5: Proposed criteria for audit report level of assurances

Level of Assurance	Criteria
Substantial	Overall, there is a sound system of control. Any weaknesses which put system/service objectives at risk will be minor and does not lead the Council to significant risk exposure.
Limited	There are significant weaknesses in more than one key control area, which could put system/service objectives or the Council at risk.
No	There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Date/Name	Summary of equality analysis
31/03/16 Chief Internal Auditor	This report sets out the proposed changes to audit assurance and recommendation ratings and has no equality implications.