

# AUDIT SCRUTINY COMMITTEE

**CHAIRMAN:** Cllr Chris Clarence

**DATE:** 12 September 2017  
**REPORT OF:** Audit Manager  
**SUBJECT:** Internal Audit Assurance Ratings

## **PART I**

### **RECOMMENDATION**

**To note the report.**

#### **1. PURPOSE**

1.1 To provide members with information on internal audit assurance ratings.

#### **2. BACKGROUND**

2.1 One of the basic aims of most internal audit reports is to provide an opinion on the risks and controls of the area under review, building up to the obligatory annual opinion on the overall adequacy and effectiveness of governance, risk, and control across the Council.

2.2 The Teignbridge internal audit team use a grading system of “Excellent”, “Good”, “Fair”, and “Poor”.

2.3 At the July Audit Scrutiny meeting, members requested for alternative options to be provided at their next meeting. This report therefore offers a variety of approaches used across different sectors, together with information from relevant professional bodies.

#### **3. ASSURANCE RATINGS**

3.1 The Public Sector Audit Standards are not prescriptive about opinions, stating that they may be expressed as ratings, conclusions, or other descriptions of the results.

3.2 Best practice in the Local Government internal audit arena is usually issued by the Chartered Institute of Internal Auditors (CIIA) and the Chartered Institute of Public Finance Accountants (CIPFA)

### 3.3 [CIIA guidance](#)

*“Variations in expressing a positive assurance opinion may include the use of grades, where the effectiveness on internal controls or risk management is rated using a grading system. Common examples of a grading system include the use of colour coding (such as red-yellow-green) or the use of a grading scales (such as 1 to 4).*

3.4 *An opinion can be “qualified” which may be useful in situations where there is an exception to the general opinion. For example, the opinion may indicate that controls were generally Satisfactory with the exception of a specific control which requires improvement.*

The following examples are provided:

### 3.5 [Example A](#)

<b>Inadequate</b>	Findings indicate significant control weaknesses and the need for urgent remedial action. Where corrective action has not yet been started, the current remedial action is not, at the time of the audit, sufficient or sufficiently progressing to address the severity of the control weakness identified
<b>Adequate</b>	A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.
<b>Satisfactory</b>	Findings indicate that on the whole, controls are satisfactory, although some enhancements may have been recommended.

### 3.6 [Example B](#)

<b>Effective</b>	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
<b>Some Improvement Needed</b>	A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
<b>Major Improvement Needed</b>	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
<b>Unsatisfactory</b>	Controls evaluated are not adequate, appropriate, or effective to provide assurance that risks are being managed and objectives should be met.

### 3.7 Example C

<b>Unacceptable</b>	The internal control framework does not meet minimum acceptable standards overall. In our opinion systemic and/or material weaknesses were identified.
<b>Needs Significant Improvement</b>	Internal control framework does not meet minimum acceptable standards overall as some key control activities require significant improvement to ensure all risks are adequately mitigated.
<b>Needs Some Improvement</b>	Internal control framework meets minimum acceptable standards overall but needs to be improved because some risks are not adequately mitigated.
<b>Acceptable</b>	Internal controls meet acceptable standards overall and provides reasonable, but not absolute, assurance that the activity covered is subject to adequate risk management and control/

### 3.8 Example D

<b>Full Assurance (Effective)</b>	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives are being met.
<b>Substantial Assurance (some improvement needed)</b>	Some specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
<b>Limited Assurance (major improvement needed)</b>	Numerous specific control weaknesses were noted; controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
<b>No Assurance (unsatisfactory)</b>	Controls evaluated are not adequate, appropriate, and effective and do not provide reasonable assurance that risks are being managed.

### 3.9 Example E

<b>Control system is satisfactory</b>	Control arrangements provide reasonable assurance that risks are identified and managed effectively. No further action is required.
<b>Control system is not satisfactory</b>	Control arrangements do not provide full assurance that all risks are identified and managed effectively. Further action is required.

### 3.10 [CIPFA Guidance](#)

*“The internal audit report should put the findings in perspective based on the overall implications and significance of the weaknesses being identified. The internal audit opinion should identify the extent to which the system’s control objectives are being achieved and the degree to which the organisation’s goals are being accomplished”.*

No specific examples are given.

### 3.11 [Examples from other audit providers](#)





#### [Devon Audit Partnership](#)

<b>High Standard</b>	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures
<b>Good Standard</b>	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
<b>Improvements required</b>	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk
<b>Fundamental Weaknesses Identified</b>	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority

### 3.12 South West Audit Partnership

Substantial	▲★★★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲★★★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲★★★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
No Assurance	▲★★★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

### 3.13 Private Sector Example A

Assurance	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed around the system objectives.	Controls are being applied consistently.
Substantial		There is generally a sound system of internal control but there are some weaknesses which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the internal control system are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Minimal		Control is generally weak leaving the system open to significant error of abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

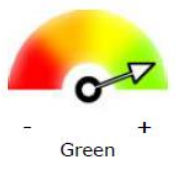

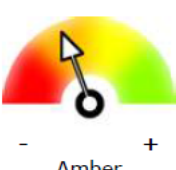
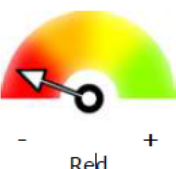
### 3.14 Private Sector Example B

Assurance level	Definition
<b>Significant assurance</b>	Means the system is well designed and only minor low priority recommendations have been identified related to its operation. Might be indicated by priority three only, or no recommendations (i.e. any weaknesses identified relate only to issues of good practice which could improve the efficiency and effectiveness of the system or process).
<b>Significant assurance with minor improvement opportunities</b>	Means the system is generally well designed however minor improvements could be made and some exceptions in its operation have been identified. Might be indicated by one or more priority two recommendations (i.e. there are weaknesses requiring improvement but these are not vital to the achievement of strategic aims and objectives, however if not addressed the weaknesses could increase the likelihood of strategic risks occurring).
<b>Partial assurance with improvements required</b>	Means both the design of the system and its effective operation need to be addressed by management. Might be indicated by one or more priority one, or a high number of priority two recommendations that taken cumulatively suggest a weak control environment (i.e. the weakness or weaknesses identified have a significant impact preventing achievement of strategic aims and / or objectives, or result in unacceptable exposure to reputation or other strategic risks).
<b>No assurance</b>	Means the system has not been designed effectively and is not operating effectively. Audit work has been limited by ineffective system design and significant attention is needed to address the controls. Might be indicated by one or more high priority one recommendations and fundamental design or operational weaknesses in the area under review (i.e. the weakness or weaknesses identified have a fundamental and immediate impact prevent achievement of strategic aims and / or objectives or result in an unacceptable exposure to reputation or other strategic risks).

### 3.15 Private Sector Example C

Full assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial assurance	While there is a basically sound system there are areas of weakness which put some of the system objectives at risk, and / or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and / or the level of non-compliance puts the system objectives at risk.
No assurance	Control is generally weak leaving the system open to significant error or abuse, and / or significant non-compliance with basis controls leaves the system open to error or abuse.

### 3.16 NHS

Rating	Indicator	Definition
<b>Substantial assurance</b>		The Board can take <b>substantial assurance</b> that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with <b>low impact on residual risk</b> exposure.
<b>Reasonable assurance</b>		The Board can take <b>reasonable assurance</b> that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with <b>low to moderate impact on residual risk</b> exposure until resolved.
<b>Limited assurance</b>		The Board can take <b>limited assurance</b> that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with <b>moderate impact on residual risk</b> exposure until resolved.
<b>No assurance</b>		The Board has <b>no assurance</b> that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Action is required to address the whole control framework in this area with <b>high impact on residual risk</b> exposure until resolved.

### 3.17 Teignbridge's current gradings

<b>Excellent</b> ☆☆☆☆	The areas reviewed were found to be well controlled, internal controls are in place and operating effectively. Risks against achieving objectives are well managed.
<b>Good</b> ☆☆☆	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some areas for improvement have been identified.
<b>Fair</b> ☆☆	There is a basic control framework in place, but most of the areas reviewed were not found to be adequately controlled. Generally risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives.
<b>Poor</b> ☆	Controls are seriously lacking or ineffective in their operation. No assurance can be given that the system's objectives will be achieved.

3.18 As members will be aware, the majority of audits we have undertaken for Teignbridge have fallen into the "Good" category above.

## 4. CONCLUSION and RECOMMENDATION

- 4.1 The information provide in this report is intended to give members an insight into alternative assurance ratings for comparison to the system currently used for Teignbridge audit reports.
- 4.2 If, having considered the above, members would prefer a different rating system, their preferences are sought. Consultation on such a change would then be arranged with other stakeholders.
- 4.3 In considering alternatives, an important factor to bear in mind is that these micro-level opinions (based on single audits) must be capable of feeding the macro-level opinion (the annual assurance process).

### Sue Heath – Audit Manager

<b>Wards affected</b>	N/A
<b>Contact for any more information</b>	<i>Sue Heath – Audit Manager – 01626 215258</i>
<b>Background Papers (For Part I reports only)</b>	N
<b>In Forward Plan</b>	N
<b>In Audit Scrutiny Work Programme</b>	N