

**SUBJECT: INTERNAL AUDIT
Review of Internal Audit Opinions &
Weakness Ratings**

**DIRECTORATE: Resources
MEETING: Governance & Audit Committee
DATE: 15th June 2023
DIVISION/WARDS AFFECTED: All**

1. PURPOSE

To inform the Governance & Audit Committee of an update to the engagement opinions and weakness ratings used by the Internal Audit team from 1st April 2023.

2. RECOMMENDATION(S)

That the Committee approve the change to audit opinions and weakness ratings in use by the Internal Audit team.

3. ENGAGEMENT OPINIONS

- 3.1 It is current practice for public sector internal audit teams to provide a summary opinion as part of the final report on internal audit engagements.
- 3.2 The professional practice of internal audit within public sector bodies across the UK was consolidated into a single set of overall standards, the Public Sector Internal Audit Standards (PSIAS) in April 2013. While the PSIAS has been successful in ensuring consistency there has been no common practice, and little guidance available, regarding how best to report the overall results of internal audit work at the end of each engagement.
- 3.3 Another requirement of the PSIAS is that the Head of Internal Audit has to give an overall opinion on the adequacy of the internal control environment operated within the systems and establishments of Monmouthshire County Council. This is based on the opinions given on individual audit jobs undertaken as per the agreed annual audit plan.
- 3.4 Currently Monmouthshire County Council operates with the following 4 audit opinions, 3 positive and 1 unfavourable. Each audit opinion is based on the strengths and weaknesses identified during the course of each audit (see section 4).

OPINION	DESCRIPTION
SUBSTANTIAL	Substantial level of assurance. Very well controlled, with numerous strengths identified and any risks being less significant in nature.
CONSIDERABLE	Considerable level of assurance. Generally well controlled, although some risks identified which should be addressed.
REASONABLE	Reasonable level of assurance. Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.
LIMITED	Limited level of assurance. Poorly controlled, with unacceptable levels of risk. Fundamental improvements required urgently.

3.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) commissioned a special interest group to examine the range of current reporting practice and opinions in use by different internal audit providers across the UK public sector. The exercise included 52 organisations across the public sector including small in-house internal audit teams, large shared services, external commercial audit firms and specialist assurance providers. The results were analysed alongside a review of professional and regulatory practice and standards.

3.6 A report, Internal Audit Engagement Opinions – Setting Common Definitions, was published in 2020. This recommended a standardised approach to Internal Audit Opinions across the public sector.

The advantages of this include;

- The use of a standard opinion and underlying definition would increase confidence amongst audit committee members and managers that the engagement opinion issued is consistently applied.
- It would assist the sharing, comparability and understanding of assurances across public bodies.
- This would be of benefit to audit committees, managers and also other auditors (both internal and external).
- It would support audit committee members and senior managers in their understanding of audit reports. In particular those who sit on more than one public sector audit committee, or who receive reports from different auditors in relation to partnerships and joint ventures would find the consistency of benefit.
- It would support the training of internal audit staff, helping to drive up the quality and consistency of audit opinions, and facilitate staff moving across different internal audit teams.

- It would reduce disruption when changing internal audit provider. If the new provider applies a different approach to assurance ratings it results in audit committee members and managers having to learn and understand different terminology.

The principal arguments against adopting standard opinion levels are that this might constrain innovation in the profession, or may not suit the particular needs of an organisation or its audit team.

Overall CIPFA consider that the advantages outweigh the disadvantages.

3.7 Therefore, based on an analysis of existing practice, and taking into account the PSIAS definition of internal audit, the standard definitions for internal audit assurance over an engagement are proposed by CIPFA to be:

OPINION	DESCRIPTION
SUBSTANTIAL ASSURANCE	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
REASONABLE ASSURANCE	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
LIMITED ASSURANCE	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
NO ASSURANCE	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

The new opinions will effectively provide 2 'positive' (Substantial / Reasonable) and 2 'unfavourable' (Limited / No Assurance) audit opinions.

3.8 For grant claim audits the following opinions will continue to be used without change.

Unqualified opinion - the terms and conditions of the grant were generally complied with.

Qualified opinion - the terms and conditions of the grant were not fully complied with; the identified breaches of terms and conditions will be reported to the grantor and internally to relevant Head of Service/Chief Officer.

- 3.9 During a preceding Governance & Audit Committee meeting, discussion was held regarding the aforementioned CIPFA report and the previous Chief Internal Auditor gave a commitment to review the opinions used at Monmouthshire County Council based on the report.
- 3.10 In line with the PSIAS, all audit reviews will continue to be followed-up and the results of this reported to senior management and the Governance & Audit Committee. All 'unfavourable' (Limited / No Assurance) opinions will be subject to formal follow-up review, completed by the Internal Audit team, which will result in an updated opinion being brought to the Governance & Audit Committee to provide assurance (or not) that the control environment has improved.

4 WEAKNESS RATINGS

- 4.1 The Internal Audit team have used these new opinions as an opportunity to amend the classification of weaknesses within our reports to become more focussed and provide a clearer definition of the key risks to the organisation.
- 4.2 Currently the team use the following Ratings and Risk Descriptions, based on a traffic light system.

RATING	RISK DESCRIPTION	IMPACT
1	Significant	(Significant) – Major / unacceptable risk identified. Risks exist which could impact on the key business objectives. Immediate action required to address risks.
2	Moderate	(Important) – Risk identified that requires attention. Risks identified which are not business critical but which require management attention as soon as possible.
3	Minor	(Minimal) – Low risk partially mitigated but should still be addressed. Audit comments highlight a suggestion or idea that management may want to consider.
4	Strength	(No risk) – Good operational practices confirmed. Well controlled processes delivering a sound internal control framework.

- 4.3 Following discussion, the traffic light system will continue to be used but the Risk Ratings and Descriptions / Impacts will be amended to the following.

RISK RATING	DESCRIPTION
CRITICAL	Major or unacceptable risk which requires immediate action.
SIGNIFICANT	Important risk that requires attention as soon as possible.
MODERATE	Risk partially mitigated but should still be addressed.
STRENGTH	No risk. Sound operational controls and processes confirmed.

- 4.4 The biggest changes arising from this will be;
- The creation of a 'Critical' risk rating which will only be used to highlight issues where there would be an unacceptable level of risk.
 - The removal of the 'Minor' / 'Low Risk' category from reports. These issues will still be highlighted and discussed with management but the details will no longer appear within reports.

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 Chief Officers and Heads of Service for information and appropriate action where necessary.

6. RESOURCE IMPLICATIONS

None.

7. CONSULTEES

Deputy Chief Executive / Chief Officer Resources

Results of Consultation:

N/A

8. BACKGROUND PAPERS



PSIAS.pdf



CIPFA – Internal Audit
Engagement Opinions

9. AUTHORS AND CONTACT DETAILS

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