

Internal Audit Assurance Levels
Report by Director of Change Management and Resources

Summary:	This report examines the current Internal Audit assurance levels, in view of the suggestion by members of the Broads Authority that the Authority should seek to aspire to the highest definition of assurance.
Recommendation:	That the Authority should seek to meet the highest level of audit assurance at all times unless the additional costs of doing so are considered to be excessive or disproportionate to the benefits which would be attained.

1 Background

- 1.1 At its meeting on 23 September 2011 the Broads Authority received a report on the Authority's Annual Governance Statement for 2010/11, which was duly approved by the Authority, signed by the Chairman and Chief Executive and appended to the audited accounts.
- 1.2 During the discussion it was noted that the Head of Internal Audit had concluded that the governance arrangements within the Authority were "Adequate", which represented a positive assurance. Some members however considered that the Authority ought to aim at achieving the highest definition of assurance, and requested the Financial Scrutiny and Audit Committee to consider the steps required in order to achieve this, and whether these would be proportionate to the size and nature of the organisation.
- 1.3 This report considers the issues involved, and the implications and actions needed in order to achieve a higher assurance level.

2 Internal Audit Assurance Levels

- 2.1 A key responsibility placed on the Head of Internal Audit is to give annual opinions on the overall adequacy of the Authority's internal control environment and systems of risk management. Moreover, in recent years, this provision of independent assurance has also extended to corporate governance arrangements. The requisite opinions are based on the outcomes of a number of individual audit assignments completed in the course of the financial year, as dictated by the Annual Audit Plan. Essentially, the Head of Internal Audit draws upon this body of work to determine overall levels of

assurance which, in turn, should then be used to inform the Authority's Annual Governance Statement. The annual opinions take into account the extent of positive and negative assurances awarded in relation to fundamental financial systems, other operational/non-financial systems and the IT environment, and additionally, consider the number of audit recommendations raised in year, their corresponding priority risk ratings and management action subsequently taken over the 12 month period to resolve key control weaknesses identified through audit inspection work.

2.2 The Authority's internal auditors currently use four categories by which they classify internal audit assurance over the processes they examine. These are defined as follows:

Good Assurance (Positive)	<ul style="list-style-type: none"> • There is a sound system of internal control designed to achieve the client's objectives. • The control processes tested are being consistently applied.
Adequate Assurance (Positive)	<ul style="list-style-type: none"> • While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. • There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
Limited Assurance (Negative)	<ul style="list-style-type: none"> • Weaknesses in the system of internal controls are such as to put the client's objectives at risk. • The level of non-compliance puts the client's objectives at risk.
Unsatisfactory Assurance (Negative)	<ul style="list-style-type: none"> • Control processes are generally weak leaving the processes/systems open to significant error or abuse. • Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

2.3 Essentially a report is compiled following each audit, and an assurance level is awarded based on the adequacy of the internal controls developed and put in place, and the level of compliance then demonstrated in relation to these controls, which provides an indication of how effectively they are being followed. The resultant positive or negative assurance level will be significantly influenced by the number and priority rating of recommendations raised to address control weaknesses found, if any, which will be graded High, Medium and Low in accordance with the following analysis:

High	A fundamental weakness in the system that puts the Authority at risk. To be addressed as a matter of urgency, within a 3 month timeframe wherever possible, or, to put in place compensating controls to mitigate the risk identified until such time as full implementation of the recommendation can be achieved.
Medium	A weakness within the system that leaves the system open to risk. To be resolved within a 4-6 month timescale.

Low	Desirable improvement to the system. To be introduced within a 7-9 month period.
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- 2.4 For the 2010/11 Internal Audit Programme, three audits were carried out, all of which were awarded an “Adequate” assurance. Details are as follows:
- Corporate Governance and Risk Management. May 2010. (Two Medium and three Low priority recommendations).
 - IT Governance and Strategy. October 2010. (Two Medium and one Low).
 - Key Controls. April 2011. (One Medium).
- 2.5 During 2011/12 three audits have so far been carried out, of which two have received an “Adequate” assurance, and one a “Limited” assurance. The latter relates to the Tolls Management System audit, details of which are set out separately on this agenda.
- Corporate Governance and Risk Management. May 2011. (Two Medium priority recommendations).
 - Planning. October 2011. (Two Medium).
 - Tolls Management System. December 2011. (One High and eight Medium).
- 2.6 In the event of issues being found with systems of internal control at the Authority, Internal Audit will put forward recommendations designed to strengthen and enhance existing arrangements and discuss with management the practicalities of their implementation. Action Plans will be agreed, although there can sometimes be occasions where recommendations may be disputed and management responses will be recorded and the matter escalated to the Financial Scrutiny and Audit Committee, depending on the priority risk rating attaching to the recommendation. The majority of audit recommendations are however accepted and subsequent action periodically monitored and reported to the Committee, whilst annually, the status of recommendations will be verified by Internal Audit.
- 2.7 Members will be aware from regular reports that there have been few instances where the Authority has disagreed with recommendations, although where it has done so it has generally been on the grounds that they are not considered to be proportionate to the size of the Authority or the level of risk involved.
- 2.8 It is clear from the above that in order to achieve a “Good” assurance, an authority needs to ensure that ‘all the boxes are ticked’, with both highly effective controls and systems in place and strong compliance with these. Whilst one might expect this to be the norm, there are occasions where this might only be achievable through the deployment of additional staff or financial resources, at which point there is a need to balance these additional costs against the benefit attained.
- 2.9 Indeed the Authority has in the past pointed out that, whilst there appears to be a very fine line between a “Good” assurance and a ‘strong’ “Adequate”

assurance, the definitions would seem to indicate otherwise, with “Adequate” giving the impression of being at best a rather grudging positive outcome.

3 Views of Head of Internal Audit

- 3.1 The views of the Head of Internal Audit have been sought on the suggestion that the Authority ought to aim to achieve the highest level of assurance. Her views are set out below:

“As your Head of Internal Audit, I am looking for evidence of positive / adequate control. It is pleasing to be able to report good assurance when found, but your organisation's aim should be to have in place sound systems of internal control. When submitting future Progress and/or Annual Reports to the Financial Scrutiny and Audit Committee, I will seek to emphasise to Members that adequate assurances represent a satisfactory outcome as far as Internal Audit is concerned”.

4 Summary

- 4.1 Members will note and welcome the reassurance provided by the Head of Internal Audit that ‘adequate assurances represent a satisfactory outcome as far as Internal Audit is concerned’.
- 4.2 As a guardian of public funds, the Authority seeks at all times to develop and administer controls and systems which reflect best practice. As such we seek to meet the highest level of audit assurance. However there may be occasions when additional costs are necessary in order to meet the very highest standards, which might not be proportionate to the benefit or necessary for the size of the Authority. On these occasions an assessment has to be made of the risk involved (and likelihood of this occurring) against the cost.

Background papers: Internal Audit Reports 2010/11 - 2011/12

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Appendices: None