

**North East Derbyshire District Council**

**Audit and Corporate Governance Scrutiny Committee**

**2 February 2017**

**Proposed New System of Internal Audit Consortium Opinion Classifications**

This report is public

**Purpose of the Report**

- To report to Members for consideration and approval a revised system of classification for the internal audit opinions issued as the conclusion for each report issued.

**1 Report Details**

- 1.1 The current internal audit report classifications have been utilised since the commencement of the Consortium and are as detailed in the table below:-

<i>Control Level</i>	<b>Definition</b>
Good	A few minor recommendations (if any).
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made.
Unsound	Major risks identified; fundamental improvements are required.

- 1.2 Whilst the present system of classification is “tried and tested”, Current best practice is to focus more on the level of assurance that can be given with regard to the area being audited. This links more closely with the annual governance statement.
- 1.3 The external reviewer of internal audit has also recommended considering moving towards providing levels of assurance linked to risk rather than retaining the current classifications.
- 1.4 The current system does have some disadvantages, such as;

- The words “satisfactory” and “marginal” have a negative tone
- It is relatively difficult to distinguish between the lowest 2 categories of “unsatisfactory” and “unsound” with the unsound category being rarely used.

- 1.5 The Midlands Audit Group was surveyed to establish the opinion classifications that are utilised by other Council’s. Whilst there were numerous slight variations, the common theme was that the majority use wording based around levels of assurance ranging from “full” “substantial” “moderate” “reasonable” “limited” “no” assurance etc.
- 1.6 Following a review of the systems of classification used by other Council’s and discussions with the Consortium’s client officers it is proposed that a new system be adopted, based on four levels of classification focused on the level of assurance that can be provided.
- 1.7 The proposed classifications are as follows:-

Assurance Level	Definition
<b>Substantial Assurance</b>	There is a sound system of controls in place, designed to achieve the system objectives. Controls are being consistently applied and risks well managed.
<b>Reasonable Assurance</b>	The majority of controls are in place and operating effectively, although some control improvements are required. The system should achieve its objectives. Risks are generally well managed.
<b>Limited Assurance</b>	Certain important controls are either not in place or not operating effectively. There is a risk that the system may not achieve its objectives. Some key risks were not well managed.
<b>Inadequate Assurance</b>	There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk. There is little assurance of achieving the desired objectives.

- 1.8 The new system of classifications would be used on all internal audit reports issued and in the summary/annual reports brought to this committee.

## **2 Conclusions and Reasons for Recommendation**

- 2.1 Current thinking is to assess internal audit reviews in terms of the level of assurance that can be given. To ensure that the Internal Audit Consortium continues to operate in line with accepted best practice it is proposed that the suggested opinion classifications are adopted from the 2017/18 financial year.

### **3 Consultation and Equality Impact**

3.1 None.

### **4 Alternative Options and Reasons for Rejection**

4.1 The alternative option would be to retain the current system of classifications however current thinking has moved on to assess systems in terms of assurance levels. Retaining the current system would leave the internal audit consortium open to criticism when further external reviews take place.

### **5 Implications**

#### **5.1 Finance and Risk Implications**

5.1.1 Updating the internal audit opinion classifications will help to ensure that the Council continues to receive an internal audit service that complies with best practice.

#### **5.2 Legal Implications including Data Protection**

5.2.1 None

#### **5.3 Human Resources Implications**

5.3.1 None

### **6 Recommendation**

6.1 That the revised internal audit report opinion classifications be introduced from the commencement of the 2017/18 internal audit plan year.

### **7 Decision Information**

<b>Is the decision a Key Decision?</b> (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
<b>District Wards Affected</b>	N/A
<b>Links to Corporate Plan priorities or Policy Framework</b>	The report is linked to NEDDC's aims and objectives to provide customers with an excellent service

## 8 Document Information

Appendix No	Title
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
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