INTERNAL AUDIT

**Progress Report to Audit Committee
2013/14 Quarter 2
September 2013**

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Contents

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1. Introduction

1.1   Internal Audit (IA) provides an independent appraisal and consultancy service that underpins good governance, which is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 2011 that the Council undertakes an adequate and effective IA of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

1.2   The new Public Sector IA Standards which came into force on 1 April 2013 are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. They stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.

1.3   This report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information on all IA work covered and assurance in this respect during the July to September 2013 period. It also provides an opportunity for the Head of Internal Audit (HoIA) to highlight to CMT and the Audit Committee any significant issues that they need be aware of that have arisen since the last IA progress report in June 2013.

1.4   IA would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the management and staff of the Council during the period.

2. Executive Summary

2.1   The new permanent HoIA took up his post in July 2013 and the immediate priority for the quarter 2 period was to ensure that all residual 2012/13 reviews were finalised as quickly as possible. As previously reported to CMT and the Audit Committee, there has been significant slippage in the 2012/13 IA plan and this has also had a negative impact on the timeliness of delivery of the 2013/14 IA plan. There are a range of factors that have caused the slippage in the IA plans for both years and work is underway by the HoIA to address this situation in the short-term, as well as taking a more strategic view of how the IA function can improve in the longer term.

2.2   Nevertheless, all 2012/13 IA work was completed to draft report stage by the end of August which is a considerable achievement against the backdrop of the significant amount of slippage in the IA plan. Further to this, the 2012/13 IA plan has now been completed and the primary focus is now on delivery of a risk based IA plan for 2013/14.

2.3   IA staff capacity has been reduced during the period following the departure of one of our graduate trainees who left us in early August to take up a position in HM Treasury. The HoIA is considering the options for replacing this member of the team as part of a wider review of the IA structure and skills mix, to ensure it fits with the Council's business needs going forward. In the mean time, RSM Tenon has agreed to provide some general IA work support to the Council if it is required, which should reduce the risk of further slippage in the 2013/14 IA plan.

2.4   A couple of key areas of IA work that have been successfully carried out in the quarter include **School Admissions** and **VAT**, where we found robust procedures in place and have issued 'Satisfactory' assurance opinions in both areas. Other work in the quarter included the **Housing Benefits Subsidy Grant Claim** which involved a number of staff within the IA team carrying out sample testing to satisfy the grant claim requirements. External Audit (Deloitte) place reliance on the work of IA in this area and this has resulted in a significant reduction in the external audit fees for the Council.

2.5   We also conducted a piece of **consultancy** (advisory) work in relation to **the Council's stock of garages** to help influence strategic decision making in this area. This change in approach was welcomed by Management who provided positive feedback on our work. Other consultancy work this quarter included advice in relation to the **Annual Governance Statement** and active participation in the Council's **Risk Management** Group.

2.6   All **investigations into allegations of fraud and/or corruption** are now carried out by the Corporate Fraud Investigations Team (CFIT) and so a period of handover has commenced between IA and the CFIT. All IA investigations have now been completed or handed over to the CFIT to take forward. IA is still completing the **National Fraud Initiative** (NFI) data matching exercise for 2012/13 but the responsibility for future data matches will be passed to CFIT as part of the handover period in the coming months. IA will continue to work closely with the CFIT to share intelligence and ensure a dovetailed approach to good governance to help avoid duplication.

2.7   Further details of the IA work carried out in the period are included in section 3 of this report.

3. Analysis of Internal Audit Activity in 2013/14 Quarter 2

3.1   Residual 2012/13 Internal Audit Assurance Work

3.1.1   All of the 2012/13 IA reviews carried out in the 2013/14 quarter two period are individually listed at Appendix A. This details the assurance levels achieved (in accordance with the assurance level definitions outlined at Appendix B) and provides an analysis of recommendations made (in accordance with the recommendation risk categories outlined at Appendix C).

3.1.2   In total 22* 2012/13 IA assurance reviews were finalised during the period. There were **not any 'No' assurance** 2012/13 IA opinions and **only five 'Limited' assurance** opinions issued during the period; this is a positive outcome.

Assurance Level (including Schools)	Number of 2012/13 IA assurance reviews finalised in Q2 2013/14
Full	1
Satisfactory	17
Limited	5
No	0
Totals	**23***

* = The Support for Carers had two assurance levels to recognise the split in responsibilities between Children's Services and Adult Social Care.

3.1.3   The key findings from the **five limited assurance reviews** were as follows:

1. Support for 'Young' Carers

The assessment and support planning processes were found to be incomplete and not up-to-date. Specifically, we identified that comprehensive assessments of young carers' needs and support requirements were not always being consistently carried out to ensure that their needs were met. There were also delays in carrying out reviews to assess if the support being provided was achieving the required outcomes. However, we are satisfied that positive management action has been proposed to address the risks we identified. Management has already met with Hillingdon Carers to begin work on the revision of their assessment and follow up processes. These recommendations will be followed-up by IA in due course.

2. Children's Residential Services – Merrifield House

The main areas of concern in this IA review were in relation to health and safety issues surrounding the home. Ofsted had raised some concerns on health and safety at their last inspection and our IA identified that minimal progress had been made to address these concerns. This included monitoring inspections not being carried out to comply with statutory requirements. However, some of the areas of risk have now been addressed by management with the remaining recommendations due to be implemented in the near future. These recommendations will be followed-up by IA in due course.

3. Children's Residential Services – Olympic House

Health and safety issues were also the main IA findings in this home too. We identified that a health and safety assessment had not been carried out, there were no formal health and safety procedures, evacuation procedures were unclear and there were no trained First Aiders at the home. However, we are please to report that positive action has already been taken by management to address the main areas of risk. These recommendations will be formally followed-up by us in due course.

4. Trees – Compensation Claims

We found that this service was being provided on a reactive basis and consequently inspections and maintenance were only carried out as a result of complaints or insurance claims. No risk assessments had been carried out which would enable inspection and maintenance programmes to be focussed on trees that had a high risk of causing damage to nearby properties. Management have decided that a proactive approach would be preferred and have taken positive action to move the service in this direction. These recommendations will be followed-up by IA in due course.

5. Mental Health Service

Our audit identified that the Section 75 Partnership Agreement (for the delivery of adult mental health services) between the Council and Central and North West London NHS Foundation Trust (CNWL), had not been reviewed in its entirety. It also did not provide detailed information about the services being directly provided by CNWL and there were issues surrounding allocating Care Co-ordinators on a timely basis and evidence of Care Plan reviews. Positive action is being taken by management to address all of the risks we raised and these recommendations will be followed-up by us in due course.

3.1.4 **Overall, the results of the 2012/13 IA assurance work completed in this period are positive for the Council**. The graph below highlights that **78%** of the 2012/13 IA assurance opinions in this quarter were 'Satisfactory' or better.

Analysis of 2012/13 IA Assurance Opinions issued in Q2 2013/14

- Full (4%)
- Satisfactory (74%)
- Limited (22%)
- No (0%)
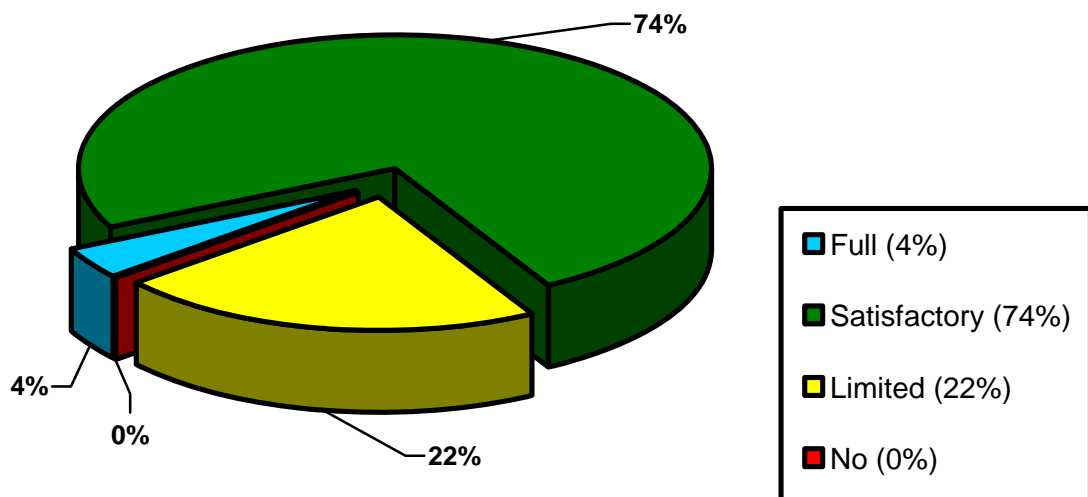
3.1.5 Given the dynamic level of transformational change going on across the organisation and the resulting risks that are created as a consequence, both CMT and the Audit Committee can take substantial assurance from the results of the 2012/13 IA assurance work completed in this period.

3.2 2013/14 Internal Audit Assurance Work

3.2.1 As mentioned earlier, the slippage in the 2012/13 IA plan has had a negative impact on the progress made with the 2013/14 IA plan during quarter two. Specifically, only seven 2013/14 IA assurance reviews have been completed to final report stage in this period. All seven of these reviews relate to schools which are individually listed at Appendix A.

3.2.2 However, the table below highlights that positive assurance levels were issued for all seven of the 2013/14 IA assurance reports issued this quarter.

Assurance Level (including Schools)	Number of 2013/14 IA assurance reports finalised in Q2	Percentage of 2013/14 IA assurance reports finalised in Q2
Full	2	29%
Satisfactory	5	71%
Limited	0	0%
No	0	0%
Totals	**7**	**100%**

3.2.3 Reasonable progress is being made by the IA team in reducing the backlog of 2013/14 planned work. Appendix A highlights that as at 17 September 2013 there are 21 IA assurance reviews in progress for 2013/14. However, there remains a significant challenge ahead for the IA team to ensure timely completion of the 2013/14 IA plan.

**3.3 Follow-up of Previous Internal Audit Recommendations**

3.3.1 IA continues to monitor all recommendations it has raised through to the point where the recommendation has either been implemented or where a satisfactory alternative risk response has been proposed by management. However, the implementation of recommendations raised by IA is now monitored solely by the two IA Managers. This allows the rest of the IA team to focus on delivery of the IA plan and also ensures that organisationally we have a more consistent and streamlined approach to the process of following-up IA recommendations.

3.3.2 The focus of the quarter two work on IA follow-up has been predominantly on 2012/13 recommendations. Including the assurance reviews carried out this quarter, there have been **426** IA recommendations raised in 2012/13. The table below and graph overleaf highlights this.

Risk Rating	Number of IA Recommendations	Percentage of IA Recommendations
High	77	18%
Medium	239	56%
Low	110	26%
Totals	**426**	**100%**

3.3.3 Given that we use a risk based IA approach at the Council, it is in line with our expectations that nearly three quarters of the IA recommendations are High or Medium risk.

Analysis of all 2012/13 IA Recommendations Raised
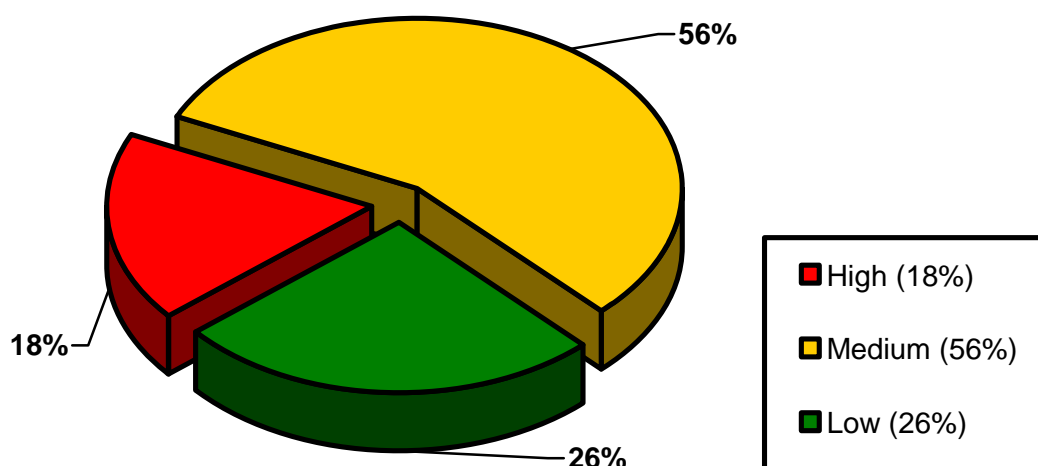
3.3.4 Our follow-up work in this area has identified that **6 high risk recommendations** from 2012/13 due for implementation have not yet been fully implemented. However, given that IA's coverage of 2012/13 has only just finished, the results of our follow-up work highlights **a positive direction of travel** regarding the management response to IA recommendations raised.

3.3.5 The status of outstanding IA recommendations raised in 2009/10, 2010/11 and 2011/12 has been discussed at CMT and good progress is being made on establishing which of these recommendations have now been implemented, which are no longer relevant i.e. following organisational restructure and which require management attention. Following these discussions, IA has received positive assurance from management that there are now **only 5 high risk recommendations outstanding in relations to these three audit years**. Further information on all outstanding high risk recommendations will be provided by the HoIA as part of an oral update at the 26 September 2013 Audit Committee meeting.

3.4 **Other Internal Audit Work 2013/14**

3.4.1 During the quarter, the National Fraud Initiative (NFI) data matching exercise for 2012/13 has been progressed by IA, but we recognise that this area needs more resource focussed on it going forward. This issue should be alleviated once the responsibility for future data matches is passed to the Corporate Fraud Team (CFT) as part of the handover process in the coming months. As reported earlier, all IA investigations have now been completed or handed over to the CFT to take forward. In line with the Chief Finance Officer's statutory obligation to prevent and detect fraud and corruption against the Council, IA will continue to work closely with the CFT.

3.4.2 In this period we have also carried out consultancy (advisory) work in relation to the Council's stock of garages, the Carbon Reduction Commitment, the Annual Governance Statement and the Risk Management Group. In addition, we provided advice to the Asset Management BID review team regarding revised procedures they were in putting in place. The Housing Benefits Subsidy Grant Claim has been a significant piece of work and we also verified the Troubled Families Grant Claim this quarter.

3.5 **Deferred Internal Audit Reviews**

3.5.1 Per Appendix A, **five planned IA reviews have been deferred** during this period:

  1. Business Continuity

  The terms of reference of this IA review has been drafted, but at the request of management this audit has been deferred until quarter four due to a current lack of staff capacity within the relatively small Civil Protection Service team.

2. Land Charges

The terms of reference of this IA review has been drafted, but at the request of management this audit has been deferred until quarter four. This is as a result of the Land Charges team having to prioritise a large number of claims and appeals that go back a number of years.

3. Pensions Administration - Employees Contributions

The terms of reference of this IA review has been drafted, but at the request of management this audit has been deferred until quarter three. This is as a result of Capita's resources during quarter two being focussed on the submission of valuation data to the scheme actuary.

4. Housing Rents

The terms of reference of this IA review has been drafted, but at the request of management this audit has been deferred until quarter three. This is mainly due to the introduction of the benefits cap having an impact on the Housing Rent's team's workload.

5. Children in Care Teams 1 & 2

The terms of reference of this IA review has been drafted, but at the request of management this audit has been deferred until quarter three. This is due to the organisational restructuring being carried out in this area following a BID Transformation review.

3.5.2   Whilst it is never ideal to start planning an audit and to then have it deferred, **IA fully supports the reasons for deferring all five of these audits** and agrees that the audits will add more value carried out later in the audit year.

3.6   Internal Audit Performance

3.6.1   The current IA Key Performance Indicators (KPIs) previously agreed with CMT and the Audit Committee are:

- KPI 1 – Deliver **90%** of the agreed IA Plan to final report stage by 31 March 2014;

- KPI 2 – Deliver **95%** of the agreed IA Plan to draft report stage by 31 March 2014; and

- KPI 3 – Deliver **95%** of completed audits within the agreed time allocation.

3.6.2   As at the date of this IA progress report, actual cumulative IA performance against its KPIs is highlighted below:

IA KPI	IA Actual Performance	R.A.G. Status
KPI 1	**82%**	**A**
KPI 2	**87%**	**A**
KPI 3	**64%**	**R**

3.6.3   Both KPIs 1 and 2 are at 'Amber' status to alert CMT and the Audit Committee to the risk that **the targeted performance may not be achieved due to the slippage in the 2013/14 IA plan**. However, the HoIA is confident that the performance in this area will be improved once the IA approach across the organisation becomes more streamlined. This issue is directly related to the current 'Red' status of IA KPI 3 which indicates that in the year to date over a third of audits have taken longer than planned. There are a large number of reasons for that; some of them IA can directly control (i.e. ensuring we do not over-audit) and some we can influence (i.e. gaining access to management information in a timely manner). These are issues that the HoIA is currently taking forward.

3.6.4   In terms of Client satisfaction, <u>Appendix A</u> highlights that **only five Customer Feedback Questionnaires (CFQs) have been completed** to date from the 29 IA assurance reviews carried out in the period. Whilst the HoIA proactively seeks informal management feedback on audits that have been carried out, the lack of formal feedback is a slight concern. The most common reason given for the lack of formal management feedback is that the length of the current CFQ is too long. As a consequence, revising the CFQ template is an idea the IA service may want to consider at some point in the future.

4. Forward Look

4.1   Looking ahead to quarter three, work has already begun to pull together an **IA improvement plan** for the short and medium term. The key priority is to improve the efficiency of the IA process which will help reduce the slippage in the IA plan and create greater capacity for IA to add value across the organisation. A potential solution which would help improve the time taken to carry out IA reviews is IA software, which is one option the HoIA is currently exploring.

4.2   The HoIA is also **revisiting the 2013/14 IA plan** to see if there are any new or emerging significant risks that are not currently included in the planned programme of IA work. There is also scope to ensure that any work IA carries out is more closely **aligned to the Transformation work** being carried out across the organisation. This could include IA staff sitting on project groups, whilst ensuring they are clear about whether they are there in an assurance or advisory capacity. This type of approach will help increase IA's knowledge of corporate developments which can feed into the risk based deployment of IA resource on assurance work. Also, **participation in working groups** will help individual IA staff develop, whilst at the same time increasing the value IA provides to the Council.

4.3   As part of each individual IA assurance review, an overall assurance level is assigned, taking into account the level of our findings regarding the control environment, objectives and risk appetite. Attached at <u>Appendix B</u> are the 2012/13 assurance levels and definitions. Also at <u>Appendix B</u> are the HoIA's **proposed assurance levels to use for 2013/14 onwards**. Specifically, the proposal is to replace the 'Full' and 'Satisfactory' assurance levels with 'Substantial' and 'Reasonable' from now onwards. This comes as a result of discussions with a number of key stakeholders as well as reviewing what is considered good practice in IA assurance work.

4.4   In addition, each IA recommendation made to improve the control environment is assigned a risk rating. Attached at <u>Appendix C</u> are the 2012/13 risk ratings and their definitions. Also, at <u>Appendix C</u>, are the HoIA's **proposed changes to the risk rating definitions** as well as the introduction of a 'Notable Practice' rating and definition. It is proposed to use these from now onwards, which should help further ensure that IA work is risk focussed in its coverage and approach.

4.5   In line with the Public Sector IA Standards everyone in the IA team has their own **continuing professional development action plan** to ensure they are appropriately trained and experienced to carry out their roles effectively. This is an area the HoIA is keen to see further developed in the future.

4.6   There are no other matters that the Head of Internal Audit needs to bring to the attention of CMT or the Audit Committee at this time.

Muir Laurie ACCA CMIIA MAAT
Head of Internal Audit

17 September 2013

APPENDIX A

DETAILED INTERNAL AUDIT ASSURANCE WORK UNDERTAKEN IN 2013/14 QUARTER 2 (July to September 2013)

Key:

- o **H** = High Risk
- o **M** = Medium Risk
- o **L** = Low Risk
- o **CFQ** = Customer Feedback Questionnaire
- o **ToR** = Terms of Reference

Residual 2012/13 IA Assurance Reviews (completed since the last IA Progress Report in June 2013):

IA Ref.	IA Review Area	Status as at 17 September 2013	Assurance Level	Risk Rating			CFQ Received?
				H	**M**	**L**	
SCHH070	Children Residential Services -Charville Lane	Final report issued 30 May 2013	Satisfactory	1	1	3	No
SCHH070	Children Residential Services – Mulberry Parade	Final report issued 30 May 2013	Satisfactory	2	2	2	No
SCHH070	Children Residential Services – Olympic House	Final report issued 30 May 2013	Limited	5	4	3	No
SCHH070	Children Residential Services – Merrifield House	Final report issued 30 May 2013	Limited	2	6	2	No
SCHH065	Support for Carers	Final report issued 2 June 2013 – Assurance Level was split*: • Young Carers – Limited; and • Adult Carers – Satisfactory.	Split*	-	4	3	No
SCHH067	Young Offending Services	Final report issued 28 June 2013	Full	-	1	2	No
CS040	Sickness Absence	Final report issued 4 July 2013	Satisfactory	-	2	6	No
PEECS70	School Admissions	Final report issued 11 July 2013	Satisfactory	-	4	7	No
N/A	Hillingdon Primary School	Final report issued 22 July 2013	Satisfactory	-	6	2	No
N/A	Field End Junior School	Final report issued 22 July 2013	Satisfactory	1	6	4	No
RS084	Private Sector Housing – Empty Property Management	Final report issued 30 July 2013	Satisfactory	-	2	1	Yes

APPENDIX A (ctd)

2013/14 IA Assurance Reviews (ctd):

IA Ref.	IA Review Area	Status as at 17 September 2013	Assurance Level	Risk Rating			CFQ Received?
				H	M	L	
RS095	Libraries	Final report issued 30 July 2013	Satisfactory	2	7	1	Yes
PEECS69	Chrysalis	Final report issued 31 July 2013	Satisfactory	-	3	3	Yes
SCH073	Referral & Assessments – Asylum Children	Final report issued 9 August 2013	Satisfactory	-	2	1	No
SCHH061	Looked After Children 16-25 Education	Final report issued 19 August 2013	Satisfactory	-	4	1	No
CS043	Value Added Tax	Final report issued 21 August 2013	Satisfactory	-	2	-	No
CS045	Personnel Records	Final report issued 27 August 2013	Satisfactory	-	1	1	
AS046	Overtime and Standby Payments	Final report issued 27 August 2013	Satisfactory	-	3	1	
RS080	Investigations Team (A.S.B.)	Draft report issued 9 August 2013	Satisfactory	-	5	1	
RS078	Trees – Compensation Claims	Draft report issued 9 August 2013	Limited	2	8	-	
PEECS73	Council House Aids & Adaptations	Draft report issued 13 August 2013	Satisfactory	2	3	1	
ASHH032	Mental Health Service	Draft report issued 29 August 2013	Limited	2	7	2	

Total 2012/13 IA recommendations raised in 2013/14 Quarter 2 | 19 | 83 | 47 |

APPENDIX A (ctd)

2013/14 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 17 September 2013	Assurance Level	Risk Rating			CFQ Received?
				H	**M**	**L**	
N/A	Harefield Infant School	Final report issued 7 June 2013	Satisfactory	-	5	2	No
N/A	Glebe Primary School	Final report issued 7 June 2013	Satisfactory	-	3	2	Yes
N/A	Botwell House Primary School	Final report issued 2 July 2013	Full	-	1	2	No
N/A	Dr Tripletts (CE) School	Final report issued 18 July 2013	Satisfactory	-	6	3	No
N/A	Field End Infant School	Final report issued 23 July 2013	Full	-	-	2	Yes
N/A	Grange Park Junior School	Final report issued 23 July 2013	Satisfactory	2	5	1	No
N/A	St Andrew (CE) School	Final report issued 24 July 2013	Satisfactory	1	4	3	No
AS050	Agency Compliance Checks	Draft report in progress					
RS093	Childrens' Performance Licences	Draft report in progress					
RS087	Bridges and Other Highway Structures	Draft report in progress					
RS090	Trading Standards	Draft report in progress					
FS001	Treasury Management	Draft report in progress					
RS097	Arts Theatre Service	Draft report in progress					
RS089	Events	IA testing in progress					
SC080	Troubled Families Programme	IA testing in progress					
RS085	Building Control - Dangerous Structures	IA testing in progress					
SC079	Looked After Children Placed Out of Borough	IA testing in progress					
FS003	E-invoices	IA testing in progress					
RS096	Sheltered and Extra Care Housing	ToR being drafted					
FS004	Income Review (Cash Collection)	ToR being drafted					
tbc	Con troCC (ICT system)	ToR being drafted					
tbc	Capital Accounting	ToR being drafted					
tbc	Debtors	ToR being drafted					
tbc	Creditors	ToR being drafted					

<u>**2013/14 IA Assurance Reviews (ctd):**</u>

IA Ref.	IA Review Area	Status as at 17 September 2013	Assurance Level	Risk Rating			CFQ Received?
				H	M	L	
tbc	Housing Benefits	ToR being drafted					
tbc	Council Tax	ToR being drafted					
tbc	NNDR (Business Rates)	ToR being drafted					
tbc	Email & Internet Security	ToR being drafted					
FS002	Pensions Administration – Employer's Contributions	ToR drafted, but IA review deferred until October 2013 at the request of Management					
RS092	Housing Rents	ToR drafted, but IA review deferred until October 2013 at the request of Management					
SC076	Children in Care Teams 1 & 2	ToR drafted, but IA review deferred until October 2013 at the request of Management					
RS086	Business Continuity	ToR drafted, but IA review deferred until quarter four at the request of Management					
RS091	Land Charges	ToR drafted, but IA review deferred until quarter four at the request of Management					

Total 2013/14 IA recommendations raised in 2013/14 Quarter 2 | 3 | 24 | 15 |

APPENDIX B

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS (2013/13)

The 2012/13 IA assurance levels were:

Assurance Level	Definition
Full	There is a minimal risk of serious fraud, loss, error or loss of reputation. You may have some minor control issues to address, but generally: • you apply key controls, or satisfactory compensating controls consistently and effectively; • your procedures work well; • you achieve your service objectives efficiently, effectively and economically; • you manage service risk effectively; • you comply with relevant laws and regulations; • you safeguard Council assets; and • you produce reliable data.
Satisfactory	You face some risk of fraud, loss, error or loss of reputation. You: • apply key or compensating controls, but with some inconsistencies or shortfalls, and procedures are generally adequate; • generally achieve objectives and value-for-money, but there are some identified weaknesses; • do not always manage service risk optimally; and • may have some minor shortfalls in compliance with laws and regulations, asset safeguarding, and compiling data.
Limited	You face a significant risk of fraud, loss, error or loss of reputation. We found: • significant evidence that key or compensating controls do not exist or are not applied consistently and effectively; • procedures are poor, and need urgent improvement; • inefficiency and ineffectiveness; • objectives that are not met; • major shortfalls in risk management; and • assets at risk, and inaccurate information.
No	You face a high risk of significant fraud, loss, error or loss of reputation: The service: • does not operate key or compensating controls • has poor or non-existent procedures; • does not comply with relevant laws and regulations; • does not meet its objectives; • does not manage its risks; • produces unreliable information; and • leaves assets vulnerable.

APPENDIX B (ctd)

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS (from 2013/14 onwards)

The proposed 2013/14 IA assurance levels and definitions are:

Assurance Level	Definition
Substantial	There is a good level of assurance over the management of the key risks to the Council objectives. The control environment is robust with no major weaknesses in design or operation. There is positive assurance that objectives will be achieved.
Reasonable	There is a reasonable level of assurance over the management of the key risks to the Council objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains some risk that objectives will not be achieved.
Limited	There is a limited level of assurance over the management of the key risks to the Council objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a significant risk that objectives will not be achieved.
No	There is no assurance to be derived from the management of key risks to the Council objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a high risk that objectives will not be achieved.

1. **Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

- establishing and monitoring the achievement of the authority's objectives;
- the facilitation of policy and decision-making;
- ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
- ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
- the financial management of the authority and the reporting of financial management; and
- the performance management of the authority and the reporting of performance management.

2. **Risk Appetite:** The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.

3. **Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

APPENDIX C

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS (2013/13)

The 2012/13 risk ratings and definitions of IA recommendations were:

Risk	Definition
High	We perceive the threat to your service to be considerable – there is a fundamental weakness in the control system that poses a threat to the service as a whole. It would be hard for a manager to justify inaction on such a risk without agreeing this course of action with their line manager.
Medium	There is a weakness in the control of your system that poses a moderate threat to your service. You are likely to want to take action to reduce the risk, but other priorities may mean that you cannot do so urgently. We will follow up recommendations in these two categories to check that you have addressed the issues.
Low	The risk to the service is relatively minor, and poses no great threat to your service as a whole. We regard our recommendations on such risks as suggestions, if you have the capacity to implement improvements. We will not always follow-up these recommendations.

APPENDIX C (ctd)

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS (2013/14)

The proposed 2013/14 risk ratings and definitions of IA recommendations are:

Risk	Definition
High 🔴	The recommendation relates to a significant threat or opportunity that impacts the Council's corporate objectives. The action required is to mitigate a substantial risk to the Council. In particular it has an impact on the Council's reputation, statutory compliance, finances or key corporate objectives. The risk requires senior management attention.
Medium 🟡	The recommendation relates to a potentially significant threat or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Council. In particular an adverse impact on the Department's reputation, adherence to Council policy, the departmental budget or service plan objectives. The risk requires management attention.
Low 🟢	The recommendation relates to a minor threat or opportunity that impacts on operational objectives. The action required is to mitigate a minor risk to the Council as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives. The risk may be tolerable in the medium term.
Notable Practice 🔵	The activity reflects current best management practice or is an innovative response to the management of risk within the Council. The practice should be shared with others.