INTERNAL AUDIT

**Progress Report to Audit Committee
2014/15 Quarter 2**
15 September 2014

HILLINGDON
LONDON

Contents

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1. Introduction

1.1 The Role of Internal Audit

1.1.1 Internal Audit (IA) provides an independent assurance 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.

1.1.2 The UK Public Sector IA Standards (PSIAS), 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.

1.2 The Purpose of the Internal Audit Progress Report to Audit Committee

1.2.1 This report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information on all 2014/15 quarter two IA assurance and consultancy work covered during the period 1 July to 15 September 2014. It also provides an opportunity for the Head of Internal Audit (HIA) to highlight to CMT and the Audit Committee any significant issues arising from IA work, as well as any changes to the 2014/15 IA Plan since its approval in March 2014.

1.2.2 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 IA work on the 2014/15 IA Plan commenced on 2nd April and work has now been completed or is in progress for all quarter one and quarter two audits, with the exception of audits that have been deferred at the request of management. There have been several deferrals requested in quarter 2, most notably within the Children and Young People's Service, including the planned audit on the Ofsted Improvement Action Plan (refer to Appendix B). Whilst IA has the authority to insist on carrying these audits out in the original timeframe agreed by management/ the Audit Committee, we believe a more collaborative and supportive IA approach achieves a better overall outcome for the Council. As a result, we have agreed all requests for audits to be deferred and are actively seeking to bring forward other audits to ensure IA resource is effectively utilised throughout the year. This will help enable delivery of the IA Plan and the associated assurances to all key stakeholders.

2.2 During quarter two, the first audits utilising the new IA software (TeamMate) have been delivered. The software, when used correctly by IA staff, is noticeably increasing the effectiveness and efficiency of the IA process. The software will also help improve the monitoring, follow-up and tracking of IA recommendations by management. This is currently being piloted within the Finance directorate and is scheduled to go live across the Council in December 2014, once training has been provided to the relevant Council staff.

2.3 Also in this quarter, IA has completed the first tranche of risk based thematic school reviews. Our reflections on the new approach to IA coverage of Hillingdon schools is that it has generally been very well received by the schools we have visited, as well as the rest of the Hillingdon schools who we have shared the final report with. Highlighted at Appendix A, our review of Schools' recruitment procedures raised **23** recommendations (including **6 HIGH** risk recommendations), as well as **6 Notable Practices**. The findings from this work identified significant weaknesses in some Schools' recruitment procedures.

2.4   Linked to this, a major piece of work for IA over the last six months has been an assurance review at Chantry School. This audit has been recently finalised and as previously advised we have issued a **NO** assurance opinion. The School's governance arrangements were a major cause for concern during our testing and there was a significant failure by the previous Governing Body and Headteacher to manage the School's budget effectively. However, during the course of the audit the Interim Executive Board has driven forward major improvements in the School's governance arrangements including the financial control framework. Nevertheless, it is vitally important that the Council's relevant services continue to support Chantry School over the coming months, as it seeks to implement a new leadership team. Further details on this audit can be found in section 3 of this report (para ref 3.1.4).

2.5   The HIA does have some concern at the disproportionate amount of time IA continues to need to spend on Hillingdon schools, given the other significant risks the Council is exposed to. In response to this, IA will be proactively working with schools directly as well as the Council's range of Schools' services, to try and help develop a better level of consistency at Hillingdon schools in terms of the strength of their governance arrangements. It is against this backdrop that the IA service needs to continue to achieve efficiencies in the time taken to carry out audits. We also need to improve as a service at consistently delivering value added audits in a timely manner. However, the HIA is confident that once the new audit software is fully embedded it will increase efficiency in the service and further reduce slippage in the delivery of the IA Plan.

2.6   During this quarter we also finalised our 2013/14 assurance review of the Council's corporate Anti-fraud and Anti-corruption arrangements. This **LIMITED** assurance report was previously reported to CMT and the Audit Committee as part of the Quarter 1 IA Progress Report in July 2014. Further details of the IA work carried out in the quarter two period are included in section 3 of this report.

3. Analysis of Internal Audit Activity in 2014/15 Quarter 2

3.1   2014/15 Internal Audit Assurance Work

3.1.1   All of the IA assurance reviews carried out in the 2014/15 quarter two period are individually listed at Appendix A. It details the assurance levels achieved (in accordance with the assurance level definitions outlined at Appendix C) and provides an analysis of recommendations made (in accordance with the recommendation risk categories outlined at Appendix D).

3.1.2   Good progress has been made with the quarterly allocation of the IA Plan with **5%** at planning stage, **41%** at fieldwork/ testing stage and **54%** at reporting stage. IA performance in relation to timely delivery of the IA Plan has continued to **improve for the third quarter in a row**, although timely delivery of the 2014/15 IA Plan remains a challenge for the IA service and the Council.

3.1.3   Since the last Audit Committee meeting on 30 July 2014, **four** 2014/15 IA assurance reviews have been completed as final reports (**75%** of them in relation to schools) as highlighted in the table below:

Table 1 - 2014/15 IA Assurance audits finalised since the last Audit Committee

IA Ref.	IA Assurance Review	Assurance Opinion
A1	Schools - Recruitment Procedures	**REASONABLE** Assurance
A9	Schools - Budgetary Control	**REASONABLE** Assurance
A19	Software Licensing	**REASONABLE** Assurance
A36	Chantry School	**NO** Assurance

3.1.4   There were no 2014/15 **LIMITED** assurance opinions issued by IA this quarter, however there was one **NO** assurance opinion issued, which was in relation to **Chantry School**. This review has been a major piece of work for IA over the last 6 months, involving a huge amount of IA resource, working alongside the Interim Executive Board (IEB) of Chantry School.

3.1.5   As detailed at Appendix A, we issued the final report for this audit on 3 September 2014 and raised **26** recommendations including **15 HIGH** risk recommendations. As part of this review we found major control weaknesses surrounding the School's governance arrangements, financial management processes, personnel procedures (including recruitment) and ICT arrangements (including data security). However, CMT and the School's IEB have responded positively to the IA findings and the vast majority of the improvement action required has already been implemented. In fact, the IEB have made great strides in improving the School's governance arrangements and the direction of travel for the School is now very positive. Whilst an IA follow-up review of Chantry School is planned soon, it is important that the Council's Education service, Schools' Finance and Governors Support services continues to support the School over the coming months as it seeks to implement a new leadership team.

3.1.6   In addition, Appendix A highlights that as at 15 September 2014 there are an additional **16** IA assurance reviews in progress, **5** of which are at draft report stage. Whilst we are on track to complete all of these audits over the coming weeks, there remains a significant challenge ahead for the IA service and the Council to ensure timely completion of the 2014/15 IA Plan. The assurance level for each of these **16** reviews will be confirmed at final report stage and reported to CMT and the Audit Committee as part of the Quarter 3 IA Progress Report. The HIA will also provide an oral update to the Audit Committee at its meeting on 23 September 2014.

3.2   2014/15 Internal Audit Consultancy Work

3.2.1   IA continues to undertake a variety of consultancy work from the contingency allocation within the IA Plan. Any revisions to the planned programme of IA work are discussed by IA with the relevant senior managers. The consultancy coverage includes IA staff attending project groups, whilst ensuring they are clear about whether they are attending in an assurance or advisory capacity. This type of approach is helping increase IA's knowledge of corporate developments which feeds into the risk based deployment of IA resource on assurance work. Also, participation in project/ working groups is helping individual IA staff develop, whilst at the same time increasing the value IA provides to the Council. There is also scope to ensure that any work IA carries out is more closely aligned to the transformation work which continues to be carried out across the Council.

3.2.2   During quarter two, IA was involved in a range of advisory work including active involvement in a number of the Council's working groups. Attached at Appendix A is the list of 2014/15 consultancy requests and advisory work carried out. As detailed at Appendix A, we also conducted **two** specific pieces of consultancy and **one** piece of grant verification work this quarter. Due to the nature of consultancy work, we do not provide an assurance opinion or formal recommendations for management action. Whilst the methodology of our consultancy work is still under development, as part of our advisory reports we do provide specific suggestions for senior management to consider. Table 2 below highlights the consultancy reviews finalised since the last Audit Committee meeting on 30 July 2014:

Table 2 - Consultancy work completed since the last Audit Committee

IA Ref.	Consultancy Review Area
C3	Standby Payments (IA Memo in progress)
C6	Ruislip High School
GC4	Troubled Families Grant (for Quarter 2)

3.2.3   As part of the Standby Payments review we provided advice to the Employee Relations Manager to help establish a robust control framework. The IA consultancy review of Ruislip High School was in relation to the School's ICT inventory processes and related controls. This piece of work has been well received by management at the school. As an Academy School, Ruislip High has been invoiced for the total IA time taken in relation to this piece of work.

3.3   Follow-up of Previous Internal Audit Recommendations

3.3.1   IA continues to monitor all **HIGH** and **MEDIUM** risk recommendations raised through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management. IA does not follow-up **LOW** risk IA recommendations as they tend to be minor risks i.e. compliance with best practice, or issues that have a minimal impact on a Service's reputation i.e. adherence to local procedures. It will also take a disproportionate amount of time for IA to robustly follow-up **LOW** risk recommendations.

3.3.2   The implementation of recommendations raised by IA continues to be monitored solely by one member of the IA team. Having this single point of contact for this area of work allows the rest of the IA team to focus on delivery of the IA Plan and also ensures that organisationally IA has a more consistent and streamlined approach to the process of following-up IA recommendations. This approach has achieved extremely positive results for the Council's overall control environment, with the vast majority of recommendations now promptly implemented by management.

3.3.3   The focus of the quarter two IA work on follow-up has been on **all** the outstanding **HIGH** and **MEDIUM** risk recommendations due for implementation. Including some IA recommendations raised this quarter, there were **451** **HIGH** and **MEDIUM** risk IA recommendations that were due to have been implemented by 31 August 2014. The table below summarises the status of all **HIGH** and **MEDIUM** risk IA recommendations due for implementation:

Recommendation Status as at 31 August 2014	HIGH		MEDIUM		TOTAL
	12/13	**13/14**	**12/13**	**13/14**	
Total No. of IA recommendations raised that are due for implementation	75	23	223	127	**451**
No. of recommendations confirmed by management as implemented	75	22	221	126	**447**
No. of recommendations outstanding	0	1	2	1	**4**
% of recommendations outstanding	**0%**	**4%**	**1%**	**1%**	**1%**

3.3.4   Positive management action has been proposed to address all **150** of the 2013/14 **HIGH** & **MEDIUM** risk IA recommendations raised. One **MEDIUM** risk recommendation was risk accepted by management with no action proposed at present. This related to the current HR/Payroll system which is due to be replaced in 2015 and therefore management, whilst in agreement with the recommendation, deemed that further development of the current system would not be cost effective. However, IA agrees with the recommendation action proposed and this will be further considered as part of the new HR/Payroll system implementation.

3.3.5   Given that we are taking a risk based IA approach at the Council, it is also a positive outcome that less than **22%** of the total recommendations raised due for implementation were **HIGH** risk. In addition, only **1%** of **HIGH** risk recommendations and **1%** of **MEDIUM** risk recommendations remain outstanding as at 31 August 2014. The HIA believes this success is due to the more collaborative approach that IA is taking in working with management to help achieve positive outcomes for the Council.

3.3.6 **The bar chart below** highlights the results of our follow-up work on all the 2012/13 and 2013/14 outstanding **HIGH** and **MEDIUM** risk IA recommendations due for implementation as at 31 August 2014:
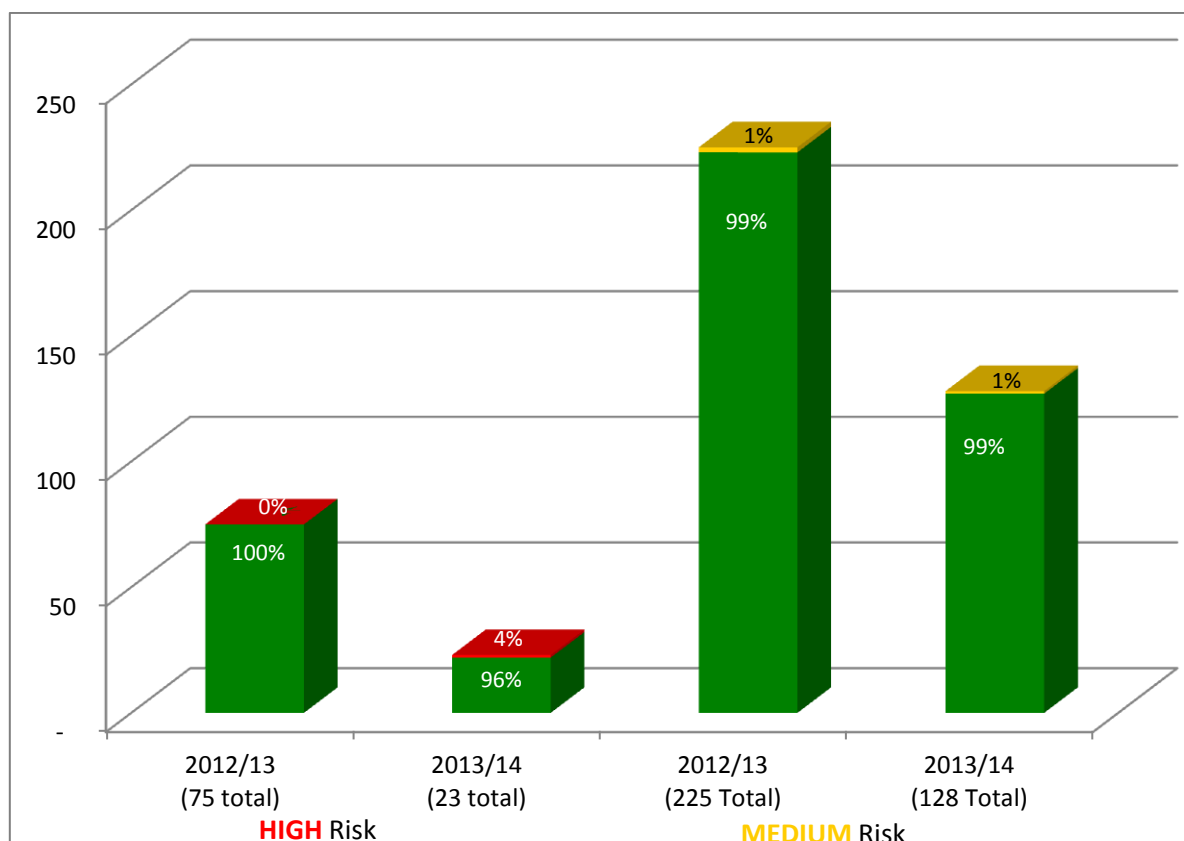
3.3.7 The IA software once fully embedded will further enhance the IA follow-up work through a dedicated follow-up module within the software. This is currently being piloted within the Finance directorate and is scheduled to go live across the Council in December 2014, once training has been provided to the relevant Council staff. This enhanced process will allow IA and Senior Management to more easily monitor the progress and status of all IA recommendations and management action plans established. The new process will also place greater responsibility on management, as owners of the risks, to provide progress updates on the recommendations.

3.3.8 Overall, the results of our follow-up work demonstrate a positive outcome for the Council regarding the management action taken in response to IA recommendations raised. Nevertheless, there is still more work for IA to do in terms of working with management to improve the timely implementation of management action to mitigate **HIGH** and **MEDIUM** risks.

3.4   Other Internal Audit Work in Quarter 2

3.4.1 During the quarter, IA has assisted the Corporate Fraud Investigation Manager (CFIM) with a fact finding investigation into the Council's previous gas compliance contractor. The CFIM's draft report for this investigation was recently issued and is currently being considered by the relevant Corporate Director.

3.4.2 Within this quarter we have also commenced work on delivering the IA Plan for West London Waste Authority (WLWA). The annual IA Plan for WLWA consists of approximately 30 days per year for the next 3 years. Winning this tender via a competitive bidding process is a positive step for IA which will provide additional revenue to the Council as well as significant experience to the IA team. We are confident that the delivery of these days, will not affect the quality of delivery of our core responsibilities to Hillingdon Council, CMT and the Audit Committee.

3.5   Internal Audit Performance

3.5.1   The new IA Key Performance Indicators (KPIs) previously agreed with CMT and the Audit Committee are more meaningful and will provide a significant challenge to IA as a service. They measure the quality, efficiency and effectiveness of the IA service and thus assist us in providing an added value assurance and consulting service to our stakeholders. As at 15 September 2014, actual cumulative IA performance against the new KPIs is highlighted below:

IA KPI	Description	Target Performance	Actual Performance	RAG Status
KPI 1	**HIGH** risk IA recommendations where positive management action is proposed	98%	100%	**GREEN**
KPI 2	**MEDIUM** risk IA recommendations where positive management action is proposed	95%	100%	**GREEN**
KPI 3	**LOW** risk IA recommendations where positive management action is proposed	90%	97%	**GREEN**
KPI 4	**HIGH** risk IA recommendations where management action is taken within agreed timescale	90%	95%	**GREEN**
KPI 5	**MEDIUM** risk IA recommendations where management action is taken within agreed timescale	75%	94%	**GREEN**
KPI 6	Percentage of IA Plan delivered to **draft report** stage by 31 March	90%	88%	**AMBER**
KPI 7	Percentage of IA Plan delivered to **final report** stage by 31 March	80%	78%	**AMBER**
KPI 8	Percentage of draft reports issued as a final report within 15 working days	90%	100%	**GREEN**
KPI 9	Client Satisfaction Rating	80%	91%	**GREEN**
KPI 10	IA work fully compliant with the **PSIAS** and **IIA Code of Ethics**	100%	100%	**GREEN**

3.5.2   As at 15 September 2014, only four 2014/15 IA assurance reports have been issued as final reports and as a result it is relatively early days in terms of being able to fully report on actual performance against the new suite of IA KPIs. The slight delay in finalising a number of quarter one IA reports also explains why actual performance against IA KPI 6 and KPI 7 (as highlighted above) is not quite in line with the target set. However the HIA remains confident that all IA KPIs will be achieved for the 2014/15 year once the range of operational and strategic changes being implemented across the IA service become fully embedded.

3.5.3   We have also received a range of client comments on IA performance this quarter, an example of which is highlighted below:

<u>Chantry School</u>

- *"Muir and his team were totally professional throughout. The Audit gave the IEB and staff a very clear perspective on the changes in practice that were required, whilst recognising that the staff in place had done the best they could with little or no direction from the previous leadership team at the School. It was a pleasure working with them".*

4. Forward Look

4.1 Looking ahead to quarter three, four members of the IA team have recently left the Council, so IA is now in the process of a major recruitment drive. Whilst this process will generate significant cash savings for the Council, the key purpose of the IA restructure is to improve the skills mix across the team and increase the overall efficiency and effectiveness of the IA service.

4.2 Linked to this, an updated IA Strategy is currently being devised in consultation with a range of key stakeholders which will include the new Independent Chair of the Audit Committee. The IA Strategy will have a five-year time horizon and have a road map based on the Council's overall strategy, changing stakeholder expectations, regulatory requirements and the role of the other risk and assurance functions across the Council.

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

Muir Laurie ACCA, CMIIA
Head of Internal Audit

15 September 2014

APPENDIX A

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15

Key:	
IA = Internal Audit	**NP** = Notable Practice
H = High Risk	**CFQ** = Client Feedback Questionnaire
M = Medium Risk	
L = Low Risk	**ToR** = Terms of Reference

2014/15 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 15 September 2014	Assurance Level	Risk Rating				CFQ Received?
				H	**M**	**L**	**NP**	
A14	Software Licensing	Final report issued 30 July 2014	Reasonable	-	1	2	-	✓
A1	Schools - Recruitment Procedures	Final report issued 3 September 2014	Reasonable	6	17	-	6	In progress
A36	Chantry School	Final report issued 3 September 2014	No	15	7	4	-	✓
A9	Schools - Budgetary Control	Final report issued 5 September 2014	Reasonable	-	5	-	7	In progress
A16	Planning Applications - Community Infrastructure Levy	Draft report issued 29 August 2014						
A15	Members' Declarations of Interests	Draft report issued 15 September 2014						
A10	Business Continuity	Draft report issued 15 September 2014						
A7	Housing - Temporary Accommodation	Testing completed; draft report in progress						
A11	Performance Management	Testing completed; draft report in progress						
A13	Northgate - Contract Management	Testing completed; draft report in progress						
A24a	Learning Disability Residential Placements	Testing in progress						
A24b	Mental Health Residential Placements	Testing in progress						
	Total **Number** of IA Recommendations Raised in 2014/15			21	30	6	13	
	Total **%** of IA Recommendations Raised in 2014/15			37	53	10	-	

APPENDIX A (cont'd)

2014/15 IA Assurance Reviews (cont'd):

IA Ref.	IA Review Area	Status as at 15 September 2014	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
A18	Schools - Payroll Arrangements	ToR issued 10 July 2014; testing in progress						
A3	Health Contributions / CCG (Adult Services)	ToR issued 15 July 2014; testing in progress						
A19	Leisure Services - Contract Management	ToR issued 28 July 2014; testing in progress						
A5	IAS Data Quality (Adult Services)	ToR issued 13 August 2014; testing in progress						
A21	Data Protection and FoI	ToR issued 15 August 2014; testing in progress						
A20	Capita Income ICT System	ToR currently being drafted by Baker Tilly						
CF1	Payroll	ToR issued 15 September 2014; testing in progress						
CF2	Asset Register	ToR issued 15 September 2014; testing in progress						
		Total Number of IA Recommendations Raised in 2014/15		21	30	6	13	
		Total % of IA Recommendations Raised in 2014/15		37	53	10	-	

APPENDIX A (cont'd)

2014/15 IA Consultancy Reviews:

IA Ref.	IA Review Area	Status as at 15 September 2014
C1	Domestic Violence Homelessness Process	Final IA consultancy memo issued 11 April 2014
C2	Purchase Requisitions - Chargeable Reactive Maintenance Works under £250	Final IA consultancy memo issued 15 April 2014
C4	Cemeteries Process	Final IA consultancy memo issued 18 June 2014
C6	Ruislip High School	Final IA consultancy memo issued 5 August 2014
C3	Standby Payments	IA Consultancy Memo currently being drafted
C5	Planning Applications - prior approvals and low fee income generation	ToR issued 2 June 2014; fieldwork in progress
C7	Primary Care Contracts	ToR issued 8 August 2014; fieldwork in progress
C8	Hillingdon in Bloom Gift Vouchers content and terms and conditions	Verbal consultancy advice provided
C9	Charville Children's Home – security of key safes	Verbal consultancy advice provided

2014/15 IA Verification Reviews:

IA Ref.	IA Review Area	Status as at 15 September 2014
GC1	Troubled Families Grant – Quarter 1	IA memo issued 29 April 2014
GC2	Adoption Reform Grant	IA memo issued 27 May 2014
GC3	Housing Benefits Subsidy Grant	Testing in progress
GC4	Troubled Families Grant – Quarter 2	IA memo issued 5 August 2014

APPENDIX B

REVISIONS TO THE 2014/15 INTERNAL AUDIT PLAN

IA reviews added to the 2014/15 Operational IA Plan for Quarter 2

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
A24a	Mental Health Residential Placements	Assurance	Tony Zaman, Director of Adult Services	Further to a liaison meeting with the Director it was agreed to bring this review forward from Q3. Following initial discussions held regarding the planned review of Mental Health and Learning Disabilities Residential Placements (IA Ref. A24) it was established that whilst these areas overlap, it would be more beneficial to undertake individual audits.
A24b	Learning Disabilities Residential Placements	Assurance	Tony Zaman, Director of Adult Services	
A37	Planning Applications and Appeals for Major Projects	Assurance	James Rodger, Head of Planning, Green Spaces and Culture	As part of initial discussions on the planning application and appeals audit, we received a request to split this audit into three separate pieces of work, two assurance audits and one consultancy. This assurance piece (IA Ref. A37) will review the planning applications and appeals process for major projects.
C7	Primary Care Contracts	Consultancy	Jean Palmer, Deputy Chief Executive and Corporate Director of Residents Services	Request received from the Interim Director of Public Health, following IA attendance at the Public Health Steering Group, to undertake a review of the process of developing primary care contracts.
C8	Hillingdon in Bloom gift voucher content, terms and conditions	Consultancy	Paul Richards, Green Spaces, Sport and Leisure Senior Manager	Advice sought on the content, terms and conditions of gift vouchers for Rural Activities Garden Centre in association with 'Hillingdon in Bloom' 2014.
GC3	Troubled Families Grant	Grant Claim Verification	Tony Zaman, Interim Director of Children & Young People's Service	The Council receives a payment by results grant from the Department for Communities and Local Government (DCLG) for each identified 'turned around' troubled family. IA checked that the Q2 grant claim was only made for families where there was sufficient evidence of improvement in the last six months as per the payment by results criteria.

APPENDIX B (cont'd)

REVISIONS TO THE 2014/15 INTERNAL AUDIT PLAN (cont'd)

IA reviews deferred from the 2014/15 Operational IA Plan:

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Original Timing	Scope / Rationale
A2	Health Contributions / CCG (C&YP Services)	Assurance	Tony Zaman, Interim Director of Children & Young People's Service	Quarter 1	At the request of the Director, this has now been deferred to Quarter 3 due to staffing and operational pressures.
A4	ICS Data Quality (C&YP Services)	Assurance	Tony Zaman, Interim Director of Children & Young People's Service	Quarter 1	At the request of the Director, this has now been deferred to Quarter 3 due to staffing and operational pressures.
A6	Ofsted Improvement Action Plan	Assurance	Tony Zaman, Interim Director of Children & Young People's Service	Quarter 1	At the request of the Director, this has now been deferred to Quarter 3 due to staffing and operational pressures.
A8	Corporate Construction	Assurance	Jean Palmer, Deputy Chief Executive and Corporate Director of Residents Services	Quarter 1	At the request of the Director this audit has been deferred to Quarter 4 to allow for the review to provide assurance that the control framework is effective following a period of change and restructure.
A12	Mortuary	Assurance	Jean Palmer, Deputy Chief Executive and Corporate Director of Residents Services	Quarter 1	At the request of the Civil Protection Manager this has been deferred to January 2015 due to continued staffing and operational pressures.
A17	Housing Repairs	Assurance	Jean Palmer, Deputy Chief Executive and Corporate Director of Residents Services	Quarter 2	At the request of the Director this audit has been deferred to Quarter 4 to allow for the review to provide assurance that the control framework is effective following a period of change and restructure.
A37	Planning Applications Appeals for Major Projects	Assurance	Jean Palmer, Deputy Chief Executive and Corporate Director of Residents Services	Quarter 2	At the request of the Head of Planning, Green Spaces and Culture we have deferred this audit until Quarter 4 due to two other IA reviews currently ongoing in the same service area.

APPENDIX C

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

Assurance Level	IA 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 D

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

Risk	IA 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**.