

Audit Committee

23rd March 2023



Title	Refreshed Internal Audit Assurance Opinions
Purpose of the report	To note
Report Author	Internal Audit Manager, Punita Talwar
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	Not Applicable
Corporate Priority	All Corporate Priorities Community Affordable housing Recovery Environment Service delivery
Recommendations	Committee is asked to: Note and endorse the refreshed assurance opinions which have been adopted from 2023.
Reason for Recommendation	Continuous Improvement for Internal Audit in considering recommended best practice from professional institutes such as Chartered Institute of Public Finance and Accountancy (CIPFA). These opinions support conclusions on assurance work undertaken by the Internal Audit Service, in the provision of independent assurance to the Audit Committee and Corporate management team. Assurance opinions granted on individual assignments will feed into the Internal Audit Manager's overall annual audit opinion on the adequacy of the authority's internal control environment, governance, and risk management arrangements. This subsequently forms part of the Annual Governance Statement.

1. Summary of the report

- 1.1 The professional practice of Internal Audit within the public sector is governed by the mandatory Public Sector Internal Audit Standards (PSIAS). Whilst these refer to the requirement for an engagement opinion at the end of each audit assignment, they do not stipulate a specific model or terminology to apply. It is acknowledged that there are some variations across the public sector in terms of assurance opinions used.

- 1.2 This report seeks to inform the Audit Committee of a change to the assurance opinion terminology adopted by Spelthorne’s Internal Audit Service, in line with recommended best practice from CIPFA. Assurance opinions issued by Internal Audit support overall conclusions on assurance work undertaken and indicate the level of assurance that can be provided to the Audit Committee and Management Team in any given area (based on the assessment and professional judgement of Internal Audit).
- 1.3 Assurance opinions for individual assignments feed into higher level assurance reporting i.e., the Internal Audit Manager’s annual audit opinion on the adequacy of the authority’s internal control environment, governance, and risk management arrangements. The Internal Audit Manager will also take into account wider areas of insight in forming her overall opinion and this will be referred to in more detail in the annual audit report for 2022/23 (backward looking) scheduled for the July meeting of the Audit Committee. The annual audit opinion subsequently forms part of the Annual Governance Statement (a key assurance statement for the Council).
- 2. Key issues**
- 2.1 As part of Continuous Improvement, the Internal Audit Manager has introduced refreshed assurance opinions when concluding planned internal audit assignments. This refreshed model has started to take effect recently and is set out below. Each opinion level/rating (of which there are four) incorporates ‘assurance’ terminology along with a related description articulating what a particular assurance level represents in terms of governance, risk management and internal control in the achievement of objectives.

Assurance Opinion – Definition (Refreshed Model)

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.

- 2.2 Whilst there are no mandatory requirements for Internal Audit Services regarding the range of assurance opinion levels applied or related descriptions articulating what a particular assurance level represents, it is considered appropriate and timely to implement CIPFA'S model of good practice which promotes the use of four levels. The terminology presented is simple and straightforward in communicating overall conclusions and engaging with stakeholders (Audit Committee, Corporate Management Team, Senior Management, External Audit). Notably there are some variations around opinions that are in use across the public sector. CIPFA's recommended approach/model was launched with a view to encouraging greater standardization and consistency over time across local government and the public sector. Furthermore, it is envisaged that the new descriptions will help to reinforce at the Council the level of objective assurance provision regarding systems of internal control, risk management and governance deemed to be appropriate for any given auditable engagement, based on professional audit opinion. We have already received positive feedback from Management Team and the Group Head of Corporate Governance in refreshing our approach, as well as the Chair and Vice Chair of the Audit Committee.
- 2.3 Previous assurance opinions and related descriptions had become in need of review to refocus the attention around 'assurance provision' as reinforced in every rating level. For completeness we also highlight the four opinion levels and related descriptions applied previously under the former model so that Audit Committee can appreciate the revisions made and being adopted. These are set out below:

Assurance Opinion – Definition (Prior model)

Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	A few specific control weaknesses were noted; generally, however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvement Needed	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

- 2.4 The revised assurance opinion terminology set out at paragraph 2.1 has taken effect as it was considered timely to coincide with the start of the current calendar year. It is being used in internal audit reports from January 2023 and is proposed to also be used in the annual audit opinion as it seems logical to do so, making some minor revisions at that time to reflect the fact

that the assurance opinion will relate to the organisation as a whole rather than an individual auditable area. The annual audit opinion will form part of the annual audit report and annual governance statement for 2022/23. This ensures consistent approaches are applied in line with best practice from professional audit and accountancy bodies.

3. Options analysis and proposal

- 3.1 Option 1. (Preferred) For the Audit Committee to note and endorse the refreshed assurance opinions set out in this report, in line with recommended professional best practice from the Chartered Institute of Public Finance and Accountancy (CIPFA). This supports continuous improvement. Or:

Option 2: To apply former or alternative assurance opinions which whilst deemed acceptable (as there is no mandatory requirement to use certain terminology), does not keep in line with recommended best practice.

4. Financial implications

- 4.1 There are none.

5. Risk considerations

- 5.1 Risk: Lack of buy-in to the refreshed model. Mitigation: The Internal Audit Manager has communicated the changes to the assurance opinion levels and related descriptions, with rationale in seeking to ensure continued buy-in around the change from senior management, Management Team and the Audit Committee.
- 5.2 Risk: Lack of clarity around assurance provision under the new model. Mitigation: The new model arguably provides greater clarity around levels of assurance provision granted for any auditable area based on professional judgement of Internal Audit. It is also supported with four colour ratings to enhance visual presentation, ranging from green to red, with green representing the most favourable assurance opinion (substantial assurance) whilst red represents the most adverse opinion (no assurance).

6. Procurement considerations

- 6.1 There are none.

7. Legal considerations

- 7.1 The Public Sector Internal Audit Standards (PSIAS) are mandatory further to the Accounts and Audit (England) Regulations 2011.
- 7.2 Whilst the refreshed assurance opinion model is not a mandatory requirement it does reflect best practice from the Chartered Institute of Public Finance and Accountancy (CIPFA).

8. Other considerations

- 8.1 The refreshed assurance opinion model was introduced from January 2023. Internal audit reporting coincides with the financial year rather than the calendar year. The annual audit report for 2022/23 (due to be reported to Audit Committee in July 2023) is therefore envisaged to include both prior and current model assurance opinions issued when concluding internal audit assignments for 2022/23. For purposes of consistency, we will also include the equivalent opinion under the new model. For example, where an audit assignment was granted a 'Some Improvement Needed' rating under the prior

model this will be referred to as 'Reasonable Assurance', whilst a 'Major Improvement Needed' rating under the prior model will be referred to as 'Limited Assurance'.

9. Equality and Diversity

9.1 Any future audit assignments on Equality, Diversity and Inclusivity will include an assurance opinion to support audit conclusions drawn.

10. Sustainability/Climate Change Implications

10.1 The forthcoming audit plan for 2023/24 includes an audit assignment on Sustainability and Climate Change, for which an assurance opinion will be provided to support audit conclusions drawn.

11. Timetable for implementation

11.1 The revised assurance opinion levels and corresponding descriptions/definitions has taken effect as it was considered timely to coincide with the current calendar year. The model is being used in internal audit reports from January 2023 and is proposed to be used in the annual audit opinion for 2022/23 for consistency.

12. Contact

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Background papers: CIPFA Professional insight.

Appendices: There are none.