

## **RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

### **MUNICIPAL YEAR 2014/15**

**COMMITTEE:**

**AUDIT COMMITTEE**

**30<sup>th</sup> October 2014**

**Item No. 3**

**Assigning priority ratings to  
recommendations and determining audit  
opinions**

**REPORT OF:-**

**GROUP DIRECTOR, CORPORATE SERVICES**

**Author: Marc Crumbie (Operational Audit Manager)**

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**1. PURPOSE OF THE REPORT**

This report provides Members with a copy of the framework used by Internal Audit to assign priority ratings to recommendations and determine the 'overall opinion' for each audit.

**2. RECOMMENDATIONS**

It is recommended that Members:

- 2.1 Note the contents of this Report.
- 2.2 Consider what comments, if any, they wish to make.

**3. BACKGROUND**

- 3.1 At the Audit Committee held on 15<sup>th</sup> September 2014, Members sought clarity around how the Internal Audit Service assigns priority ratings to recommendations made and also how overall audit opinions are determined.
- 3.2 At the start of the 2014/15 financial year, the Operational Audit Manager reviewed the wording of the overall opinions in use and also the framework used by auditors when considering the individual priority ratings assigned to recommendations made.
- 3.3 Appendix A provides Audit Committee with the framework used by the Internal Audit Service.

#### **4. SUMMARY**

- 4.1 The methodology attached at Appendix A provides the Council's Internal Audit Team with guidance on how to prioritise recommendations and determine overall audit opinions. The aim is to ensure consistency across the team and importantly provide justification for the priority ratings and audit opinions reported.
- 4.2 In addition to the guidance, where there is doubt on the part of the auditor around the priority rating to be assigned to a particular recommendation or the overall opinion, discussions take place with the Operational Audit Manager and team members to ensure the outcome is consistent, fair and evidence based.

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**LOCAL GOVERNMENT ACT, 1972**  
**as amended by**  
**THE ACCESS TO INFORMATION ACT, 1985**  
**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**  
**LIST OF BACKGROUND PAPERS**  
**AUDIT COMMITTEE**  
**30<sup>th</sup> October 2014**

**Report of the Group Director for Corporate Services**

Author: Marc Crumbie (Operational Audit Manager).

| <b>Item</b>  | <b>File Ref:</b> |
|--|------------------|
| 3. Assigning priority ratings to recommendations and determining audit opinions. | IA / MC          |
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**APPENDIX A**

Individual recommendations are allocated a rating in accordance with the following matrix:

| Rating | Criteria   |
|--------|--|
| High   | <p>This is a high priority issue; immediate attention is required. This is a serious internal control or risk management issue that if not mitigated, may, with a high degree of certainty, lead to:</p> <ul style="list-style-type: none"> <li>• Substantial losses, possibly in conjunction with other weaknesses in the control framework or the organisational entity or process being audited.</li> <li>• Serious violation of Council strategies, policies, or values.</li> <li>• Serious reputation damage.</li> <li>• Significant adverse regulatory impact, such as loss of operating licenses or material fines.</li> </ul> <p>Themes to consider:</p> <ul style="list-style-type: none"> <li>• Policy/Procedure does not exist for significant Council processes.</li> <li>• Preventive, detective and mitigating controls do not exist.</li> <li>• Council reputation or financial status is at risk.</li> <li>• Council is not in compliance with laws and regulations.</li> <li>• Fraud or theft is detected.</li> </ul> |
| Medium | <p>This is a medium priority issue; timely attention is warranted. This is an internal control or risk management issue that could lead to:</p> <ul style="list-style-type: none"> <li>• Financial losses.</li> <li>• Loss of controls within the organisational entity or process being audited.</li> <li>• Reputation damage.</li> <li>• Adverse regulatory impact, such as public sanctions or immaterial fines.</li> </ul> <p>Themes to consider:</p> <ul style="list-style-type: none"> <li>• Policy exists but adherence is inconsistent.</li> <li>• Preventive and detective controls do not exist, but mitigating controls exist.</li> <li>• Council's compliance with laws &amp; regulations requires additional evaluation &amp; review.</li> <li>• Possibility of inappropriate activity.</li> </ul>  |
| Low    | <p>This is a low priority issue, routine attention is warranted. This is an internal control or risk management issue, the solution to which may lead to improvement in the quality and/or efficiency of the organisational entity or process being audited.</p>   |

Themes to consider:

- Policy exists but was not adhered to on an exception basis.
- Preventive controls do not exist, but detective and mitigating controls exist.
- Remote possibility of inappropriate activity.

### **Audit Opinion - Methodology**

After audit results have been ranked based upon the criteria and analysis above, the number of audit findings together with the ratings are assessed to determine the overall opinion to be issued. The opinion methodology is summarised as follows:

- **Effective.**
- **Effective with Opportunity for Improvement.**
- **Insufficient & requires improvement.**
- **Not adequate.**

**Note: It is important to place the opinion within the context of the scope of the audit review.**

|  |  |
|--|--|
| <b><i>Effective</i></b>                                  | <ul style="list-style-type: none"> <li>• Control environment is adequate</li> <li>• No findings are noted or a very small number of 'low' recommendations.</li> <li>• The control environment appears sound</li> <li>• All high level risks adequately controlled</li> </ul>                           |
| <b><i>Effective with opportunity for improvement</i></b> | <ul style="list-style-type: none"> <li>• Control environment is adequate but some exceptions exist</li> <li>• Some control weaknesses and/or opportunities for improvement observed</li> <li>• The control environment appears otherwise sound.</li> </ul>   |
| <b><i>Insufficient and requires improvement</i></b>      | <ul style="list-style-type: none"> <li>• Some high level risks are not adequately controlled</li> <li>• Immediate safety and soundness are not threatened, but the control environment requires improvement</li> <li>• There may be a risk of exposure to fraud or security vulnerabilities</li> </ul> |
| <b><i>Not Adequate</i></b>                               | <ul style="list-style-type: none"> <li>• Control environment is not adequate and below standard with significant exceptions</li> <li>• Lack of attention could lead to significant losses</li> <li>• The control environment is considered unsound</li> </ul>  |

