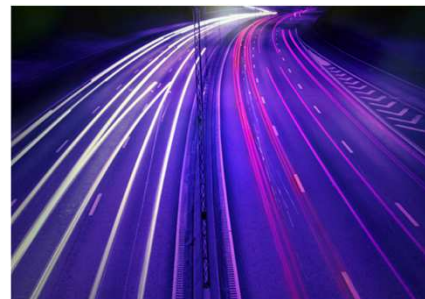
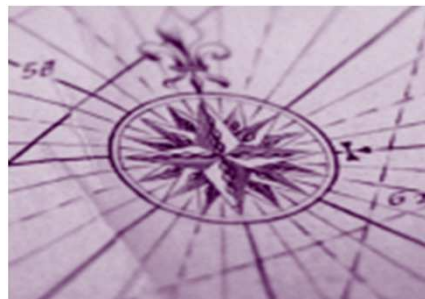
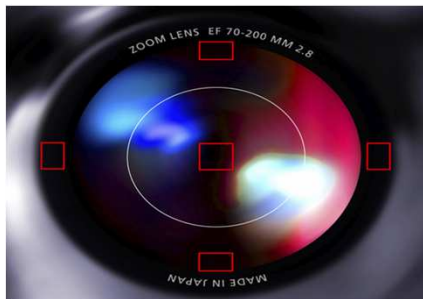




Medway and Gravesham Councils Internal Audit Shared Service

External Quality Assessment February 2018



Purpose of assignment

The Internal Audit service for Medway and Gravesham Councils is provided by a shared services team based on the two sites under the leadership of James Larkin as Head of Internal Audit & Counter Fraud Shared Service (HoIA). The team have responded to the introduction of the Public Sector Internal Audit Standards and have increasingly worked to a common methodology for delivery of internal audit services since becoming a managed service. Performance against the standards has been self-assessed on an annual basis and appropriate reports provided to member authority committee meetings.

The purpose of this review is to provide an external and independent quality review in accordance with standard 1312. We see this as not merely a compliance exercise and have also highlighted aspects of the service that we regard as best practice as well as summarised our thoughts as to where further development can be made to enhance the value of the service being provided.

The team of twelve staff (which has two current vacancies) has significant experience, with a range of relevant qualifications, including PIIA, PINS, IIA and AAT. It has been recognised that there is a need to ensure a consistent approach to delivering assurance, as this is beneficial regarding communication with clients, working practices, reporting and therefore associated supervision and training needs. At a corporate level, this is established through the presence of an Internal Audit Charter, which effectively defines the standards to which the managed service will carry out its work and is supported by a framework of standard templates and accepted processes to which the internal audit team work consistently.

The report reflects our opinion regarding the services currently provided as measured against the Public Sector Internal Audit Standards (PSIAS), which we trust will be of benefit to individual staff, the team and the local authority serviced by the Internal Audit Service. Our observations and recommendations have been summarised within categories relating to the Resources, Competency, and Delivery and the team graded as being at one of three stages within each category, grades are related to our opinion as to whether the service is developing, established or excelling.

The outcome has been benchmarked against other provision in both the sector and the wider industry which shows that the team compares favourably with regard to its peers.

The internal audit service has responded to the introduction of the managed service arrangement, in which the team are moving towards a common approach that is consistent with the PSIAS.

The significant change within the PSIAS reflects the focus on a requirement to implement a risk based internal audit approach to all aspects of internal audit work – significantly in relation to planning at a strategic and assignment level as well as in reporting. The service does adopt a risk based approach through the development of its own risk assessment at a strategic planning level, at an assignment level through recognition of risk register content and in testing schedules, although further development would be beneficial both in terms of recognising inherent risk as identified within Council risk management systems and in terms of reflecting wider sector risk experience of the internal audit team within audit planning documents and terms of reference.

The Councils have developed risk management frameworks; as a consequence, it would be beneficial for internal audit to increasingly align its processes with those of each Council as this would promote effective communication, structure audit work on ‘what really matters’ and use risk as the basis for reporting. In this respect, we have recommended that future opinions and recommendations relate directly to established risk definitions within each Council.

Increasing transparency within the Council systems regarding the inherent risks being faced and upon those controls in place and assurances available would allow internal audit to clearly define risks and key mitigating controls and therefore provide a robust basis for communication with managers and with other assurance providers.

The internal audit service has benefitted from a period of stability during which staff have remained consistent. The HoIA makes use of external support, when appropriate, to ensure delivery of internal audit assurance needs, particularly in relation to IT audit. A robust internal audit standard has therefore been maintained and delivered using an experienced team. This has allowed the service to demonstrate compliance with the PSIAS.

Nevertheless, with increasing pressures on Council budgets, significant change to service delivery and as a result increasing risk; there is a need for the service to continue to enhance its delivery through greater awareness of the relevance of risk to both the Council and its own approach, in order to ensure that it focuses on the most appropriate areas and as a result demonstrates that it provides a service that effectively contributes towards the achievement of each Council’s objectives.

Compliance with PSIAS

- **Resources**

Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

- **Competency**

Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

- **Delivery**

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

Grading of recommendations

- The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).

Recommendation grading	Explanation
Enhance	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control.
Review	The Internal audit service should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

- In grading our recommendations, we have considered the wider environment within each Council in terms of both the degree of transformation that is currently taking place as well as our assessment of the level of risk maturity that currently exists as these will have a consequence for the conduct of internal audit planning as well as subsequent communication.




Summary of good practice identified within EQA

Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with the Audit Committees	The Charter is comprehensive and establishes an appropriate framework against which internal audit services can be delivered in accordance with the PSIAS.
1312	The service has conducted annual self assessment exercises resulting in an annual development plan which is reported in the HoIA annual report.	Demonstrates a process and commitment to continuous improvement which is considered by Audit Committee
2020	Active engagement at officer and member level	Represents the establishment of a good understanding of key issues through interaction with positive feedback from officers.
2030	The need for appropriate internal audit resources is supported by detailed job profiles	This represents a firm basis for the consideration of the successful delivery of the internal audit plan and the use of support from external providers.
2040	A detailed internal audit manual is in place and cross referenced to PSIAS.	Provides for a consistent methodology, within the service this is delivered through a series of templates within which a high standard of cross referencing between documents is achieved.
2060	Reports are produced using a standard template which is consistently applied. Customer feedback is routinely obtained following conduct of an audit.	Demonstration of a consistent approach for communication which is well received by management and the Audit Committee – customer feedback shows 95% satisfaction.
2300	Audits are performed using an approach which is consistently applied	This supports a view that the internal audit team understand the standard processes, receive supervision and are effectively trained.
2400	Reports are clear and express opinions in a manner that is understood by stakeholders.	Reports are produced on a timely basis, with comprehensive detail of internal audit activity being produced for Audit Committee attention including detailed key performance indicators.





Resources




Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.



	Issue identified	Recommended action
1	Governance – report approval Clearance or reports at draft and final stage requires input of HoIA, which may not be desirable where reports do not contain high risk or contentious issues,	The HoIA should consider delegating responsibility to team leaders in respect of reports that do not contain recommendations attracting a high risk level or a limited assurance opinion. 



	Issue identified	Recommended action
1	<p>Internal Audit Planning</p> <p>Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends at present on an analytical assessment devised by internal audit; rather than reflecting wider risk issues identified by each Council.</p> <p>There should be a direct and identified link between the internal audit plan content discussed with Management and the Audit Committee and the risk based reasoning for inclusion of the assignment in the audit plan. The plan approved should focus on the perceived needs of all parties for independent assurance regarding key policies, procedures, controls and assurances upon which the Council relies.</p> <p>In turn this should drive preparation of the terms of reference for each assignment.</p> <p>The focus for assignments can therefore be shown to directly relate to the value of the 'control risk' and as a result an opinion based upon the robustness of the controls and assurances available to management and each Council.</p>	<p>a. Audit Plans should be constructed through using an audit needs assessment process which achieves the objectives of the service as set out in the Internal Audit Charter. The audit planning process should be designed to reflect the assurance needs of each Council through transparent alignment with the Council wide approach to risk management.</p> <p>The formation of a direct link with the Council's risk register and the key mitigating controls, supported by documented discussions with Chief Officers and other managers would provide an effective risk based basis for future internal audit plans and create increased understanding and ability of members of the Audit Committee to contribute to the assurance agenda.</p> <p>It would be beneficial to secure improvements in the maturity of each Councils risk management frameworks in order to support this initiative.</p> <p>b. The internal audit planning process should identify and document other sources of assurance that are available and upon which each Council can place reliance, and which may if available be formally recorded within the annual HoIA report and subsequently the Governance Statement.</p>

Competency continued

	Issue identified	Recommended action
2	<p>Audit Manual The internal audit manual represents a comprehensive record of the practices to be followed by internal audit staff and aligns with the PSIAS.</p> <p>The significant emphasis of the PSIAS reflects the use of a risk based approach to internal audit work and in this respect it is felt that greater alignment with the risk management policies and appetite of the Council would be beneficial.</p>	<p>a. The internal audit manual should be updated to reflect greater alignment with the risk management policies of the Council.</p> <p>Consideration should be given to amending the internal audit methodology by:</p> <ul style="list-style-type: none"> - Including an initial focus on what are the managements objectives for the area under review in terms of reference; - Changing the focus of each audit from identifying a single risk management objective to identifying and agreeing with management the key risks to which the area under review is exposed. - Identifying, evaluating and testing controls and sources of assurance that demonstrate that each residual risk is as stated within the Council risk management process 
3	<p>Performance and Development Review (PDR) The annual performance review of the Head of Internal Audit Services is to be undertaken by the line manager as S151 Officer at Medway Council in accordance with the approved policy.</p>	<p>The PDR process should be informed by inviting the Chairs of each Audit Committee and the s151 officer at Gravesham Council to provide input to the process.</p> 


	Issue identified	Recommended action
1.	<p>Assignment Planning Terms of reference state a date for intended completion of the assignment. Whilst it is recognised that there are occasions when auditee availability prevents early closure, setting of maximum time frames by which draft and final reports should be completed would assist in timely completion of reports.</p> <p>The team does use a generic timeframe in relation to forward planning on assignments which provides for standard generic times for completion of the stages of an audit. Plan monitoring is undertaken against this backcloth.</p>	<p>a) Audits should be planned and supervised within an agreed timeframe that is specific to each assignment in order to ensure that recommendations are timely. </p> <p>b) Reporting deadlines should be imposed for the time allowed following completion of fieldwork for draft and final reports to be received by management. </p>
2.	<p>Evidence Some inconsistencies were identified during the file review with regard to the structure of folders and the filing of working papers and evidence.</p> <p>Notwithstanding, this point the extent of documentation which is available to support findings is of a high standard.</p>	<p>Internal Audit staff should be reminded of the approved basis for construction of working files and the cross referencing of supporting documentation as this supports the efficiency of the review process. </p>


	Issue identified	Recommended action
3	<p>Supervision Demonstration of effective supervision is necessary in order to both ensure the quality of the review and provide appropriate instruction to staff regarding the delivery of the internal audit methodology.</p> <p>Whilst it is recognised that the staff can consult each other regarding progress on work a common, formal and consistent process should exist in order to demonstrate supervision as each audit progresses.</p>	<p>The service should provide a documented trail of supervision throughout the audit and cross reference to discussions and correspondence by email.</p> <p>It is thought that a record of key interventions could be included as review points within the Controls Evaluation Matrix (CEM) template as a diary of progress?</p> 
4	<p>Closing meetings The IAM states that exit meetings should be held with clients.</p> <p>Wash up meetings are held at end of fieldwork</p> <p>At present the draft audit report is used as a basis for an exit meeting with management.</p>	<p>The HoIA should consider whether in using production of the draft report as the basis for the closure meeting this fully engages the auditee in the outcomes process.</p> <p>An exit meeting template could be introduced to support communication regarding the findings of the audit however Auditors should as a matter of course scan any notes taken as part of the exit meeting process in order to support and evidence communication and production and finalisation of the report.</p> 

	Issue identified	Recommended action
5	<p>Communication The PSIAS places significant emphasis on effective communication with clients. It is therefore beneficial that clients are fully familiar with the basis by which recommendations and audit opinions are being made</p>	<p>Definitions for the grading of recommendations and audit opinions should be included with in terms of reference documents and audit reports.</p> 
6	<p>Report clearance The internal audit manual contains dated instruction regarding the process for clearance of reports and would benefit from revision to reflect the current structure of the shared services team.</p> <p>Revision may help reduce current delays in production of reports.</p>	<p>Timescales for the clearance and draft and final reports should be reviewed with consideration being given to how review and approval can best be recorded. Use of he CEM may provide opportunities for simplification of current processes.</p> 

Delivery continued


	Issue identified	Recommended action
7	<p>Audit Opinions - Recommendations These are currently developed and assessed by each internal auditor, prior to release of the draft report and which include a grading of the recommendations as high, medium and low being made against definitions which are generic rather than specific to the Councils risk appetite.</p> <p>Medway High - The finding highlights a fundamental weakness in the system that puts the Council at risk. Management should prioritise action to address this issue. Medium - The finding identified a weakness that leaves the system open to risk. Management should ensure action is taken to address this issue within a reasonable timeframe. Low - The finding highlights an opportunity to enhance the system in order to increase the efficiency or effectiveness of the control environment. Management should address the issue as resources allow.</p> <p>Gravesham High – action addresses a significant weakness to enable the achievement of key objectives Medium – action addresses a weakness identified that is not critical to the achievement of objectives Low – action is a system enhancement or improvement to the efficiency of the service</p> <p>Whilst similar working to different definitions complicates the arrangements required by internal audit regarding training, supervision and communication.</p>	<p>a) Risk definitions used by internal audit should be developed to reflect the risk appetite within each organisation, and the definitions of impact and likelihood used by the Council. Explanation of the use of these gradings should be included in all reports.</p> <p>It is recognised best practice to use terminology such as High, Medium and Low or Fundamental, Significant and Merits Attention when making recommendations and perhaps support this with RAG rated colours linked to each Council's risk management system.</p> <p>These should be used by each internal auditor to grade the recommendation and discuss the level of risk to which the organisation is exposed with each auditee at the exit meeting by reference to the risk impact definitions used within the Council.</p> <p>A single approach should be deployed across both Councils.</p> <p>b) Consideration should be given to removing the need to include 'low' rated recommendations in formal audit reports; alternatively reflecting on these in discussion at the closure meeting and confirmed in a side letter or email to the manager. This would aid the profile of internal audit through concentrating on things that really matter in relation to significant risk as defined within risk management policies.</p>

	Issue identified	Recommended action
8	<p>Finalisation of reports</p> <p>At the time of the review the Shared Service had finalised relatively few audit reports in relation to 2017/18; the position is likely to relate to a number of factors being:</p> <ul style="list-style-type: none"> - Overrun of 2016/17 audits, - Structure and staff changes, - Delays in receiving appropriate feedback from clients at planning and closure stages, - Current processes which reflect review of audit at draft report stage rather than on a continuous basis. 	<p>The HolA should review processes for managing completion of reports with a view to presenting reports on a timely basis. Consideration could be given to:</p> <ul style="list-style-type: none"> - Introducing target completion dates at the start of the audit. - Agreeing exit meeting dates at the initial meetings with clients, - Amending report authorisation 

	Issue identified	Recommended action
9	<p>Audit Opinions - Overall opinions These are currently based upon the personal judgement of each auditor, relating to the degree of risk, although the definition of high risk is not related to that stated to each the Councils Risk Management Strategy and is subject to review by the supervisor and HoIA in the draft report prior to release. The overall opinion is based largely on the aggregate of the number of recommendations.</p> <p>The internal audit service currently uses different categories opinion at each Council being:</p> <p>Medway Strong - Appropriate controls are in place and working effectively, maximising the likelihood of achieving service objectives and minimising the council's risk exposure. Sufficient - Control arrangements ensure that all critical risks are appropriately mitigated, but further action is required to minimise the council's risk exposure. Need strengthening - There are one or more failings in the control process that leave the council exposed to an unacceptable level of risk. Weak - There are widespread or major failings in the control environment that leave the council exposed to significant likelihood of critical risk. Urgent remedial action is required.</p> <p>Gravesham Green – Risk management operates effectively and objectives are met Amber – Key risks being managed to enable the key objectives to be met Red – Risk management arrangements require improvement to ensure objectives can be met.</p>	<p>a) The grading of reports should be based upon the level of risk exposure identified within the review and reflect the highest ranked recommendation being reported upon.</p> <p>Best practice would reflect:</p> <ul style="list-style-type: none"> - Where a fundamental risk (red) is identified that limited assurance is given. - Where significant risks (amber) are identified then adequate assurance is given, and - Where 'merits attention' (green) risks are identified these are not referred to in the report and substantial assurance is given. <p>An example basis for arriving at opinions is included as Appendix B.</p> 

	Issue identified	Recommended action
9	<p>Audit Opinions - Overall opinions (cont)</p> <p>Wider best practice provides for three levels of opinion being substantial, adequate (reasonable) or limited as this provides a clear indication to stakeholders of the level of assurance that can be gained. This opinion can then be aligned directly with the nature of the risks being identified and the grading of those recommendations being made.</p> <p>By having two basis for opinions this provides unnecessary complication within the internal audit service and the approach should be simplified to represent best practice and therefore contribute to better communication regarding the risks being faced by each Council.</p>	

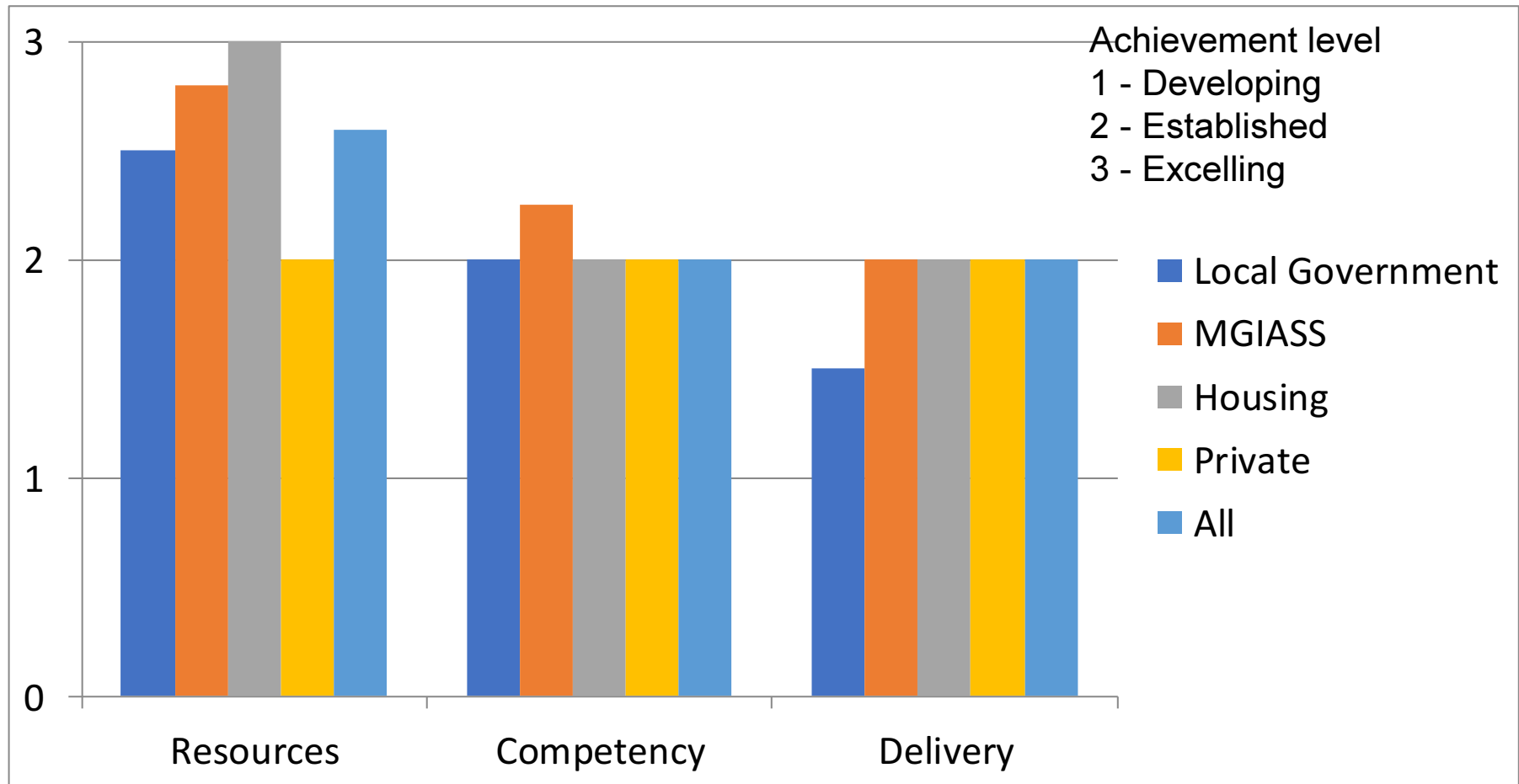
Delivery continued

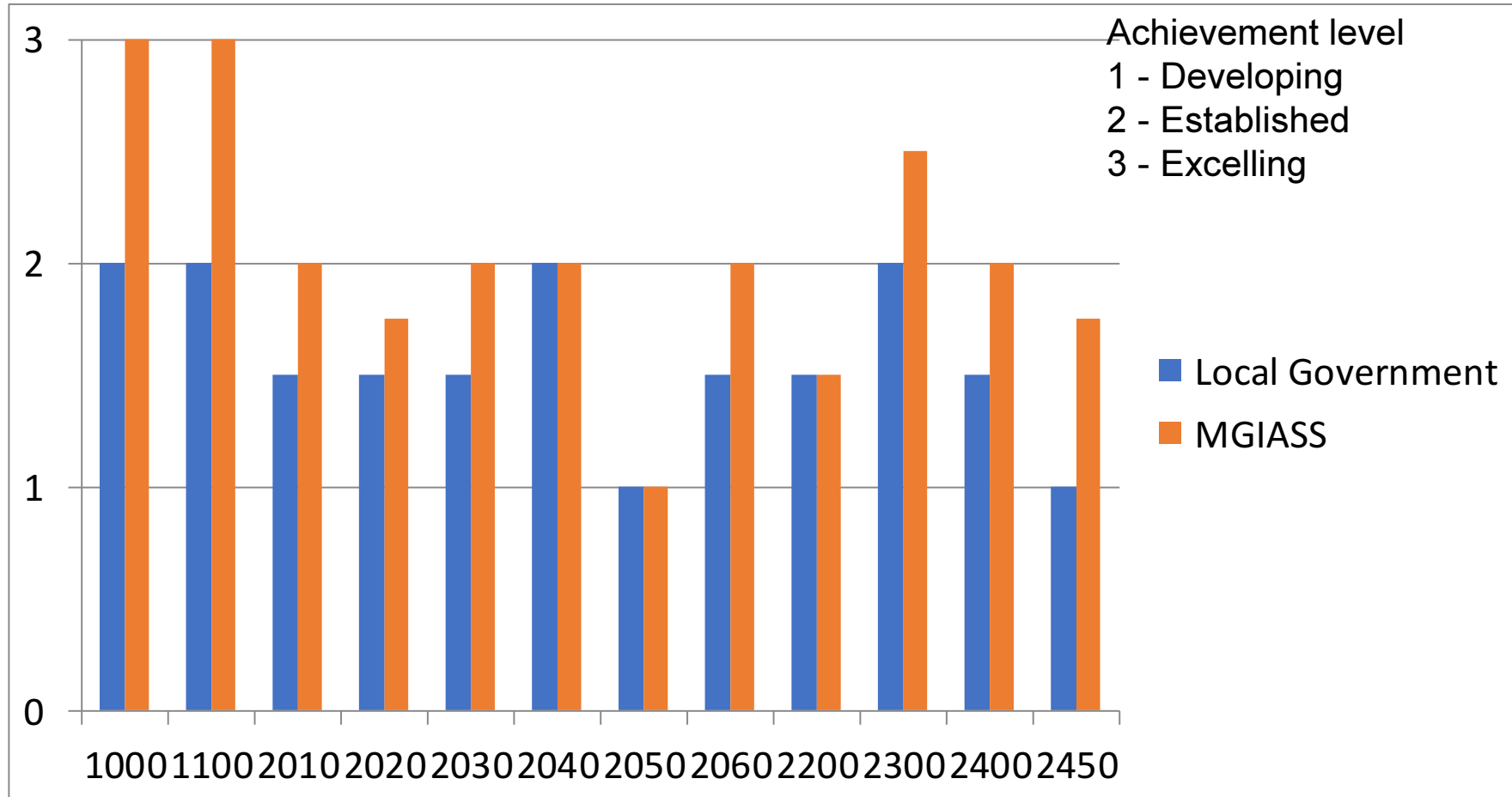
	Issue identified	Recommended action
10	<p>Annual Report</p> <p>The HoIA produces an Annual Internal Audit report which summarises the years work and includes analysis of performance. The opinion should reflect a format that takes account of all information and sources of assurance available to the HoIA and therefore:</p> <p><i>‘must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board’.</i></p> <p>The Internal Audit Charter reflects this guidance and states in section 3 (p3) that:</p> <p><i>“In line with the Public Sector Internal Audit Standards, the Head of Audit & Counter Fraud (as Chief Audit Executive) will report annually with an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control of each council, supporting the Annual Governance Statement and Statement of Accounts”.</i></p> <p>The HoIA Annual Audit Report qualifies this opinion by referring to <i>“My opinion is therefore limited to the risk areas considered in the services and functions that have been subject to review in the year”.</i></p>	<p>In alignment with recommendations made earlier, the internal audit plan should be constructed to provide an explicit link to risk and the other assurances available, so that the HoIA is able to provide wider assurance to the Council in support of the governance statement.</p> <p>Best practice is that the Annual Report should also contain reference to all significant risks (standard 2060) and therefore co-ordination with and an understanding of issues being raised by the range of assurance sources available is essential in order to meet this broader scope.</p> <p>An example of the words which may be used has been provided in Appendix C.</p> 

Summary stakeholder feedback

Question	A	B	C	D
Purpose	✓	✓	✓	✓
Understanding of Council requirements	✓	✓	✓	✓
Adequate assurance provided	✓	✓	✓	✓
Independence with contact outside of meetings	✓	✓	✓	✓
Status	✓	✓	✓	✓
Experience, skills and effective communication	✓	✓	✓	✓
Effective performance	✓	✓	✓	✓
Effective planning and priorities	✓	✓	✓	✓
Other relevant observations				
a) Good contact with S151 on a regular basis				
b) Good working relationship with officers within the Council				
c) Should HoIA report to S151 or an officer with wider responsibilities within governance structure?				
d) Need to embed risk management throughout the Council				
e) Contact with the HoIA outside of the Committee process does occur including pre-meetings before Committee				
f) The council is committed to developing these skills through training and encouraging professional qualifications				
g) Meets and exceeds deadlines				

1	RESOURCES		Excelling – Processes in this area are fully embedded within every day practices and reflect best practice that is at least consistent with PSIAS expectations.
2	COMPETENCY		Established – Processes in this area are embedded within every day practices, the EQA has identified a number of areas in which further development is desirable.
3	DELIVERY		Established – Processes in this area are embedded within every day practices, the EQA has identified a number of areas in which further development is desirable.





Key PSIAS Standards assessed

(for benchmarking purposes)

Standard		Focus
1000	Purpose, Authority and Responsibility	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> . The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100	Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.
2010	Planning	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
2020	Communication and approval	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.
2030	Resource Management	The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
2040	Policies	The chief audit executive must establish policies and procedures to guide the internal audit activity.
2050	Co-ordination	The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
2060	Reporting	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
2200	Engagement planning	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
2300	Work programme	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.
2400	Communicating results	Internal auditors must communicate the results of engagements
2450	Overall opinions	When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

- The internal audit provision within Medway and Gravesham Councils complies with the expectations of the Public Sector Internal Audit Standards.
- The service receives positive feedback from the Audit Committee and Executive Management.
- There are a number of areas in which the service can be further improved in relation to the use of risk based auditing which will provide increased levels of assurance to the Councils and assist in improving its profile as well as the subsequent feedback that is received from clients:
 - the service should continue to move to an approach that reflects full recognition of the risk factors recognised by each Council both at a strategic planning level and when conducting assignments, although this is to an extent dependent on further embedding risk management at operational levels.
 - the annual internal audit plan should be compiled on the basis of the Councils risk register and documented discussions with Chief Officers rather than the current analytical approach.
 - the use of opinions should be reviewed to better reflect the risk appetite of the Council and should reflect identification and escalation of recommendations graded as high that match risk definitions graded as 'red' or 'amber' within the risk management system.
 - the Annual Report of the HoIA should be enhanced to reflect the Internal Audit Charter and assurance related to awareness of the significant risks being faced by the Council.
- The further development of risk management systems within both Councils to reflect an Assurance Framework would enable greater recognition of key mitigating controls and the other sources of assurance with which internal audit effort should be co-ordinated in order to support the Governance Statements process.
- Some revisions to the internal audit processes may be beneficial in terms of improving efficiency and transparency of the assurance being provided.



Assignment Brief

Client			
Assignment			
Audit Year:		Audit Ref:	

Management Objective for the System			
Key Risks <small>Identified from the Risk Register, discussions with management & Knowledge Base</small>	Key Controls (to mitigate risk) <small>To include expected controls, those identified through discussion with client and documentation of processes</small>	Conclusion <small>In terms of adequate and effective mitigation of the risk identified</small>	Report <small>Reference</small>
1			
2			
3			
4			
Audit Approach			

Appendix B

- an example 'Basis for opinions'

KEY FOR RECOMMENDATIONS (IN RELATION TO THE SYSTEM REVIEWED)

Fundamental (F)	- The organisation is subject to levels of fundamental risk where immediate action should be taken to implement an agreed action plan. In the Authorities Risk Management Policy this approximates to the risk grading - intolerable.
Significant (S)	- Attention to be given to resolving the position as the organisation may be subject to significant risks. In the Authorities Risk Management Policy this approximates to the risk grading - significant.
Merits Attention (MA)	- Desirable improvements to be made to improve the control, risk management or governance framework or strengthen its effectiveness. In the Authorities Risk Management Policy this approximates to the risk grading - operational.

ASSURANCE LEVELS

OVERALL OPINION (ASSURANCE)	FRAMEWORK OF CONTROL	APPLICATION OF CONTROL	EXPLANATION	TYPICAL INDICATORS
Substantial (Positive opinion)	Good	Good	The control framework is robust, well documented and consistently applied therefore managing the business critical risks to which the system is subject.	There are no fundamental or significant recommendations attributable to either the Framework or Application of Control.
Adequate (Positive opinion)	Good	Adequate	As above however the audit identified areas of non-compliance which detract from the overall assurance which can be provided and expose areas of risk.	There are no fundamental recommendations surrounding the Framework of Control; coupled with no fundamental and no more than two significant recommendations attributable to the Application of those controls.
	Adequate	Good	The control framework was generally considered sound but with areas of improvement identified to further manage the significant risk exposure; controls were consistently applied.	There are no fundamental recommendations attributable to the Framework of Control.
Limited (Negative opinion)	Adequate	Adequate	As above however the audit identified areas of non-compliance which expose the organisation to increased levels of risk.	There are no fundamental recommendations attributable to the Framework and Application of Control.
	Good / Adequate	Weak	As above however the extent of non-compliance identified prevents the Framework of Control from achieving its objectives and suitably managing the risks to which the organisation is exposed.	There are more than two significant recommendations attributable to the Application of Controls.
	Weak	Good / Adequate	The control framework despite being suitably applied is insufficient to manage the risks identified.	There are more than two significant recommendations attributable to the Framework of Controls.
	Weak	Weak	Both the Framework of Control and its Application are poorly implemented and therefore fail to mitigate the business critical risks to which the organisation is exposed.	There are fundamental recommendation(s) attributable to either or both the Framework and Application of Controls which if not resolved are likely to have an impact on the organisations sustainability.

Example wording for positive annual opinion

As the internal audit service provider to the organisation, I am required as the Head of Internal Audit to provide the organisation and the Chief Executive with a statement on the adequacy and effectiveness of the organisation's risk management, control and governance processes.

In giving an opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the organisation is a reasonable assurance there are no major weaknesses in the organisation's risk management, control and governance processes.

In assessing the level of assurance to be given, the following have been taken into account::

- All audits undertaken during the year;
- Any follow-up action taken in respect of audits from previous periods;
- Significant recommendations not accepted by management or acted upon and the consequent risks;
- The effects of any significant changes in the organisation's objectives or systems;
- Matters arising from previous reports to the organisation;
- Any limitations which may have been placed on the scope of internal audit;
- The extent to which resources constraints may impinge on the Head of Internal Audit's ability to meet the full audit needs of the organisation;
- What proportion of the organisation's audit need has been covered to date; and
- The results of work performed by other assurance providers including the work of the financial statement auditors (if applicable).

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness (or inadequacy and ineffectiveness) of the organisation's risk management, control and governance processes.

Overall in our opinion, based upon the reviews performed during the year, the organisation:

- has adequate and effective risk management arrangements;
- has adequate and effective governance; and
- has adequate and effective control processes.