



cutting through complexity

# Powys County Council

## External Assessment of Internal Audit - DRAFT

November 2014

PLANNING

CONTROLS

AUDIT

RISKS

MANAGEMENT



**The contacts at KPMG  
in connection with this  
report are:**

**Darren Gilbert**

*Director*

*KPMG LLP (UK)*

Tel: 0292 046 8205  
darren.gilbert@kpmg.co.uk

**Duncan Laird**

*Manager*

*KPMG LLP (UK)*

Tel: 0117 905 4253  
duncan.laird@kpmg.co.uk

**Adam Bunting**

*Assistant Manager*

*KPMG LLP (UK)*

Tel: 0117 905 4470  
adam.bunting@kpmg.co.uk

	<b>Page</b>
<b>Executive Summary</b>	2
■ Background & Introduction	2
■ Scope & Objectives	2
■ Audit Approach	3
<b>Section 1: Qualitative Considerations</b>	4
<b>Section 2: Compliance with the Standards</b>	7
<b>Appendices</b>	15
1. Action Plan	
2. Areas of Non-Compliance	
3. Analysis of Compliance with the Standards	
4. Local Government Risk Management Analysis	
5. Example Assurance Mapping	
6. Example Assurance Ratings	

In accordance with the terms of our engagement letter dated 14 July 2014, we have performed those procedures agreed with the members of the Council. Our report has been prepared for Powys County Council solely in connection with our assessment of internal audit. It has been released to the Council on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Council's own internal purposes) or in part, without our prior written consent. Our report was designed to meet the agreed requirements of the Council determined by the Council's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Council for any purpose or in any context. Any party other than the Council who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

This report summarises the findings from KPMG LLP's external review of the Council's Internal Audit Service against the Public sector Internal Audit Standards.

### Background & Information

Internal Audit is essential in providing an independent and objective opinion to an organisation's control environment, comprising risk management, control and governance, by evaluating the Authority's effectiveness in achieving its objectives. An effective Internal Audit function enables the Authority to make informed decisions as to improvements required to the control environment. It also assists in the Audit Committee's responsibility to ensure that a sound system of control is in operation.

In addition to providing assurance that risks are being adequately controlled, there is an expectation that the internal audit service will add value to an organisation by providing assurance that the processes in place will help the organisation to meet its strategic targets.

In order to ensure that the provision of Internal Audit is of a satisfactory quality, external standards have been developed which outline the way in which such services should be planned, managed and delivered. These standards help to ensure that the internal audit function meets the needs of clients, their expectations, and the demands of ethical requirements.

Up to and including the 2012/13 financial year, the standards applicable to public sector entities were contained in sector specific guidance. In relation to local government, this was CIPFA's *Code of Practice for Internal Audit in Local Government in the UK (2006)*.

From 1 April 2013 this was replaced with the *Public Sector Internal Audit Standards (PSIAS)* which are based upon the *International Standards for the Professional Practice of Internal Auditing* developed by the Chartered Institute of Internal Auditors. This new set of standards applies to all public sector organisations, regardless of sector boundaries. For local government bodies, the PSIAS have been supplemented by the *Local Government Application Note (LGAN)* issued by the Chartered Institute of Public Finance & Accountancy. Throughout this report we collectively refer to both PSIAS and LGAN as 'the Standards'.

### Scope & Objectives

We have reviewed the way in which Powys County Council (the Council) undertakes internal audit work and the interactions of the Internal Audit Service with the wider Council, in order to:

- determine and assess the performance and effectiveness of the Internal Audit function against the Standards;
- determine the adequacy of resources to deliver the audit plan, including specialist resources;
- advise the s151 Officer on whether the number of audit days and coverage in the plan is appropriate and whether there is appropriate coverage of 'fundamental' systems;
- highlight areas of good practice; and
- check alignment between the risk register and the audit programme.

In undertaking the assessment against the Standards we have made use of the LGAN Compliance Checklist. This categorises the Standards into the following areas:

1. Definition of Internal Auditing;
2. Code of Ethics;
3. Attribute Standards; and
4. Performance Standards.

Categories 3 and 4 are further broken down into subcategories as set out in the remainder of this report.

Our review was undertaken specifically in relation to the work of the Internal Audit Service for the Authority during 2013/14.

**We have followed the approach agreed with the Council, as set out in our proposal document.**

**Our work included interviews with a number of senior officers and Members of the Council.**

### Audit Approach

As set out in our proposal document, the approach adopted in relation to the completion of this review was to:

- Use a senior KPMG team with extensive assurance experience to interview senior people in the Council to assess the value that Internal Audit delivers and establish where it could be developed, engaging with internal and external stakeholders;
- Review key Internal Audit documents to assess compliance with good practice including the Internal Audit Charter, a detailed review of methodology, key performance indicators (KPIs) and stakeholder reporting;
- Assess the sufficiency of, or access to, specialist audit resources, such as those relating to IT audit. We considered the skill set of the team to ensure the expectations of the Standards around availability of specialist skills are met, and also the qualification requirements set out in the Standard;
- Review a sample of files for compliance with methodology, quality expectations and other requirements of the Standards; and
- Share our initial assessment and recommendations with an Advisory Panel who bring challenge and a broader perspective to our findings, ensuring recommendations are practical and appropriate.

In order to complete our assessment of the Internal Audit Service we met with the following officers:

- Cllr Aled Davies (Audit Committee Chair)
- Cllr John Morris (Audit Committee Vice Chair)
- Cllr Dai Davies (Cabinet Portfolio Holder)
- Jeremy Patterson (Chief Executive)
- David Powell (Strategic Director – Resources)
- Paul Griffiths (Strategic Director – Place)

- Amanda Lewis (Strategic Director – People)
- Jason Lewis (Head of Professional Services & Commissioning)
- Ian Roberts (Head of Schools)
- Mark Evans (Head of Business Services)
- Sue Bolter (Head of Property, Regeneration & Commissioning)
- Ian Halstead (Head of Internal Audit – Internal Audit Manager)

### Overall conclusion

Our work identified that the Internal Audit Service is generally compliant with the Standards but that there are a number of areas where further improvements need to be made in order to achieve full compliance. There is a need to update the Internal Audit Charter in order to ensure that it reflects the specific requirements of the Standards as applied by the *Local Government Application Note*. There are also a number of processes, including the way in which the implementation of recommendations is monitored, which require revision.

One of the major obstacles to achieving full compliance with the Standards is the absence of a robust risk management process. As a result of this, there is a need to more closely, and explicitly, align the internal audit plan with the key risks facing the Council.

### Structure of this report

The remainder of this report sets out our findings in more detail. Section 1 considers a number of qualitative considerations, followed by Section 2 covering compliance with the Standards. The appendices include further information along with a priorities action plan setting out our recommendations.

### Acknowledgement

We would like to thank all staff and Members we have seen during this review for the help and assistance.

**Council officers generally felt that the work undertaken by Internal Audit was of value and of a high quality.**

**We identified a limited number of instances where officers felt that individual reviews were of limited or questionable value.**

**We also identified concerns around the overall content of the internal audit plan and the range and adequacy of skills possessed by the Internal Audit Service.**

### Background and Overview

In order to gain an understanding of the quality of the Internal Audit Service, and the level of satisfaction with it, we interviewed a number of key officers within the Council as set out on Page 3. As a result of these interviews we confirmed that people generally saw Internal Audit as a valuable resource within the Council that could add significant value through their work.

In general, officers felt that the work undertaken by Internal Audit has been appropriate and that, despite the absence of a robust risk management process, it was generally aimed at the main areas of concern within the Council's operations. Equally, officers were complimentary about the quality of the reports produced and the value of the action plans developed as a result of such reports. Whilst one officer expressed concern around the accuracy of draft reports, this was not mirrored in other areas of the Council. One of the purposes of producing draft reports is to allow auditees the chance to comment on the accuracy of the findings. As a result, the existence of some factual errors at this stage in the drafting process is not deemed to be of significant concern.

Despite the generally positive perception of the Internal Audit Service, we also identified a number of areas where management felt that improvements could be made. It is important to note that much of this commentary is perception based, but it is important that efforts are made to resolve such adverse perceptions.

### Management Engagement

In a limited number of instances it was expressed that management did not feel appropriately engaged in the audit planning process and that as a result of this, some of the reviews undertaken were of limited value. An example provided was the completion of a domiciliary care review whilst the service was in the process of being redesigned. It was expressed that it would have been preferable to delay the audit until after the redesign had been completed.

The Head of Internal Audit believed that the problems associated with the scheduling of the Domiciliary Care audit were symptomatic of many previously deferred attempts to undertake the review. This was an isolated case from which lessons should be learned and is not

reflective of the general engagement with clients throughout the audit process.

Whilst the Head of Internal Audit confirmed that the planning process for each service area included the consultation of key management positions, these are examples where this has not achieved the desired results. Our discussions indicated that a possible cause for this is a perception that the audit plan is fairly rigid and includes mostly recurrent work. Another factor was that a number of officers demonstrated a lack of understanding around what work the Internal Audit Service is capable of undertaking. As a result of these factors, management may not effectively contribute to a risk based planning approach and therefore may agree to an audit plan which misses opportunities to focus on some areas of risk and assurance need. This results in the value of Internal Audit being undermined.

### Internal Audit Skill Set

A number of officers expressed a desire to engage the Internal Audit Service in more high level project based work. Doubts were expressed, however, in relation to whether the Internal Audit team possesses the necessary skills to undertake such work as opposed to the completion of more traditional compliance based assessments.

Discussions with the Head of Internal Audit identified that the team currently had highly experienced personnel who were proficient in the core audit skill sets. However, a significant shift towards more added value work and the increasing challenges of a commissioning council may necessitate staffing changes, significant training needs or the need to source additional skills externally.

The Internal Audit Service is predominantly staffed with officers who have worked in local government internal audit for a number of years. As a result of this, they have a significant amount of practical experience and expertise. Skills assessments are undertaken as part of the annual staff appraisal process, which helps to identify any training needs and skills gaps.

We confirmed that the Head of Internal Audit had recently recruited an auditor with specialist IT audit skills. Given the increasing reliance upon IT systems, and IT automated controls, this is seen as a critical area where, previously, the Internal Audit Service has been lacking.

## Section 1 Qualitative Considerations (continued)

### Internal Audit Plan Contents

In addition to the earlier comments relating to the inclusion of reviews where the value was questioned by management, we identified that the internal audit plan includes a significant number of reviews with some allocated a very small number of days (e.g. 2 days to Sickness Absence). Whilst it is true that not all internal audit reviews will require a significant allocation of time, there are concerns over the strategic value of the assurance that can be provided when the number of days allocated has been reduced to this extent as the scope will, of necessity, be highly limited.

Equally, there is a significant portion of time allocated to recurrent reviews of areas such as schools (170 days in the 2013/14 plan) where alternative methods of providing assurance may be more appropriate.

Refocusing the work of the Internal Audit Service may allow for the overall number of reviews to be reduced, thereby allowing a move to the more high level project based work which management has expressed an interest in. In addition, it may allow for greater efficiency through reduction of rolling audits. In relation to schools an example of how this could be achieved would be to review the way in which schools are controlled and monitored by relevant Council departments rather than undertaking detailed assessments of individual schools.

A key driver in the ability to deliver such a redesign, however, is the implementation of a robust risk management and assurance mapping process throughout the Council. This is an areas where the Council has accepted there are currently weaknesses and it is looking to make significant changes (see page 10 for further consideration of this).

No.	Recommendation
1	<p><b>Awareness of Internal Audit's Role</b></p> <p>The Internal Audit Service should seek to raise awareness throughout the Council of the role it undertakes and the range of work it can perform. It is essential that management are provided with a clear understanding of those areas where the Internal Audit Service has the potential to provide support so as to avoid the audit plan defaulting to standard compliance work where alternatives would be preferred. Equally, it is critical that these alternatives are expressed by management during the planning engagement process.</p>
2	<p><b>Engagement of Management in Planning</b></p> <p>Whilst it is acknowledged that the current audit planning process includes consultation with management, there have been instances where this has failed to deliver an audit plan which meets managements expectations. The underlying causes for this must be investigated by the Head on Internal Audit in order to enable appropriate responses to be developed.</p> <p>The planning process should ensure that management feel fully engaged and are satisfied that the resulting audit plan addresses those areas where they feel that the Internal Audit Service may provide the most valuable assurance.</p>

## Section 1 Qualitative Considerations (continued)

No.	Recommendation
3	<p><b>Redesign of Internal Audit Focus</b></p> <p>Our discussions highlighted an interest in moving away from traditional compliance work in favour of more high level assurance work linked to the key risks faced by the Council. In light of this, the Council should consider the desired purpose of the Internal Audit Service. In doing so, recognition should be given to the value of both the provision of assurance on core functions (e.g. Finance Systems) and in relation to key, and emerging, strategic and service-based risks. This should be formally articulated through the Internal Audit Charter.</p> <p>In order to achieve this it will be essential that the development of a robust risk management process is completed as a matter of priority. Until this is completed, the Head of Internal Audit should ensure that planning discussions include consideration of managements' views on key risk areas even if these are currently not documented in formal risk registers.</p>
4	<p><b>Internal Audit Skill Set</b></p> <p>Consideration must be given to the way in which the skills currently possessed by the Internal Audit Service align with the nature of support management wish to seek from the service.</p> <p>Given the stated desire to move to more high level project style work, it is likely that there will be a gap between the skills required and those currently possessed. Plans will need to be developed to ensure that this gap is filled either through recruitment, training provision or sourcing additional skills externally.</p>
5	<p><b>Delivery of Recurrent Work Areas</b></p> <p>The current Internal Audit plan includes a significant amount of recurrent work. For example, individual schools are subject to review each year with the aim to cover all schools over a given period. In many instances, alternative assurance methodologies may allow for assurance to be provided without the need for significant days being allocated to recurrent or rolling work programmes.</p> <p>The Head of Internal Audit should meet with key officers to identify those areas where alternative methodologies may be appropriate and the way in which these may provide the desired level of assurance.</p>

## Section 2 Compliance with the Standards – Summary

The Internal Audit Service is generally compliant with the requirements set out in the Standards.

There are, however, a number of areas on both non-compliance and partial compliance which necessitate further improvements.

Our work identified a limited number of areas of non-compliance with the Standards as well as a number of areas of partial compliance where there is scope for further improvement.

Where areas of non-compliance or partial compliance have been found, we have identified the underlying themes which need to be

addressed in order to improve compliance levels.

Further details on our findings are provided on pages 8-14 of this report. In addition, we can provide the completed *LGAN Compliance Checklist* upon request.

Standard's Category	Compliant	Partially Compliant	Non-Compliant	Non-Compliance Themes
1 Definition of Internal Auditing	2	-	-	-
2 Code of Ethics	5	-	-	-
3.1 Purpose, Authority & Responsibility	4	1	1	Updating Charter & Processes
3.2 Independence & Objectivity	21	2	1	Updating Charter & Processes
3.3 Proficiency & Due Professional Care	10	5	-	Resources & Delivery / Risk Management
3.4 Quality Assurance & Improvement Programme	20	2	4	QAIP / Updating Charter & Processes
4.1 Managing the Internal Audit Activity	27	9	3	Assurance Grading / Risk Management / Audit Committee / Resources
4.2 Nature of Work	14	1	-	Resources & Delivery
4.3 Engagement Planning	28	2	-	Updating Charter & Processes
4.4 Performing the Engagement	11	1	-	Updating Charter & Processes
4.5 Communicating Results	25	2	2	Updating Charter & Processes / Resources & Delivery
4.6 Monitoring Progress	-	4	-	Recommendation Tracking
4.7 Communicating the Acceptance of Risks	2	-	-	-
<b>Total</b>	<b>169</b>	<b>29</b>	<b>11</b>	



### Updating Charter & Processes

The basis for the provision of the Council’s Internal Audit Service is set out in the Internal Audit Charter. This document has been developed in order to comply with the requirements of the Standards. Despite this, we identified a number of areas where the Charter could be further enhanced in order to meet specific elements of the Standards. These are:

- the provision of clear definitions for the “Board” and “Senior Management”;
- incorporating the role of Internal Audit in the Council’s anti-fraud and corruption processes (this is currently set out in a separate anti-fraud policy);
- inclusion of definitions for the nature of consultancy and assurance services to be provided; and
- clear provision outlining the need for unrestricted access to

management and the Board.

In addition, we identified that at present there is no process in place to specifically confirm that the work of the Internal Audit Service has complied with the requirements of the Standards. The Standards expect that such a confirmation will be made in relation to both individual reviews and as part of the annual report. Where compliance has not been achieved, it is expected that the details in relation to this will also be reported.

The Internal Audit Service currently produces an Annual Report which includes the overall assurance opinion over the Council’s control environment. The Standards also require that the Annual Report provide details as to performance against both the original audit plan and against performance targets. Furthermore, they require that the Annual Report provides an update on the progress made in relation to the Quality Assessment and Improvement Plan (“QAIP”) action plan.

No.	Recommendation
6	<p><b>Internal Audit Charter</b></p> <p>Revise the Internal Audit Charter to clearly include definitions of “Board” and “Senior Management”, incorporate the role of Internal Audit in relation to anti-fraud and corruption processes, define the nature of both consultancy and assurance services to be provided, and clearly outline the need for unrestricted access to both management and the Board.</p>
7	<p><b>PSIAS Compliance Confirmations</b></p> <p>The Internal Audit Service should develop a process whereby compliance with the Standards is monitored on an individual review level basis. All reports should include a confirmation that the work has complied with the <i>PSIAS</i> or explain any non-compliance identified.</p>
8	<p><b>Annual Report Contents</b></p> <p>The Internal Audit Annual Report should include an assessment of how the delivery during the year compares to the original audit plan as well as commentary around the progress towards implementing the QAIP action plan and performance against targets.</p>

**Resources & Delivery**

The Internal Audit team currently consists of nine individuals equating to 7.5 FTEs, of which 3 FTE's have varying proportions of management responsibility. This compares to an annual audit plan that includes over 1,200 days of audit delivery across 90 audits, 6 grant claim certifications, 14 fraud investigations, 12 environmental audits and delivery to an external supplier .

There is no requirement that all internal audit staff be either formally qualified (i.e. through membership of an accountancy body or IIA) or following a qualification route. Of the 7.5 FTE's currently employed, two are fully qualified, and a further two are part qualified. Where auditors are qualified, they are expected to meet the continuing professional development (CPD) requirements of the professional body to which they belong. Compliance with this requirement is not monitored by either the Internal Audit Service or the wider Council. The Standards require that audit staff undertake a programme of CPD and compliance with this requirement can only be fully evidenced through the monitoring of completion.

Where audit staff do not possess a formal qualification, they have been deemed to be qualified by way of the experience they have as

local government auditors. The majority of staff, including those who are formally qualified, have held internal audit roles for a number of years both at Powys and other councils. Whilst this helps to ensure that staff possess extensive knowledge and experience, it is recognised that the current core skill set needs developing to enable the delivery of more risk-based and added value audits. In particular, expertise in relation to anti-fraud controls is restricted to more senior officers whereas a detailed understanding of Computer Aided Audit Techniques (CAATs) is possessed by only a limited number of officers. Whilst staff are aware of the need to consult those with greater experience when confronted with challenges in these areas, there is a need to enhance the overall skill base.

Per the Quarter 3 Performance Report, 26% of engagements failed to be delivered in accordance with the service's target of 120 days between starting work and producing a final report. Whilst the Internal Audit Service also monitors the time taken to complete fieldwork, draft reports, and finalise reports, this 120 day target forms the primary metric against which delivery is measured.

Of the 1,186 days included in the 2013/14 plan, 141 days across 11 reviews were deferred until 2014/15. An additional 280 days of work was identified during the year as a result of planning.

No.	Recommendation
9	<p><b>Skills Development &amp; Training</b></p> <p>Develop a process to monitor the completion of CPD training for Internal Audit Staff. This could be met through requiring auditors to provide copies of their CPD declarations. This can then inform the assessment of training needs for the Internal Audit team.</p> <p>The Council should also seek to provide additional training in order to improve the skill base in relation to anti-fraud work and CAATs so as to allow all officers to develop a base level of expertise in these areas.</p>
10	<p><b>Audit Delivery</b></p> <p>The Head of Internal Audit should review those engagements which were not delivered within the target timeframe to identify any underlying causes. Corrective action should then be taken to increase the number of engagements which are delivered within the agreed targets.</p>

**Risk Management**

The Standards require that the audit planning process be undertaken using a risk based approach. This helps to ensure that the role of internal audit provides assurance to the Council in relation to those areas of greatest risk. This is especially important given the increasing cost pressures facing all councils and the need to ensure that all resources are targeted to the greatest effect.

We have provided an analysis of the way in which other unitary authorities approach risk management in **Appendix 4** for consideration by the Council as it seeks to develop its own processes.

A key element of a robust risk management system is the development of an assurance map. This identifies the key controls and processes that the Council has implemented in response to significant risks and documents where the Council obtains assurance from internal and external sources in relation to the effective operation of such controls and processes. For example, if the council has a Quality

Team within the Housing Benefits Function, this will provide assurance to management in relation to the administration of the benefits system. Internal Audit could then focus its work on the Quality Team rather than looking at the administration of benefits itself. An effective assurance map allows for gaps in assurance to be identified and the work of Internal Audit to be targeted at those areas. This helps avoid the duplication of work where other assurance sources are available whilst also allowing for the maximum spread of assurance to be obtained.

In the absence of a robust risk management process, the Internal Audit Service currently seeks to align its internal audit plan with the Council's Strategic Objectives. For 2014/15, however, the approval of the those objectives was delayed. This resulted in an interim audit plan having to be developed with front loaded recurrent reviews of key systems and processes. This may not, however, represent the most efficient model.

No.	Recommendation
11	<p><b>Risk Management &amp; Assurance Mapping</b></p> <p>We are aware that the Council is already in the process of developing a more robust risk management system. Once this has been completed, an Assurance Mapping process should be developed which links to the risk management process and identifies the various assurance sources available to the Council in relation to its key risks.</p>
12	<p><b>Audit Plan Development</b></p> <p>Upon implementation of a robust risk management system, the Head of Internal Audit should ensure that the audit planning process is directly linked to that process and takes consideration of any gaps identified by way of the assurance mapping process.</p> <p>Each review included in the annual plan should be explicitly linked to one of the risks identified on the newly developed risk register.</p>

**Quality Assurance & Improvement Programme**

A key element of the Standards is the development of a Quality Assurance & Improvement Programme (QAIP). This sets out the ways in which the quality of the work of internal audit will be monitored on an ongoing basis and the range of assessment methods that will be utilised. The Internal Audit Service has developed a QAIP that covers the requirements as set out in the Standards and include both internal and external assessments of the work of Internal Audit. At current, however, the QAIP has not been approved by the Audit Committee or its Internal Audit Working Group.

As already stated elsewhere in this report, it is expected that the annual report produced by the Head of Internal Audit will comment on the development of the QAIP and the progress made in implementing the resulting improvement plans

No.	Recommendation
13	<p><b>Approval of the QAIP</b></p> <p>The Head of Internal Audit should ensure that the QAIP is presented to the Audit Committee for approval at the earliest opportunity to ensure that the Committee is satisfied with the quality assurance processes which it includes.</p> <p>Where the Audit Committee require that changes are made to the QAIP, this should be completed on a timely basis and re-presented to the Committee for final approval.</p>

**Assurance Grading**

The Internal Audit Service provides an assurance rating in relation to each area reviewed. The assurance ratings currently in use are High, Qualified, Limited and Low.

Preferences will vary, but we agree that a four-point assurance grading system is appropriate (three levels can be overly-simplistic and not fully distinguish between significant and less serious issues, whereas a five-point system can be too complicated and may lead to clustering of outcomes around the middle). However, there is an inherent challenge in relation to the descriptions used by the Council, as both “Qualified” and “Limited” represent terminology used in external assurance arrangements. As a result, there is an increased risk of confusion in relation to the meaning of these gradings. For example, “Qualified” is used in relation to external audit in instances where there are significant unresolved issues but it is currently used by Internal Audit as the second highest assurance rating available.

Whatever grading descriptions are used, it is important that assurance

ratings are supported by clear descriptions of their meaning (although these are necessarily subjective decisions so retaining some scope for professional judgement is important). We have included some example grading descriptions at **Appendix 6** which the Council could draw on when reviewing its framework.

In addition, the range of work undertaken by the Internal Audit Service is such that the areas of operation under review can range widely both in terms of size and nature. This creates a challenge in relation to conveying the assurance provided to the area under review and the impact that this has for the Council as a whole. For example, a limited assurance opinion over the financial controls at an individual school is unlikely to have a significant impact upon the Council as a whole.

Discussions with management identified that due to the above issue, and the large number of limited assurance reports issued (26% of all 2013/14 reviews) there was a lack of clarity as to where significant issues exist that may threaten the delivery of the Council’s objectives.

No	Recommendation
14	<p><b>Revision of Assurance Gradings</b></p> <p>Review and update the internal audit assurance rating descriptions and supporting narrative to ensure the levels of assurance indicated by each of the ratings is clear to any reader of an internal audit report.</p>
15	<p><b>Application of Assurance Gradings</b></p> <p>Consider how the assurance grading reflects both the impact on the area of operations under review and the wider Council. Potential solutions may include, but are not limited to:</p> <ul style="list-style-type: none"> <li>■ Providing two levels of assurance, one for the Council and one for the areas under review, in the body of the Report;</li> <li>■ Communicating the overall Council impact separately when issuing the report to Heads of Service, Strategic Directors and other senior officers; or</li> <li>■ Setting out the Council level impact in quarterly updates and the annual reports.</li> </ul> <p>In determining the approach it will be essential to ensure that the needs and expectations of management are taken into account.</p>

**Audit Committee**

The Council has a dedicated Audit Committee which is responsible for overseeing the work of Internal Audit. In order to facilitate this, an Internal Audit Working Group has been established which is directly responsible for receiving Internal Audit reports (reports from individual reviews and quarterly progress reports) and then providing a summary report to the Audit Committee at the next meeting. The Internal Audit Working Group consists of eight members of the Audit Committee and meets approximately every two months.

Whilst this avoids the need for the whole committee to spend time in consideration of the details of the work undertaken by the Internal Audit Service, there remains a need to ensure that the committee

dispenses its responsibilities under its Terms of Reference. The Audit Committee remains formally responsible for the oversight of the Internal Audit Service and in order to achieve this it needs to engage with the service. At current, the only reports received routinely by the Audit Committee as a whole are the Annual Audit Plan and the Annual Internal Audit Report.

The full Audit Committee met five times during the 2013/14 year with only one of these meetings (July 2013) receiving reports directly from the Internal Audit Service. The Internal Audit Working Group presented at two further committees in relation to reports they had received from the Internal Audit Service. Based upon this, it may not be necessary for the Head of Internal Audit to attend all committee meetings.

No.	Recommendation
16	<p><b>Roles of Audit Committee and Working Group</b></p> <p>Formally document the split of roles between the Audit Committee and the Internal Audit Working Group. In doing so, consider the roles and responsibilities in question, the extent to which it is appropriate to delegate these to a working group and what should be retained by the Committee.</p> <p>A minimum level of reporting to the Audit Committee should be determined. This should include both the Annual Audit Plan and the Annual Internal Audit Report. In addition, more regular reports may also be included in relation to the delivery of the plan and performance against targets. Given the creation of the Internal Audit Working Group it is not expected that the Audit Committee will receive the reports arising from individual reviews.</p> <p>The Audit Committee forward work plan should also be reviewed in order to identify those meetings which are not scheduled to consider matters relevant to the Internal Audit Service. Where such meetings are identified, consideration should be given to exempting the Head of Internal Audit from attending the meeting so that time and resources can be more dedicated to other matters.</p>

**Recommendation Tracking**

The Standards expect that the implementation of recommendations raised by internal audit will be monitored and that such monitoring will feed into both the level of assurance provided in the Annual Report and the audit plan for future years.

At current, the Internal Audit Working Group monitors the implementation of recommendations raised in adverse reports through requesting updates from the responsible officers. However, no formal recommendation tracking is undertaken in relation to those audits

receiving favourable reports. There is therefore a risk that an accumulation of individually insignificant recommendations may represent a significant risk if not implemented. In addition, there appears to be no formal process whereby the assertions made by management in relation to the implementation of recommendations is validated.

Discussions with management highlighted that they felt unsupported by the Internal Audit Service in relation to the monitoring of implementation and that this hindered their ability to complete such monitoring in an adequate manner.

No.	Recommendation
17	<p><b>Recommendation Tracking Process</b></p> <p>The Head of Internal Audit should develop a process whereby management are supported in monitoring the implementation of recommendations raised by Internal Audit. This could be achieved by way of maintaining a list of all recommendations raised and requesting management to periodically provide updates against those recommendations within there area of responsibility.</p> <p>By maintaining the list themselves, the Internal Audit Service would be able to ensure that it is both accurate and complete, whilst recognising that it is for management to ensure that implementation is achieved.</p> <p>For significant recommendations, or those relating to adverse reports, the Internal Audit Service should undertake a validation of the updates provided by management so as to provide assurance that corrective actions have been appropriately completed,</p>

# Appendices



We have summarised below the recommendations raised throughout this report, along with the responses provided by management. In order to provide an indication of the level of importance of the recommendations made, we prioritised our recommendations into three categories as follows:

Priority rating for recommendations raised			
<b>1</b>	<p><b>High priority</b> - A significant weakness in the system or process which is putting the organisation at serious risk of not achieving its strategic aims and objectives.</p> <p>In particular: significant adverse impact on reputation; non-compliance with key statutory requirements; or substantially raising the likelihood that a strategic risks will occur.</p> <p>Recommendations in this category usually require immediate attention.</p>	<b>2</b>	
		<p><b>Medium priority</b> - A potentially significant or medium level weakness in the system or process which could put the organisation at risk of not achieving its strategic aims and objectives.</p> <p>The issue could potentially have an adverse impact on the organisation's reputation or increase the likelihood of strategic risks occurring, if not addressed.</p>	<b>3</b>
		<p><b>Low priority</b> - Recommendations which could improve the efficiency and/or effectiveness of the system or process but which are not vital to achieving the organisation's strategic aims and objectives.</p> <p>These are generally issues of good practice that we consider would achieve better outcomes.</p>	

No.	Rating	Recommendation	Management Response
1	<b>2</b>	<p><b>Awareness of Internal Audit's Role</b></p> <p>The Internal Audit Service should seek to raise awareness throughout the Council of the role it undertakes and the range of work it can perform. It is essential that management are provided with a clear understanding of those areas where the Internal Audit Service has the potential to provide support so as to avoid the audit plan defaulting to standard compliance work where alternatives would be preferred. Equally, it is critical that these alternatives are expressed by management during the planning engagement process.</p>	<p>The role of Internal Audit, and the added value that they can offer, will be discussed with Directors and Service Heads at on-going relationship meetings. Internal Audit will look to promote the Service by extending the offer to periodically attend Service Management Team meetings and Executive Management Team. In addition, this report will be presented to Executive Management Team.</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager</p> <p><b>Implementation Date:</b> 31 January 2014</p>

No.	Rating	Recommendation	Management Response
2	3	<p><b>Engagement of Management in Planning</b></p> <p>Whilst it is acknowledged that the current audit planning process includes consultation with management, there have been instances where this has failed to deliver an audit plan which meets managements expectations. The underlying causes for this must be investigated by the Head on Internal Audit in order to enable appropriate responses to be developed.</p> <p>The planning process should ensure that management feel fully engaged and are satisfied that the resulting audit plan addresses those areas where they feel that the Internal Audit Service may provide the most valuable assurance.</p>	<p>Planning liaison meetings will be periodically held with Services to identify areas of focus for internal audit activity. This two way communications should continue throughout the course of each assignment. However, it will be the duty of the Head of Internal Audit to ensure the planning process remains objective, independent and based on risk.</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager  <b>Implementation Date:</b> 31 January 2015</p>
3	2	<p><b>Redesign of Internal Audit Focus</b></p> <p>Our discussions highlighted an interest in moving away from traditional compliance work in favour of more high level assurance work linked to the key risks faced by the Council. In light of this, the Council should consider the desired purpose of the Internal Audit Service. In doing so, recognition should be given to the value of both the provision of assurance on core functions (e.g. Finance Systems) and in relation to key, and emerging, strategic and service-based risks. This should be formally articulated through the Internal Audit Charter.</p> <p>In order to achieve this it will be essential that the development of a robust risk management process is completed as a matter of priority. Until this is completed, the Head of Internal Audit should ensure that planning discussions include consideration of managements' views on key risk areas even if these are currently not documented in formal risk registers.</p>	<p>The Charter will be changed to accentuate the focus on risk based, added value and core service auditing.</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager  <b>Implementation Date:</b> 31st December 2014</p> <p>A proposal for the re-modelling of the Internal Audit team will be put forward to support the changes recommended in this report. In addition, other models of service deliver will be explored.</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager  Jason Lewis, Head of Professional Services  <b>Implementation Date:</b> 31 October 2014</p> <p>Key business risks will be considered as part of the on-going liaison and planning process with Senior Managers.</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager  <b>Implementation Date:</b> 31 January 2015</p>

No.	Rating	Recommendation	Management Response
4	2	<p><b>Internal Audit Skill Set</b></p> <p>Consideration must be given to the way in which the skills currently possessed by the Internal Audit Service align with the nature of support management wish to seek from the service.</p> <p>Given the stated desire to move to more high level project style work, it is likely that there will be a gap between the skills required and those currently possessed. Plans will need to be developed to ensure that this gap is filled either through recruitment, training provision or sourcing additional skills externally.</p>	<p>A new structure will be proposed that provides increased focus on the skills, specialisms and resources to deliver effective risk based auditing. In additional, the proposal will include finance to fund those additional training needs.</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager  <b>Implementation Date:</b> 31 October 2014</p>
5	2	<p><b>Delivery of Recurrent Work Areas</b></p> <p>The current Internal Audit plan includes a significant amount of recurrent work. For example, individual schools are subject to review each year with the aim to cover all schools over a given period. In many instances, alternative assurance methodologies may allow for assurance to be provided without the need for significant days being allocated to recurrent or rolling work programmes.</p> <p>The Head of Internal Audit should meet with key officers to identify those areas where alternative methodologies may be appropriate and the way in which these may provide the desired level of assurance.</p>	<p>The Auditors will meet with Heads of Service to look at other ways in which recurrent work can be delivered such as self-assessment and cross cutting reviews.</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager  <b>Implementation Date:</b> 1 January 2015 – 31 March 2015</p>
6	3	<p><b>Internal Audit Charter</b></p> <p>Revise the Internal Audit Charter to clearly include definitions of “Board” and “Senior Management”, incorporate the role of Internal Audit in relation to anti-fraud and corruption processes, define the nature of both consultancy and assurance services to be provided, and clearly outline the need for unrestricted access to both management and the Board.</p>	<p>The Internal Audit Charter will be revised and presented to Audit Committee.</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager  <b>Implementation Date:</b> 31 January 2015</p>

No.	Rating	Recommendation	Management Response
7	3	<p><b>PSIAS Compliance Confirmations</b></p> <p>The Internal Audit Service should develop a process whereby compliance with the Standards is monitored on an individual review level basis. All reports should include a confirmation that the work has complied with the <i>PSIAS</i> or explain any non-compliance identified.</p>	<p>The current quality review process will be re-aligned to show clear linkage with the <i>PSIAS</i>. Internal Audit reports will contain a statement confirming that status of compliance with the standards.</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager  <b>Implementation Date:</b> 31 December 2014</p>
8	3	<p><b>Annual Report Contents</b></p> <p>The Internal Audit Annual Report should include an assessment of how the delivery during the year compares to the original audit plan as well as commentary around the progress towards implementing the QAIP action plan and performance against targets.</p>	<p>The Annual Internal Audit Report will include assessments of plan progress and the progress towards the QAIP action plan.</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager  <b>Implementation Date:</b> 31 January 2015</p>
9	3	<p><b>Skills Development &amp; Training</b></p> <p>Develop a process to monitor the completion of CPD training for Internal Audit Staff. This could be met through requiring auditors to provide copies of their CPD declarations. This can then inform the assessment of training needs for the Internal Audit team.</p> <p>The Council should also seek to provide additional training in order to improve the skill base in relation to anti-fraud work and CAATs so as to allow all officers to develop a base level of expertise in these areas.</p>	<p>Individual training needs will be assessed in terms of the overall skills and training plans will be put in place. Particular focus will be placed on anti-fraud and CAATs training. CPD training will be monitored as part of the employee review and development process by using employee declarations.</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager  <b>Implementation Date:</b> 31 March 2015</p>
10	3	<p><b>Audit Delivery</b></p> <p>The Head of Internal Audit should review those engagements which were not delivered within the target timeframe to identify any underlying causes. Corrective action should then be taken to increase the number of engagements which are delivered within the agreed targets.</p>	<p>The current performance management framework will be re-designed to provide management information to ensure that assignments are timely.</p> <p><b>Responsible officer:</b> Ian Halstead  <b>Implementation Date:</b> 31 December 2014</p>

## Appendix 1 – Action Plan (continued)

No.	Rating	Recommendation	Management Response
11	2	<p><b>Risk Management &amp; Assurance Mapping</b></p> <p>We are aware that the Council is already in the process of developing a more robust risk management system. Once this has been completed, an Assurance Mapping process should be developed which links to the risk management process and identifies the various assurance sources available to the Council in relation to its key risks.</p>	<p>Internal audit will consider other sources of assurance to ensure that limited resources are applied effectively.</p> <p><b>Responsible officer:</b> Ian Halstead  <b>Implementation Date:</b> 31 March 2015</p>
12	2	<p><b>Audit Plan Development</b></p> <p>Upon implementation of a robust risk management system, the Head of Internal Audit should ensure that the audit planning process is directly linked to that process and takes consideration of any gaps identified by way of the assurance mapping process.</p> <p>Each review included in the annual plan should be explicitly linked to one of the risks identified on the newly developed risk register.</p>	<p>The risk register and any other sources of assurance will be used in the audit planning process. Greater reliance will be placed on the risk register as the process embeds and the contents become more mature.</p> <p>Risk Register information will be used to aid in the planning liaison meetings.</p> <p>Future audit plans will contain clear linkage and narrative description explaining the reason for the audit.</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager  <b>Implementation Date:</b> January – 31 March 2015</p>
13	3	<p><b>Approval of the QAIP</b></p> <p>The Head of Internal Audit should ensure that the QAIP is presented to the Audit Committee for approval at the earliest opportunity to ensure that the Committee is satisfied with the quality assurance processes which it includes.</p> <p>Where the Audit Committee require that changes are made to the QAIP, this should be completed on a timely basis and re-presented to the Committee for final approval.</p>	<p>The QAIP will be presented to the next Audit Committee</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager  <b>Implementation Date:</b> 31 October 2014 (Complete)</p>

No.	Rating	Recommendation	Management Response
14	3	<p><b>Revision of Assurance Gradings</b></p> <p>Review and update the internal audit assurance rating descriptions and supporting narrative to ensure the levels of assurance indicated by each of the ratings is clear to any reader of an internal audit report.</p>	<p>The assurance ratings will be revised to give greater clarity and transparency to the risks posed.</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager</p> <p><b>Implementation Date:</b> 31 December 2014</p>
15	3	<p><b>Application of Assurance Gradings</b></p> <p>Consider how the assurance grading reflects both the impact on the area of operations under review and the wider Council. Potential solutions may include, but are not limited to:</p> <ul style="list-style-type: none"> <li>■ Providing two levels of assurance, one for the Council and one for the areas under review, in the body of the Report;</li> <li>■ Communicating the overall Council impact separately when issuing the report to Heads of Service, Strategic Directors and other senior officers; or</li> <li>■ Setting out the Council level impact in quarterly updates and the annual reports.</li> </ul> <p>In determining the approach it will be essential to ensure that the needs and expectations of management are taken into account.</p>	<p>The assurance ratings will be revised to reflect the difference between an impact on a service area and the impact on the wider Council.</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager</p> <p><b>Implementation Date:</b> 31 December 2014</p>

## Appendix 1 – Action Plan (continued)

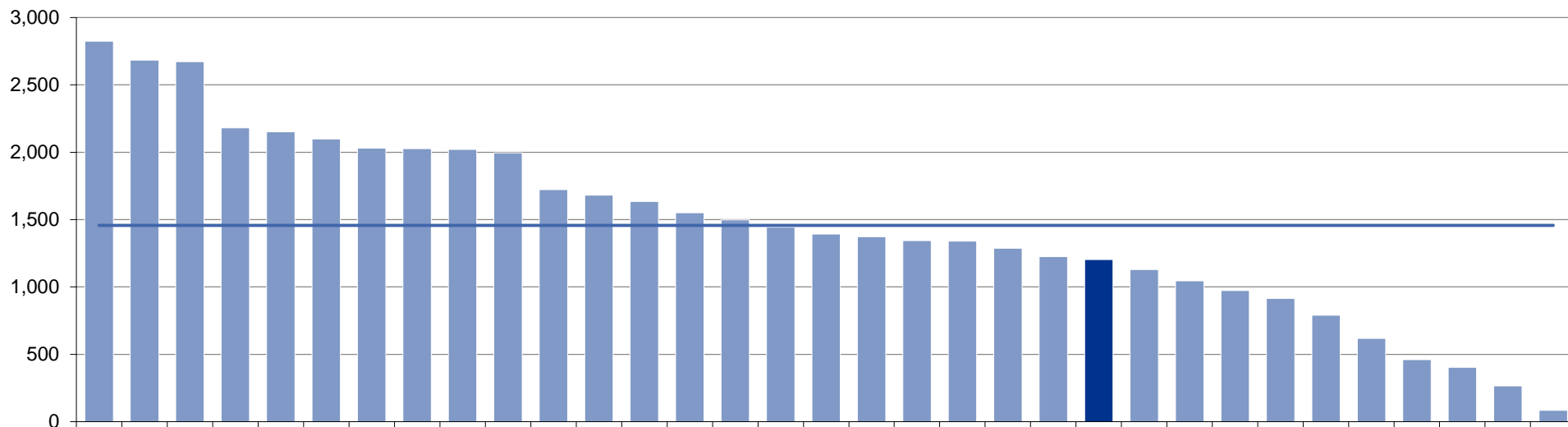
No.	Rating	Recommendation	Management Response
16	3	<p><b>Roles of Audit Committee and Working Group</b></p> <p>Formally document the split of roles between the Audit Committee and the Internal Audit Working Group. In doing so, consider the roles and responsibilities in question, the extent to which it is appropriate to delegate these to a working group and what should be retained by the Committee.</p> <p>A minimum level of reporting to the Audit Committee should be determined. This should include both the Annual Audit Plan and the Annual Internal Audit Report. In addition, more regular reports may also be included in relation to the delivery of the plan and performance against targets. Given the creation of the Internal Audit Working Group it is not expected that the Audit Committee will receive the reports arising from individual reviews.</p> <p>The Audit Committee forward work plan should also be reviewed in order to identify those meetings which are not scheduled to consider matters relevant to the Internal Audit Service. Where such meetings are identified, consideration should be given to exempting the Head of Internal Audit from attending the meeting so that time and resources can be more dedicated to other matters.</p>	<p>A report will be presented to the Audit Committee formalising the role and responsibilities of the Audit Committee and the Internal Audit Working Group. The report will consider areas of good practice both within and outside of the public sector.</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager</p> <p><b>Implementation Date:</b> 31 March 2014</p>
17	2	<p><b>Recommendation Tracking Process</b></p> <p>The Head of Internal Audit should develop a process whereby management are supported in monitoring the implementation of recommendations raised by Internal Audit. This could be achieved by way of maintaining a list of all recommendations raised and requesting management to periodically provide updates against those recommendations within their area of responsibility.</p> <p>By maintaining the list themselves, the Internal Audit Service would be able to ensure that it is both accurate and complete, whilst recognising that it is for management to ensure that implementation is achieved.</p> <p>For significant recommendations, or those relating to adverse reports, the Internal Audit Service should undertake a validation of the updates provided by management so as to provide assurance that corrective actions have been appropriately completed,</p>	<p>A process will be developed that allows Services to be made aware of audit recommendations so that they can track actions within their area of responsibility.</p> <p>A separate process will be undertaken by internal Audit to validate that key actions have been delivered.</p> <p><b>Responsible officer:</b> Ian Halstead, Internal Audit Manager</p> <p><b>Implementation Date:</b> 31st December 2014</p>

## Appendix 2 – Benchmarking of the Internal Audit Service

In order to assist the Council in considering the level of investment it is making in relation to the provision of internal audit services we have undertaken a series of benchmarking exercised against similar authorities, including some Welsh councils. This analysis is based upon the publicly available information published on the websites of the individual councils and has not been independently validated.

The below analysis compares the total number of audit days delivered at each council included in the benchmarking exercise. Powys Council is highlighted for the purposes of clarity and comparison.

**Total Internal Audit Days**



The number of internal audit days delivered at Powys Council is lower than the average (1,204 days compared to an average of 1,457 days) and places the Council in the lower third of all councils included in the analysis. The comparison is more stark when the outlying councils with less than 500 days are excluded.

Please note that for the purposes of the above assessment the number of audit days does not include corporate work, administration, training or similar work that reduces the number of audit days available for direct delivery of work.

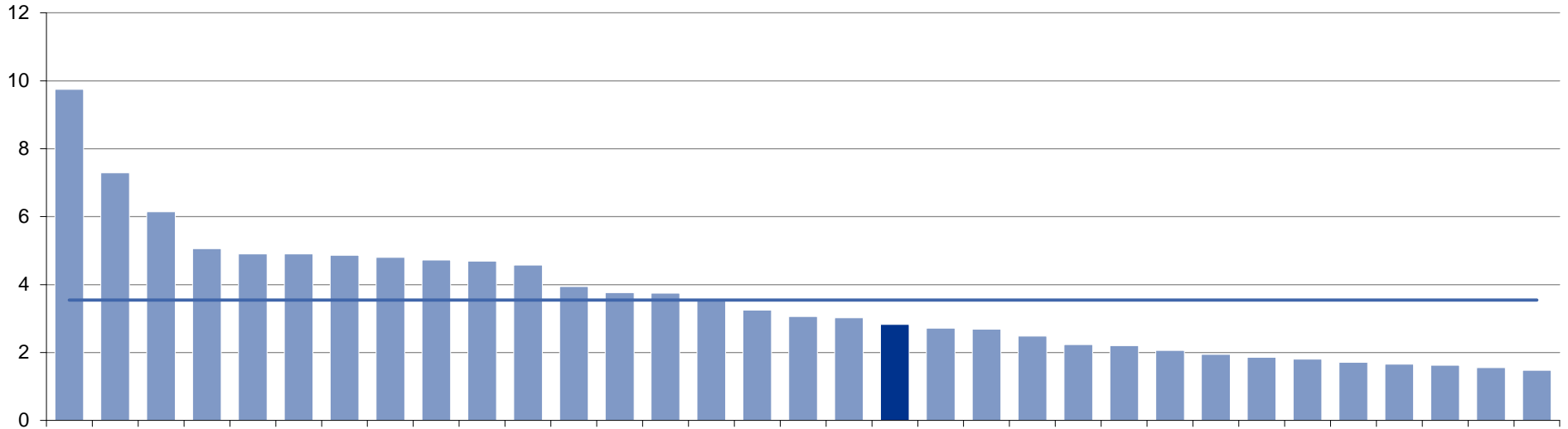
It is important to recognise that the number of internal audit days should not be considered in isolation. Whilst a higher number of days may result in an ability to provide greater assurance, it is essential to also consider the number, and type, of review being undertaken as well as the experience, skills, and efficiency of the internal audit team and the extent to which the audit plan is linked to the key risks facing the organisation.



## Appendix 2 – Benchmarking of the Internal Audit Service (continued)

Whilst the total number of audit days is an interesting benchmark, it ignores the varying sizes of the individual councils. In order to account for this, the graph below provides an analysis based upon the number of audit days per £ million of gross expenditure included within the Net Cost of Services section of the Comprehensive Income & Expenditure Statement for each Council.

**Days per £m Gross Service Expenditure**



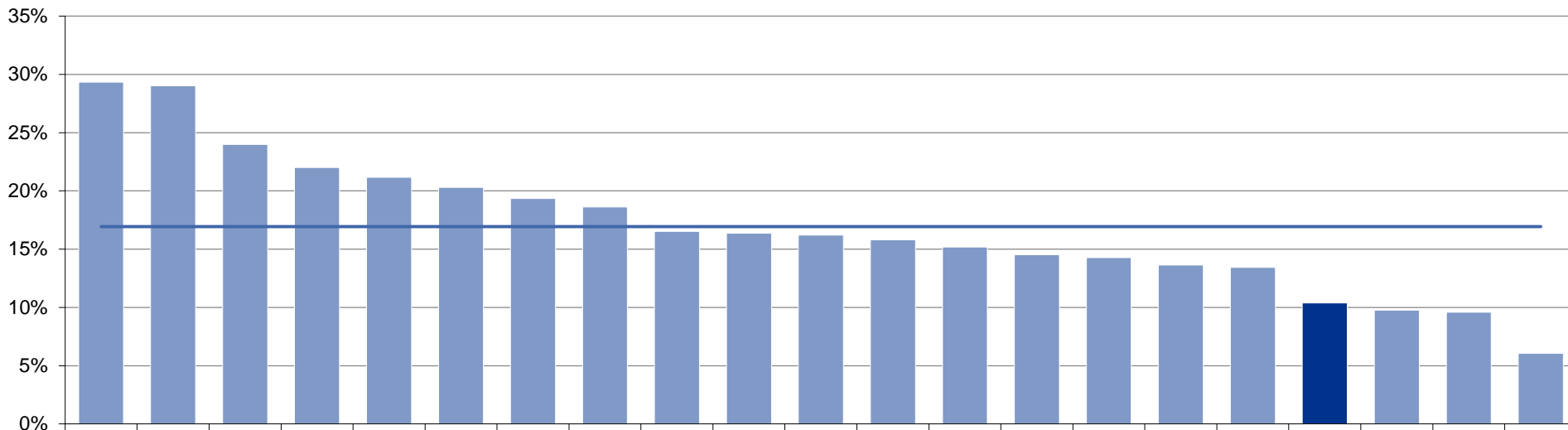
This analysis shows that, in relation to Powys County Council, the number of audit days commissioned is slightly lower than the average across all Council's assessed (2.83 days per £m gross spend, compared to an average of 3.54 days). This variance is not significant however, and the Council is clearly not an outlier in the above analysis.

As central government funding cuts continue, councils throughout the country will have to make increasingly difficult decisions about where funding is allocated. It would be unreasonable to expect that the Internal Audit Service will remain unaffected by these funding reductions, rather Council's will be forced to reassess the level of spend incurred in relation to internal audit and how this may be more efficiently managed.

## Appendix 2 – Benchmarking of the Internal Audit Service (continued)

The analysis set out below considers the portion of the audit plan which has been allocated to the Council's core financial systems such as the general ledger, payroll and revenues. Due to the way in which various council's report their internal audit plan, the benchmarking population is smaller than that used in the analysis shown on the preceding pages.

**Percentage of Days Allocated to Core Systems**



In relation to Powys County Council, the Internal Audit Service allocates just over 10% of its resources to the completion of core system reviews. This is significantly lower than the average of 17% and places the Council firmly in the lower portion of the analysis.

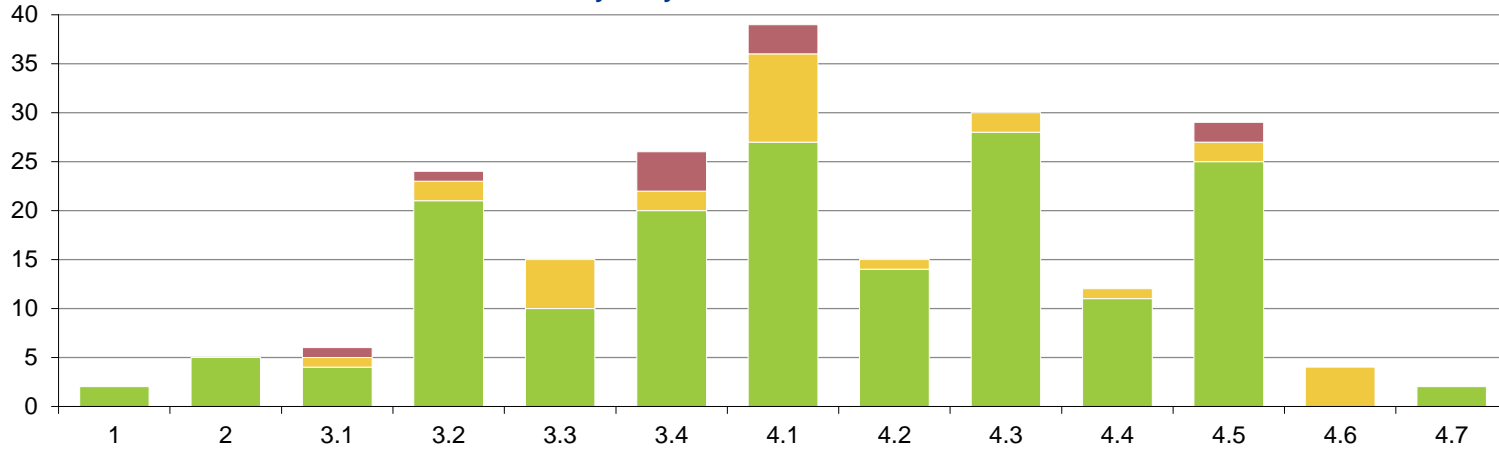
The lower than average percentage may reflect the large number of reviews included in the overall plan and the recurrent work that is undertaken in relation to schools and depots. The Council may wish to reassess the way in which the audit plan is structured and whether such repeated work represents the most efficient allocation of resources and delivers value for money. By moving to a smaller number of reviews, with each review receiving greater resource allocation, the Council may be able to gain more compelling assurance over the areas under review and ensure that the reviews are more extensive.

An alternative consideration, however, is the level of comfort the Council has in relation to the adequacy of its core systems and controls. Where reviews of core systems have historically shown that the systems are operating effectively it may be appropriate to reduce the proportion of audit days allocated to these areas. Equally, a robust assurance mapping process will highlight those areas of operations where assurance gaps exist and the work of Internal Audit may be more effectively focused.

## Appendix 3 – Analysis of Compliance with the Standards

We have set out below an analysis of the level of compliance achieved overall and, where not fully compliant, by standard area.

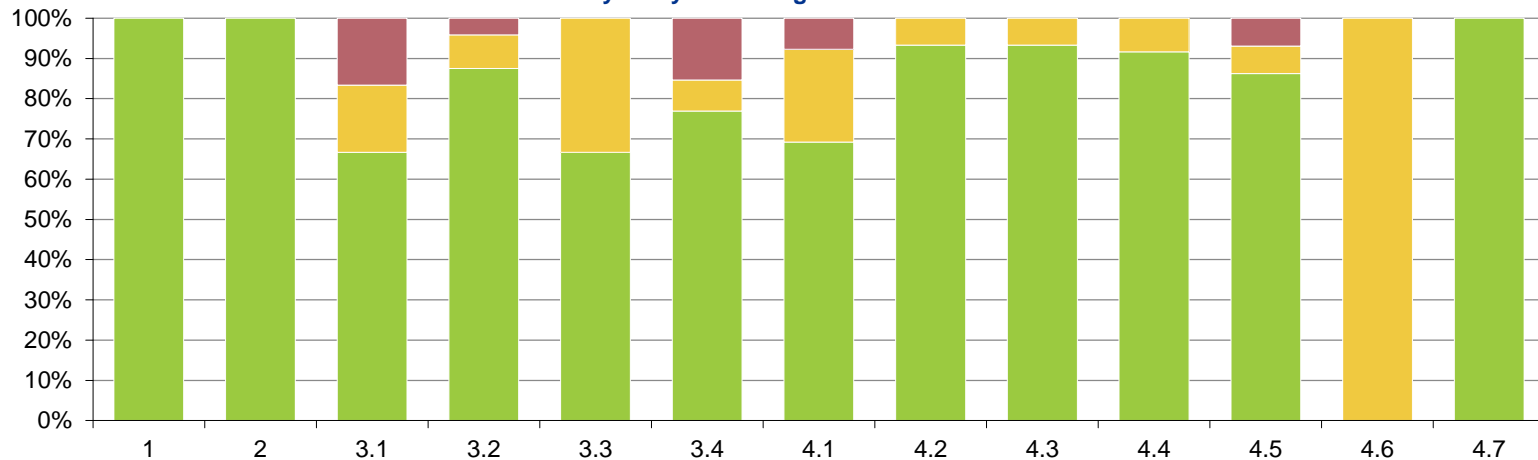
**Analysis by Number of Standards**



**Areas of Standards per LGAN**

- 1 Definition of Internal Auditing
- 2 Code of Ethics
- 3.1 Purpose, Authority & Responsibility
- 3.2 Independence & Objectivity
- 3.3 Proficiency & Due Professional Care
- 3.4 Quality Assurance & Improvement Programme
- 4.1 Managing the Internal Audit Activity
- 4.2 Nature of Work
- 4.3 Engagement Planning
- 4.4 Performing the Engagement
- 4.5 Communicating Results
- 4.6 Monitoring Progress
- 4.7 Communicating the Acceptance of Risks

**Analysis by Percentage of Standards**



- Non Compliance
- Partial Compliance
- Compliant

### Background

Risk management is a critical management tool to manage, assess and prioritise risks therefore enabling resources to be applied to minimise, monitor and control the probability and/or the impact of negative events.

An important component of the risk management process is the corporate risk register, which identifies those risks which are critical for management to minimise, monitor and control.

KPMG has used its extensive audit client base to undertake some Corporate/Strategic risk register analysis. The exercise compared the corporate risk registers from a range of local authorities. The outcome highlights the most frequently featured risks across local authority risk registers.

We also considered the arrangements in place to maintain and review risk registers at the local authorities. Our analysis focused on the following key questions:

- Do local authorities use a specific software package to support risk management?
- How often are risk registers reviewed by the relevant officer group?
- How often are risk registers reviewed by the relevant member group?

### Purpose

Organisations should use the comparative information to help:

- Consider whether there are potential risks that may have been omitted from your own risk register;
- Challenge how risk management is supported in terms of use of software; and
- Challenge how often risk registers are reviewed by relevant officers and Members.

### Most frequently featured risks across all authority types

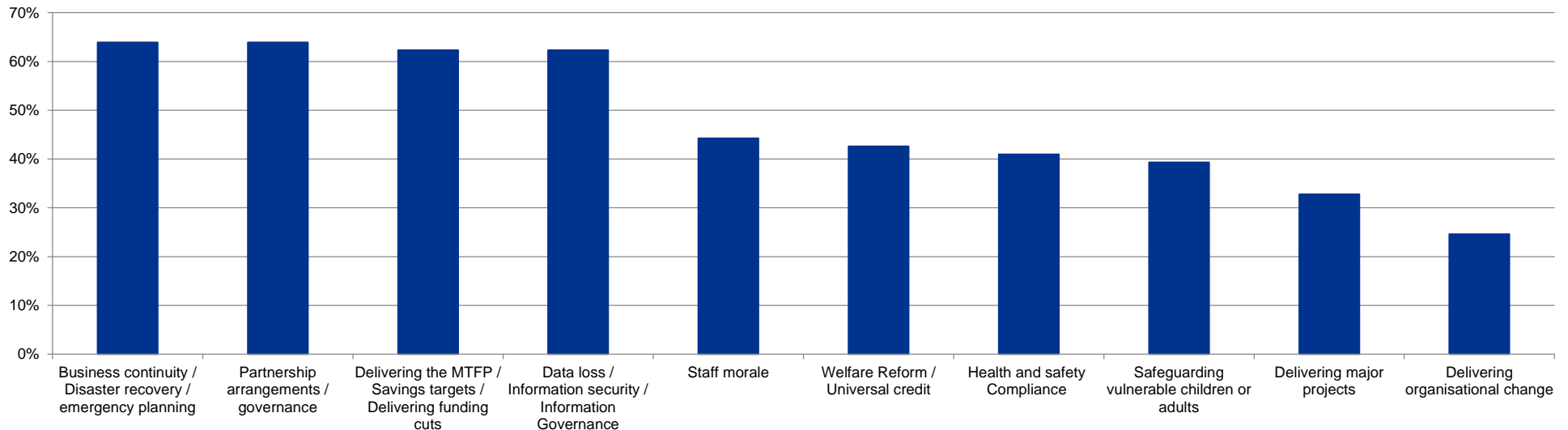
Given the concern over financial pressures affecting all local authorities, it is noticeable that only 62% of authorities surveyed included a specific risk relating to delivering the medium term financial plan/saving targets/delivering funding cuts. It was also noticeable that this was not the most frequently featured risk across the population in this exercise.

As can be seen in the chart below there are four risks which occur significantly more frequently in the risk registers than other risks. These are:

- Business continuity/disaster recovery incidents/emergency planning;
- Partnership arrangements/governance concerns;
- Delivering the medium term financial plan/saving targets/delivering funding cuts; and
- Data loss/information security/information governance risks.

Given the very significant potential business impact and reputational issues, we can clearly see why risks relating to business continuity/disaster recovery incidents/emergency planning and data loss/information security/information governance feature highly in risk registers.

Many local authorities are looking at new ways to operate including in partnership with other organisations and hence many authorities report a risk relating to partnership governance arrangements. Finally it is interesting to note that staff morale was a risk on the corporate risk register of 44% of local authorities included in this exercise. We note that this risk has not featured as strongly in risk registers in the past.

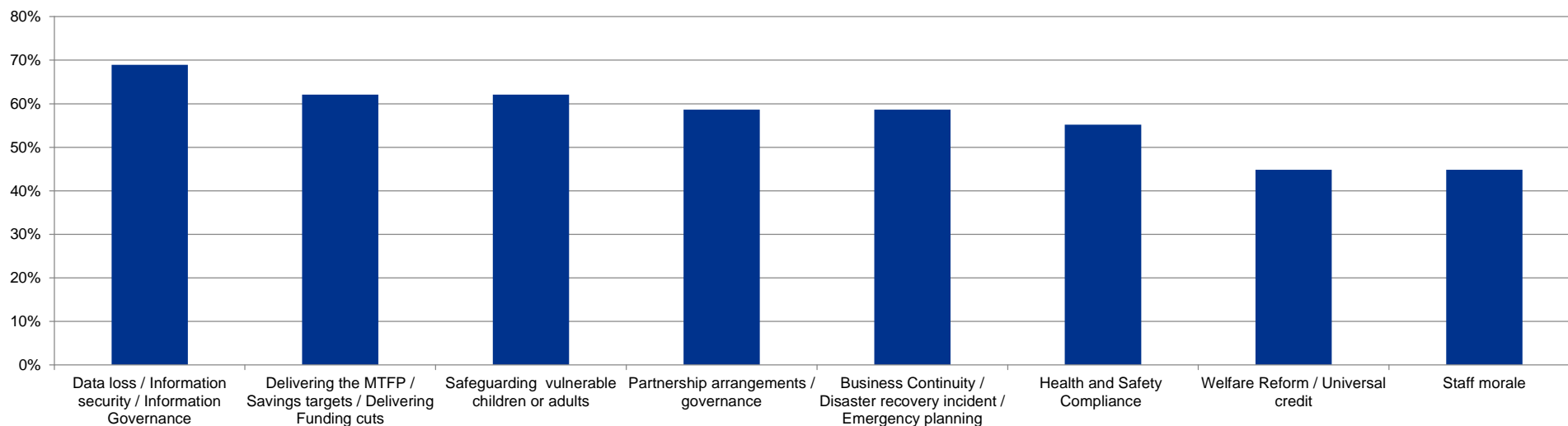


### Most frequently featured risks across single tier authorities

If you exclude the safeguarding risk, which is clearly not a relevant risk for all authorities (e.g. District Councils) the top four risks for single tier authorities are the same as the all authority type analysis and similar to that analysis it is noticeable that delivering the medium term financial plan/savings targets/delivering funding cuts was not the most frequently featured risk, and was a risk at only 62% of single tier authorities.

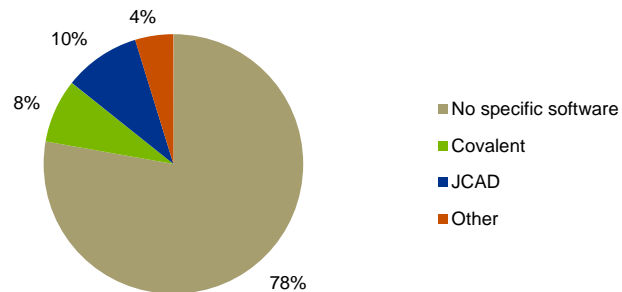
Against a background of the significant reputational and business impact of safeguarding cases which several local authorities have had in the recent past, it is also noticeable that safeguarding vulnerable children or adults is only identified in 62% of single tier authorities.

Welfare reform was reported as a risk at 45% of authorities in this group, in fact it was a risk in 89% of authorities that still had a Housing Revenue Account included in this exercise. This therefore appears to be a significant risk facing most local authorities with social housing stock. To add further weight to this assessment, it was also a risk at 86% of district councils we included in a separate assessment which still retained social housing stock.



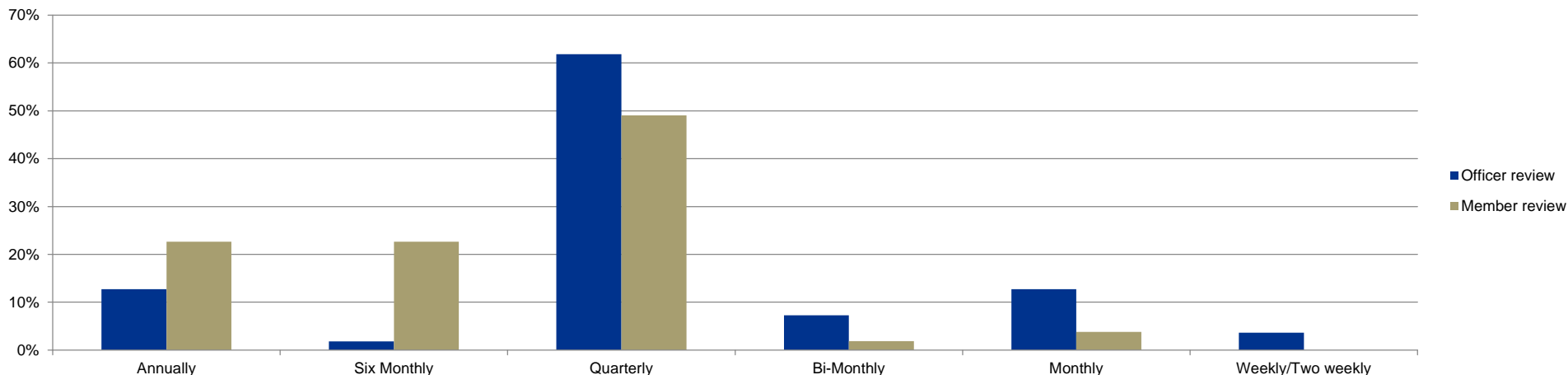
### Software used to support risk management

The chart below shows that 78% of authorities do not use specific risk management software. Of the authorities that do use specific software the most commonly used packages are Covalent and JCAD.



### How often are risk register reviewed by relevant officer and Member groups

The chart below shows how often the relevant officer and senior Member groups review the corporate risk register. Both officer and Member reviews most commonly take place on a quarterly basis. On average for the authorities included in the exercise, the senior officer review took place 6 times a year and Member review took place 3 times a year.



## Appendix 5 – Example Assurance Mapping

We have set out below an example assurance matrix which maps assurances to key risks. This analysis allows the user to identify gaps in assurance and also the balance of assurance across various sources. As a result of this, the work of Internal Audit can be targeted against those areas where the existing level of assurance is deemed to be insufficient.

Assurance  Risk	Sources of assurance													
	Business operations		Corporate functions					Independent Assurance Providers						
	Management reviews	Management Information	Treasury	Finance	HR	Legal	Real estate & Facilities	External Audit	H&S Executive	Internal Audit	3rd parties	Credit Rating agency	Regulator	Other
Reputation	Medium	High									Medium			
IP	High				Low				Medium				Medium	Medium
Strategic service development	Medium			High	Low	Low						Medium	Low	Medium
Recruitment and retention	High			High	Low			High			Medium		Low	Medium
Communication	High	Medium								Medium				Medium
Safeguarding	Low		High		Medium			Medium		Medium			Medium	Low
PFI/ Procurement														
Funding	High			Medium	Low		High							
Board Skills	High	High		Medium	Low			Low			Medium		Medium	Low
Engagement	High	High			Medium			Medium	Medium		Low	Low	Low	Medium

Level of assurance:

High	Medium	Low	None
------	--------	-----	------

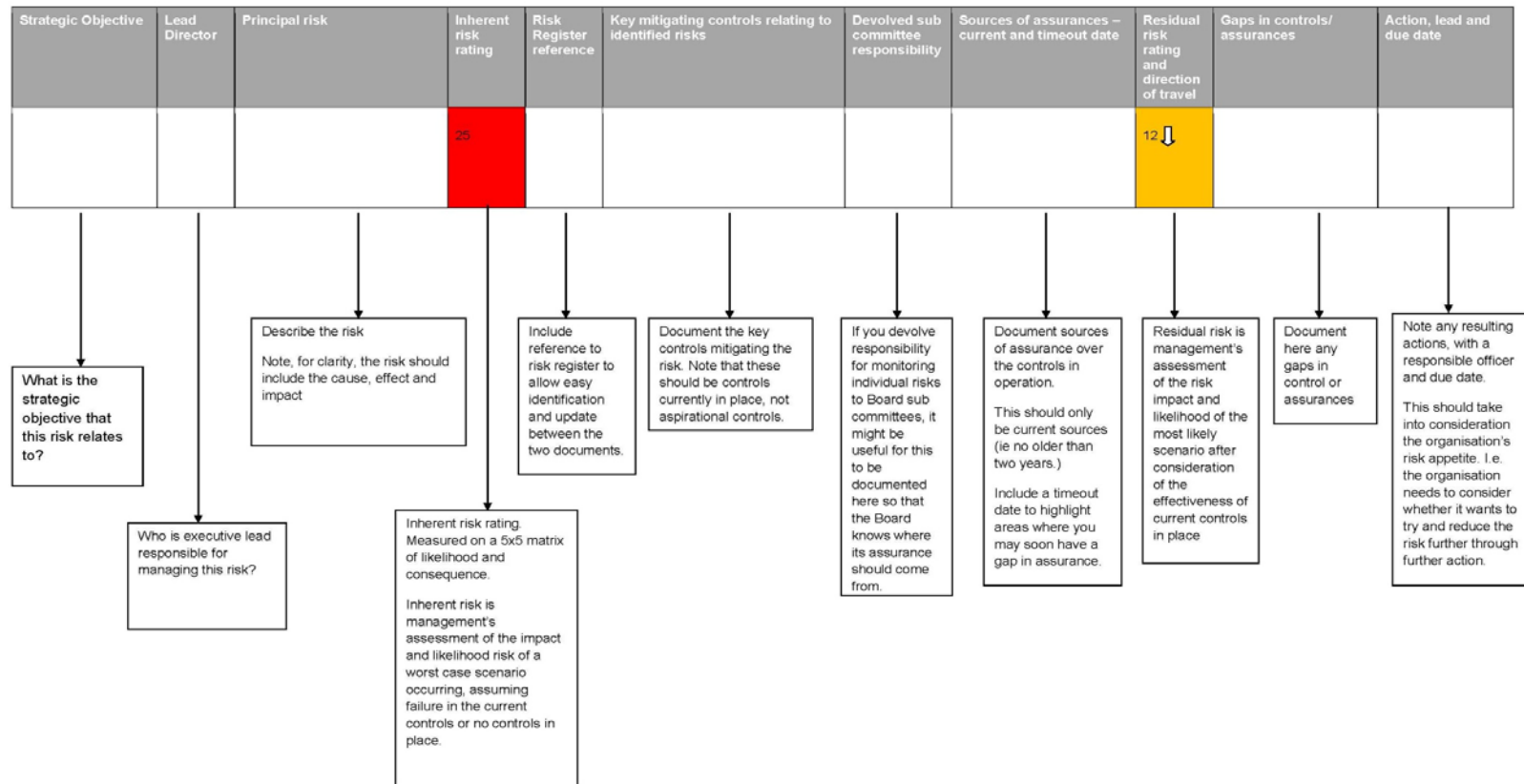


## Appendix 5 – Example Assurance Mapping (continued)

We have set out below an example which is used by many of our clients. This explicitly links the key risks facing the organisation through to the controls in place and the sources of assurance available to the organisation in relation to those risks. This approach allows for a more detailed record to be maintained than the matrix presented on the previous page.

The success of this layout depends on the quality of analysis in each field, however, there are clear advantages of this layout which are that:

- Management and the Audit Committee can easily review and sense check their key risks in one or two sides of A3; and
- The condensed format requires a focussed and concise approach to entering information in each field.



We have set out below some example approaches to the rating of both recommendations and overall reports. The Council may wish to make reference to these in reviewing its own approach to assurance ratings.

### Example 1

Overall Report Rating:

Opinion	Definition
<b>Substantial Assurance</b>	No or only low priority recommendations. Any weaknesses identified relate only to issues of good practice which could improve the efficiency and effectiveness of the system or process.
<b>Adequate Assurance</b>	One or more medium priority recommendations. There are weaknesses requiring improvement but these are not vital to the achievement of strategic aims and objectives. However, if not addressed the weaknesses could increase the likelihood of strategic risks occurring.
<b>Limited Assurance</b>	One or more high priority recommendations, or a high number of medium priority recommendations that taken cumulatively suggest a weak control environment. There are weaknesses identified that have a significant impact preventing achievement of strategic aims and/or objectives, or result in a significant exposure to reputation or other strategic risks.
<b>No Assurance</b>	One or more high priority recommendations and fundamental design or operational weaknesses in more than one part of the area under review. The weaknesses identified have a fundamental and immediate impact preventing achievement of strategic aims and/or objectives, or result in an unacceptable exposure to reputation or other strategic risks.

Recommendation Ratings:

Priority	Definition
<b>1</b>	<b>High priority</b> - A significant weakness in the system or process which is putting the Council at serious risk of not achieving its strategic aims and objectives. In particular: significant adverse impact on reputation; non-compliance with key statutory requirements; or substantially raising the likelihood that a strategic risks will occur. Recommendations in this category require immediate attention.
<b>2</b>	<b>Medium priority</b> - A potentially significant or medium level weakness in the system or process which could put the Council at risk of not achieving its strategic aims and objectives. The issue could potentially have an adverse impact on the Council's reputation or increase the likelihood of strategic risks occurring, if not addressed.
<b>3</b>	<b>Low priority</b> - Recommendations which could improve the efficiency and/or effectiveness of the system or process but which are not vital to achieving the Council's strategic aims and objectives. These are generally issues of good practice that we consider would achieve better outcomes.

The above approach adopts a clearly defined set of ratings for both individual recommendations and the overall assurance level, with clear links between the recommendations being raised and the overall assurance to be provided. At the same time, the way in which the ratings are defined allows for auditor judgement to be incorporated into the decision process.

### Example 2

Overall Report Rating:

Opinion	Definition
<b>Comprehensive (Full)</b> ★ ★ ★ ★	I am able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
<b>Reasonable (Substantial)</b> ★ ★ ★ ★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial (Limited)</b> ★ ★ ★ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>None</b> ★ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Recommendation Ratings:

Priority	Definition
<b>Priority 5</b>	Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
<b>Priority 4</b>	Important findings that need to be resolved by management.
<b>Priority 3</b>	The accuracy of records is at risk and requires attention.
<b>Priority 2</b>	Minor control issues have been identified which nevertheless need to be addressed.
<b>Priority 1</b>	Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Whilst the above model also adopts a four tier approach to overall assurance, it utilises a more complex set of five priorities in relation to the rating of individual recommendations. These priorities are clearly defined however, avoiding confusion between them. A “star rating” system has also been incorporated in order to provide an easy to understand visual indicator as to the assurance provided.



*cutting through complexity*

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).