

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE 2nd February 2012

REPORT OF THE ASSISTANT CHIEF EXECUTIVE - PERFORMANCE

AUDIT COMMITTEE – AUDIT OPINION

1. Purpose of Report.

1. The purpose of this report is to notify the Audit Committee of the methodology to be adopted to assist auditors in formulating an overall audit opinion at the conclusion of every audit.

2. Connection to Corporate Improvement Objectives / Other Corporate Priorities.

- 2.1. Internal Audit's work impacts on all of the Corporate Improvement Objectives /other corporate priorities.

3. Background

- 3.1. Internal Audit undertakes a continuous audit of Council services, which are assessed and prioritised according to relative risk. This risk assessment draws upon the corporate and service risks.
- 3.2. Internal Audit plays a vital role in advising the Council that good governance arrangements are in place and operating properly. The annual internal audit opinion both emphasises and reflects the importance of this aspect of internal audit work.
- 3.3. It is through the annual planning process that a risk-based audit plan is prepared and designed. As part of the normal audit reporting process, recommendations are made and agreed with the relevant officers to address any issues that could impact upon the system of internal control. It is at this stage of the process that the auditor will formulate an overall audit opinion. Auditors are always mindful of the specific work which needs to be conducted, and the level of evidence gathered to support an independent and objective audit opinion.

4. Current situation / proposal

- 4.1. The primary purpose of Internal Audit reporting is to communicate information to provide reasonable assurance and an independent and objective audit opinion to management on the control environment and to stimulate improvement. Therefore, it is imperative that Internal Audit should have systems in place to ensure that auditors obtain and record sufficient evidence to support their conclusions and professional judgements.
- 4.2. Attached at Appendix A1 is a copy of the proposed spreadsheet that will be used to calculate the audit opinion. The composition of the strengths and weaknesses within the system will determine the overall opinion; this is further explained in Appendix A2. An example of the completed audit opinion spreadsheet is attached at Appendix B. The number of control objectives areas within this particular

example is 7. A total of 55 benchmark controls were evaluated to ascertain the actual controls in operation throughout the system and as this example demonstrates, a total of 47 were identified as operating satisfactorily (indicated as strengths) giving an overall audit opinion of substantial with a risk score of 2.

4.3. This risk score will be used to quantify the overall Head of Audit opinion on the adequacy of internal control. The overall score applied will range from 1 – 10 (a score of 1 - 3 being applied to those reviews where substantial assurance has been given and where the strengths range from 75% to 100% and a score of 10 where no assurance has been given). This will provide members with sufficient detail to allow the Audit Committee to fully understand what assurance it can take from the work undertaken and completed by Internal Audit and will ensure that this aspect of the Committee's core function is being adequately reported.

4.4. The adoption of this new methodology for the calculation of the audit opinions will ensure a standard and consistent approach by all when formulating the audit opinion; it will assist the auditor when dealing with "borderline" opinion. Furthermore, explanation and reasoning is clearly set out within the audit file for ease of reference and thereby creating a clearly identifiable audit trail.

4.5. With the support of the Audit Committee it is proposed that this methodology be adopted as part of Audit's standard working practices from 1st April 2012.

5. Effect upon Policy Framework & Procedure Rules.

5.1. None

6. Equality Impact Assessment.

6.1. There are no equality issues.

7. Financial Implications.

7.1. None

8. Recommendation.

8.1. That Members give due consideration to the audit opinion methodology and approve its implementation from 1st April 2012.

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17th January 2012

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Background Documents

None