

# CARLISLE CITY COUNCIL

Report to:- Carlisle City Council

Date of Meeting:- 1st May 2007

Agenda Item No:-

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Public

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Title:- STRATEGIC AUDIT PLAN AND AUDIT PLAN FOR 2007/08

Report of:- HEAD OF AUDIT SERVICES

Report reference:- CORP 4/07a

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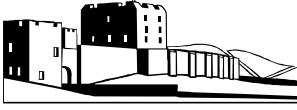
**Summary:-** The Strategic Audit Plan was considered by the Audit Committee at the meeting held on 18<sup>th</sup> April 2007. At that meeting, it was agreed to forward the Plan to Council, with a recommendation for its approval.

**Recommendation:-** That Council approves the Audit Risk Assessment (Strategic Risk Based Plan) which is attached as Appendix A to Report CORP4/07.

**Contact Officer:** Ian Beckett

**Ext:** 7292

**Note:** in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None



# AUDIT COMMITTEE

**Public \***

**Date of Meeting:** 18<sup>TH</sup> April 2007

**Title:** STRATEGIC AUDIT PLAN AND AUDIT PLAN FOR 2007/08

**Report of:** Head of Audit Services

**Report reference:** CORP 4/07

**Summary:**

This report gives details of the updated Strategic Audit Plan and the proposed Audit Plan for 2007/08.

**Recommendations:**

Members are requested to: -

- **Consider the revised Audit Risk Assessment (Strategic Risk Based Plan), which is attached at APPENDIX A prior to submission to Council for approval.**
- **Approve the Internal Audit Plan for 2007/08, attached as APPENDIX B.**
- **Note the revised Risk-Assessment Model attached as APPENDIX C**

**Contact Officer:** Ian Beckett, Head of Audit Services      **Ext:** 7292

## **STRATEGIC AUDIT PLAN AND AUDIT PLAN 2007/08**

### **1 INTRODUCTION**

- 1.1 Under Section 151 of the Local Government Act 1972 and Section 114 of the Local Government Finance Act 1988, the Director of Corporate Services is statutorily responsible for the proper administration of the City Council's financial affairs. In addition, the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment)(England) Regulations 2006, require the Council to "*maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control*".
- 1.2 Audit Services is an important resource in enabling the Director of Corporate Services, the Audit Committee and the Council to fulfil their duties and it is important to ensure that the work of Audit Services is effected so as to give assurance of the probity of the Council's financial affairs.
- 1.3 It is appropriate that the annual Audit Plan should be presented to and approved by the Council's Audit Committee prior to the start of each financial year. This gives Members the opportunity to question the Director of Corporate Services and the Head of Audit Services on the proposed work of Audit Services for the forthcoming year.
- 1.4 It is also appropriate for Members of the Audit Committee to consider the "Audit Risk Assessment (Strategic Plan)" - prior to submission to the Council for approval.
- 1.5 Members should note that performance against the 2007/08 Audit Plan, together with any issues arising, will be reported to Committee on a quarterly basis.

### **2 STRATEGIC PLAN**

- 2.1 In accordance with the provisions of the Accounts and Audit Regulations outlined in paragraph 1.1 above , the Authority is required to comply with the "CIPFA Code of

Practice for Internal Audit in Local Government in the United Kingdom”. This Code states that *“Internal Audit should prepare a risk-based audit plan designed to implement the audit strategy which is approved by the organisation, taking into account the organisation’s risk - management process”*.

- 2.2 Members of the Corporate Resources Overview and Scrutiny Committee agreed, at their meeting on 31<sup>st</sup> March 2005 (Financial Memo FS56/04 refers) that the Authority should follow this approach - which accords with current thinking in the Audit Profession - and plan only for one year ahead, based on the perceived and changing risks that the Authority is facing at any given time.
- 2.3 Members also agreed, at the above meeting, the Authority’s approach to risk-based audit planning and the adoption of a risk-assessment model to calculate the relative risk related to each area of the Authority’s activities subject to audit review.

### **3 RISK ASSESSMENT MODEL**

- 3.1 The Risk Assessment Model (entitled “Audit Risk Assessment – Strategic Risk Based Plan”), outlined as **Appendix A**, has been updated based on known changes to procedures, findings arising from Audit reviews etc. The Corporate and Operational Risk Registers have been used in the risk-assessment process as appropriate. The risks included in the Corporate and Operational Risk Registers (which in some cases need to be revised to reflect the Authority’s current structure) are based on “residual risks”. No reference is made in the Registers to “inherent” risks, which if included would affect the Audit Services’ risk analysis. Audit Services will raise this point for discussion at the meeting of the Corporate Risk Management Group to be held in June. Reference has also been made to those systems that have been identified by the Directorates as being “business critical”. The model itself has been modified in line with a version that has been endorsed by CIPFA and by the Institute of Internal Auditors.
- 3.2 The revised Risk Assessment Model is attached for Members’ information as **Appendix C**. Whilst still in effect an Audit Plan, this approach does not envisage coverage of all audit areas over any pre-determined period. Instead, this model is dynamic by identifying the “risk-areas” which can be addressed on any given time-scale, depending on the number of

Audit staff available, ad-hoc demands etc. Where possible, audit reviews have been grouped together to develop the “theme-based” approach.

- 3.3 Although the “material reviews” have been included in the model for the sake of completeness, these reviews will be undertaken regardless of their “risk-score” as they are required by the Audit Commission on an annual basis.

#### 4 OPERATION OF THE REVISED RISK-BASED ASSESSMENT

- 4.1 As will be seen from the Audit Risk Assessment – Strategic Risk Based Plan attached as, which covers in all some 127 areas for review, the “Calculated Risk Indicator” **Appendix A** ranges from 2 to 77. This gives a range of 76 “risk-points” between the highest and lowest risks, from which the “high”, “medium” and “low” risks can be calculated :-

RISK	POINTS RANGE	NUMBER OF REVIEWS	%
HIGH	From 53 to 77	17	13
MEDIUM	From 27 to 52	40	32
LOW	From 2 to 26	70	55
TOTAL	From 2 to 77	127	100

- 4.2 This method of calculating the risk is, of course, dynamic and, necessarily, to some extent subjective. Once an audit review has been completed, a decision will be made as to whether or not, based on the findings of the review and management action taken on the recommendations made, any of the elements in the calculation need to be changed.
- 4.3 Any specialised computer-audit requirements will be bought in as there is no expertise available within the Audit Team to undertake this work.
- 4.4 As the Plan is undertaken on a “top-down” basis, there is no need to include any allowance for contingency. Any extra demands on Audit time which are made during the year will be recorded and reported to Members in the Head of Audit Services’ quarterly reports; any significant variances will be authorised by the Director of Corporate Services as necessary.

- 4.5 The intended method of operation for Internal Audit is, as above, to work “from the top down” on the risk indicators as far as staffing levels etc permit – there will be no set “Annual Plan” (i.e. pre-specified reviews) per se. It is important to note that the Risk-Indicator shows the order in which the reviews are to be considered – not necessarily the order in which they will be undertaken. For example, where a particular area has a high risk rating, but where recent work has been undertaken by Audit Services, the decision may be just to keep a “watching brief” on developments, rather than to undertake a full review again. Consideration will, wherever possible, be given to the timing of the audit reviews in order as far as possible to minimise the disruption to day-to-day operations. The target is that **all** of the high-risk areas will be addressed. A proportion of the medium-risk areas will also be addressed, should there be no major interruptions, additional requests, fraud investigations etc.
- 4.6 As requests for any new areas of work which are likely to take more than two days arise during the year, or where a request is received to “accelerate” a specific review which is already included in the Plan, a Variation Form will be completed for signature by the appropriate Director and the Director of Corporate Services. Where a situation arises which requires an instant response – e.g. fraud investigation – this will immediately go to the top of the list. Under this revised approach, the plan is therefore “self-determining” in terms of the work required. Any significant changes to the Plan will be reported to Members periodically.
- 4.7 A record will be maintained for each review, explaining why it was partly/fully/not undertaken in any given year.
- 4.8 As the Plan is now fully risk-based, and therefore not linked to any predetermined checklist, it is not possible to determine, as part of this initial planning process, how many days each review will take for completion. At the commencement of each review, an Audit Brief will be prepared and agreed with/by the Head of Audit Services or the Principal Auditor based on the systems in operation, perceived risks, changes since previous review etc. A view will then be taken as to the time that will be required for that review. It is the responsibility of the Head of Audit Services and/or the Principal Auditor to ensure that time taken on each review is reasonable.
- 4.9 Finally, it is obvious from this approach that a significant number of the areas listed on the Strategic Plan are extremely unlikely ever to rank highly enough to warrant an audit review

based on their current risk indicator. We would, however, expect adequate controls to exist for all systems whether or not subject to an audit review, and it is individual Directors' responsibility to ensure that this is the case. The method detailed above ensures, however, that attention is always given to those areas that are considered to be of the highest current importance/risk.

## **5 RECOMMENDATIONS**

### **5.1** Members are requested to :-

- Consider the "Audit Risk Assessment – Strategic Risk Based Plan" that is attached at **APPENDIX A** prior to submission to Council for approval.
- Approve the Internal Audit Plan for 2007/08, attached as **APPENDIX B**.
- Note the revised Risk-Assessment Model attached as **APPENDIX C**

Head of Audit Services

10<sup>th</sup> April 2007

Audit Risk Assessment  
Strategic Risk Based Plan  
2007 – 2008

<u>ID</u>	<u>Directorate</u>	<u>Audit Type</u>	<u>Audit Area</u>	<u>Level of Risk</u>	<u>Total Risk Calculated Score</u>	<u>Comments</u>
68	Corporate Services	Risk Based	Capital Programme	High	<b>77</b>	
127	Carlisle Renaissance	Corporate	Carlisle Renaissance (individual projects)	High	<b>77</b>	
27	Community Services	Risk Based	ECCP	High	<b>77</b>	
96	Development Services	Risk Based	Energy Efficiency	High	<b>76</b>	
44	Corporate Services	Risk Based	Procurement	High	<b>73</b>	
2	Community Services	Risk Based	Customer Contact Centre	High	<b>69</b>	
45	Corporate Services	Risk Based	VAT	High	<b>68</b>	
69	Corporate Services	Material	General Ledger	High	<b>65</b>	Material Systems Review
70	Corporate Services	Material	Fixed Assets	High	<b>64</b>	Material Systems Review
49	Corporate Services	Risk Based	Concessionary Fares	High	<b>63</b>	
13	Community Services	Risk Based	Refuse Collection	High	<b>62</b>	
81	Development Services	Material	External Funding / Grant Monitoring	High	<b>62</b>	Material Systems Review
26	Community Services	Risk Based	Facilities Management / Building Maintenance	High	<b>60</b>	
106	Legal and Democratic Services	Corporate	Tendering / Contracting	High	<b>58</b>	
85	Development Services	Risk Based	Supporting People (Homelessness/Hostels/Housing Assoc)	High	<b>56</b>	



<u>ID</u>	<u>Directorate</u>	<u>Audit Type</u>	<u>Audit Area</u>	<u>Level of Risk</u>	<u>Total Risk Calculated Score</u>	<u>Comments</u>
37	Community Services	Risk Based	Recycling	High	<b>56</b>	
78	Development Services	Risk Based	Maintenance and Development of the Property Portfolio (AMP)	High	<b>53</b>	
7	Community Services	Corporate	Quality Management / Accreditations/ Standards	Medium	<b>52</b>	
88	Development Services	Risk Based	Building Control	Medium	<b>49</b>	
112	People Policy and Performance	Corporate	Partnership Development	Medium	<b>48</b>	
125	People Policy and Performance	Corporate	Risk Management	Medium	<b>48</b>	
59	Corporate Services	Computer	Physical and Environmental IT Controls	Medium	<b>47</b>	
63	Corporate Services	Computer	Post Implementation Review	Medium	<b>45</b>	
39	Community Services	Risk Based	Highways Insurance Claims	Medium	<b>45</b>	
42	Corporate Services	Risk Based	Highways Maintenance (inc Claimed Rights)	Medium	<b>45</b>	
84	Development Services	Risk Based	Development Control inc. Access Grants	Medium	<b>45</b>	
67	Corporate Services	Corporate	Recharges	Medium	<b>43</b>	Included in Service Review which is ongoing - rep from AS on the core team
126	People Policy and Performance	Material	Payroll	Medium	<b>42</b>	Material Systems Review
108	Legal and Democratic Services	Corporate	Reporting Arrangements	Medium	<b>41</b>	
60	Corporate Services	Computer	IT Project Management Controls	Medium	<b>40</b>	

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62	Corporate Services	Computer	Change Control	Medium	<b>40</b>	
124	People Policy and Performance	Corporate	Equality and Diversity	Medium	<b>40</b>	
109	People Policy and Performance	Corporate	Business Continuity Planning (Inc IT Recovery)	Medium	<b>40</b>	
17	Community Services	Risk Based	Transport and Plant	Medium	<b>37</b>	
100	Legal and Democratic Services	Risk Based	Electoral Registration and inc. Fees and Expenses	Medium	<b>36</b>	
123	People Policy and Performance	Corporate	Emergency Planning	Medium	<b>36</b>	
71	Corporate Services	Material	Housing & Council Tax Benefits	Medium	<b>35</b>	Material Systems Review
98	Development Services	Corporate	GIS	Medium	<b>35</b>	
16	Community Services	Risk Based	Parking, Car Park Patrol/Wardens	Medium	<b>35</b>	
72	Corporate Services	Material	Council Tax	Medium	<b>33</b>	Material Systems Review
64	Corporate Services	Computer	IT Strategy (inc Security)	Medium	<b>33</b>	
20	Community Services	Risk Based	Tullie House - arts and museums inc Guildhall	Medium	<b>33</b>	
110	People Policy and Performance	Risk Based	Media relations, PR, Corporate Identity & Marketing	Medium	<b>32</b>	
116	People Policy and Performance	Corporate	Health & Safety	Medium	<b>32</b>	
82	Development Services	Risk Based	Corporate Properties (town centre)	Medium	<b>31</b>	

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111	People Policy and Performance	Risk Based	Community Safety & Anti Social Behaviour - CDRP	Medium	<b>31</b>	
86	Development Services	Risk Based	Industrial Estates	Medium	<b>31</b>	
113	People Policy and Performance	Risk Based	Training and Development (employees & Members)	Medium	<b>31</b>	
66	Corporate Services	Corporate	Compliance to Codes of Conduct	Medium	<b>29</b>	
33	Community Services	Risk Based	SureStart	Medium	<b>28</b>	
119	People Policy and Performance	Risk Based	Information Management (FOI/DP/Records management)	Medium	<b>28</b>	
56	Corporate Services	Computer	Network Controls	Medium	<b>28</b>	
46	Corporate Services	Risk Based	Telephones	Medium	<b>28</b>	
92	Development Services	Risk Based	Improvement Grants	Medium	<b>28</b>	
5	Community Services	Risk Based	Street Cleaning	Medium	<b>27</b>	
31	Community Services	Risk Based	Community Wardens (Eco / Dog Wardens)	Medium	<b>27</b>	
80	Development Services	Risk Based	City Centre Management / Tourism Marketing	Medium	<b>27</b>	
73	Corporate Services	Material	Debtors	Low	<b>26</b>	Material Systems Review
74	Corporate Services	Material	Creditors	Low	<b>26</b>	Material Systems Review
15	Community Services	Risk Based	Bereavement Services	Low	<b>26</b>	
117	People Policy and Performance	Corporate	Sickness Monitoring	Low	<b>26</b>	

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83	Development Services	Risk Based	Health Promotion & Partnerships	Low	<b>26</b>	
75	Corporate Services	Material	NNDR	Low	<b>25</b>	Material Systems Review
121	People Policy and Performance	Risk Based	Non Standard Paymts to Employees	Low	<b>25</b>	
79	Development Services	Risk Based	General Management of Property Portfolio	Low	<b>24</b>	
102	Legal and Democratic Services	Risk Based	Land Charges	Low	<b>24</b>	
76	Corporate Services	Material	Treasury Management	Low	<b>24</b>	Material Systems Review
23	Community Services	Risk Based	Building Resources / Cleaning	Low	<b>22</b>	
25	Community Services	Risk Based	Sports Development	Low	<b>22</b>	
41	Corporate Services	Risk Based	Automated Payments System	Low	<b>22</b>	
18	Community Services	Risk Based	Community Events	Low	<b>21</b>	Included in Service Review which is ongoing - rep from AS on the core team
118	People Policy and Performance	Corporate	Flexitime	Low	<b>21</b>	
38	Community Services	Risk Based	Talkin Tarn	Low	<b>21</b>	
14	Community Services	Risk Based	Landscape Services, Countryside Support	Low	<b>21</b>	
89	Development Services	Risk Based	Brampton Business Centre	Low	<b>21</b>	Management Review of Centre ongoing - rep from IA on the core team

<u>ID</u>	<u>Directorate</u>	<u>Audit Type</u>	<u>Audit Area</u>	<u>Level of Risk</u>	<u>Total Risk Calculated Score</u>	<u>Comments</u>
94	Development Services	Risk Based	Tourist Information Centres- Carlisle, Brampton & Longtown	Low	<b>20</b>	
101	Legal and Democratic Services	Risk Based	Licensing	Low	<b>20</b>	
87	Development Services	Risk Based	Enterprise Centre	Low	<b>19</b>	
3	Community Services	Risk Based	Grounds Maintenance (inc Arboriculture)	Low	<b>19</b>	
120	People Policy and Performance	Risk Based	PAYE & NI	Low	<b>18</b>	
77	Corporate Services	Material	Income Management & Cash Collection	Low	<b>18</b>	Material Systems Review
48	Corporate Services	Risk Based	Printing	Low	<b>18</b>	
30	Community Services	Risk Based	Pest Control	Low	<b>17</b>	
99	Development Services	Material	Planning Fees	Low	<b>17</b>	Material Systems Review
12	Community Services	Risk Based	Children & Young People	Low	<b>17</b>	Included in Service Review which is ongoing - rep from AS on the core team
34	Community Services	Risk Based	Garage	Low	<b>17</b>	
93	Development Services	Risk Based	Business Development	Low	<b>17</b>	
8	Community Services	Risk Based	Pollution Control & Contaminated Land)	Low	<b>16</b>	
122	People Policy and Performance	Corporate	Salary Sacrifice	Low	<b>16</b>	Rep from AS on the working group
90	Development Services	Contract	Monitoring service delivery of CHA	Low	<b>16</b>	
57	Corporate Services	Computer	Internet Controls	Low	<b>16</b>	

<u>ID</u>	<u>Directorate</u>	<u>Audit Type</u>	<u>Audit Area</u>	<u>Level of Risk</u>	<u>Total Risk Calculated Score</u>	<u>Comments</u>
22	Community Services	Risk Based	Food Standards inc H and S inspections	Low	<b>16</b>	
91	Development Services	Risk Based	Covered Market	Low	<b>15</b>	
29	Community Services	Risk Based	Playground Maintenance	Low	<b>15</b>	
43	Corporate Services	Computer	E-Government	Low	<b>15</b>	
55	Corporate Services	Computer	PC Controls	Low	<b>15</b>	
9	Community Services	Risk Based	Public / Street Lighting	Low	<b>15</b>	
40	Corporate Services	Risk Based	Insurance	Low	<b>14</b>	
58	Corporate Services	Computer	E Commerce Controls	Low	<b>14</b>	
61	Corporate Services	Computer	Application Controls	Low	<b>14</b>	
65	Corporate Services	Computer	Procurement of IT Facilities	Low	<b>14</b>	
10	Community Services	Risk Based	Advice Agencies (inc Benefits Advice, Law Centre, CAB)	Low	<b>14</b>	
114	People Policy and Performance	Risk Based	Early Retirement & Redundancy	Low	<b>14</b>	
107	Legal and Democratic Services	Risk Based	Gifts and Hospitality	Low	<b>14</b>	
11	Community Services	Risk Based	Land Drainage	Low	<b>14</b>	
105	Legal and Democratic Services	Risk Based	Payments to Members	Low	<b>14</b>	
19	Community Services	Risk Based	Local land and Conservation	Low	<b>13</b>	
24	Community Services	Risk Based	Parks and Open Spaces (inc Park Wardens)	Low	<b>13</b>	
51	Corporate Services	Risk Based	Grants to Parish Councils	Low	<b>12</b>	

<u>ID</u>	<u>Directorate</u>	<u>Audit Type</u>	<u>Audit Area</u>	<u>Level of Risk</u>	<u>Total Risk Calculated Score</u>	<u>Comments</u>
115	People Policy and Performance	Corporate	Council Complaints Procedure inc LG Ombudsman	Low	<b>12</b>	
54	Corporate Services	Computer	File Controls	Low	<b>11</b>	
1	Community Services	Contract	Leisuretime/Carlisle Leisure (client)	Low	<b>10</b>	
6	Community Services	Risk Based	Civic Centre Keepers / Building Security	Low	<b>10</b>	
32	Community Services	Risk Based	Leisure Grants (inc Sports Development and L&D Grants)	Low	<b>9</b>	Included in Service Review which is ongoing - rep from AS on the core team
53	Corporate Services	Computer	IT Management and Financial Controls	Low	<b>9</b>	
4	Community Services	Risk Based	Community Engagement	Low	<b>9</b>	Included in Service Review which is ongoing - rep from AS on the core team
103	Legal and Democratic Services	Corporate	Mayor & Civic Services	Low	<b>9</b>	
21	Community Services	Risk Based	Allotments	Low	<b>9</b>	
95	Development Services	Risk Based	Carlisle Conference Group	Low	<b>8</b>	
104	Legal and Democratic Services	Risk Based	Town Twinning	Low	<b>8</b>	
52	Corporate Services	Corporate	Corporate Charge Card	Low	<b>8</b>	
97	Development Services	Risk Based	Shopmobility	Low	<b>7</b>	
47	Corporate Services	Risk Based	Car Leasing/Car loans	Low	<b>7</b>	
36	Community Services	Risk Based	Stores	Low	<b>7</b>	

<u>ID</u>	<u>Directorate</u>	<u>Audit Type</u>	<u>Audit Area</u>	<u>Level of Risk</u>	<u>Total Risk Calculated Score</u>	<u>Comments</u>
50	Corporate Services	Risk Based	Mortgages	Low	<b>6</b>	
35	Community Services	Risk Based	Public Conveniences	Low	<b>4</b>	
28	Community Services	Risk Based	CCTV	Low	<b>2</b>	



CARLISLE CITY COUNCILCORPORATE SERVICES DIRECTORATEAUDIT SERVICESSUMMARY AUDIT PLAN 2007/08

Chargeable time – estimated available 747 days

The following are anticipated: -

Estimated Days

Material Systems Reviews (*)	200
VFM/Performance Review/Use of Resources etc	100
Follow up reviews	15
Corporate – “Good Governance Statement “	25
Performance Indicators (**)	<u>20</u>
Total	<u>360</u>

\* The material Systems Reviews comprise: -

- Main Accounting and Budgetary Control
- Sundry Debtors
- Creditor Payments
- Treasury Management (Loans/Investments)
- Housing Benefits
- Payroll
- Council Tax
- NNDR
- Cash Collection
- Grants
- Fixed Assets
- Planning Fees

\*\* This includes time for the annual review, together with additional time this year for quarterly reviews, as requested by the PPP Directorate.

Based on estimated staff resources, this leaves 387 days to undertake reviews as detailed in Appendix A above – but also to include the time required for any unforeseen staff changes, additions to the Plan, investigations/financial appraisals etc, as may arise during the year.

## **AUDIT RISK ANALYSIS MODEL**

### **APPROACH**

The purpose of audit risk analysis is to determine a schedule of priorities for audit attention thereby allowing the creation of an audit plan.

The model was developed by Business Risk Management Ltd in 2002 – taking into account the best practice from other models and verifying the results with hundreds of internal audit functions. The model has been regularly updated is used by at least 1000 internal audit functions across the world.

The model is predicated on the basis that all risks are relative but that they can be compared by combining three key factors: -

1. The size of the risk or exposure.
2. The likelihood that the risk will materialise and
3. The probability of the consequences being detected if the risk does materialise.

Each of these 3 factors is given an equal overall weighting to reflect the fact that audit assessment is a combination of risk and control.

The risks in each function or system throughout the Authority are then evaluated to create a score for each of the three categories above. The sub-categories are given different weightings to reflect their relative importance.

### **RISK MODEL METHODOLOGY**

For each business function or topic in the audit universe, assess the following criteria and enter scores into the excel model. There are 3 sections to be considered (1) Size, (2) Control and (3) Detection.

**1. SIZE: parameters relating to the size of the exposure or risk**

**A = Value of income or expenditure, or size of budget**

**B = Number of employees involved**

**C = Impact per the risk matrix**

**D = Volume of transactions**

**A Value of service / transactions processed.**

This identifies whether the service is income or expenditure driven. Where it is a corporate services or concept where such a value can not be easily determined, these audit areas have been scored “middle of the road” i.e. 3.

1: up to £5K

2: £5K - £25K

3: £25k - £250K

4: £250K - £500K

5: over £500K

*(Above score carries a weighting of 2.)*

**B Number of employees involved in the activity**

The rationale is that the more employees are involved in processing transactions in the area under review, the greater chance of error etc – and the greater the risk.

1: 1 member of staff

2: 2 - 5 members of staff

3: 6 – 10 members of staff

4: 11 – 20 members of staff

5: more than 20 members of staff

**C Impact score from the risk matrix.**

Impact upon the Organisation as per the risk matrix: i.e. if something were to go wrong in the area under review what would be the potential impact on the business.

Using the Strategic and Operational Risk Registers, those audit areas which have been formally identified and prioritised in terms of the impact such a risk would have on the Authority / service area.

- 1: negligible
- 2: marginal
- 3: critical
- 4: catastrophic

*(Above score carries a weighting of 3).*

#### **D Volume of Transactions.**

The rationale is that the greater the number of transactions processed in the area under review, the greater chance of error etc – and the greater the risk

##### Estimated Transactions:

- 1: up to 1,000 transactions per year
- 2: 1,000 – 5,000 transactions per year
- 3: 5,000 – 25,000 transactions per year
- 4: 25,000 – 50,000 transactions per year
- 5: over 50,000 transactions per year

#### **2. CONTROL: parameters relating to the likelihood of the risk materialising**

**F = Impact of Management and Staff**

**G = Third Party Sensitivity**

**H = Standard of Internal Control**

**J = Likelihood of Occurrence per Risk Matrix**

## **F Management and Staff:**

This involves making an audit judgement which considers:

- Quality of Management
- Extent of Staff Turnover
- Length of time system has been operational within the business
- Degree of expressed concern by management
- Extent of use of external suppliers and/or contractors on sensitive systems
- Management's attitude to risk taking
- Morale of Staff

Score on a range of `1' to `5' where `1' represents top quality management and staff with low turnover of both, in an operation which has been in existence for more than three years and about which no known concern is being expressed.

1: Very Good

2: Good

3: Average or effectiveness not known

4: Concerns

5: Considerable concerns

*(Above score carries a weighting of 2).*

## **G Third Party Sensitivity**

This involves making an audit judgement which considers:

- Tax Implications
- Extent of Regulatory requirements
- Legal Implications
- Political Sensitivity
- Impact of community and other stakeholders
- Partnerships
- Joint Ventures

Score on a range `1' to `5' where 1 means there are no tax legal, regulatory or other third party implications & `5' means that very significant third party sensitivity is present.

1: Negligible

2: Marginal

3: Average or sensitivities not known

- 4: Sensitive
- 5: Extremely Sensitive

## **H Standard of Internal Control**

This involves making an audit judgement which considers:

- Means of authority to commit (e.g. none, sole, sole with review, dual, Committee)
- Extent of losses
- Scope for intentional manipulation
- Vulnerability to fraud
- Degree of technical sophistication of systems
- Extent to which standard systems are being used
- Extent to which operating manuals are complied with
- Extent of recent reorganisations and systems changes
- Known factors which should ring warning bells
- Reliability of last internal control review
- Extent of weaknesses highlighted in last internal control review
- Strength of accounting systems
- Extent of formal procedures
- Impact wide ranging across directorates

1: Excellent with no known significant re-organisations or systems changes; little known scope for intentional manipulation.

2: Above average with standard systems in use throughout.

3: Sound

4: Known or suspected to be weak

5: Known or suspected to be very unsound

*(Above score carries a weighting of 3).*

## **J Measure of Likelihood of occurrence as per Risk Matrix**

**Using the Strategic and Operational Risk Registers, those audit areas which have been formally identified and prioritised in terms of the likelihood such a risk would have on the Authority / service area.**

1.: Extremely Remote

2: Remote

3: Reasonably Probable

4: Probable

*(Above score carries a weighting of 3).*

**3. DETECTION: parameters relating to the probability of unwanted consequences being detected if they do materialise.**

**K= Likely effectiveness of internal audit**

**L= Duration of the audit**

**M = Length of time since last audit**

**N = Effectiveness of other assurance providers**

**K Likely effectiveness of internal audit/ complexity of the audit area:**

- Extent to which relevant specialist skills are available to internal audit
- Knowledge of business and experience of staff to conduct a competent audit

Score on a range `1' to `5' with a score of `1' if there are no significant constraints that are likely to preclude doing an effective audit. i.e. a well-established function with fully experienced and trained staff with a good knowledge of the business together with receptive and focused line management.

**L Likely duration of audit work**

1: 5 days

2: 10 days

3: 15 days

4: 20 days

5: more than 20 days

*(Above score carries a weighting of 2).*

## **M Time since last Audit**

- 1 = Reviewed in the last 12 months.
- 2 = Reviewed 1 – 2 years ago.
- 3 = Reviewed 2 – 3 years ago.
- 4 = Reviewed 3 – 4 years ago.
- 5 = More than 4 years ago or a new audit area.

*(Above score carries a weighting of 2).*

## **N Other Assurance Providers**

- 1 = regular compliance, QA and other audits with no significant findings
- 2 = regular compliance, QA and other audits with some significant findings
- 3 = no other audit work completed
- 4 = regular compliance, QA and other audits with many significant findings
- 5 = continual significant problems identified by assurance reviews.

*(Above score carries a weighting of 2).*

## **FORMULA USED FOR CALCULATION OF OVERALL RISK SCORE**

The scores are entered into this calculation matrix. Certain of the criteria are weighted e.g. A is given a weighting twice the norm and H treble the norm.

The basis of the scoring takes into account that each of the elements (size, control and detection) is given equal importance.

Therefore, each element has a maximum score of 1

$$\text{Size for example will be } (2 \times 5 + 5 + 3 \times 5 + 5) / 35 = 1$$

The overall results (for each audit evaluated) are then entered into the Audit priority schedule



<u>SIZE</u>		<u>CONTROL</u>		<u>DETECTION</u>
$\frac{(2A + B + 3C + D)}{32}$	X	$\frac{(2F + G + 3H + 3J)}{42}$	X	$\frac{(K + 2L + 2M + 2N)}{35}$

THE RESULT IS THEN MULTIPLIED BY 200

K:\2006-07 onwards\X Codes\Risk Based Audit Planning\AUDIT RISK MODEL - Outline of approach for 2007-08.doc