

# CARLISLE CITY COUNCIL

**Report to:- Carlisle City Council**

**Date of Meeting:- 29th April 2008**

**Agenda Item No:-**

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**Public**

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**Title:- STRATEGIC AUDIT PLAN AND AUDIT PLAN FOR 2008/09**

**Report of:- HEAD OF AUDIT SERVICES**

**Report reference:- CORP 4/08a**

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**Summary:- The Strategic Audit Plan was considered by the Audit Committee at the meeting held on 15<sup>th</sup> April 2008. 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 CORP4/08.**

**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:** 15<sup>TH</sup> April 2008

**Title:** STRATEGIC AUDIT PLAN AND AUDIT PLAN FOR 2008/09

**Report of:** Head of Audit Services

**Report reference:** CORP 4/08

**Summary:**

This report gives details of the updated Strategic Audit Plan and the proposed Audit Plan for 2008/09.

**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 2008/09, attached as APPENDIX B.**
- **Note the Risk-Assessment Model attached as APPENDIX C**
- **Approve the revised approach to the material and low-risk reviews as outlined in this report**

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

## **STRATEGIC AUDIT PLAN AND AUDIT PLAN 2008/09**

### **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 2008/09 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.
- 2.4 Members of the Audit Committee endorsed this approach at their meeting on 18<sup>th</sup> April 2007 – Minute AUC.24/07 refers.

### **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. Reference has also been made to those systems that have been identified by the Directorates as being "business critical". The model itself is line with a version that has been endorsed by CIPFA and by the Institute of Internal Auditors.
- 3.2 The 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 For the past 12 years, the number of "material" reviews (i.e. those which have an impact of

at least £0.5million on the Authority's accounts) has gradually risen to 14.

- 3.4 Our approach has, until now, been that all of these systems would receive a comprehensive review by Audit Services every year. This was agreed with the External Auditors.
- 3.5 Under the revised reporting procedure/standard, Audit Services are now providing an "assurance rating" for each completed review, varying from the lowest level – "none" to the highest level – "substantial".
- 3.6 The 14 areas referred to above fall into two discernible groups – those with an effect in excess of £10 million, and those under this figure –

**Group 1 (to nearest £m)**

		<b>2007/08 Status</b>
• Fixed Assets	£131m	Reasonable
• Main Accounting – Budgetary Control	£61m	Substantial
• Council Tax	£40m	Substantial
• Treasury Management	£40m	Substantial
• NNDR	£31m	Reasonable
• Housing Benefits	£26m	Substantial
• Creditor Payments	£25m	Substantial
• Payroll	£21m	Reasonable
• Cash Management	£14m	Substantial
• Sundry Debtors	£12m	Substantial

**Group 2 (to nearest £m)**

		<b>2007/08 Status</b>
• Car Park Income	£1.6m	Reasonable
• Bereavement Services	£1m	Reasonable
• Improvement Grants	£0.85m	Reasonable
• Planning Fees	£0.53m	Reasonable

3.7 Proposed Change – Group 1

- 3.7.1 It is now proposed that there should be two levels of review by Audit Services.
- 3.7.2 In any given year, a full review would continue to be undertaken for those areas where, as a result of the previous review, the assurance level was "reasonable" or lower.
- 3.7.3 For those reviews where the level of assurance was determined as "substantial", then the

following procedure for a “reduced review” should apply –

- Ensure that all previous recommendations have been actioned satisfactorily
- Ensure that systems notes/diagrams are up-to-date
- Review the impact of any significant changes e.g. to legislation; systems; key personnel etc
- Carry out a “walk-through” test to ensure that the system as recorded is still operated correctly – expand the review if this was not found to be the case.

3.7.4 The reduced review would always be followed by a full review in the following year, even where the level of assurance remained as “substantial”.

3.7.5 In effect, this would result in those “substantial” systems being reviewed fully over a two-year period rather than every year.

3.7.6 If at any point reason arose to cause concern relating to any system, it would automatically revert to an annual review until a reasonable assurance level was re-instated.

3.7.7 The above would mean that even if (and hopefully when) all of the above systems achieved a substantial status, they would be reviewed as “5 full and 4 reduced” followed the next year by “4 full and 5 reduced”.

3.7.8 The **minimum** number of full reviews in any year would therefore be 4, and the **maximum** number of “reduced” would be 5.

### 3.8 Proposed Change – Group 2

3.8.1 The same procedure as for Group 1 above would apply – i.e. the minimum number of full reviews would be 2 in each year.

3.9 The proposal outlined above have been discussed and agreed with the Authority’s External Audit Manager. It should be noted that undertaking the “reduced” reviews in any one year is likely to reduce External Audit’s ability to rely on our work as we will not have tested all of the controls.

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

4.1 As will be seen from the “Audit Risk Assessment – Strategic Risk Based Plan” attached as **Appendix A**, which covers in all some 127 areas for review, the “Calculated Risk

Indicator” 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 :-

<b>RISK</b>	<b>POINTS RANGE</b>	<b>NUMBER OF REVIEWS</b>	<b>%</b>
HIGH	From 53 to 77	15	12
MEDIUM	From 27 to 52	45	35
LOW	From 2 to 26	67	53
<b>TOTAL</b>	<b>From 2 to 77</b>	<b>127</b>	<b>100</b>

- 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, subject to budgetary considerations, 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 approved by the Director of Corporate Resources and will be recorded and reported to Members in the Head of Audit Services’ quarterly reports.
- 4.5 As previously agreed by Members, the 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 considered. 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 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.
- 4.8 Finally, it can be seen from this approach that a significant number (67) of the areas listed on the Strategic Plan as “low-risk” would be extremely unlikely ever to rank highly enough to warrant an audit review based on their current risk indicator. One inevitable result of this is that the risk-based formula is not currently “tested” at the lower end of the scale. 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. A revised approach to “low-risk” reviews is now proposed. This approach has also been discussed and agreed with the Authority’s External Auditors. Details of the proposed approach are outlined as following for Members’ consideration and approval.
- 4.8.1 There are 67 potentially auditable areas included in the Strategic Audit Plan which, as previously reported to Members, will never receive attention as the emphasis each year has inevitably been on the High and Medium Risk areas.



- 4.8.2 This presents the Authority with a “Catch 22” situation. We do not review these because we have deemed the risk-rating to be too low to merit a review, but unless we do review them at some point, we will not know whether our original assessment remains valid.
- 4.8.3 It is therefore proposed that an allowance of say 40 days should initially be included in the Annual Plan for 2008/09 to review a small number of low-risk areas in order to gain assurance that our risk-model is operating accurately at both “ends of the scale”. This would be reviewed on an annual basis dependent on the outcome of the 2008/09 reviews.
- 4.8.4 This would also provide the facility to have a number of smaller, quicker reviews to fall back on when – inevitably – an audit is delayed through staff absence, etc. It would also provide a means of “basic training” for new/inexperienced audit staff.

## 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 2008/09, attached as **APPENDIX B**.
- Note the revised Risk-Assessment Model attached as **APPENDIX C**
- Approve the revised approach to the material and low-risk reviews as outlined in this report.

Head of Audit Services

April 2008.

**APPENDIX A****Audit Risk Assessment****Strategic Plan 2008-09**

Directorate	Audit Type	Audit Area	Level of Risk	Total Risk Calculated Score	Comments
Corporate Services	RISK BASED	Capital Programme	High Risk	77	
Carlisle Renaissance	CORPORATE	Carlisle Renaissance (individual projects)	High Risk	77	
Community Services	RISK BASED	ECCP	High Risk	77	
Corporate Services	RISK BASED	Procurement	High Risk	73	
Community Services	RISK BASED	Customer Contact Centre	High Risk	69	
Development Services	RISK BASED	External Funding / Grant Monitoring	High Risk	67	
Corporate Services	MATERIAL	General Ledger	High Risk	65	Material Systems Review
Corporate Services	MATERIAL	Fixed Assets	High Risk	64	Material Systems Review
Community Services	RISK BASED	Recycling	High Risk	62	
Community Services	RISK BASED	Refuse Collection	High Risk	62	
Development Services	RISK BASED	Supporting People (Homelessness/Hostels/Housing Assoc)	High Risk	61	
Community Services	RISK BASED	Facilities Management / Building Maintenance	High Risk	60	
Development Services	RISK BASED	Building Control	High Risk	54	

People Policy and Performance	CORPORATE	Partnership Development	High Risk	53	
Development Services	RISK BASED	Maintenance and Development of the Property Portfolio (AMP)	High Risk	53	
Community Services	CORPORATE	Quality Management / Accreditations/ Standards	Medium Risk	52	
Corporate Services	RISK BASED	Highways Maintenance (inc Claimed Rights)	Medium Risk	49	
Development Services	RISK BASED	Development Control inc. Access Grants	Medium Risk	48	
Development Services	RISK BASED	Energy Efficiency	Medium Risk	48	
Corporate Services	COMPUTER	Physical and Environmental IT Controls	Medium Risk	47	
Corporate Services	COMPUTER	Post Implementation Review	Medium Risk	45	
Community Services	RISK BASED	Highways Insurance Claims	Medium Risk	45	
People Policy and Performance	CORPORATE	Business Continuity Planning (Inc IT Recovery)	Medium Risk	45	
Corporate Services	COMPUTER	IT Project Management Controls	Medium Risk	43	
Corporate Services	RISK BASED	VAT	Medium Risk	43	
People Policy and Performance	MATERIAL	Payroll	Medium Risk	42	Material Systems Review
Legal and Democratic Services	CORPORATE	Reporting Arrangements	Medium Risk	41	
Corporate Services	RISK BASED	Concessionary Fares	Medium Risk	41	
Legal and Democratic Services	CORPORATE	Tendering / Contracting	Medium Risk	40	
Legal and Democratic	RISK BASED	Electoral Registration and inc. Fees and Expenses	Medium Risk	40	

Services					
Corporate Services	COMPUTER	Change Control	Medium Risk	40	
People Policy and Performance	CORPORATE	Equality and Diversity	Medium Risk	40	
Community Services	RISK BASED	Transport and Plant	Medium Risk	37	
Corporate Services	COMPUTER	IT Strategy (inc Security)	Medium Risk	37	
People Policy and Performance	RISK BASED	Media relations, PR, Corporate Identity & Marketing	Medium Risk	36	
People Policy and Performance	RISK BASED	Community Safety & Anti Social Behaviour - CDRP	Medium Risk	36	
Community Services	RISK BASED	Tullie House - arts and museums inc Guildhall	Medium Risk	36	
People Policy and Performance	CORPORATE	Emergency Planning	Medium Risk	36	
Corporate Services	MATERIAL	Housing & Council Tax Benefits	Medium Risk	35	Material Systems Review
People Policy and Performance	CORPORATE	Health & Safety	Medium Risk	35	
Development Services	CORPORATE	GIS	Medium Risk	35	
Development Services	RISK BASED	Industrial Estates	Medium Risk	33	
Corporate Services	MATERIAL	Council Tax	Medium Risk	33	Material Systems Review
Community Services	RISK BASED	SureStart	Medium Risk	31	
People Policy and Performance	RISK BASED	Information Management (FOI/DP/Records management)	Medium Risk	31	

Development Services	RISK BASED	Corporate Properties (town centre)	Medium Risk	31	
Corporate Services	COMPUTER	Network Controls	Medium Risk	31	
Community Services	MATERIAL	Parking, Car Park Patrol/Wardens	Medium Risk	31	Material Systems Review
Corporate Services	RISK BASED	Telephones	Medium Risk	31	
People Policy and Performance	RISK BASED	Training and Development (employees & Members)	Medium Risk	31	
People Policy and Performance	CORPORATE	Risk Management	Medium Risk	30	
Development Services	RISK BASED	City Centre Management / Tourism Marketing	Medium Risk	29	
Corporate Services	CORPORATE	Compliance to Codes of Conduct	Medium Risk	29	
People Policy and Performance	CORPORATE	Sickness Monitoring	Medium Risk	29	
Legal and Democratic Services	RISK BASED	Land Charges	Medium Risk	27	
Community Services	RISK BASED	Street Cleaning	Medium Risk	27	
Development Services	RISK BASED	General Management of Property Portfolio	Medium Risk	27	
Community Services	RISK BASED	Community Wardens (Eco / Dog Wardens)	Medium Risk	27	
People Policy and Performance	RISK BASED	Non Standard Payments to Employees	Medium Risk	27	
Corporate Services	CORPORATE	Recharges	Medium Risk	27	
Corporate Services	MATERIAL	Debtors	Low Risk	26	Material Systems Review

Corporate Services	MATERIAL	Creditors	Low Risk	26	Material Systems Review
Development Services	RISK BASED	Health Promotion & Partnerships	Low Risk	26	
Corporate Services	MATERIAL	NNDR	Low Risk	25	Material Systems Review
Corporate Services	RISK BASED	Automated Payments System	Low Risk	25	
Community Services	RISK BASED	Building Resources / Cleaning	Low Risk	24	
Corporate Services	MATERIAL	Treasury Management	Low Risk	24	Material Systems Review
Community Services	RISK BASED	Sports Development	Low Risk	22	
Development Services	RISK BASED	Tourist Information Centres- Carlisle, Brompton & Longtown	Low Risk	22	
Community Services	RISK BASED	Community Events	Low Risk	21	
People Policy and Performance	CORPORATE	Flexitime	Low Risk	21	
Development Services	MATERIAL	Improvement Grants	Low Risk	21	Material Systems Review
Community Services	RISK BASED	Talkin Tarn	Low Risk	21	
Community Services	RISK BASED	Grounds Maintenance (inc Arboriculture)	Low Risk	21	
Community Services	RISK BASED	Landscape Services, Countryside Support	Low Risk	21	
Development Services	RISK BASED	Brompton Business Centre	Low Risk	21	
People Policy and Performance	RISK BASED	PAYE & NI	Low Risk	21	
Community	MATERIAL	Bereavement Services	Low Risk	20	Material

Services	AL				Systems Review
Legal and Democratic Services	RISK BASED	Licensing	Low Risk	20	
Development Services	RISK BASED	Enterprise Centre	Low Risk	19	
Development Services	MATERIAL	Planning Fees	Low Risk	19	Material Systems Review
Community Services	RISK BASED	Garage	Low Risk	19	
Community Services	RISK BASED	Pollution Control & Contaminated Land)	Low Risk	18	
Development Services	RISK BASED	Business Development	Low Risk	18	
Corporate Services	MATERIAL	Income Management & Cash Collection	Low Risk	18	Material Systems Review
Development Services	CONTRACT	Monitoring service delivery of CHA	Low Risk	18	
Corporate Services	RISK BASED	Printing	Low Risk	18	
Community Services	RISK BASED	Food Standards inc H and S inspections	Low Risk	18	
Community Services	RISK BASED	Pest Control	Low Risk	17	
Community Services	RISK BASED	Playground Maintenance	Low Risk	17	
Community Services	RISK BASED	Children & Young People	Low Risk	17	
People Policy and Performance	CORPORATE	Salary Sacrifice	Low Risk	16	
Corporate Services	COMPUTER	Internet Controls	Low Risk	16	
Corporate Services	RISK BASED	Insurance	Low Risk	16	
Legal and	RISK	Gifts and Hospitality	Low Risk	16	

Democratic Services	BASED				
Corporate Services	COMPUTER	Application Controls	Low Risk	15	
Development Services	RISK BASED	Covered Market	Low Risk	15	
People Policy and Performance	RISK BASED	Payments to Members	Low Risk	15	
Corporate Services	COMPUTER	E-Government	Low Risk	15	
Corporate Services	COMPUTER	PC Controls	Low Risk	15	
Community Services	RISK BASED	Public / Street Lighting	Low Risk	15	
Corporate Services	COMPUTER	E Commerce Controls	Low Risk	14	
Corporate Services	COMPUTER	Procurement of IT Facilities	Low Risk	14	
Community Services	RISK BASED	Parks and Open Spaces (inc Park Wardens)	Low Risk	14	
Community Services	RISK BASED	Local land and Conservation	Low Risk	14	
Community Services	RISK BASED	Advice Agencies (inc Benefits Advice, Law Centre, CAB)	Low Risk	14	
People Policy and Performance	RISK BASED	Early Retirement & Redundancy	Low Risk	14	
Corporate Services	RISK BASED	Grants to Parish Councils	Low Risk	14	
Community Services	RISK BASED	Land Drainage	Low Risk	14	
People Policy and Performance	CORPORATE	Council Complaints Procedure inc LG Ombudsman	Low Risk	13	
Corporate Services	COMPUTER	File Controls	Low Risk	12	
Community Services	RISK BASED	Civic Centre Keepers / Building Security	Low Risk	11	



Community Services	CONTRACT	Leisuretime/Carlisle Leisure (client)	Low Risk	11	
Community Services	RISK BASED	Community Engagement	Low Risk	11	
Corporate Services	COMPUTER	IT Management and Financial Controls	Low Risk	10	
Community Services	RISK BASED	Leisure Grants (inc Sports Development and L&D Grants)	Low Risk	9	
Development Services	RISK BASED	Carlisle Conference Group	Low Risk	9	
Legal and Democratic Services	CORPORATE	Mayor & Civic Services	Low Risk	9	
Community Services	RISK BASED	Allotments	Low Risk	9	
Corporate Services	CORPORATE	Corporate Charge Card	Low Risk	9	
Legal and Democratic Services	RISK BASED	Town Twinning	Low Risk	8	
Development Services	RISK BASED	Shopmobility	Low Risk	8	
Corporate Services	RISK BASED	Car Leasing/Car loans	Low Risk	8	
Community Services	RISK BASED	Stores	Low Risk	7	
Corporate Services	RISK BASED	Mortgages	Low Risk	6	
Community Services	RISK BASED	Public Conveniences	Low Risk	4	
Community Services	RISK BASED	CCTV	Low Risk	2	

**CARLISLE CITY COUNCIL**  
**CORPORATE SERVICES DIRECTORATE**

**AUDIT SERVICES**

**SUMMARY AUDIT PLAN 2008/09**

Chargeable time – estimated available 808 "audit-days"

The following are anticipated: -	<u>Estimated Days</u>
Material Systems Reviews (*)	225
VFM/Performance Reviews/Shared Services etc	100
Follow up reviews	10
Corporate – "Good Governance Statement"/Action Plan	50
Performance Indicators	<u>15</u>
Total	<u>400</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
- Fixed Assets
- Planning Fees
- Bereavement Services
- Improvement Grants
- Car Parking Income
- IT Security

Based on estimated staff resources, this leaves 408 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

SIZE

CONTROL

DETECTION

$$\frac{(2A + B + 3C + D)}{32}$$

X

$$\frac{(2F + G + 3H + 3J)}{42}$$

X

$$\frac{(K + 2L + 2M + 2N)}{35}$$

32

42

35

THE RESULT IS THEN MULTIPLIED BY 200



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## **EXCERPT FROM THE MINUTES OF THE AUDIT COMMITTEE HELD ON 15 APRIL 2008**

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### **AUC.22/08 STRATEGIC AUDIT PLAN AND AUDIT PLAN FOR 2008/09**

The Head of Audit Services submitted report CORP.4/08 providing details of the updated Strategic Audit Plan and the proposed Audit Plan for 2008/09.

He referred Members to the Risk Assessment Model (entitled 'Audit Risk Assessment – Strategic Risk Based Plan') which had been updated based on known changes to procedures, findings arising from Audit Reviews, etc.

The Risk Assessment Model was also attached for Members' information. Whilst still in effect an Audit Plan, that approach did not envisage coverage of all audit areas over any pre-determined period. Instead, the model was dynamic by identifying the risk areas which could be addressed on any given time-scale, depending on the number of Audit staff available, ad-hoc demands, etc. Where possible, Audit Reviews had been grouped together to develop a 'theme-based' approach.

A revised approach to the material and low-risk reviews was outlined in the report and the Head of Audit Services sought Members' approval in respect thereof.

RESOLVED – (1) That the revised Audit Risk Assessment (Strategic Risk Based Plan) attached at Appendix A to report CORP.4/08 be endorsed and submitted to the City Council for approval.

(2) That the Internal Audit Plan for 2008/09 attached at Appendix B to the report be approved.

(3) That the revised Risk-Assessment Model attached at Appendix C to the report be noted.

(4) That the revised approach to the material and low-risk reviews as outlined in the report be approved.