

REPORT OF SERVICE DIRECTOR, FINANCE AND PROCUREMENT

INTERNAL AUDIT RISK ASSESSMENT PROCESS

Purpose of the Report

1. At the Audit Committee on 12th June 2013, Members requested further information on the process used to assess risk, in determining areas to be included in the Internal Audit Plan. This report outlines the background to the assessment, the process followed for 2013/14, and invites comment on the planning process to help inform the planning for 2014/15.

Information and Advice

2. The work of Internal Audit is carried out in compliance with the Public Sector Internal Audit Standards, which came into force from 1st April 2013. The Standards are split into 2 categories: Attribute Standards and Performance Standards as set out below.

Attribute Standards

Purpose, authority and responsibility
Independence and objectivity
Proficiency and due professional care
Quality assurance and improvement programme

Performance Standards

Managing the internal audit activity
Nature of work
Engagement planning
Performing the engagement
Communicating results
Monitoring progress
Communicating the acceptance of risks

3. The Standard for ***managing the internal audit activity*** requires that the Head of Internal Audit develop a risk-based plan to determine the priorities of the internal audit activity consistent with the Authority's goals. The risk assessment must be documented, undertaken at least annually, and consider the expectations and input from senior management and the Audit Committee.
4. The process followed in developing the 2013/14 Internal Audit Plan has been developed and refined over a number of years and is set out below.

5. The first stage in carrying out the risk assessment is to identify the complete range of potential areas (the audit universe) which need to be subject to audit. Information is gathered from a wide range of sources, including:-
- Previous audit plans
 - The Authority's budget plans
 - Structure charts
 - Scanning of media for service or political developments
 - Liaison with professional bodies
 - Consultation with colleagues
 - Review of risk registers
 - Discussion with departmental colleagues
 - Discussion with colleagues in other authorities
6. Following compilation of the audit universe, each potential audit area is assessed using 9 different factors, to compare the relative risk of individual areas. The factors currently used are:-
- Expenditure (£m)
 - Stability (new system or well-established system)
 - Sensitivity (to publicity)
 - Internal control (assurance provided at previous audit)
 - Volume of transactions
 - Cash risk (the risk associated with cash transactions is higher than non-cash transactions)
 - Complexity (some areas are inherently complex)
 - Time since previous audit
 - Number of sites (risk increases as the number of sites increases)
7. The factors are weighted, using audit judgement, as some are more important than others. As an example, if the level of internal control is known to be weak, this is more important than the expenditure associated with the area.
8. Each area is assessed for each of the 9 different weighted factors to allow them to be compared with each other. This results in approximately 500 areas with an associated risk score. An example of the types of risk scores calculated is set out as an appendix.
9. The areas are categorised as High, Medium, or Low Risk dependent on their score. At this stage, a further reasonableness check is carried out, to identify whether any of the results appear to be wrong. If necessary, the scoring system is revisited to correct any anomalies.
10. The Annual Audit Plan is then compiled. Areas with a High Risk are scheduled for audit every 2 years, whilst areas with a Medium Risk are scheduled for audit every 3 years. Low Risk areas are not currently audited as a matter of routine, however they are still assessed in subsequent planning rounds and may be re-categorised as a result.

Other Options Considered

11. This report is for information and noting only.

Reason/s for Recommendation/s

12. To provide information to Members on the process used by Internal Audit to assess risk.

Statutory and Policy Implications

13. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

1) That Members note the process used in compiling the risk assessment for 2013/14 and raise any comments or questions, to help inform the process for 2014/15.

Paul Simpson
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For any enquiries about this report please contact:

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Constitutional Comments

This report is for noting only.

Financial Comments (JMB 18/11/13)

The work of Internal Audit is designed to ensure that efficient and effective systems are in place to manage risk, ensure effective control is in place and demonstrate sound governance. This report highlights the process used to allocate limited internal audit resources to achieve the maximum benefit.

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972:

None.

Electoral Division(s) and Member(s) Affected

All