

## **Audit and Governance Committee**

4 October 2006

Report of the Assistant Director (Audit and Risk Management)

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## **Strategic Audit Plan – Consultation**

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### **Summary**

- 1 The purpose of the report is to give Members the opportunity to contribute to the annual review and update of the internal audit risk assessment and five year strategic audit plan.

### **Background**

- 2 The 2006/07 Audit and Fraud Plan was approved by this Committee on 6 June 2006. In accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit the audit plan was prepared on the basis of a risk assessment process. The risk assessment methodology is designed to ensure that the limited audit resources available are prioritised towards those systems and areas which are considered to be the most risky and/or which contribute the most to the achievement of the Council's corporate priorities and objectives.

### **Risk Assessment Methodology**

- 3 The current risk assessment methodology was last reviewed as part of the project to implement the Galileo Audit and Risk Management software in January 2006. Unlike the corporate risk management process which identifies the impact and likelihood of specific risks the aim of the audit risk assessment model is to assess the overall level of inherent risk associated with each 'auditable' area.
- 4 Seven risk factors are used in the risk model with each one given a weighting of between 1 and 3 to reflect the likely impact of individual risks on the overall risk score. The overall score can also be supplemented by any specific risks identified through the corporate risk management process. The individual risk factor scores are formally reviewed and updated on an annual basis as part of the process for preparing the following year's audit plan. The individual risk scores are however kept under constant review and will be amended to reflect any new or emerging risk issues. The risk factors used in the model are as follows;

Risk Factor	Weighting
Materiality	3
Complexity	3
Fraud and Corruption	1
Stability	2
Management Arrangements	1
Control Environment	3
Inspection Regime	2
Plus – any significant risks identified through the corporate Risk Management process	3

Each risk factor is given a score of between 0 and 5 (with 5 being classed as the highest risk). Annex A provides details of the guidance used to assess each risk factor. The total risk score for any area can vary between 0 and 90.

- 5 Each 'auditable' area is then categorised as 'high', 'medium' or 'low' risk depending on the overall risk score as follows;

Overall Risk Score	Risk Category
0 - 27	Low
28 - 53	Medium
> 53	High

## Strategic Audit Plan

- 6 The five year strategic audit plan is updated with the risk score for each 'auditable' area. The aim is to ensure that audit resources are prioritised so as to ensure that;
- a) high risk areas are reviewed on an annual basis;
  - b) medium risk areas are reviewed every two or three years;
  - c) low risk areas are reviewed once every five years (subject to resourcing constraints).
- 7 A copy of the latest Strategic Audit Plan is attached as Annex B for information. The time allocated to each audit is based on previous audit experience and an understanding of the likely resource requirements for that type of assignment.
- 8 Current staffing levels within Internal Audit do not allow all the identified systems and other auditable areas within the Strategic Plan to be reviewed in accordance with the required frequency. The shortfall is approximately 500 days per annum. The scope for choice is also restricted because;

- a) the Audit Commission expect that all the main financial systems will be audited annually irrespective of the identified risk;
  - b) specific audit work is required to support the preparation of the annual Statement of Internal Control (which is published as part of the Statement of Accounts) and the Breaches and Waivers report;
  - c) time must be allocated to investigate possible fraud and corruption, and participate in the Audit Commission's National Fraud Initiative;
  - d) contingency time also has to be set aside to undertake urgent or unplanned work which may arise during the year.
- 9 The current shortfall in audit resources has resulted each year in some of the planned audit work having to be deferred to later years. As a consequence many of the audit areas, particularly those classified as medium or low risk are not being reviewed as frequently as required.
- 10 The annual review of the risk assessment and strategic plan is due to be undertaken in October as the starting point for preparing the 2007/08 Audit Plan.

### **Issues for Possible Consideration**

- 11 Members are therefore asked to consider and comment on the following issues;
- a) Is the current risk assessment methodology adequate for the purpose of prioritising audit work/resources?
  - b) Does the outcome of the risk assessment process appear accurate and does it reflect Members understanding of the risks facing the Council?
  - c) Is the strategic audit plan complete or are there other areas which Members consider should be subject to audit review (for example, operational systems or processes which contribute to the effectiveness of the Council's overall governance framework)?

### **Consultation**

- 12 Not relevant for the purpose of the report.

### **Options**

- 13 Not relevant for the purpose of the report.

### **Analysis**

- 14 Not relevant for the purpose of the report.

## Corporate Priorities

15 This report contributes to the corporate priority of improving efficiency and reducing waste so as to free up more resources. The report also contributes to the overall effectiveness of the Council's internal management & assurance arrangements by helping to achieve the following corporate objectives;

- Ensure probity, integrity and honesty in everything we do (Objective 8.3).
- Improve the forward planning, openness, propriety, speed and effectiveness of decision-making (Objective 8.4).
- Continue to provide sound and timely financial management and improve medium and long term financial planning (Objective 8.6).

## Implications

16 The implications are;

- **Financial** – there are no financial implications to this report.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** - there are no equalities implications to this report.
- **Legal** - there are no legal implications to this report.
- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.
- **Property** - there are no property implications to this report.

## Risk Management Assessment

17 The Council may fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if audit plans are not based on an appropriate assessment of the likely risks. This in turn would adversely impact on the Council's Comprehensive Performance Assessment (CPA) score for the Use of Resources and therefore its overall CPA score when this is re-assessed in 2007.

## Recommendation

18 Members are asked to;

- note the existing audit risk assessment and planning process and identify suggested changes for inclusion in the 2007/08 Audit Plan.

Reason

*To ensure that scarce audit resources are used effectively.*

**Contact Details**

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**Report Approved**



**Date** 18 September  
2006

**Specialist Implications Officers**

Not applicable

**Wards Affected:** Not applicable

**All**



**For further information please contact the author of the report**

**Background Papers**

None

**Annexes**

Annex A – risk assessment criteria.  
Annex B – five year strategic audit plan.