

THE STANFORD UNIVERSITY MODEL

The Stanford University Model was developed on the basis of empirical studies about the predictors of risk. The classes of predictor selected were:

- Materiality;
- Most recent audit rating
- Interval since last audit
- Quality of Staff and Management
- Changed Circumstances.

The Model as designed also made provision for an explicit statement of audit management's opinion as to the risks associated with individual entities.

The following table shows the individual predictors considered in each of the classes identified and the weightings applied to each of the classes. For indicative purposes, the characteristics associated with selected scores have been set out in the table. For each individual predictor, the maximum score is 5 and the minimum 1; within each class the scores for individual predictors are totalled; for each class the total score is multiplied by the specified indicator. (For example the total for Materiality would be multiplied by 15%)

The Table also shows how the hypothetical maximum and minimum risk scores would be built up.

Weighting for group of impacts	impacts	Score 1 for:	2	3	4	Score 5 for:	Example max	Example min
Materiality (15%)	size of entity	one or few employees deliver service				all employees critical to effective entity	5	1
	volume of transactions	low				high	5	1
	Financial Exposure	failure does not have any impact on the Council's financial position				failure may have a catastrophic impact on the Council's ability to deliver services	5	1
	Regulatory Exposure	entity is not subject to a regulatory regime				Failure may involve criminal action against managers	5	1
	Adverse Publicity	failure not apparent to public or significant stakeholders				Failure may result in public criticism of the council at the national level	5	1
	Budget	low				Entity impacts on all budgets	5	1
						Materiality score	0.8	0.2
25%	Assurance Rating	good	sound	marginal	unsatisfactory	unsound	5	1
						Assurance rating score	1.25	0.25
20%	Time since last audit	current year	one year	two years	three years	three years + or never	5	1
						Time since last audit score	1	0.2
Personnel & Management (10%)	Experience of management and staff	All managers and employees meet fully job profiles and person specifications	Issues around current or recent mgt vacancies			managers and key employees lack relevant skills, qualifications and experience	5	1
	Control awareness	relevant employees demonstrate awareness of key controls and their individual responsibilities				evidence that controls are seen as a barrier to effective service delivery	5	1
	Staff turnover	low				high	5	1
	Reliance on management	demonstrated ability to identify and manage risks				demonstrated lack on engagement with management of key risks	5	1

Weighting for group of impacts	impacts	Score 1 for:	2	3	4	Score 5 for:	Example max	Example min
						Personnel & Mgt score	0.5	0.1
10%	Audit Opinion	No concerns		no audit evidence		significant concerns	5	1
						Audit opinion score	0.5	0.1
Events (20%)	New systems or innovations	No change in recent years				implementation of new system has demonstrably compromised control framework	5	1
	Legislative change	No change in recent years				significant changes : full details of new statutory framework unclear	5	1
	Changes in environment	No change in recent years: supportive of entity's activities	No change in recent years: the entity has adapted			significant changes compromise entity's ability to deliver	5	1
						Events score	1	0.2
							max	min
						Total risk score examples	5	1