REPORT NO: 106/2011

AUDIT & RISK COMMITTEE

27th September 2011

AUDIT RISK ASSESSMENT PROCESS

Report of the Head of Welland Internal Audit Consortium

CORPORATE AIM	**A well managed organization**

1. PURPOSE OF THE REPORT

1.1 To provide Members with an explanation of the Audit Risk Assessment process that is the basis for producing the Annual Audit Plan. The CIPFA Code of Practice requires that the Committee is provided with all the information necessary to allow for an informed dialogue with the Head of Consortium on the development of each year's Audit Plan.

1.2 To provide assurance that Annual Audit Plan for 2011/12 was soundly based and that there is a reliable profile of the Council's audit risks upon which to base the 2012/13 planning process.

2. RECOMMENDATIONS

2.1 That the report be noted.

3. AUDIT RISK ASSESSMENT PROCESS

3.1 The Consortium operates in compliance with the CIPFA Code of Practice. This requires the adoption of a risk-based approach to the development of the Annual Audit Plan. This means that, as part of the planning process, an estimate is produced of the level of risk associated with each of the entities subject to audit: all else being equal, entities with the highest level of risk are the ones included in the Audit Plan. In practice, however, the need to satisfy External Audit requirements means that the Audit Plan is stratified to ensure that:

- All Key Financial Systems are subject to audit; and
- Assurance can be provided about the highest risk entities relating to IT; Governance and Performance; and Customer Facing Services.

3.2 The Consortium has adopted the Stanford Audit Planning Model as the tool to produce individual risk assessments and develop a profile of the Council's overall audit risk. The Model was developed by Stanford University on the basis of empirical studies and is now widely used in UK local authorities, where it is recognized to represent good practice. Appendix A shows the Model in outline identifying the issues taken into account and the way in which different issues are given greater or lesser weight.

3.3 Risk-based auditing involves the provision of assurance that the Council's managers have taken appropriate steps to manage and mitigate the risks that they judge to be significant. It is normal practice to use the Model to capture the informed professional judgement of the relevant Heads of Service with the Head of Consortium acting as moderator. The Annual Audit Plan for 2011/12 was developed, towards the end of the restructuring exercise at a time when the majority of the Heads of Service were newly appointed and the Services themselves had been subject to material changes. When they considered the Annual Plan, Members were advised that those factors combined to reduce confidence in the accuracy of risk assessments and an undertaking was given to revisit the risk profile once newly appointed Heads of Service had the opportunity to familiarize themselves with their Service-specific risks.

3.4 An exercise was undertaken over the period from May to July during which each Head of Service met with the Head of Consortium. New risk assessments were completed for all entities and a new risk profile was developed. Appendix B shows that:

- Within the four classes of audit entity examined, significant changes in risk assessment are concentrated within Customer Facing Services. This reflects the fact that this is the class of entities where most changes have been made in response to the Council's restructuring – and hence a less clear initial appreciation of relevant risks.
- Ratings for Fundamental Financial Systems fell – because all of these entities were subject to audit in the first part of 2011/12.
- The entities included in the Annual Plan still have high enough risk scores to justify auditing in the current year. In the case of "Other Financial Systems" and "Customer Facing Services" the entities included in the Plan continue to demonstrate the highest scores. In the case of "Governance & Performance", two of the three entities in the Plan have the highest scores while the third remains amongst the high scores.

3.5 Based on the exercise reported in Appendix B, the Annual Plan for 2011/12 is soundly based. All Fundamental Financial Systems require annual audit to meet the requirements of External Audit and the scores arising from the exercise do not indicate any significant change in responsible managers' assessments of risk. The Other Financial Systems to be audited have the highest risk ratings in that category of work. In the category Governance & Performance there has been a general increase in risk ratings – as might be expected - but there is nothing unreasonable about retaining in the Plan the three entities originally identified. In the category Customer Facing Services, the highest rated entity "Home Care" was excluded from the Plan but provision has been made for consultancy work to support a scheduled review of Home Care arrangements. The second highest rated entity "Development Control" is in the Plan and is being audited at the date of this report.

3.6 For completeness, Members should note that the planning of IT Audit work is based upon a specialist analysis of risks undertaken for the Consortium by KPMG. The requirement for Counter-Fraud work is determined with input from the Director of Resources in line with her Section 151 responsibilities.

RISK MANAGEMENT

RISK	IMPACT	COMMENTS
Time	**Low**	The report does not prompt or require any time-bound response
Viability	**Low**	There are no resourcing issues arising
Finance	**Low**	There are no financial issues arising
Profile	**Medium**	The report should improve the effectiveness of the Committee
Equality and Diversity	**Low**	EIA screening indicates no issues arising therefore full Impact Assessment has not been carried out.

Background Papers
None

Report Author
Richard Gaughran
Tel No: (01572) *722577*
e-mail: enquiries@rutland.gov.uk

A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.