

AUDIT PLANNING 2014-15 – RISK MATRIX APPROACH

1 SUMMARY

- 1.1 This report sets out the approach to be taken to carrying out the risk assessment that will underpin the development of the internal audit plan for 2014-15. It sets out the broad themes for the internal audit plan for 2014-15 and the risk factors to be taken account of.

2 RECOMMENDATION

- 2.1 The Audit Committee approve the principles of the risk assessment process to be used in development of the 2014-15 internal audit plan.

3 DETAIL

- 3.1 The Council prepares an internal audit plan each year. The internal audit plan sets out the programme of internal audit activity for the year. It is approved in advance by the Audit Committee. Good practice recommends the internal audit plan should be based on risk assessment. The resources available to Internal Audit are limited and it is important that these are directed to the priorities that will most effectively give the Audit Committee the assurance it requires. The risk assessment process is critical to this.
- 3.2 As part of the review of Internal audit against the Public Sector Internal Audit Standards (PSIAS) it was identified that there were opportunities to improve the approach to risk assessment and planning of internal audit activity. The Audit Committee has also been monitoring the development of the Council's approach to risk management and the strategic risk register (SRR). As part of that role it has considered how the Audit Committee can obtain assurance on the Council's approach to risk management and how risk can be used in development of the audit plan and along with the SRR be a focus for assurance.
- 3.3 Arising from the above it was agreed at the September meeting of the Audit Committee that a revised approach to the risk assessment and its role in audit planning be brought forward to the December meeting of the Audit Committee.
- 3.4 The internal audit plan for 2014-15 will be brought to the Audit Committee in March for approval. In considering the draft internal audit plan for 2014-15 the Audit Committee will want to understand how the draft plan has been influenced by and taken account of risk. The risk assessment process is a critical element of developing the draft internal audit plan. Given this it is important the Audit Committee agree the principles on which the risk assessment will take place. This report sets out the proposed approach to carrying out the risk assessment and development of the draft internal audit

plan for 2014-15.

- 3.5 The Audit Committee also requested that an audit of risk management be undertaken in 2013-14. This will be carried out by Grant Thornton over the January to March period. It will include consideration of the Council's position as set out in the CIPFA/ALARM benchmarking review. This will provide assurance on the risk management processes in the Council and the extent to which these can be relied on as part of the risk assessment that underpins the drafting of the internal audit plan for 2014-15. The outcome of the risk management audit will be reported to the Audit Committee in March. The emerging findings from the audit will be taken account of in the risk assessment and draft internal audit plan for 2014-15.
- 3.6 The principles of the risk assessment process and broad structure of the internal audit plan for 2014-15 will be agreed in advance and these are set out in this report. In simple terms these comprise the main themes for the internal audit plan, the risk assessment factors to be used in the risk assessment and how the risk assessment factors will be evaluated.
- 3.7 The draft internal audit plan for 2014-15 will be based on 3 broad themes of:
- Corporate governance arrangements
 - Financial controls
 - Risk based reviews
- 3.8 The element related to corporate governance arrangements will cover the following matters:
- Work to support the corporate governance statement within the Council's annual accounts.
 - Assessing the effectiveness of the internal control framework.
 - Reviewing corporate policies and procedures.
- 3.9 The element related to financial controls will cover core financial systems and processes. This will include transactional processing systems, management information and management controls. This will include consideration of the extent to which external audit plan to rely on the work of internal audit.
- 3.10 Risk based reviews will be based on the risk assessment taking account of the SRR, national issues and a range of other factors.
- 3.11 The first stage on the risk assessment process will be to review the audit universe. The audit universe identifies all the auditable units. These may be key functional units, activities or systems (leisure services) or key activities, systems or processes that are organisation wide and cut across one or more functional units (eg performance management).
- 3.12 The second stage will be to evaluate or assess the risk factors relating to the units in the audit universe. The risk factors to be included in the risk assessment are set out below along with the weighting they will be given in the risk assessment. The risk assessment will take account of probability and impact of risk. The outcome of this will be an assessment of gross audit risk.

Risk Factor	Comment	Weighting
Strategic and operational risks	SRR and corporate plans and priorities including single outcome agreement ORR and service plans and outcomes	40%
Financial risk	volume and value of transactions, cost and income levels etc historic levels and trends of fraud and irregularity	20%
Control environment	internal and external audit and other inspections	20%
Operating environment risks	Organisational structure change, and new legislation etc track record and trend in performance	20%

- 3.13 Stage three will map the assurance the Council already receives and can place reliance on. This would include other audit and inspection activity (eg external audit), other external reviews (eg procurement capability assessment) and management arrangements.
- 3.14 The outcome of stage three would be a net risk relating to the auditable units and this would then be used as the basis for determining the audits that are included in the draft internal audits plan for 2014-15. Priority would be given to including audits for auditable units that have the highest net risk.
- 3.15 On the basis the proposals set out in this report are agreed Grant Thornton in partnership with the staff in Internal Audit will undertake the risk assessment and prepare the draft internal audit plan for 2014-15.
- 3.16 The draft internal audit plan for 2014-15 will be presented to the Audit Committee in March for approval. Prior to this the outcome of the risk assessment and the proposals for the draft plan will be considered by the Strategic Management Team. External Audit will also be consulted as part of this process.

4 CONCLUSION

- 4.1 The risk assessment process will take account of a wide range of risk factors but give prominence to the key risks facing the Council. It will ensure an internal audit plan that is focussed on key risks and the assurance that the Audit Committee requires.

5 IMPLICATIONS

- 5.1 Legal – None
- 5.2 Policy- Sets approach to audit planning.
- 5.3 Financial – None.
- 5.4 Human Resources – None.
- 5.5 Equal opportunities – None.
- 5.6 Customer service - None
- 5.7 Risk – Will see internal audit activity focussed on key risks.

For further information please contact Internal Audit (01546-604759).

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