

COMMITTEE	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
DATE	<b>19 JULY 2018</b>
TITLE	<b>AUDIT ASSURANCE LEVELS AND RISK SCORING ARRANGEMENTS</b>
PURPOSE OF REPORT	<b>MODIFYING THE FORMAT OF AUDIT REPORTS</b>
AUTHOR	<b>LUNED FÔN JONES – AUDIT MANAGER</b>
ACTON	<b>FOR INFORMATION</b>

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## **1. INTRODUCTION**

- 1.1 On 22 June 2017, the Senior Manager Revenue & Risk presented a report on a new framework for scoring the Council's risks to the Audit and Governance Committee. This regime was the product of the work of a Subgroup of the Governance Arrangements Assessment Group.
- 1.2 The report states *"In accordance with Ffordd Gwynedd principles, there is a need for the scoring system to look at the Council's risks from the perspective of the people of Gwynedd. There is also a need for the system to be flexible enough that it can be used across the Council – and for governance risks – whilst remaining meaningful."*

## 2. INTERNAL AUDIT REPORTS

2.1 The latest version of the Public Sector Internal Audit Standards (PSIAS) defines Internal Audit's mission as being *"To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight."* To that end, in order to be at their most effective, the methods applied by Internal Audit need to reflect the corporate approach adopted by the Authority to assess and measure its risks.

2.2 Consideration is given to two factors when scoring the size of these risks:

- The **Impact** of the event if the risk were realised
- The **Likelihood** of the risk being realised.

2.3 "Impact" is given a score of 1 to 5 using the definitions in the table below:

Score	Impact	Definition
5	Catastrophic	A <b>catastrophic</b> effect on any resident (e.g. loss of life) or a <b>destructive</b> effect on the life or well-being of many residents.
4	Destructive	A <b>destructive</b> effect on the life or well-being of several residents (e.g. where the quality of life or the well-being of someone has been effected to the degree that they have an intense need for assistance to allow them to live their lives) or a <b>very substantial</b> effect on many residents.
3	Very Substantial	A <b>very substantial</b> effect on the life or well-being of several residents (e.g. the effect means that their quality of life or well-being is substantially lower than would otherwise be expected for a Gwynedd resident) or a <b>significant</b> effect on a many residents.
2	Significant	A <b>significant</b> effect on the life or well-being of several residents (e.g. an effect on life or well-being, but falling within the expected range of day-to-day life) or a <b>visible</b> effect on many residents.
1	Visible	A <b>visible</b> effect on the life or well-being of some residents (e.g. the effect is visible but not significant to their well-being) or a <b>marginal</b> effect on many residents.

2.4 "Likelihood" is given a score of 1 to 5 using the definitions in the table below:

Score	Likelihood	Definition
5	Happening now	The effect is to be seen now (i.e. it is happening)
4	Very likely	Very likely that it will be seen in the foreseeable future
3	Likely	A chance it may happen, but may not
2	Unlikely	The likelihood of it happening is low – but is still there
1	Very Unlikely	Very unlikely to happen

2.5 Then, Internal Audit will multiply the "Impact" score and "Likelihood" score to give a current risk score for the risks identified for mitigating, and the number of risks will be noted in the corresponding box as shown in the below table:

		Effect				
		Catastrophic 5	Destructive 4	Very substantial 3	Significant 2	Visible 1
Likelihood	Happening now 5	25	20	15	10	5
	Very likely 4	20	16	12	8	4
	Likely 3	15	12	9	6	3
	Unlikely 2	10	8	6	4	2
	Very unlikely 1	5	4	3	2	1

2.6 The current risk score will be categorised in one of four risk categories:

RISK LEVEL	SCORE
VERY HIGH	20 - 25
HIGH	12 - 16
MODERATE	6 - 10
LOW	1 - 5

The risk rating provided will be based on the opinion of the Auditor in consultation with the relevant Audit Leader and the Audit Manager. The number of risks in each category will be reported to the Audit and Governance Committee while the current risk matrix will be provided to the attention of the relevant officers.

2.7 In 2017/18, new arrangements for follow-up audits were established, where each agreed action made in 2016/17 was revisited by asking the unit / service / organisation to send evidence to prove their implementation. Using the above matrix would mean that progress could be reported further in 2019/20 by reporting actions according to the risk score.

2.8 Historically, an audit opinion category was given on audits ranging from "A" to "Ch".

2.9 By now, it would be more appropriate to provide an assurance level for each audit. The level of assurance provided will be based on an evaluation of the internal control environment and the number of risks identified together with their risk score.

2.10 The general assurance levels of audits will fall into one of four categories as shown in the table below

<b>HIGH</b>	Certainty of propriety can be stated as internal controls can be relied upon to achieve objectives.
<b>SATISFACTORY</b>	Controls are in place to achieve their objectives but there are aspects of the arrangements that need tightening to further mitigate the risks.
<b>LIMITED</b>	Although controls are in place, compliance with the controls needs to be improved and / or introduces new controls to reduce the risks to which the service is exposed.
<b>NO ASSURANCE</b>	Controls in place are considered to be inadequate, with objectives failing to be achieved.

### **3. RECOMMENDATION**

3.1 The Audit and Governance Committee is requested to receive this report and comment on the proposed new methodology for providing audit assurance.