APPENDIX III

**RISK FACTOR QUESTIONNAIRE**
**GUIDELINES ON COMPLETION**

1. GENERAL GUIDELINES

1.1. Risk factors under Categories 1,3 and 4 should be graded according to the following scale with definitions adapted as indicated in each case:-

0 = none or not applicable
1 = very low risk
2 = low risk
3 = medium risk
4 = high risk
5 = very high risk.

1.2. Where there is uncertainty on what to grade certain risk factors (e.g. lack of knowledge, failure to reach a consensus, etc.), the auditor should treat the factor(s) in question initially as high risk (i.e. a >4' rating) unless directed otherwise by the Audit Services Manager.

2. CATEGORY 1 - INHERENT RISKS

2.1. Fundamental Systems

2.1.1. These are the 10 principal systems given specific focus for >managed audit= purposes. The systems are:-

Council Tax
NNDR
Housing & Council Tax Benefit
Main Accounting Systems
Payroll
Creditors
Sundry Debtors
Cash Collection
Treasury Management
Housing Rent Accounting

2.1.2. While being subject to the same risk assessment process as all other auditable activities, there is a standing assumption that the above systems will be reviewed each year. In cases where the assessment does not indicate the need for audit each year (see 6.4. below), an additional allocation will be made in each >blank= year equivalent to one third of the notional needs assessment up to a maximum of 5 days to enable minimum coverage of High Level Controls and Key Streams (see Audit Manual 7.4.).

2.2. Legal Provisions

2.2.1. The assessment should consider the extent to which the activity is subject to legal provisions in terms of powers and duties as well as the possible consequences of breach of that duty.

2.2.2. The complexity of relevant legislation and the extent to which it is subject to change should also be considered.

2.3. Other External Influences

2.3.1. Examples here can include:-

(a) agreements with >partnership= or other external organisations (e.g. Highways Agency);
(b) policies of >partnership= bodies or other external organisations;
(c) externally set performance standards;
(d) competitive pressures;
(e) public consultations, responsive services, etc.

2.4. Complexity of Processes

2.4.1. >Complexity= here can be indicated by a combination of:-

(a) volume of >transactions= through the relevant systems;
(b) staffing levels for activity;
(c) extent of management delegation;
(d) prescribed regulations
(e) contract specifications.

2.5. Dependency on Technology

2.5.1. In most cases the >technology= in question will be in the form of a computerised application system and the assessment should have regard to the extent to which the application:-

(a) >automates= the activity in question;
(b) is relied upon for key decision making, operational actions, management review, etc;
(c) interfaces with other key business systems (including internal and external e-business applications).

2.5.2. As well as (or instead of) computerised >business= systems there may also be a dependency on:-

(a) specialist technology;
(b) user-initiated desktop processing (i.e. PC spreadsheets, databases, etc.)

2.6. Stability - People

2.6.1. The assessment should consider the extent to which the activity has been, or is likely to be, subject to:-

(a) a relatively high turnover of staff;
(b) significant restructures;
(d) changes in key personnel.

2.7. Stability - Systems

2.7.1. In the current climate, the most typical areas likely to affect system stability here are:-

(a) recent or projected implementation of new computer systems or replacement of existing ones;
(b) ongoing upgrades to computer systems;
(c) business process re-engineering (e.g. DIP, workflow processing, Open Door, etc.);
(d) e-business development.

APPENDIX III

3. CATEGORY 2 - FINANCIAL

3.1. A single scoring will be given applying according to the following scale:-

| Relevant Annual Sum * | Rating |
|---|---|
| , 10,000 or less | 0 |
| Greater than , 10,000, not more than , 50,000 | 1 |
| Greater than , 50,000, not more than , 200,000 | 2 |
| Greater than , 200,000, not more than , 500,000 | 3 |
| Greater than , 500,000, not more than , 1 million | 4 |
| Greater than , 1 million, not more than , 20 million | 5 |
| Greater than , 20 million | 6 |

* the >relevant annual sum= is a representation of the annual monetary turnover of the activity, usually the greater of gross annual expenditure and gross annual income.

4. CATEGORY 3 - SCOPE AND IMPACT

4.1 Corporate Strategic Priorities

4.1.1 The rating here should reflect the extent to which the activity contributes to delivery of corporate strategic objectives as represented by:-

(a) Community Plan
(b) Corporate Strategy
(c) ‘Strategic 25’

4.2. Fraud & Corruption

4.2.1. The susceptibility of the activity to fraud and corruption can usually be assessed by reference to recent actual occurrences (if any), press reports and relevant published sources (e.g. Audit Commission, CIPFA).

4.3. Public Health/Safety/Well-Being

4.3.1. The assessment should consider the extent to which the activity:

(a) poses risks to public health/safety/welfare;
(b) has a prime objective of alleviating public health/safety risks, alleviating poverty, etc.;

4.3.2. A useful reference source might be the history of claims processed by Insurances.

4.4. Public/Media Interest/Exposure

4.4.1. Potential indicators can be drawn from:-

(a) local press;
(b) Council/Executive/Committee papers;
(c) public consultations, e.g. surveys, >interest groups=, etc.
(d) existence of a complaint/request for service handling sub-system for the activity;
(e) history of official complaints against the Council.

4.5. Impact on Council Assets

4.5.1. Where applicable, the assessment should consider the extent to which the activity:-

(a) involves significant handling of cash;
(b) utilises Council assets of significant value to generate income;
(c) contributes to and/or prevents depletion in asset values (e.g. land, buildings, plant, equipment, vehicles, etc.).

5. CATEGORY 4 - MANAGEMENT & CONTROL

5.1. Quality Assessments

5.1.1. Where applicable, the rating should be based on the outcome of recent independent assessments, awards, etc. (e.g. best value review, accreditation under EFQM, ISO 9000, etc.).

5.1.2. If there have been no such recent assessments, the >uncertainty= factor >4' should normally be applied.

5.2. Documentation

5.2.1. The assessment should consider whether management documentation exists setting out roles, responsibilities and procedures and, if so, whether it is:-

(a) comprehensive;
(b) compiled with direct reference to relevant >drivers= (e.g. legal provisions, contractual obligations, corporate policies/strategies, external consultations, etc.);
(c) subject to a defined management review procedure at regular intervals.

5.3. Reported Concerns

5.3.1. To be taken into account, any concerns reported should be specifically defined and directly relevant to management and controls issues in respect of the activity.

5.4. Control Ratings from Previous Audit(s)

5.4.1. Care should be taken to ensure that any previous audit(s) used for reference is/are still valid e.g.:-

(a) time lapse not excessive;
(b) audit(s) was/were systems based and control objectives are still applicable;
(c) system >scenario= not changed significantly.

6. DETERMINING AUDIT NEEDS - PILOT MODEL

6.1. A simple average is calculated for each of Categories 1, 3 and 4 and the total added to the >Financial= rating to produce the >notional= needs assessment in audit days.

6.2. Adjustments may be applied, although these will have to be justified and reasons specified. Possible examples may include:-

(a) >learning curve= addition - new activities or major time lapse since previous audit combined with major change in scenario or audit approach (e.g. first systems based or application of CIPFA Matrices);

(b) specific requests from management (e.g. for more detailed focus on specific issues);

(c) possible efficiencies from >joint= review with other party (e.g. external audit, BS/ISO,verifiers, etc.)

(d) directive from Responsible Financial Officer.

6.3. The final allocation is intended to represent the number of days for each full audit, normally using a system based approach.

6.4. The frequency of audits within the 3-year cycle will be evaluated initially according to the following model:-

| *Risk Assessment Result* | *Audit Frequency* |
|---|---|
| Category 4 average = 4 or higher **or** sum of >Stability= factors 1(f) and 1(g) = 7 or more | Annual audit (one full audit and two >follow-up= audits each allocated half the number of full audit days). |
| Category 4 average = 3 or less **and** sum of >Stability= factors 1(f) and 1(g) = 3 or less | One full audit within three-year cycle |
| Category 4 average = 3 or less and sum of >Stability= factors 1(f) and 1(g) > 3 but < 7 | Two full audits within a three-year period - one of two options will be considered dependent on relevant circumstances:-<br>(a) Full audit every two years;<br>**or**<br>(b) One full audit with >follow-up= audit in succeeding year allocated 2 the full audit days. |
| Fundamental system = Yes | As assessed above plus additional allocation in any >gap= year(s) of one third of the full audit days for compliance audit required for Section 151. |

6.5. The process of >slotting= into individual years for the draft Strategic Audit Plan will first consider the timing of major changes affecting specific activities (e.g. full audit to coincide with major new system implementations, legislative changes, etc.). Remaining >slotting= will be done on a priority basis taking into account all relevant factors (in particular relative materiality and time elapsed since last audit) while attempting to maintain a spread of activities within each Business Unit over the three year cycle.

*AU/IEW/Risk Assessment.wpd*
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