

## Internal Audit Risk Scoring Model

The risk assessment model operates by considering the following risk factors:-

- Financial Materiality -
- Reputational Risk -
- Current Controls Effectiveness
- Structural & Process change - systems
- Risk of Loss/fraud/abuse of power

These factors are weighted and applied to each entity in the City of London Audit Universe resulting in an indication of the priority and frequency that different aspects of the City of London should be reviewed.

The audit risk assessment model provides a guide for the suggested interval and priority of audits. However, this is only one part of the audit planning process, which involves consultation and discussion with Chief Officers and senior management in each department, review of risk registers, departmental objectives and priorities, consideration of new developments and auditor professional judgement.

### Risk Scoring

The risk scoring model is based on scoring the 5 factors between 1 to 5. They are then weighted resulting in an overall score for the audit universe entity from 1 to 5. Internal Audit guidance for scoring these factors is as follows:-

<b>Risk Assessment Factor Scoring guidance</b>		
Financial Materiality (£) – (Gross income + gross expenditure for audit area) – 30% weighting		
	1	0-9,999
	2	10,000 - 99,999
	3	100,000 - 999,999
	4	1,000,000 - 10,000,000
	5	10,000,000 +
Reputational Risk – 17.5% weighting		
	1	control failure does not result in adverse media comment.
	2	control failure could result in minimal localised reputational damage with minor short-term adverse media comment
	3	control failure could result in local adverse media comment/public perception, possible medium/long-term impact.
	4	control failure could result in Short-term adverse media comment on a National level with prolonged comment on a local level leading to long-term damage and a general loss of confidence.
	5	control failure could result in substantial adverse media comment on an International/National level, with long-term impact that may threaten the City Corporation’s ability to continue to operate as a service provider.

Current Control Effectiveness – 17.5% weighting		
	1	Robust mitigating controls in place
	2	Adequate mitigating controls in place,
	3	Reasonable mitigating controls in place, but may still require improvement.
	4	Mitigating controls are inadequate
	5	Mitigating controls do not exist or are wholly ineffective
Structural and process change – 17.5% weighting		
	1	steady state system/structure with no recent changes
	2	steady state system/structure with only minor changes in process/structure
	3	system/structure has been subject to recent material changes in one or more material process
	4	new system/structure with new control environment
	5	new, complex and innovative system or structure with untested controls and lack of experience in area of development
Inherent risk of loss/fraud/abuse of power – 17.5% weighting		
	1	No risk of loss of desirable assets (including information), cash, financial instruments, abuse of powers
	2	Limited risk of loss of desirable assets (including information), cash, financial instruments, abuse of powers
	3	Possible risk of loss of desirable assets (including information), cash, financial instruments, abuse of powers
	4	Likely risk of loss of desirable assets (including information), cash, financial instruments, abuse of powers
	5	Almost certain risk of loss of desirable assets (including information), cash, financial instruments, abuse of powers

Scoring will result in a risk score which provides an indicative frequency:-

High Risk	3.5 - 5	indicative frequency (every year – 12mths)
Medium Risk	2.75 – 3.5	indicative frequency (every 2/3 years – 36mths)
Low Risk	1-2.75	indicative frequency (every 5 years – 60mths)

**Worked Example 1:**

**Department of the Built Environment- Waste Disposal and Waste Reduction Strategy**

<b>Factor</b>	<b>weighting</b>	<b>Score (1-5)</b>	<b>Consideration</b>
Financial Materiality	30%	3	Waste Collection budget 2013/14 £798,000
Reputational Risk	17.5%	2	The environmental implications of waste disposal are a likely area for public interest and media criticism.
Current Controls Effectiveness	17.5%	3	Previous audit work has identified that the strategy has been well formulated and performance is being accurately monitored.
Structural & Process Change	17.5%	3	Subject to change in response to political influence.
loss/fraud/abuse of power	17.5%	3	Pressure on management to deliver significant reductions in waste could lead to manipulation of data and favourable inaccurate reporting of results.
<b>Total score</b>		<b>2.825</b>	<b>To the lower end of Medium risk, indicates this area should be reviewed every 3 years</b>

**Worked Example 2:****Chamberlain Department Payroll -**

<b>Factor</b>	<b>weighting</b>	<b>Score (1-5)</b>	<b>Consideration</b>
Financial Materiality	30%	5	Payroll processes payments of £240,000,000 per year
Reputational Risk	17.5%	2	Errors in processing or Fraud incident could cause result in local adverse media comment/public perception, possible
Current Controls Effectiveness	17.5%	3	Generally well controlled area, previous audits have not identified anything other than minor issues. Payroll manager often consults internal audit on control issues. Recent investigations have highlighted issues with line manager authorisations prior to submission to Payroll.
Structural & Process Change	17.5%	3	Have been changes to itrent, and move away from paper payslips, new on-line overtime process, although fundamental processing system and procedures reasonably unchanged
loss/fraud/abuse of power	17.5%	3	No cash wages, however a reasonable inherent risk of creation of ghost employee's etc, however good segregation of duty controls minimise opportunities
<b>Total score</b>		<b>3.425</b>	<b>Higher end of Medium risk, indicates this area should be reviewed every 2/3 years</b>