

RISK BASED INTERNAL (RBIA)

1. INTRODUCTION

RBIA is an approach that focuses on the response of the organisation to the risks it faces in achieving its goals and objectives. Unlike other forms of audit, RBIA starts with business objectives and their associated risks, rather than the need for controls. It aims to give independent assurance that risks are being managed to an acceptable level and to facilitate improvements where necessary.

The role of Internal Audit under this approach is to review the risk management processes (as opposed to purely internal controls) that are in place, to reduce these risks to a level that is acceptable to the organisation.

2. BENEFITS OF RBIA

The RBIA process enables the internal audit review to become more focused on the business needs of the authority and consequently the service / function under review.

Management will benefit from greater input into the “shape” of the audit review, ensuring that key concerns and perceived significant risks are considered within the scope of the audit. The reviews will be more holistic, focusing not only on financial risks, but other areas of business risk and corporate governance.

3. OUR APPROACH

The Council has a published set of priorities ‘Your Council 2013-17’, which have been agreed in consultation with staff, Members, residents, partners and local organisations.

The risk management environment at Arun is constantly evolving and Internal Audit takes into account the organisation’s own view of its risks (as included in its Strategic Risk Register and in individual Operational Risk Registers for Service areas) in order to determine the audit work that it needs to carry out.

Internal Audit will take these into consideration in developing its annual Audit Plan of work in conjunction with operational management, for approval by the Audit & Governance Committee.

In conducting planned audit assignments, the methodology to be undertaken by Arun District Council’s Internal Audit section is outlined below:

4. INITIAL RESEARCH AND IDENTIFICATION OF BUSINESS OBJECTIVES

To gain an understanding of the entity under review, Internal Audit will undertake a background review of:-

- relevant strategy documents;
- service delivery plans;
- scrutiny reviews;
- previous audit reports (internal and external) and background papers; and
- risk register entries.

5. PRE-AUDIT MEETING

To be held with the relevant senior officer(s). This is most likely to be the relevant Head of Service. In respect of “cross-cutting” issues involving multiple services / functions, it will be necessary to identify and agree an officer who will act on behalf of all relevant functions in order to progress the audit review. In such circumstances, this is likely to be a member of the Corporate Management Team (CMT).

The purpose of the meeting is to:

- determine the management’s opinion on the key business objectives (KBOs) / significant projects and activities for the entity under review, how these contribute to the Council’s priorities and their plans to achieve these;
- assess the extent of risk identification and management undertaken and determine how management seeks to gain assurance that risk management activities are operating as intended;
- determine whether the entity has identified and provided the necessary resources to deliver the KBOs;
- establish how performance is monitored;
- identify any other concerns / issues arising;
- agree the audit boundaries; and
- agree the timing, key contacts, closure arrangements and reporting lines for the conduct of the audit.

6. AUDIT BRIEF

An outline of the audit, including objectives and key risks identified within the entity, will be compiled into an “audit brief”. The purpose of this document is to ensure that the exact terms and details of the audit have been understood.

The audit brief will be agreed with the relevant senior officer prior to the commencement of audit fieldwork.

7. CONTROLS TESTING

In accordance with the scope agreed in the audit brief, the key controls in operation will be identified and tested to ensure that risks are being appropriately managed.

Results of testing performed will be documented and will be sufficient to allow an audit opinion to be provided on the adequacy of the controls in operation and to evidence any deficiencies identified, which will be raised as findings for discussion and reporting to operational management. (Any significant issues identified will be raised immediately with operational management, in advance of their inclusion in end of audit reporting).

8. DRAFT AUDIT REPORT

The purpose of the report is to give assurance to management that risks are being managed to an acceptable level or to agree improvements to the management of risks as necessary.

The format of the audit report is kept under review, with the aim to ensure it is focused on significant or material risks. It will provide an executive summary and audit opinion on whether it is considered that material risks are being managed to an acceptable level.

The draft report will be completed as soon as possible after completion of the audit fieldwork and will be issued to relevant operational managers (as agreed within the audit brief).

9. CLOSURE MEETING

A closure meeting will be arranged (if required) with the relevant operational manager(s) to:-

- discuss the contents of the draft report;
- clear up any anomalies or misunderstanding that may have arisen during the review; and
- discuss and agree recommendations, actions to be undertaken, officer(s) responsible and implementation dates. (Where a formal meeting is not required, documented comments will be obtained e.g. via email).

10. FINAL REPORT

As soon as possible (ideally with 2 weeks of the production of the draft report), we will produce the final report which will incorporate the actions agreed.

The report will be circulated as agreed in the audit brief produced at the outset of the audit. Widening circulation may be considered appropriate where recommendations impact on the work of other relevant services areas. Any variation to the circulation agreed at the outset of the audit is at the discretion of the Chief Internal Auditor.

If any of the recommendations made in the report are not accepted, the relevant senior manager should explain the reasons why they wish to take alternative or no action. The Chief Internal Auditor will form a judgement as to whether the non-implementation of a recommendation presents an unacceptable risk to the authority, in which case the matter will be referred to the appropriate level of senior management (i.e. usually Corporate Management Team level).

11. FOLLOW UP REVIEW

Each audit report will contain a schedule setting out an agreed action plan for management to implement. All findings and actions will be entered into the Audit Follow-Up System database, which will allow reports to be produced to identify actions due. Audit will follow up with appropriate management to ensure that agreed actions have been completed (and audit will obtain evidence in support of this, where appropriate), or to obtain an explanation as to why dates have not been met.

If a reasonable explanation is obtained, then a revised target date may be agreed. However, the Chief Internal Auditor has the option to raise the lack of progress at a higher level, as noted above.

12. FEEDBACK INTO THE INTERNAL AUDIT PROCESS

The RBIA approach requires co-operation and input from management. In accordance with published standards, there is the requirement to ensure quality / continual improvement and the audit methodology is kept under review. As such, constructive feedback is welcomed from the areas audited.