

## **Audit assurance levels and classification of residual risks**

### **Assurance levels**

**Full assurance:** there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.

**Substantial assurance:** there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

**Limited assurance:** weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

**No assurance:** weaknesses in control and/ or consistent non-compliance with controls could result/ have resulted in failure to achieve the service objectives.

### **Classification of residual risks requiring management action**

**Extreme residual risk:** Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: catastrophic loss of the county council's services, loss of life, significant environmental damage or huge financial loss, with related national press coverage and substantial damage to the council's reputation. *Remedial action must be taken immediately.*

**High residual risk:** Critical in that failure to address the issue or progress the work would lead to one or more of the following occurring: failure to achieve organisational objectives, disruption to the business, financial loss, fraud, inefficient use of resources, failure to comply with law or regulations, or damage to the council's reputation. *Remedial action must be taken urgently.*

**Medium residual risk:** Less critical, but failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. *Prompt specific action should be taken.*

**Low residual risk:** Areas that individually have no major impact on achieving the service objectives or on the work programme, but where combined with others could give cause for concern. *Specific remedial action is desirable.*

**Internal Audit Service progress against plan 2017/18**

Audit and Governance Committee meeting 25 September 2017

**Deloitte LLP's audit assurance levels and classification of residual risks, relating to its work on the Lancashire Pension Fund**

<b>Rating</b>	<b>Description of risk mitigation and control effectiveness</b>
Ineffective	<p>Risk mitigation or control absent or ineffective – high risk of failure in prevention, detection, and risk mitigation and/ or control activities for audited functions, processes and activities.</p> <p>Multiple high priority findings/ issues or significant number of either high or medium priority findings/ issues.</p>
Effective with scope for improvement	<p>Risk mitigation activities and controls may be compromised or fail – moderate risk of failure in risk mitigation and control with some need and justification to improve risk mitigation and control activities for audited functions, processes and activities.</p> <p>Some high priority issues or a significant number of medium and low priority findings/ issues.</p>
Effective	<p>Compliant (adequate in the circumstances) – low risk of failure in risk mitigation and control and some scope or justification to improve risk mitigation and control activities for audited functions, processes and activities.</p> <p>No high priority findings/ issues. Some moderate and low priority findings/ issues.</p>

<b>Rating</b>	<b>Description of risk mitigation and control effectiveness</b>
High	<p>The issue presents a risk that involves a direct exposure to significant assets or a significant potential financial loss. Lack of appropriate controls could have a considerable impact on operations, compliance with laws and regulations, or financial results.</p>
Medium	<p>The issue presents a risk, which involves an indirect exposure to significant assets and could have a moderate impact on operations, compliance with laws and regulations, or financial results.</p>
Low	<p>The issue and associated risks have limited impact on operations, compliance with laws and regulations, or financial results.</p>