Appendix C

**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*.

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

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| **Rating** | **Description of risk mitigation and control effectiveness** |
| Ineffective | 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.  Multiple high priority findings/ issues or significant number of either high or medium priority findings/ issues. |
| Effective with scope for improvement | 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.  Some high priority issues or a significant number of medium and low priority findings/ issues. |
| Effective | 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.  No high priority findings/ issues. Some moderate and low priority findings/ issues. |

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| **Rating** | **Description of risk mitigation and control effectiveness** |
| High | 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. |
| Medium | 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. |
| Low | The issue and associated risks have limited impact on operations, compliance with laws and regulations, or financial results. |