

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

The definitions of the assurance given by internal audit work, and the categories of residual risk used to prioritise any actions arising from audit work are set out below.

### **Assurance levels**

Note that our assurance may address the adequacy of the control framework's design, the effectiveness of the controls in operation, or both. The wording below addresses all of these options and we refer in our reports to the assurance applicable to the scope of the work we have undertaken.

**Substantial assurance:** the framework of control is adequately designed and/or effectively operated.

**Moderate assurance:** the framework of control is adequately designed and/or effectively operated overall, but some action is required to enhance aspects of it and/or ensure that it is effectively operated throughout the service, system or process.

**Limited assurance:** there are some significant weaknesses in the design and/or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.

**No assurance:** there are some fundamental weaknesses in the design and/or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

### **Residual risks**

**Extreme residual risk:** critical and urgent in that failure to address the risk could lead to one or more of the following: catastrophic loss of the county council's services, loss of life, significant environmental damage or significant 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: failure to achieve organisational objectives, significant disruption to the council's business or to users of its services, significant financial loss, 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:** 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:** matters that individually have no major impact on achieving the service's objectives, but where combined with others could give cause for concern. *Specific remedial action is desirable.*

## Internal Audit Service progress against plan 2018/19

Audit, Risk and Governance Committee meeting 28 January 2019

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

Rating	Description of risk mitigation and control effectiveness
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>

Rating	Description of risk mitigation and control effectiveness
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>