

## The Stanford Model - Risk Based Audit Planning

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### Risk Based Audit Planning

Once you have identified all the areas or activities of your organisation, you can develop your audit plan by giving each activity a risk score for a range of criteria.

The Stanford University Model is a well-tested mechanism and incorporates weighted scores for a range of impacts such as materiality (size, monetary value or volume of transactions), time since last audit and the assurance level, experience of people involved and events that either have, or are likely to occur.

The table on the following page shows the range of risk impacts considered and the weightings applied to each group of impacts.

**A lower score indicates a lower risk.** Each score is out of a maximum of 5. The table shows examples in the two far right columns for the extremes of scoring a 1 or a 5 against each impact. The calculation is then based on the average of the scores for each impact group, multiplied by the weighting factor e.g.

For maximum scores for the impact group 'materiality' weighted at 15%:

5 impact scores of 5 = 25 (5 x 5) with an average of 5 (25 divided by 5). 5 x 15% weighting = a materiality score of 0.8 for this group of scores.

Adding all the weighted scores together gives an overall maximum risk score of 5 and a minimum risk score of 1.

To make the scoring easier to record and adjust, an Excel template has been developed by GreenbiRo to calculate the scores when using this model.

Weighting for group of impacts	impacts	Score 1 for:	2	3	4	Score 5 for:	Example max	Example min
Materiality (15%)	size of entity	one or few employees deliver service				all employees critical to effective entity	5	1
	volume of transactions	low				high	5	1
	Financial Exposure	failure does not have any impact on the Council's financial position				failure may have a catastrophic impact on the Council's ability to deliver services	5	1
	Regulatory Exposure	entity is not subject to a regulatory regime				Failure may involve criminal action against managers	5	1
	Adverse Publicity	failure not apparent to public or significant stakeholders				Failure may result in public criticism of the council at the national level	5	1
	Budget	low				Entity impacts on all budgets	5	1
						<b>Materiality score</b>	<b>0.8</b>	<b>0.2</b>
25%	Assurance Rating	good	sound	marginal	unsatisfactory	unsound	5	1
						<b>Assurance rating score</b>	<b>1.25</b>	<b>0.25</b>
20%	Time since last audit	current year	one year	two years	three years	three years + or never	5	1
						<b>Time since last audit score</b>	<b>1</b>	<b>0.2</b>
Personnel & Management (10%)	Experience of management and staff	All managers and employees meet fully job profiles and person specifications	Issues around current or recent mgt vacancies			managers and key employees lack relevant skills, qualifications and experience	5	1
	Control awareness	relevant employees demonstrate awareness of key controls and their individual responsibilities				evidence that controls are seen as a barrier to effective service delivery	5	1
	Staff turnover	low				high	5	1
	Reliance on management	demonstrated ability to identify and manage risks				demonstrated lack on engagement with management of key risks	5	1
						<b>Personnel &amp; Mgt score</b>	<b>0.5</b>	<b>0.1</b>
10%	Audit Opinion	No concerns		no audit evidence		significant concerns	5	1
						<b>Audit opinion score</b>	<b>0.5</b>	<b>0.1</b>
Events (20%)	New systems or innovations	No change in recent years				implementation of new system has demonstrably compromised control framework	5	1
	Legislative change	No change in recent years				significant changes : full details of new statutory framework unclear	5	1
	Changes in environment	No change in recent years: supportive of entity's activities	No change in recent years: the entity has adapted			significant changes compromise entity's ability to deliver	5	1
						<b>Events score</b>	<b>1</b>	<b>0.2</b>
						<b>max</b>	<b>min</b>	
						<b>Total risk score examples</b>	<b>5</b>	<b>1</b>