



FINAL

Internal Audit Report

Corporate Services Department

**Review of the Risk Management
Framework**

January 2008

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1	DETAILED FINDINGS
2	ACTION PLAN

1. BACKGROUND

- 1.1 This report has been prepared as a result of the Internal Audit review of Risk Management as part of the 2007/2008 Internal Audit Plan.
- 1.2 A review was carried out in 2006/07 covering the Council approach to Risk Management and the establishment of a framework. A report was prepared that recommended certain actions be taken by management that would embed a framework for Risk Management within the departments of the Council. Given the importance of ensuring that there is ongoing progress of the framework, it is considered prudent to establish whether agreed actions by management are being progressed and where possible to further assist with framework development. In order to establish the progress made by management to date 3 areas were included for this review:
- To establish whether the recommendations from the 2006/07 report have been implemented;
 - Risk management arrangements are sufficiently developed to provide an effective operational management tool; and
 - Whether departmental loss control groups have set up operational and strategic risk registers within a set timescale.
- 1.3 As a result of our audit work, findings were generated. These findings were subsequently discussed with management and where appropriate included in the action plan for future implementation.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The broad objective of the audit is to evaluate whether there is a Risk Management Framework (RMF) in place which can enable the risk management process to be carried out and developed in a comprehensive manner, whereby all significant risks are identified, evaluated, controlled, monitored and reported in accordance with best practice.
- 2.2 The adequacy of the arrangements to meet the objective has been assessed using a grading of one to 5 ticks (✓ 's). Five ticks indicate good arrangements and one tick inadequate arrangements are in place. The assessment is set out in section 6 (figure 1). The assessment has been made by considering the value and significance of the findings and recommendations.

3 AUDIT APPROACH

- 3.1 The following approach was used to satisfy the objectives of the audit:-
- Discussions were held initially with the Head of Democratic Services and Governance and the Governance and Risk Manager for background to risk management procedures and development in the Council and its relationship with promoting the principles of Best Value within the Council;
 - Internal Audit prepared and requested the completion of a questionnaire by management to assist in addressing the above objective;

- Tests were devised and carried out as part of the exercise, and relevant evidence of progress made was requested and reviewed;
- Any problem areas were highlighted, and brought to the attention of management via a draft report and their comments were incorporated into this report where appropriate;
- A final report was prepared for the attention of the Director of Corporate Services.

4 SUMMARY OF MAIN FINDINGS

- 4.1 Internal Audit in the course of the audit found through testing that a number of key steps have been achieved in implementing recommendations from the 2006 Risk Management Framework report. However, a few areas remain to be fully progressed to conclusion.
- 4.2 Risk management procedures need to be finalised and issued to departments. The procedures will provide the Loss Control Groups (LCGs) with a formal operating framework. This should then be presented to the Audit Committee for approval.
- 4.3 The SMT are has presently reviewed and approved the Council Risk Register. A quarterly report is prepared for the SMT and Audit Committee on risk management. This could be enhanced with a list of high level risks gathered from departments on a quarterly basis. This will provide evidence to the SMT and Audit Committee that high risks have been identified and management is aware and assessed these risks.
- 4.4 In addition, the quarterly report to the SMT and Audit Committee should include perceived departmental benefit outcomes of embedding the risk management process within the Council.
- 4.6 It was found that the Risk & Corporate Governance Manager did not have a formal record of DMT minutes delegating authority to LCGs. It is therefore recommended that a copy of each DMT delegated authority should be passed to the Risk & Governance Manager to be incorporated within the risk management procedures and operating framework document.

5 ACTION PLAN

- 5.1 The action plan attached at Appendix 2 has been compiled with the co-operation and agreement of the Head of Democratic Services and Governance.
- 5.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

5.3 A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definitions of each classification is set out below:-

Fundamental - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Material - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Minor - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

6 CONCLUSION

6.1 It is the opinion of Internal Audit that good progress has been made by the Council to address the requirements of introducing a Risk Management framework.

6.2 However, during the course of the audit, some areas were identified as requiring further development and therefore recommendations have been made. These have been discussed with management and an action plan agreed. (Any issues not accepted by management are done so with their knowledge and acceptance of risk and control weakness.)

6.3 Figure one below sets out a summary of the overall conclusions arising from the audit in terms of the specific objective detailed at section 2.1

Figure 1: Summary of overall conclusions

Specific objectives	Assessment
To establish whether the recommendations from the 2006/07 report have been implemented;	✓✓✓

Risk management arrangements are sufficiently developed to provide an effective operational management tool; and	✓✓✓
Whether departmental loss control groups have set up risk registers within a set timescale.	✓✓✓
<p>Key:</p> <ul style="list-style-type: none"> ✓✓✓✓✓ - Arrangements accord with good practice and are operating satisfactorily. ✓✓✓✓ - Arrangements accord with good practice, but certain minor matters noted as requiring improvement. ✓✓✓ - Adequate arrangements in place, but certain matters noted as requiring improvement. ✓✓ - Arrangements in place offer scope for substantial improvement. ✓ - Concern is expressed about the adequacy of the scope of these arrangements. 	

7 ACKNOWLEDGEMENTS

- 7.1 Thanks are due to Head of Democratic Services and Governance and his staff for their co-operation and assistance during the audit and the preparation of the report and action plan. Thanks are also due to Council departmental management and staff along with Audit Scotland who provided comment on the relevance of the proposed model.
- 7.2 Argyll & Bute Council's internal audit department has prepared this report. Its work was limited to the scope in paragraph 3.1 of this report. It cannot be held responsible or liable if information material to our task was withheld or concealed or misrepresented.
- 7.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2

ACTION PLAN

ACTION PLAN NO	PARA	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
1	2.3	Material	Operating procedures are to be finalised and issued to departments this will also offer an operating framework for departmental LCGs and presented to the Audit Committee for approval.	This is close to completion as the necessary documents have been prepared and will go to the next RMG for review and approval.	Head of Democratic Services & Governance	June 2008
2	2.1	Material	The quarterly report to the SMT and Audit Committee does not include a list of high level departmental risks and any perceived benefits resultant from embedding the risk management framework.	The quarterly report will in future include these issues.	Head of Democratic Services & Governance	June 2008