Internal Audit Report

Corporate Services

Review of Strategic Risk Register

February 2010

1   INTRODUCTION

This report has been prepared as a result of the Internal Audit review of the Strategic Risk Register, maintained by the Corporate Services Department, as part of the 2009/10 Internal Audit programme.

2   AUDIT SCOPE AND OBJECTIVES

An Internal Audit Review of Risk Management, carried out by KPMG LLP, was reported on in June 2009. A number of issues were highlighted including the need to define a risk aggregation process to ensure the effective aggregation of risks from 16 operational risk registers into one strategic risk register.

The Audit Approach for this review was therefore restricted to the following:-

- Obtain details of the Strategic Risk Register from within Pyramid, and review the identification and presentation of Strategic Risks, and
- Check that the Council's Strategic Risks are supported and appropriately identified within the departmental Operational Risk Registers on Pyramid.

3   CORPORATE GOVERNANCE

KPMG identified that the governance responsibilities for risk management have yet to be fully and clearly defined across the organisation. We understand that this is currently being addressed, to ensure that risk management continues to form an effective part of the Council's Corporate Governance arrangements.

As part of a separate audit we will shortly review the inclusion of the Council's Strategic Risks within the governance arrangements for the Community Planning Partnership, in support of the Single Outcome Agreement.

4   MAIN FINDINGS

4.1   Significant progress has been made in the identification and refinement of strategic risks, with the Pyramid system providing an appropriate structure and framework to aggregate risks from the underlying operational risk registers.

4.2   The Strategic Risk Register currently contains 34 assorted risks. Approval has been given by the Strategic Management Team (SMT) with regard to the grouping of these risks under appropriate risk headings to make the risk register more accessible and easier to understand.

4.3 A schedule has been prepared setting out the linkage of specific risks from the Strategic Risk Register to the underlying Operational Risk Registers, (see Appendix 4). Consideration should be given to preparing this schedule, or a suitably adapted version of this, on an annual basis to provide a management overview mechanism. This will also demonstrate that the appropriate linkages remain intact.

4.4 The KPMG LLP report in June 2009 noted that there were thirteen Operational Risk Registers, which has now increased to sixteen because there are separate registers for Communications, Policy & Strategy and Strategic HR which are sections within Improvement and Strategic HR. The Operational Risk Register for Improvement and HR has been prepared incorporating the relevant strategic risks while the three others contain risks which are specific to that department.

This is different from the way in which other services record the risks in their Operational Risk Registers which may cause some confusion. However, so long as the information in the Improvement and HR Operational Risk Register has taken account of the relevant information on the risks from the other three sections then there should be no problems.

4.5 It is recognised that the on-going development of the Strategic Risk Register and the underlying operational risk registers will involve further review and refinement of risk definitions. Our work has identified additional potential strategic risks and suggested refinements for consideration as part of this process.

5 RECOMMENDATIONS

Five recommendations were identified as a result of the audit, two of high priority and three of medium priority. The recommendations are shown in the Action Plan below.

6 AUDIT OPINION

Based on the findings we can conclude that significant progress has been made in embedding the risk management process across the Council. The Pyramid system now provides an appropriate structure and framework to aggregate risks from the underlying operational risk registers. Further work is on-going on the refinement of strategic risks and the establishment of a management framework to ensure that strategic risks are appropriately linked and supported by the underlying operational risk registers.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could

lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

7   ACKNOWLEDGEMENTS

Thanks are due to the Governance & Risk Manager for his co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2.   We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

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 1   DETAILED FINDINGS

1   Risk Registers

An effective risk management framework requires recognition of risk management in all areas of the Council's activities, including Internal Audit. The risk based approach to auditing has therefore required this section to keep abreast of the development of the Strategic Risk Register to ensure that our work is appropriately scoped to address identified risks.

We have therefore monitored the development of the Strategic Risk Register from an Excel spreadsheet, with over 44 strategic risks, to the current Pyramid based system with 34 strategic risks. Significant progress has been made in the identification and refinement of strategic risks, with the Pyramid system now providing an appropriate structure and framework to aggregate risks from the underlying operational risk registers.

Recommendation 1

No further recommendation required

2   Strategic Risks

Our examination of the current 34 strategic risks found that these did not appear to be arranged in any particular order, although certain risks were similar in nature and could potentially be grouped together.

We therefore examined risk registers on the internet, for other broadly comparable local authorities, and also reviewed the Strategic Audit Risk Assessment ('SARA') approach adopted by Audit Scotland to identify key risk themes. This enabled the preparation of a specimen risk framework (see Appendix 3) containing 12 main themes which we have used as an audit tool. The current strategic risks have been provisionally grouped within these themes and this has enabled us to review the identification process of strategic risks.

Recommendation 2

Consideration should be given to grouping risks under appropriate risk headings to make the risk register more accessible and easier to understand. Our specimen risk framework containing 12 key risk areas has been provided in Appendix 3 for consideration.

3   **Linkage of Strategic and Operational Risk Registers**

Having provisionally allocated the Council's 34 strategic risks to the 12 key risk themes, our next objective was to ensure that each of the strategic risks was appropriately linked and supported within the underlying operational risk registers.

We have therefore extended our specimen risk framework to include strategic risks identified within the underlying operational risk registers. This identification of risks was carried out from an examination of the risks within the operational risk registers, rather than just following the linkage within Pyramid.

The preparation of this schedule provided a useful audit tool to further examine the linkage of the underlying risks to the strategic risk register and could provide the basis for management to ensure that the appropriate linkages initially exist and remain intact as risk management within the Council evolves.

Recommendation 3

Consideration should be given to preparing a schedule in a similar format to the Internal Audit version, outlined in Appendix 4, on an annual basis to provide a management overview mechanism. This will provide evidence that the appropriate linkages remain intact.

4.   Operational Risk Registers

In examining the Operational Risk Registers it is not apparent which are strategic risks, included in support of the strategic risk register, and which are separate operational risks, identified as specifically relating to that service.

Recommendation 4

In the operational risk description within Pyramid the services should identify where applicable which strategic risk it is linked to.

5.   Additional Points for Consideration

It is recognised that further review and development work is currently being progressed which will address the issues raised by KPMG in their Internal Audit Report of 22 June 2009. Our work has identified

additional potential strategic risks and suggested refinements for consideration as part of this process as follows:

5.1   Failure to realise efficiency gains should be amended to failure to develop shared services opportunities – Internal & External

5.2   Failure in reliable provision of core ICT infrastructure

5.3   Failure to develop e-procurement

5.4   Strategic risk 24 could be extended to cover 'UK and European' Government Policy (as well as Scottish Government)

5.5   Best Value – Policy & Strategy currently take corporate lead, but certain departments have identified a risk in respect of BV in their departments.

Recommendation 5

Consideration of the specific risk issues raised should be covered in the current review and development phase of risk management.

APPENDIX 2   ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	Significant progress has been made in the identification and refinement of strategic risks, with the Pyramid system now providing an appropriate structure and framework to aggregate risks from the underlying Operational Risk Registers.	*N/A*	No further recommendation required	*N/A*	*N/A*
2	Our examination of the current 34 strategic risks found that these did not appear to be arranged in any particular order, although certain risks were similar in nature and could potentially be grouped together.	*High*	Consideration should be given to grouping risks under appropriate risk headings to make the risk register more accessible and easier to understand. Our specimen risk framework containing 12 key risk areas has been provided for consideration. See Appendix 3.	Governance and Risk Manager	May 2010
3	The preparation of the Specimen Risk Framework schedule provided a useful audit tool to further examine the linkage of the underlying risks to the strategic risk register. This could also provide the basis for management to ensure that the appropriate linkages initially exist and remain intact as risk management within the Council evolves.	*High*	Consideration should be given to preparing a schedule in a similar format to the Internal Audit version, outlined in Appendix 4, on an annual basis to provide a management overview mechanism. This will provide evidence that the appropriate linkages remain intact.	Governance and Risk Manager	May 2010

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
4	In examining the Operational Risk Registers it is not apparent which are strategic risks, included in support of the strategic risk register, and which are separate operational risks, identified as specifically relating to that service.	*Medium*	In the operational risk description within Pyramid the services should identify where applicable which strategic risk it is linked to.	Governance and Risk Manager	May 2010
5	Our work has identified additional potential strategic risks and suggested refinements for consideration as follows: 5.1 Failure to realise efficiency gains should be amended to failure develop shared services opportunities – Internal & External 5.2 Failure in reliable provision of core ICT infrastructure 5.3 Failure to develop e.procurement 5.4 Strategic risk 24 could be extended to cover 'UK and European' Government Policy (as well as Scottish Government) 5.5 Best Value – Policy & Strategy currently take corporate lead, but certain departments have identified a risk in respect of BV in their departments.	*Medium*	Consideration of the specific risk issues raised should be covered in the current review and development phase of risk management. Consideration will be given to including these risks 5.2 and 5.3. Consideration will be given to amending the risk description per 5.4. Creation of a link from the Operational Risk register to the Strategic Risk Register should be considered.	Governance and Risk Manager	The description in SR08 has been amended to reflect this point. 5.2 to 5.5 will be completed by May 2010

APPENDIX 3   SPECIMEN RISK FRAMEWORK

Specimen Risk Framework	In Charge	SR	Strategic Risk Register
1. Failure to focus clear Corporate Priorities	Chief Executive	14	Failure to implement the Single Outcome Agreement
- Partnerships	Chief Executive	9	Failure to progress community planning partnership
2. Corporate Governance	Chief Executive	6	Failure to provide strong leadership
	Corporate Service	13	Failure to comply with new regulations
	Head of Strategic Finance	16	Failure to have a robust internal control process and system
	Corporate Services	18	Failure to imbed risk management
	Corporate Services	20	Failure to ensure Council acts in accordance with law and on regulatory framework
	Chief Executive	24	Changes to Scottish Govt. Policy which impact on service provision
3. Performance Management	Chief Executive	7	Failure to maximise the benefits of Best Value
	Chief Executive	8	Failure to develop shared services opportunities
4. Financial Management	Head of Strategic Finance	15	Financial management processes need to be aligned with Council structures & objectives
	Head of Strategic Finance	17	Non recurring financial burdens and one-off financial crisis
	Development Services	26	Failure to attract external funding to assist strategic projects
	All Directors	33	Failure to achieve income targets
	Corporate Services	34	Failure to gather in Council Tax and NDR
5. Medium Term Financial & Capital	Operational Services	10	Inefficient use of Council assets & consequent loss
Planning	Head of Strategic Finance	11	Failure to meet capital/revenue spending targets
	Community Services	22	Failure to agree/implement School Estate Strategy
	Community Services	23	Demographic/societal changes significantly increase demand for services
	Chief Executive	27	Failure to implement agreed CHORD programme
6. Communication	Chief Executive	4	Adverse Media Coverage due to ineffective and inaccurate communication by Council
	Corporate Services	12	Failure of Members to maintain standards of conduct in public life
7. Workforce Strategy	Strategic HR	1	Long term staff absence
	Strategic HR	2	Recruit & retain quality staff
8. Young, Old & Vulnerable	Strategic HR	3	Failure to acknowledge and implement legislation in relation to young and vulnerable
	Community Services	21	Failure to maintain/improve attainment levels of school pupils
9. Protection of IT systems and records	Corporate Services	5	Failure of loss of IT software/data
- It strategy and security	X		Failure in reliable provision of core ICT infrastructure (hardware, websites, etc)
- Development of e procurement	X		Failure to develop e procurement
10. Disaster	Corporate Services	19	Failure to progress business continuity programme
	Operational Services	31	Failure of ferries/damage to ferries/collapse of ferry contractor
	Operational Services	32	Failure to maintain Roads infrastructure
11. Health and Safety	Chief Executive	25	Failure to comply with Health and safety legislation
12. Efficiency savings	Operational Services	30	Failure to meet recycling targets

APPENDIX 4 STRATEGIC / OPERATIONAL RISK REGISTER LINKS

Argyll and Bute Council
Strategic Risk Register

SR	Strategic Risk	Chief Executive				Corp. Services			Dev. Services		Op. Services		Comm. Serv				
		Improvement & HR	Policy & Strategy	Comms	Strat Finance	Dem Services	ICT & F	Legal & Prot Services	Econ Dev	Plan Serv	Roads and Amen Serv	Fac Serv	Educ	Comm Regen	Child & Fam	Adult Care	Plan & Perf
14	Failure to Implement Single outcome agreement		x														
9	Failure to progress community planning partnership		x														
6	failure to provide strong leadership				x												
13	Failure to comply with new regulations	x			x	x	x	x	x	x	x	x	x	x	x	x	x
16	Failure to have a robust internal control process and system				x												
18	Failure to imbed risk management	x			x	x	x	x	x	x	x	x	x	x	x	x	x
20	Failure to ensure Council acts in accordance with law and on regulatory framework		x			x		x									
24	Changes to Scottish Government Policy	x			x	x	x	x	x	x	x	x	x	x	x	x	x
7	Failure to maximise the benefits of Best Value		x														
8	Failure to develop shared service opportunities	x			x	x	x	x	x	x	x	x	x	x	x	x	x
15	Financial Management processes need to be alligned with Council structures & Objectives				x												
17	Non recurring financial burdens and one-off financial crisis.	x			x	x	x	x	x	x	x	x	x	x	x	x	x
26	Failure to attract external funding to assist strategic projects								x								
33	Failure to achieve income targets	x			x	x	x	x	x	x	x	x	x	x	x	x	x
34	Failure to ingather Council Tax and non-domestic rates						x										
10	Inefficient use of Council assets & consequent loss											x					
11	Failure to meet capital/revenue spending targets				x												
22	Failure to agree/implement School Estate Strategy													x			
23	Demographic/societal changes significantly increase demand for services	x			x	x	x	x	x	x	x	x	x	x	x	x	x
27	Failure to implement agreed CHORD programme								x		x	x					
4	Adverse Media Coverage due to ineffective and inaccurate communication by Council			x													
12	Failure of Members to maintain standards of conduct in public life					x											
1	Long term staff absence	x			x	x	x	x	x	x	x	x	x	x	x	x	x
2	Recruit & retain quality staff	x			x	x	x	x	x	x	x	x	x	x	x	x	x
3	Failure to acknowledge and implement legislation in relation to young and vulnerable					x		x				x	x	x	x	x	x
21	Failure to maintain/improve attainment levels of school pupils												x				
5	Failure of loss of IT software	x			x	x	x	x	x	x	x	x	x	x	x	x	x
19	Failure to progress business continuity programme	x			x	x	x	x	x	x	x	x	x	x	x	x	x
31	Failure of ferries/damage to ferries/collapse of ferry contractor										x						
32	failure to maintain Roads-infrastructure										x						
25	Failure to comply with Health & Safety legislation	x			x	x	x	x	x	x	x	x	x	x	x	x	x
30	Failure to meet recycling targets.											x					