



**Internal Audit Report**

FINAL

**Strategic Finance**

**Review of Risk Management**

March 2011

## **1 INTRODUCTION**

This report has been prepared as a result of the Internal Audit review of Risk Management, part of the 2010/11 Internal Audit programme.

The Council has operated risk management processes for a number of years, and these have been revised from time to time, the most recent update having taken place in 2010. These are set out in a document entitled the Risk Management Pack, a comprehensive document covering risk management policy, strategy and the operating framework.

Responsibility for promoting risk management and defining the framework within which it will operate has recently passed to the Chief Executive's, Strategic Finance, and the service took the opportunity to conduct a more comprehensive review of the structure and processes supporting risk management. New arrangements have been proposed, based on a substantial development of those currently in place, and are contained in a document entitled Managing Risk and Opportunities.

A draft of the proposed new arrangements has been passed to Internal Audit which has been asked to consider its potential effectiveness, and its compliance with the expectations of regulatory bodies and with accepted good practice.

## **2 AUDIT SCOPE AND OBJECTIVES**

The broad objectives of the review were to ensure:

- The proposed risk management framework meets regulatory needs and constitutes best practice
- The new processes facilitate the embedding of risk management as part of the Council's normal operating practices
- Risk Registers were up to date and reflected current risk levels

## **3 RISK ASSESSMENT**

As part of the audit process, the risk registers were reviewed to identify any areas that needed to be included within the audit.

The proposals under review are likely to lead to an update of the risk registers, and in those circumstances, the course of the audit has not been materially influenced by the specific content of the current registers.

#### **4 CORPORATE GOVERNANCE**

There are no specific Corporate Governance issues to be reported as a result of this audit. However, some of the recommendations made as a result of the audit will result in enhancements to the corporate monitoring and reporting processes.

#### **5 MAIN FINDINGS**

The proposed new arrangements are based on those currently in place insofar as risk measurement is concerned. They differ substantially from current processes with regard to the monitoring and reporting regime, and the support given to risk owners.

The proposals are based on sound risk management techniques and once fully developed and implemented, will meet best practice.

Considerable support will be required for risk owners during the initial period if the new practices are to become embedded as a normal part of management and operational practice, and a feedback process should be developed to ensure that this objective is being met.

#### **6 RECOMMENDATIONS**

Seven recommendations were identified as a result of the audit. Five are high priority and two are medium priority. The recommendations are shown in the action plan attached at Appendix 2 which has been compiled with the co-operation and agreement of the Finance Manager for Community Services who has been tasked with leading the review of risk processes.

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.

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 high, medium or low. The definitions of each classification is set out below:-

**High** - 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;

**Medium** - 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;

**Low** - 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.

## 7 AUDIT OPINION

Based on the findings we can conclude that the proposed arrangements will, when fully developed and implemented, provide a sound basis for the management of risk at the Council.

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.

## 8 ACKNOWLEDGEMENTS

Thanks are due to staff in Strategic Finance for their 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 2      ACTION PLAN**

<b>No.</b>	<b>FINDINGS</b>	<b>PRIORITY</b>	<b>RECOMMENDATION</b>	<b>RESPONSIBLE OFFICER</b>	<b>IMPLEMENTATION DATE</b>
<b>1</b>	The Council has not set out, in sufficient detail, the risk culture within which risk management decisions will be taken.	High	The Council should set out formally its appetite for risk in terms that will enable those involved in determining how risks are to be treated are aware of the Council's policy on the management of different levels of risk. The risk culture should make clear the responsibilities or risk owners and the need for them to set risk targets within the context of the culture	Head of Strategic Finance	30 <sup>th</sup> June 2011
<b>2</b>	The new risk procedures will require changes to the roles of existing risk bodies, but they are not clearly spelt out, nor are the involvement of staff who will take on new roles when the procedures are implemented.	High	The roles and responsibilities of existing bodies should be reviewed, and the revised functions of these bodies, together with any additional input from key staff should be set out in detail.	Head of Strategic Finance	30 <sup>th</sup> June 2011

**Best Value Toolkit: Assessment Matrix - Risk Management**

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	The document “Managing Risk and Opportunities” is framed as a reference document and is not a suitable learning or support aid for those new to risk management.	High	A simplified document should be prepared for those new to risk management. The document should in particular deal comprehensively with the causes of risk as a key factor in risk identification and management.	Head of Strategic Finance	30 <sup>th</sup> June 2011
4	The risk scoring methodology could be modified to provide a better representation of the seriousness of the risks	Medium	The risk scoring methodology should be reviewed with a view to better representing the relative value of each risk, and the component elements which together make up the risk value.	Head of Strategic Finance	30 <sup>th</sup> June 2011
5	A review of risk registers shows inconsistent scoring in some areas.	High	Detailed guidance on risk scoring should be provided, and a training programme initiated to address weaknesses in this area.	Head of Strategic Finance	30 <sup>th</sup> June 2011
6	The use of risk assurance statements would increase accountability and assist in embedding risk as a standard operating practice	High	Consideration should be given to using risk assurance statements as a means of enhancing accountability	Head of Strategic Finance	31st March 2012

## Best Value Toolkit: Assessment Matrix - Risk Management

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
7	Pyramid is used to record risks, but has limited functionality, and some details of each risk need to be held on a separate filing system.	Medium	The Council should explore alternatives to Pyramid as a means of managing the risk registers.	Head of Strategic Finance	30 <sup>th</sup> September 2011