



Internal Audit Report
Chief Executive's Service
09/004 – Risk Management Framework within Perth & Kinross Council
November 2009

Final Report

Corporate Services
Perth & Kinross Council
2 High Street
Perth PH1 5PH

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Background and Introduction

This audit was carried out as part of the approved audit plan for 2009/2010. The purpose of the audit was to examine the adequacy and effectiveness of the Council's overall corporate framework for managing risk.

The Council has a Risk Management Strategy in place, which sets out the approach to the identification and management of risk throughout the Services. The aim of the Strategy is to ensure effective risk management to support the delivery of the Single Outcome Agreement and Corporate Plan priorities. Each Service has a Risk Management Champion who is responsible for maintaining their Service's risk profile. Within the risk profiles, the Service's risks are documented along with mitigating controls and future actions.

Services are supported by the Chief Executive's Service's Corporate Risk Management Team whose role is to provide advice and guidance to Services on risk management and also to facilitate annual risk workshops.

The Corporate Improvement Plan 2009-12 highlights the Council's commitment to improving risk management by continuing to embed risk management across all service areas.

Audit work primarily focused on the activities performed by the Corporate Risk Champions in each Service and the Corporate Risk Management Team.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the Risk Management Champions and the Corporate Risk Management Team during this audit.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: To ensure that the Council has a comprehensive Risk Management Strategy in place which defines roles and responsibilities and the risk monitoring and reporting structure and processes.

Auditor's Comments: The Council's Risk Management Strategy includes sections on the ownership of risk and the planning and reporting process.

The Strategy sets out the roles and responsibilities of Members, the Scrutiny Committee, the Executive Officer Team, Executive Directors, the Corporate Risk Management Team and the Risk Management Champions.

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Strength of Internal Controls:	Strong
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Control Objective: To ensure that the Council has adequately considered its appetite/ tolerance for risk.

Auditor's Comments: The Risk Management Strategy does not explicitly state the Council's risk appetite or tolerance. It is acknowledged that the risk appetite is implicit within the strategy; for example paragraph 3.2 states that 'in order to be successful there is always a need to take some form of risk otherwise nothing would ever get accomplished'. There is scope to provide further guidance upon the Council's overall appetite/tolerance for risk within the Strategy.

Strength of Internal Controls:	Moderate
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Control Objective: To ensure that there are appropriate arrangements in place for the identification of risks.

Auditor's Comments: Risks are identified through Risk Workshops, which take place annually and are facilitated by the Corporate Risk Management Team. We were advised that, contrary to the other service areas, the Environment Service would not be holding a Risk Workshop this year. However, as an alternative, the Corporate Risk Management Team will be meeting with the Service's Senior Management Team to discuss and review their risks.

Regular review of risk profiles assists in ensuring that any new risks identified will be added to the profiles, and those that are obsolete can be removed.

Strength of Internal Controls:	Strong
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Control Objective: To ensure that there are adequate arrangements in place for categorising and recording risks within risk profiles.

Auditor's Comments: The Corporate Business Risks had been reviewed and updated on a quarterly basis.

Workshops include training on Risk Identification, Clustering and Recording. Risks are initially recorded and categorised at the workshop stage. This information is formally recorded within the Risk Management software (Magique) and from this risk profiles are produced. Within risk profiles, risks are categorised against the area they fall under, for example political risk.

We noted that one of the Service's risk profiles was not up to date.

Strength of Internal Controls:	Strong
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Control Objective: To ensure that risks are adequately assessed and prioritised using an appropriate scoring methodology.	
Auditor's Comments: The workshops held by the Corporate Risk Management team include a session on Risk Analysis. The Risk Management Process explains the process for risk prioritisation. Prior to attendance at risk workshops, attendees are sent copies of the Risk Management Strategy and the Risk Management Process, so that they are aware of the procedure prior to taking part in the workshop.	
Strength of Internal Controls:	Strong

Control Objective: To ensure that mitigating actions are put in place to effectively manage risks.	
Auditor's Comments: Each Risk Profile has a column entitled Controls & Action Plans. Controls described in Risk Profiles were, in some instances, found to be high-level and did not adequately define how they mitigate the risk. In addition, 'audit' or 'inspection' were noted as controls. However, these are assurance-providing activities, not controls, although it is acknowledged that any actions arising from audit or inspection reports should be considered for recording as 'actions' on the risk profiles.	
Strength of Internal Controls:	Moderate

Control Objective: To ensure that the ownership of risks has been assigned at an appropriate level.	
Auditor's Comments: Risk Owners are responsible for the individual control actions in risk profiles that seek to mitigate risks. Risk Management Champions liaise with the individual owners to verify if they are on track to meet targets and provide updates to the Senior Management Teams. Services' Senior Management Teams have responsibility for the management of their Service's risks, with overall responsibility for the management of risk resting with the Executive Directors.	
Strength of Internal Controls:	Strong

Control Objective: To ensure that risks are regularly reviewed, monitored and reported.	
Auditor's Comments: The Corporate Risk Management Officer meets with each Risk Management Champion on a monthly basis to discuss their Service's risk profile and to monitor progress against target dates. As identified in the previous	

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Control Objective monitoring of individual control actions is undertaken regularly by Senior Management Teams.

On a quarterly basis, the Executive Officer Team (EOT) monitors the Council's Corporate Risks. Furthermore, an Annual Review of Service Risks and Risk Management Activity is reported to the EOT and the Council's Scrutiny Committee.

Strength of Internal Controls:

Strong

Control Objective: To ensure that Council members and the Executive Officers Team receive adequate assurance that control measures put in place are effectively mitigating the risks.

Auditor's Comments: EOT members sit on their Services' Senior Management Team meetings during which risk profiles are discussed, and discussions include the effectiveness of controls.

In addition, the EOT receives monthly 'Quad' reports which include updates on project risk management, and quarterly updates on the Council's Corporate Business Risks.

Council members receive assurance over control measures through the annual Review of Service Risks and Risk Management Activity report by the Improvement and Innovation Manager to the Scrutiny Committee.

Strength of Internal Controls:

Strong

Control Objective: To ensure that risk management is embedded throughout the Council's operations and that a risk management culture is promoted.

Auditor's Comments: The Council has recognised within its Corporate Improvement Plan the need to further embed risk management.

The Council has in place an e-module on Risk Management which sits within the mandatory training suite of modules on the ERIC intranet system. The module was launched in February 2008 and as at 13 September 2009 had been completed 1,133 times.

In March 2009 a survey 'Embedding Risk Management' was undertaken. Sixty one senior staff were identified and asked to complete the survey. However, it was returned by only fifteen senior staff. The Chief Executive's Service includes the results of this survey as an indicator in their BMIP. The performance results indicate that the percentage of staff who agree that there has been an improvement in how risk management is embedded within the Council in 2008/09 was 63.6%; an increase on 2007/08's result of 57%.

However, it is recognised that returns on these surveys are low in number.

The Risk Management Strategy states that 'Services are required to include their prioritised key risks and associated mitigation actions within the Business Management and Improvement Planning (BMIP) process'. However, although the BMIP Guidance identifies this requirement it is recognised that this could be more explicit in what services are required to do in the course of planning and agreeing their BMIPs to include appropriate risks and controls. At present risk management has not been mentioned in two service BMIPs. Furthermore, the BMIPs for the other services mention risk management in general, but do not include a prioritisation of key risks and actions.

Strength of Internal Controls:

Moderately Weak

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

B Malone, Chief Executive

T Yule, Head of Business Transformation

F MacKay, Improvement & Innovation Manager

F Easton, Corporate Risk & Programme Manager

M Kay, Senior Committee Officer

External Audit

Authorisation

The auditor for this assignment was A Flynn and the supervising auditor G Callaghan both of Chiene + Tait, Edinburgh.

This report is authorised for issue:

J Clark
Acting Chief Internal Auditor
Date: 11 November 2009

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Business Management and Improvement Plans	Medium
2	Risk Appetite	Low
3	Maintenance of up to date Risk Profiles	Low
4	Documenting of controls	Low
5	Risk Management survey	Low

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Appendix 2: Action Plan

Action Point 1 - Business Management and Improvement Plans

Services' Business Management and Improvement Plans (BMIP's) should make reference to risk management and include key risks and mitigating actions.

Failure to do this means that Services are not complying with the requirements of the Risk Management Strategy.

Management Action Plan

Guidance to services to support their development of BMIPs for 2010/11 onward will be revised to further emphasis the requirement to include key risks and mitigating actions. Support will also be provided to services by the Corporate Risk Management Team to facilitate identification of appropriate inclusion.

BMIP's for 2010/11 will make reference to risk management and include key risks and mitigating actions, in line with the Risk Management Strategy.

Importance:	Medium
Responsible Officer(s):	F MacKay, Improvement & Innovation Manager
Lead Service:	Chief Executive's
Date for Completion (Month / Year):	May 2010
Required Evidence of Completion:	[1] Guidance provided to Services [2] Clear identification of Services' risk management priorities and the inclusion of key risks and associated mitigation actions within the BMIPs

Auditor's Comments

Satisfactory

Action Point 2 - Risk Appetite

The Risk Management Strategy should provide further guidance on the Council's appetite/tolerance for risk. Failure to do so could result in unacceptable levels of risk being assumed or conversely, failing to take opportunities due to being risk averse.

Management Action Plan

The Council's appetite / tolerance of risk will be articulated in the Risk Management Strategy and associated guidance as part of the review of the Strategy.

Importance:	Low
Responsible Officer(s):	F Easton, Corporate Risk & Programme Manager
Lead Service:	Chief Executive's
Date for Completion (Month / Year):	June 2010
Required Evidence of Completion:	Increased guidance on the Council's appetite/tolerance for risk within the Risk Management Strategy

Auditor's Comments

Satisfactory

Action Point 3 - Maintenance of up to date Risk Profiles

The Chief Executive's Risk Profile has not been updated since October 2008. In addition, we noted that some of the delivery dates for actions within the profile had passed with no further update.

Services should ensure that their risk profiles are maintained up to date. Risk profiles should be reviewed regularly to ensure that they are still relevant, that all potential risks have been identified, that controls are in place to mitigate risks, and that target dates for the implementation of actions are being met.

Management Action Plan

The Chief Executive's Risk Profile is in the process of being updated.

Importance:	Low
Responsible Officer(s):	I Hall, Democratic Manager (Administration)
Lead Service:	Chief Executive's
Date for Completion (Month / Year):	December 2009
Required Evidence of Completion:	Up to date Risk Profile

Auditor's Comments

Satisfactory

Action Point 4 - Documenting of controls

Controls identified in Risk Profiles should be sufficiently detailed as to describe how the control will mitigate the risk. Furthermore, assurance-providing activities are not in themselves controls (although improvement plans/actions to enhance controls may be recorded as actions) and therefore should not be stated as being a control against risks.

Management Action Plan

Guidance will be provided to Services regarding the documenting of controls and how they mitigate the risks.

Importance:	Low
Responsible Officer(s):	F Easton, Corporate Risk & Programme Manager
Lead Service:	Chief Executive's
Date for Completion (Month / Year):	December 2010
Required Evidence of Completion:	Clearly defined controls within the Risk Profiles

Auditor's Comments

Satisfactory

Action Point 5 - Risk Management Surveys

When considering undertaking the next survey on Risk Management, it may be appropriate to issue the survey to a wider range of staff, including those of less seniority, to gain assurance over risk management being embedded throughout the whole organisation and to gauge general awareness and understanding of risk.

Management Action Plan

As part of the Corporate Improvement Plan action for ensuring that Risk Management is embedded throughout the Council, consideration will be given to circulating the next Risk Management survey to a wider range of staff than Senior Managers.

Importance:	Low
Responsible Officer(s):	F Easton, Corporate Risk & Programme Manager
Lead Service:	Chief Executive's
Date for Completion (Month / Year):	June 2010
Required Evidence of Completion:	Outcomes of future Risk Management survey and any other measures used

Auditor's Comments

Satisfactory

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