



Dacorum Borough Council

Final Internal Audit Report

Risk Management Strategic Review

September 2014

This report has been prepared on the basis of the limitations set out on page 10.

CONFIDENTIAL

Report issued to:

Distribution List:

James Deane – Assistant Director (Finance and Resources)

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Sally Marshall – Chief Executive (final report only)

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1. Executive Summary

1.1. Background

Risk Management is a key operational process within the Council. Effective Risk management can help to ensure that appropriate decisions are made and that they are made in view of the risks and opportunities involved. Given its key role in the Council's governance processes the Public Sector Internal Audit Standards require internal audit to provide an opinion on the Council's risk management arrangements on an annual basis.

1.2. Audit Objective and Scope

This internal audit forms part of the agreed 2014/15 Internal Audit plan as approved by the Council's Audit Committee.

The overall objective of this internal audit was to provide the Members, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls relating to the Risk Management processes operated within the Council.

1.3. Key Findings

From our previous work and the work of other organisations, our view is that the fundamentals of the risk management process at Dacorum are sound and working well at an operational level

Therefore, following discussions with Senior Management, our review focused on identifying opportunities to move the Council's Risk Management processes toward a best practice standard rather than carrying out detailed compliance testing. Our work has been completed by carrying out desk tops reviews, through observation such as Audit Committee attendance and discussion with key officers. The aim of our work has been to suggest an action plan that helps Officers and Members to implement enhanced risk management procedures that improve decision making and scrutiny of decisions taken.

We have identified 4 key areas where we consider that the Council's Risk Management processes could be improved and have developed the action plan shown at Section 2. These are:

- Officer and Member involvement or engagement in the Risk Management process tends to come toward the end of the process in monitoring risks identified. There is significant scope for officers and Members to be involved in risk identification prior to significant decisions being made. As an example, the risks involved in a large project are often well understood by the project sponsor but less so by the Senior Management Team and Members who are making the decision to approve the project. [Major projects (i.e., those that go to the member/officer Performance Board and/or CSSG do have risk evaluations and a register prepared as part of the preparatory work – this will include member and senior management involvement. The SRR is regularly reviewed at CMT, and also goes to Cabinet and to the OSCs.]
- Whilst the fundamentals of the Risk management process operate effectively within the Council, there are opportunities to improve the risk reviews and risk registers for key projects and ensure that these tie into the Council's Risk Management strategy and project management approach.
- Officer and Member understanding of risk and risk management would be enhanced if the Council recorded the reasons why they requested further risk mitigation measures or accepted a risk as it stood.
- Whilst at an operational level there is a clear review and reporting process around risks identified through to the Senior Management Team, the same cannot be said for review and reporting of corporate risks through to Members. There are opportunities for wider Member involvement in the review of risks and for the Audit Committee to complete a review the overall process on a regular basis.

We have made **four** recommendations where we consider controls may be further improved and the current system can begin to adopt best practice. A suggested action plan is detailed in the Observation and Recommendation Section below.

1.4. **Conclusion**

Based on the work undertaken as detailed in the 'Audit Objective and Scope', our overall assessment is that the classification of assurance that can be taken in respect of Risk Management is **Substantial** assurance.

Management should be aware that our internal audit work was performed in accordance with the Public Sector Internal Audit Standards, which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

1.5. **Restriction of Use**

As set out in our contract, we wish to draw your attention that this internal audit report may only be used in accordance with our contract and not made available to third parties, except as may be required by law or for other statutory review bodies.

1.6. **Acknowledgement**

We would like to thank all of the Council's staff involved in this review for their co-operation during our work.

2. Observations and Recommendations

2.1. Enhanced Stakeholder Involvement in Strategic Risk Management

Recommendation	Rationale	Responsibility
Key stakeholders such as the Portfolio Holders and Overview and Scrutiny Members should be involved in the development of the Corporate Risk Register.	Currently, Member involvement in the Risk Management process tends to come at the monitoring and review stage. Members are not often involved in the development of the Corporate Risk Register. Therefore, Members are not always clear on the risks involved and/or are less able to challenge the rationale for some key decisions. This reduces the effectiveness of risk management as part of the decision making process.	Martin Hone – Corporate Director
Management Response		Implementation Deadline
Please see comments at 1.3 above. To address this issue, it is proposed to hold a facilitated seminar each year immediately after the start of the municipal year (May) to include the Cabinet, Chairs of the Overview & Scrutiny Committees, the Chair of the Audit Committee and the Corporate Management Team. The purpose of the session will be to: (i) Review the extant Strategic Risk & Opportunity Register; (ii) Remove, amend, rescore existing items; (iii) Identify new risks, agree consequences, controls, assurance and their inherent and residual risk scores; (iv) Agree any amendments required to other strategies to support the amended Strategic Risk & Opportunity Register. In the interim the current Corporate Risk Register will be reviewed by Cabinet, Scrutiny Chairs and Chief Officer Group.		Commencing May 2015

2.2. Project Risk Registers

Recommendation	Rationale	Responsibility
<p>The Council should formally extend the current Risk Management arrangements to ensure that they are applied to key projects and enhance Members understanding of risk as part of the decision making process. This will require:</p> <ul style="list-style-type: none"> • All appropriate stakeholders, including members, are involved in the development of a Risk Register for key projects; • A definition of key projects to be included within the Council's Risk Management procedures; • Where appropriate, the Council to bring in outside expertise to assist in brainstorming major risks around key projects, in order that the widest view of risk is available when decisions are taken; • Ensure members review risk registers as part of the decision making process; • A formal review process relating to Corporate and Project Risk Registers should be implemented to ensure that key risks and issues are escalated at the earliest opportunity; and • The Council's Risk Management strategy and policy and procedures to be updated. 	<p>The Council does produce specific Risk Registers for key projects but often key corporate risks are only clearly understood by the responsible officer. Although other officers understand the impact of a risk in specific areas such as Finance or Legal, a holistic view of risk is not always clear to those making decisions.</p> <p>In addition, the sponsoring officer maybe the only person with a good technical understanding of the risks involved in a corporate issue or project. This can mean that their view of risk can significantly colour the overall view of the risk around a significant project or corporate issue. This can mean that inappropriate decisions are taken or that appropriate mitigating actions are not implemented.</p>	<p>Martin Hone – Corporate Director</p>
Management Response		Implementation Deadline
<p>The Council's Risk Management arrangements will be reviewed to ensure that they are consistent with the Council's Commissioning and Procurement Strategy and support the Commissioning and Procurement Standing Orders which set out the appropriate project management arrangements for schemes of varying cost and impact on services.</p> <p>The Council's Performance Board, which includes members of Cabinet and the Council's Chief Officer's Group meet regularly to review progress on the delivery of key projects arising from the Corporate Plan, the Dacorum Anywhere Programme, and the Dacorum Development Programme. This includes a review of the overall risk status and the top risk for each project.</p>		<p>October 2014</p>

Each project has a PID which includes a risk register. In addition, all projects that are within the remit of the Hemel Evolution Board (e.g., Old Town, Market Square, Bus Station) include a review of risk. Where appropriate, the Council does make use of external advisors to assist in developing and delivering projects, and this work would involve expert opinion on associated risks.

A report will be put to Cabinet in October 2014 recommending changes to the current Strategic Risk Register, and this will include implementing and progressing the recommendations from Mazars.

2.3. Defining the Council's Risk Appetite

Recommendation	Rationale	Responsibility
The Council should record the reasons why they requested further risk mitigation measures are implemented or why they accept a risk.	<p>Currently the reasons for action relating to a risk is not clearly defined, applied consistently across the Council or well recorded. As a result Officers and Members may not be consistently assessing the level of risk associated with the decisions they are taking.</p> <p>In addition, the decision makers may reject a course of action which meets a risk level they are happy accepting with the associated opportunity costs arising.</p>	Martin Hone – Corporate Director
Management Response		Implementation Deadline
This will be addressed in the report to Cabinet in October (see 2.2 above).		October 2014

2.4. Risk Reporting to Members

Recommendation	Rationale	Responsibility
<p>Risk reporting to members should be enhanced to ensure:</p> <ul style="list-style-type: none"> • Overview and Scrutiny Committees review corporate and project risks related to their areas of activity on a regular basis; • Overview and Scrutiny Committees regularly request members of the Executive team to discuss the risks identified and outline the actions being taken to mitigate these; and • The Audit Committee receive the Corporate risk register on a regular basis and call in certain risks to receive assurance that the Risk Management process is operating effectively. 	<p>Appropriate reporting and review of risks will ensure that appropriate mitigating actions are implemented when the level of risk becomes unacceptable.</p> <p>In addition, the introduction of early involvement in the development of project risk registers also allows more effective review of risk after decisions have been made. Currently, there is a limited role for Overview and Scrutiny Committees in reviewing risk registers relating to decisions and projects under their purview.</p> <p>In addition the Audit Committee has a direct role in ensuring the risk management process is operating effectively.</p>	<p>Martin Hone – Corporate Director</p>
Management Response		Implementation Deadline
<p>The OSCs do currently receive quarterly updates on operational risks and the Strategic Risk Register is reported quarterly to Finance & Resources OSC. In future, this quarterly update of the SRR can also be included on the agendas for the other two OSCs. OSCs will be encouraged to scrutinise the strategic risks that might have an impact on the services within their remit, and require relevant officers to attend. The proposal for the Audit Committee to review the SRR on a regular basis will be included in the recommendations of the report to Cabinet in October 2014 (see 2.2 above).</p>		<p>October 2014</p>

Appendix A - Reporting Definitions

Assurance Gradings

We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

Assurance Level	Evaluating and Testing Conclusion
Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
Substantial	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
None	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

The assurance gradings provided above are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated objectives.

Appendix B - Staff Interviewed

Martin Hone – Corporate Director

James Deane – Assistant Director – Finance and Resources

Linda Dargue – Insurance and Risk Manager

We would like to thank the staff involved for their co-operation during the audit.

Appendix C - Audit Objective and Scope

This internal audit forms part of the agreed 2014/15 Internal Audit plan as approved by the Council's Audit Committee.

The overall objective of this internal audit was to provide the Members, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls relating to the Risk Management processes operated within the Council.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

September 2014

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