

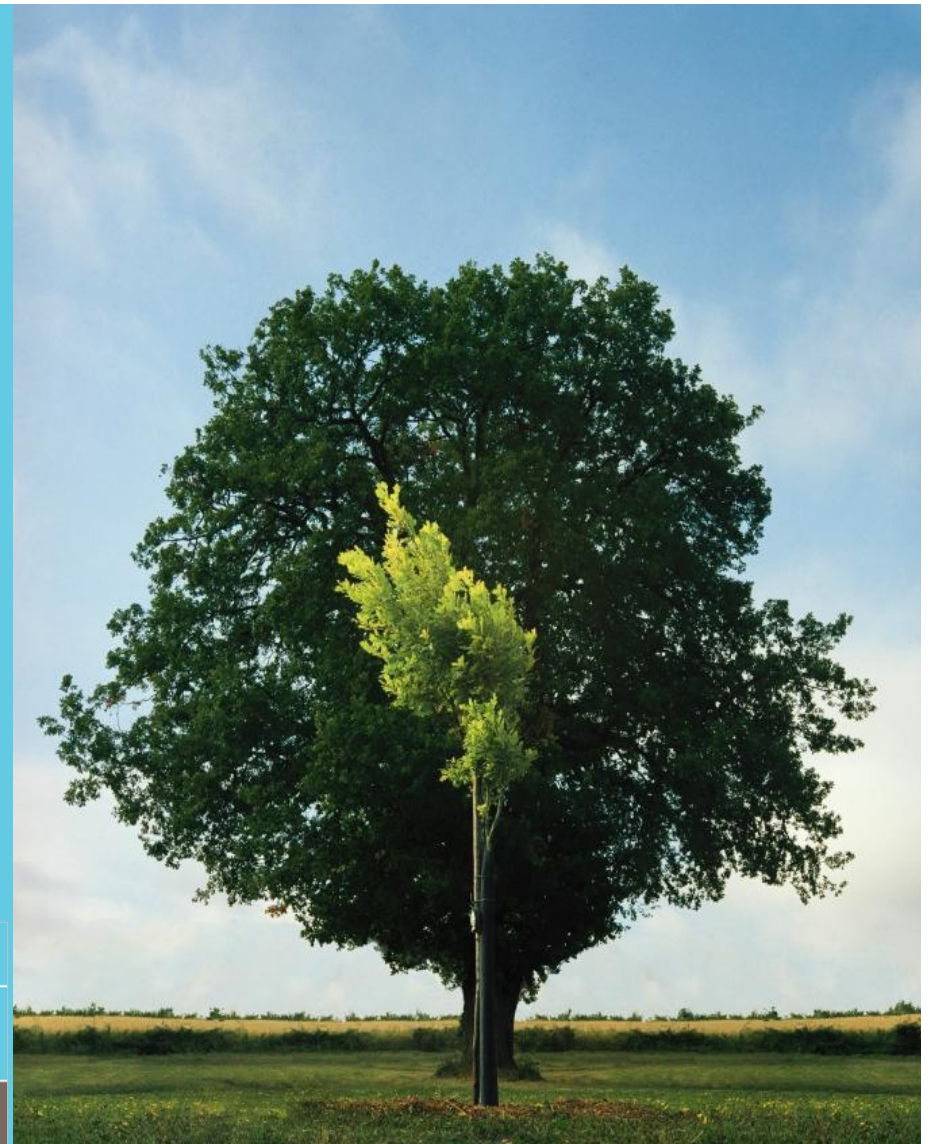
# DACORUM BOROUGH COUNCIL

INTERNAL AUDIT REPORT

Risk Management Review

September 2013

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Moderate	Moderate



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## REPORT STATUS

Auditor:	Rachael Tomlinson
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## DISTRIBUTION LIST

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# EXECUTIVE SUMMARY

## CLIENT STRATEGIC RISKS

Risk	BAF/RR Reference	How it relates to the risk, assurance (or lack of) that the review gives against the risk.
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This review relates to all risks on the Risk Register.

## LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)

Design	Moderate	Generally a sound system of internal control designed to achieve system objectives with some exceptions.
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Effectiveness **Moderate** Evidence of non compliance with some controls, that may put some of the system objectives at risk.

## SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II)

High: 1



Medium: 9



Low: 2



Total number of recommendations: 12

## OVERVIEW

This report contains the findings from phase one of our review of Risk Management, identifies areas for further work and makes some immediate recommendations.

In order to reach our conclusion we have reviewed the strategic risk register, the operational risk register and the risk management strategy as well as the guide to managing risk. In addition we also reviewed minutes from committees as well as interviewing Council staff (see Appendix I).

Within the Council management of risk is taking place on a day to day basis with both strategic and operational risk registers being in place. Both of the registers are reviewed by a number of different committees on a regular basis. There is evidence to suggest key risks are being considered and managed.

However, there are a number of areas where the Council needs to re think its current practice in order to ensure that risk is being effectively managed and is embedded at all levels:

- the strategic risk register needs to be linked to the Council's priorities and then reflect the risks that come from these;
- there needs to be clarity on the purpose of review of the risk registers at the different committees;
- there should be a clearer link between the operational risk register and the strategic risk register; and
- assurances should be identified for every risk.

We have provided recommendations and some best practice to help the Council address these issues. This will help the Council become more risk focused and have a clear, efficient process for managing risk.

We have recommended that a risk seminar takes place, facilitated by internal audit (from within the agreed audit plan) in order to discuss risk management and engage different levels of staff and members. The following could be included within this seminar:

- the risks facing the Council which would stop or delay the implementation of the priorities;
- where risk should be reported and how it should drive the agenda; and
- an understanding of risk terminology.

# DETAILED FINDINGS & RECOMMENDATIONS

## RISK: THE RISKS ON THE RISK REGISTER DO NOT REFLECT THE ACTUAL RISKS FACING THE COUNCIL

Ref.	Finding	Sig.	Recommendation
1.A.	<p>Whilst there is a strategic risk register in place at the Council it is not up to date and does not reflect all of the current risks. Examples of this are the absence of risks relating to capital developments including the CSU and the Public Sector Quarter. There are also risks on the register which are not strategic in nature. An example of this is the management of health and safety; whilst this was a high risk area for the Council at one point in time it is not a strategic risk because the risk is at an operational level and is not directly linked to achievement of the strategic objectives and therefore should be on the operational risk register and not the strategic register.</p> <p>The Council needs to populate the strategic risk register with current strategic risks. Linking the strategic risk register to the Council’s priorities would prove beneficial as it will enable the Council to see the risks that may prevent the achievement of these and then take action to mitigate them. The strategic risk register in particular should be one which is proactive instead of being reactive. An example of a reactive risk is the health and safety risk which was only entered onto the register after a serious incident; proactive risks look at what could stop the Council from achieving its objectives.</p> <p>The operational risk register does contain more up to date risks as this is provided by the Assistant Directors. However some of the risks could be worded more clearly and in some cases be more specific, for example ‘failure to respond to opportunities presented by the Localism Bill and subsequent legislation’. This risk and others on the operational risk register are too broad and as such is it difficult to put assurance and controls against them. Making the risks more specific will assist in ensuring that the right controls and assurance are detailed against the risk.</p>	<p>H</p> <p>M</p> <p>L</p>	<p>1.A.1 There needs to be a link from the Council’s priorities to the strategic risk register. The Council should amend the format of the current risk register in order to align it to strategic priorities and then the risks can flow from these. Under each priority will be the risks that may stop achievement of that priority. (see appendix IV)</p> <p>1.A.2 It would be beneficial for the Council to hold a risk seminar to agree the purpose of the strategic risk register and the key risks facing the Council. A risk seminar will also assist the Council in engaging members in the risk process and ensure that it goes beyond a paper based exercise. We could assist in facilitating this, from the days already agreed within the audit plan.</p> <p>1.A.3 The wording of risks in the operational risk register should be more detailed to specify the exact risk the Council is facing.</p>
1.B.	<p>There also needs to be a better link between the operational and strategic risk registers as there is no correlation between the two at the moment. For example the under spend against budget is a red risk but this has not been fed up to the strategic risk register. Whilst there is a financial risk on the strategic risk register it is currently green. Good risk management operates both a top down approach from the priorities as well as bottom up approach which allows higher risks to move from the operational register to the strategic one.</p>	M	<p>1.B.1 The Council should agree on how the operational and strategic risk registers are linked. Typically this will involve escalating items from the operational risk register that exceed a certain score to the strategic risk register.</p>

MANAGEMENT RESPONSE

RESPONSIBILITY AND IMPLEMENTATION DATE

1.A.1 The current format of the Council's risk register does specifically state to which corporate priority the risk is linked. However, I agree that the format could be more useful with the corporate priority taking a more prominent role. How best to achieve this will be considered as part of the review of the Council's Risk Management Strategy (RMS), which is currently underway – Appendix IV would be an improvement.

1.A.2 Agreed. This will be arranged with the new Audit Manager.

1.A.3 Agreed. The example risk was removed from the operational risk register in 2012/13 and has not been reported in the current year for this reason.

1.B Partially agreed. I agree that the operational and strategic risk registers should be interlinked with scope for escalation for the appropriate risks, and this will be incorporated in the risk management review. However, an operational risk does not become a strategic risk solely by virtue of its having a high score. To use the financial example given, the operational risk register deals with the in-year risk of an underspend against budgets, whereas the Strategic risk register deals with the broader economic environment – it is entirely consistent that one could be red and the other green and that the operational risk would not be moved up to the strategic register.

# DETAILED FINDINGS & RECOMMENDATIONS

RISK: THE RISKS ARE NOT REVIEWED ON A REGULAR BASIS AND APPROPRIATE ASSURANCE ASSIGNED TO EACH OF THE RISKS			
Ref.	Finding	Sig.	Recommendation
2.A.	The risk registers are reviewed on a regular basis at the corporate management team, overview and scrutiny committee and also at Cabinet as well as the Assistant Directors meeting. The risk management strategy details the different groups that review risk, however it is not entirely clear what the responsibility of these groups and committees are and why so many groups have similar responsibility for the risk. Within the risk management strategy the responsibilities of the different committees such as the corporate risk group, the corporate management team and the overview and scrutiny committee are all very similar and this is reflected by the minutes of the meetings. This seems to result in lack of clarity in the meetings, with some discussions on risks not being held because the participants of the meetings know it will go to another group that they sit on as well.	M	2.A. The Council should review the different groups that risk is discussed at and clarify the purpose of risk registers being taken to these meetings.
2.B.	On both the strategic and operational risk registers the column for assurance is not completed in a large number of cases. For example in the operational risk register it was not completed for risks FRI04 (failure to achieve an effective business continuity plan for all relevant service areas) and FRR03 (over spend of budgets). When Council staff were asked about this there seemed to be some confusion as to how this section was different from the controls column and also the risk owner comments section. This does highlight a lack of understanding across the Council with regard to the process for risk and what needs to be included on the risk registers.	M	2.B. The assurance section of the risk register needs to be completed and reviewed once a month in order to ensure that the evidence for the risk score is up to date. It would also prove useful to have a discussion at the Assistant Directors meeting around the difference between the columns and for the Directors to assist one another in gaining assurance on the risks.
2.C.	There is also some confusion around the reasoning for treating or tolerating of the risk. Whilst this is in the risk management strategy there does not seem to be a real understanding of circumstances of where you would tolerate a risk. This is an unhelpful addition to the risk register as all of the risks on the register should be treated. In some circumstances the risk was being tolerated due to the fact that the risk owner was not able to take enough action to mitigate the risk because the risk lay across the whole council. An example of this is the overspend of budgets; whilst finance can put in place some actions all departments hold the risk.	L	2.C. Re-formatting the operational risk register would aid the recording and understanding of risk. Instead of the risks being assigned under each of the Assistant Directors they could be grouped under the Council's priorities in the same way as we have recommended the strategic risk register to be formatted. An additional column can then be added which details the risk owner. Whilst in most cases this will be one person, risks which cut across the whole Council may have more.
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
All Agreed. All in scope within the review of the Council's risk management to make the process clearer and more efficient.			



# DETAILED FINDINGS & RECOMMENDATIONS

## RISK: THE SENIOR MANAGEMENT REVIEW OF THE RISKS FACING THE COUNCIL IS NOT EFFECTIVE

Ref.	Finding	Sig.	Recommendation
3.A.	Whilst there is senior management review of risks we did not see evidence of effective discussions around risk. According to the risk management strategy the responsibility for risk has been split between four levels with different levels of review assigned to each. It is only at the overview and scrutiny committee that both the operational and strategic risk registers are seen together and the emphasis in the committee papers seems to be on the changing risks scores rather than a wider view of risk management.	M	3.A. The Council needs to change how risk is reviewed at committee level both in terms of which committees see the registers and also the nature of the report that is presented. A change in the format of the report to include a summary of how the risks are being addressed and the assurance that has been gained or removed since the last discussion would help focus discussions around risk.
3.B.	At present there is no one committee that sees all of the risks facing the Council as the project risks are not being fed into the main risk management process. This was discussed with the Transformation Programme Manager who acknowledged that these risks do need to be fed in. However consideration needs to be given as to how this is done. At present the different projects have their own risk registers and not all of these risks will need to be drawn across as some will be low level, specific risks. However some of the risks will need to be fed into the operational risk register and there will also be a need for some aspects to be reported on the strategic risk register.	M	3.B. The project risks should be fed into the main risk registers using pre-agreed parameters.

## MANAGEMENT RESPONSE

## RESPONSIBILITY AND IMPLEMENTATION DATE

Agreed.



# DETAILED FINDINGS & RECOMMENDATIONS

RISK: THERE IS INSUFFICIENT SENIOR MANAGEMENT OVERVIEW			
Ref.	Finding	Sig.	Recommendation
4.A.	<p>The Cabinet sees a report on risk every quarter and this takes the form of reviewing the strategic risk register and receiving an overview of the operational risk register. Whilst it is good that the Cabinet sees the registers on a regular basis there does appear to be some disparity between some of the items discussed at the Cabinet which are risk related and whether these are recorded on one of the risk registers. An example of this is the discussion around the risk of the decant, which is currently recorded as a project risk but if it is being discussed at the Cabinet then it should also be on the strategic risk register.</p> <p>There is also a need for the agenda of the Cabinet and also other senior management meetings to be driven by risk. Whilst all of the reports which are presented have a section on risk implication within them it would be more helpful to directly link each of the reports to one of the risks on the strategic risk register. This will enable the Council to ensure all areas of the strategic risk register are being reviewed and to ensure that high priority items make up the majority of the discussion at the Cabinet.</p>	M	4.A. The Council needs to ensure that it is risk that is driving the agendas of meetings so that all areas of the strategic risk register and other high scoring risks are being discussed on a regular basis by the Cabinet and other senior management. This can be done by the Council once the risk registers have been amended. It would involve the linking of each of the agenda items to the risk register, and in the reports which are presented detailing how the information contained in the report will affect the risk - either lower the level of risk or make it greater.
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
To be developed further with Audit Manager.			

# DETAILED FINDINGS & RECOMMENDATIONS

RISK: THERE IS A LACK OF UNDERSTANDING OF RISK WITHIN THE ORGANISATION			
Ref.	Finding	Sig.	Recommendation
5.A.	There is some understanding of risk and risk management within the Council, however as acknowledged in the discussions that were held with Assistant Directors this could be better. There is at the moment a gap between the formal and informal discussions that take place day to day about risk management and the paperwork that is completed. The latter is seen as more of a tick box exercise by the Council and is separate to meetings held within departments. For example the Assistant Directors spoken to said that they review their risks on the register once a quarter but this is not discussed at Group Manager meetings. While risk in general is discussed on a regular basis, this is not a systematic discussion around all of the risks but as they relate to specific topics. This lack of linkage between the formal and informal was also acknowledged by the Risk and Insurance Manager.	M	5.A. In order to effectively embed risk management within the Council there needs to be a link between the risk registers and the day to day discussion of risk. It would be helpful for all meetings at operational and strategic level to be driven by the risks on the register. This process would be similar to that detailed in recommendation 4.A. We suggest it is trialled at senior management meetings to start with and, if effective, rolled out more widely in the longer term.
5.B.	The Council has a risk management strategy in place but it is mainly operational and not as clear as it could be in terms of laying out the reporting and review of risk as well as gaining buy in from different sections of the Council and embedding risk within the organization. Within the strategy there needs to be more of a focus on the risk culture of the organisation and how this flows from the top down - a flow chart detailing this may be helpful, instead of the focus being on how to complete the paperwork. Whilst the latter is important it should not be included in the strategy, as this document should focus on what risk management is and how this translates to risk within the Council. The guide to managing risk should be the document that takes the Council step by step through the process for completing the risk paperwork.	M	5.B. The Council need to review and amend the risk management strategy in order to make it more strategic, with a separate document setting out how to complete risk documentation. We have provided a potential risk model and outline of what a strategy should contain at Appendix V.
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
5.A. This concept needs to be developed further with Audit Manager to understand this proposal more fully and how it might work in practice.			

# APPENDIX I - STAFF INTERVIEWED

NAME	JOB TITLE
James Deane	Assistant Director, Finance and Resources
James Stammers	Transformation Programme Manager
James Doe	Assistant Director, Planning, Development and Regeneration
Elliot Brooks	Assistant Director, Housing Landlord
Steve Baker	Assistant Director, Legal, Democratic and Regulatory
Linda Dargue	Insurance and Risk Manager

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.

# APPENDIX II - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF INTERNAL CONTROLS	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
<b>Substantial</b>	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>Moderate</b>	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
<b>Limited</b>	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>No</b>	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE	
<b>High</b>	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
<b>Medium</b>	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
<b>Low</b>	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

# APPENDIX III - TERMS OF REFERENCE

<b>Purpose of review</b>	The purpose of this review is to ensure that risk management within the council has sufficient director, assistant director and councillor’s engagement and ownership of the process as well as the risks and the assurances to mitigate them.
<b>Key Risks</b>	Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding the key risks associated with the area under review are: <ul style="list-style-type: none"> <li>• The risks on the risk register do not reflect the actual risks facing the Council.</li> <li>• The risks are not reviewed on a regular basis and appropriate assurance assigned to each of the risks.</li> <li>• The senior management review of the risks facing the Council is not effective</li> <li>• There is insufficient senior management overview.</li> <li>• There is a lack of understanding of risk within the organisation.</li> </ul>
<b>Scope of Review</b>	The review will be undertaken in two stages, the first of these will be a detailed review of the risk culture within the organisation and how this is reflected in documentation and discussion at all levels of the organisation. This will include looking at the following areas; <ul style="list-style-type: none"> <li>• to ensure there is an understanding of risk appetite within the organisation and in particular at senior management level</li> <li>• ensuring there is ownership and understanding of the risks facing the senior management</li> <li>• the process for determining how risks are entered onto the risk register and if those risks reflect the strategic issues facing the Council.</li> <li>• the review will look in particular at how the project risks are fed into the Councils risk register</li> <li>• the process for how operational and strategic risks are identified and monitored</li> <li>• to look at how senior management can structure and present risk to the wider Council to ensure engagement</li> </ul> <p>The second stage review will be a high level overview of the process and following up of recommendations made in the first stage internal audit report, this will be undertaken in the final quarter of the year to ensure that the process has been embedded.</p>
<b>Key Contacts</b>	Linda Dargue, Insurance & Risk Manager James Deane, Assistant Director, Finance & Resources
<b>Timescales</b>	25 days. Report to be issued in July 2013.

On behalf of BDO LLP:		On behalf of DBC:	
Signature:		Signature:	
Title:		Title:	
Date:		Date:	

# APPENDIX IV - EXAMPLE RISK REGISTERS

## Strategic Risk Register

Whilst within the current strategic and risk register you have the columns detailed below we have added in this example a link to the Council’s priorities. This will allow the Council to directly determine the risks they facing in not achieving the objective. Within the operational register we have also added in a column for risk owner, this will allow for greater clarity and control as to who owns the risk.

RISK	INHERENT PROBABILITY	INHERENT IMPACT	INHERENT RISK SCORE	CONTROLS	RESIDUAL PROBABILITY	RESIDUAL IMPACT	RESIDUAL RISK SCORE	ASSURANCE
<b>Priority one: Affordable Housing</b>								
1. Achieve good social housing								
This section will be the risks facing the council in not achieving the priority								
2. Develop the private rented sector								
This section will be the risks facing the council in not achieving the priority								

# APPENDIX IV - EXAMPLE RISK REGISTERS

## Operational Risk Register

RISK	INHERENT PROBABILITY	INHERENT IMPACT	INHERENT RISK SCORE	CONTROLS	RESIDUAL PROBABILITY	RESIDUAL IMPACT	RESIDUAL RISK SCORE	ASSURANCE	RISK OWNER
<b>Priority three: Dacorum Delivers</b>									
1. Efficiencies									
Services cannot be delivered due to lack of budget control									In this example the risk owners will be all Assistant Directors, or those with budget responsibility .

# APPENDIX V - RISK MODEL



A coherent risk management framework is crucial to effectively embedding risk management within the organisation. Our framework sets out the basic foundations on which effective risk management can be built. It recognises that risk management is an ongoing process and needs to be systematically and continually carried out to ensure the organisation can achieve its risk management, and therefore business, objectives.

At a high level, the risk management framework is summarised on the left.



## RISK MANAGEMENT STRATEGY

A formal strategy should be produced which considers/takes into account:

Cultural and structural barriers to embedding risk management in the organisation's business activities, possible barriers being:

- Lack of top management support
- Failure to identify benefits
- Failure to gain buy-in
- Unclear roles and responsibilities
- Insufficient resources

Funds and resources required to achieve the desired level of risk maturity, including investment in systems and processes. Activities required to improve the organisation's risk maturity, such as:

- Inclusion of objectives related to risk management in team or individual performance objectives
- Provide staff with the training.
- Appointing a risk management champion who can advise and help staff implement the process

Risk activities, risk priorities and milestones for coming year(s).

Reporting and review - within this it is important to define key success factors to demonstrate whether or not the organisation has successfully embedded risk management into its day-to-day operations.

Key success factors could be:

- Number of unexpected risks that materialised
- Number of risks exhibiting unexpected impacts or probabilities

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