

## **RISK MANAGEMENT AUDIT**

### **Report by Graham Herbert, Internal Audit Manager**

#### **1. Purpose of the Report**

The purpose of this report is to notify the Audit Committee of a proposal to postpone a planned review of Risk Management until quarter 4 2014/15 to take full account of improved activity currently being undertaken in respect of risk management.

#### **2. Background**

Internal Audit had on its 2013/14 plan a review of Risk Management processes and controls. We have however received a request from the Risk Safety Health and Civil Contingencies Manager, supported by the Head of Finance and Integrated Services, for this work to be postponed until quarter 4 2014/15.

The reason for the request is that a number of improvements have been recommended to the current risk management approach by the Risk Safety Health and Civil Contingencies Manager and these were presented to and endorsed by the Corporate Management Team in February 2014. These included:

- the annual revision of service and corporate risk registers prompted by the service planning process;
- Risk Management Group input to the revision of risk registers;
- Risk Management Group meetings to be aligned with risk management performance reporting, meeting 4 times a year to support the development of risk management reports to the Corporate Management Team and the Audit Committee;
- to revise the remit of the Risk Management Group;
- to produce a revised risk matrix on the Covalent system to reflect the risk rating approach set out within the revised risk management policy;
- a new report layout for reporting of risk registers to Corporate Management Team and the Audit Committee to clarify the link between risks and service / council objectives;
- the development of a new top 5 issues report; and
- raising the profile of risk management / visibility through the development of a dedicated Intranet micro site.

The suggestion is therefore that these should be given time to become embedded before Internal Audit undertakes a full review thus adding greater value.

Whilst the rationale for the requested postponement is understood and accepted, Internal Audit's initial work on Risk Management has identified a number of areas which also need to be addressed. These

have been brought to management's attention and are now formally reported to the Audit Committee in this report as follows:

### Changes to the Current Risk Management approach

The changes endorsed by Corporate Management Team to risk management practices should be submitted to the Audit Committee for discussion and approval (this has been agreed and a Report is included in the Audit Committee Agenda for 17 June).

Assuming these proposals are ratified by the Audit Committee, the actions identified by the Risk Safety Health and Civil Contingencies Manager need to be updated to Covalent with timescales and responsibilities assigned. Delays in implementation should be reported back to Corporate Management Team and the Audit Committee.

### Training

An action needs to be added to the Risk Management programme around training on Risk Management both for management and Elected Members.

### Risk Management Group

The Risk Management Group should meet on a quarterly basis in 2014/15, as detailed above.

### Risk Management Performance Indicators

It is noted that in previous reporting periods (prior to 2013/14) the Audit Committee was presented with an annual risk control programme which centred on a set of Risk Management Performance Indicators.

These Performance Indicators ranged widely in nature but included: corporate priorities that had been risk assessed; performance of the Risk Management Group; regular review and update of risk registers (service, project and community planning); risk assessments of new legislation; and high risks reported to the Corporate Management Team and Cabinet etc. There was no reporting against these Performance Indicators in 2013/14. Management need to review whether this control should be re-established.

### Reporting on Corporate Risks to the Audit Committee

Reporting on corporate risks to the Audit Committee should be to each Audit Committee immediately after the quarter end.

It was noted that in March 2014 the Risk Safety Health and Civil Contingencies Manager commenced reporting not only on Corporate Risks but operational and project risks which were scored as high or critical (quarter 2 and 3). This reporting was not however repeated in May 2014 (quarter 4). Internal Audit is of the view that this reporting provides valuable information to the Audit Committee and should be reported quarterly along with the Corporate Risks

## Risk Scores within Covalent

Internal Audit also reviewed the current scoring applied by Covalent within Risk Registers and noted a number of inconsistencies between this and the risk management guidance. For example:

- the risk management guidance noted that a methodology of scoring risks from 1 to 25 was used but the maximum possible risk score in the system was 23; and
- the risk scoring of minor risks produces a higher risk score than moderate risks.

Internal Audit has already worked with the Risk Safety Health and Civil Contingencies Manager and adjusted the new scoring system so the risk scoring methodology will be robust going forward.

### **3. Progress with issues raised by Grant Thornton**

Grant Thornton as part of their Midlothian Council – 2012-13 Annual Audit Report, recommended that committee reports on corporate risks could be improved by ordering risks by current score, and therefore highlighting critical risks to the organisation.

It was noted that this recommendation has been acted upon and reports submitted to the Audit Committee now show the number of critical and high risks and then gives a narrative against each.

### **4. Report Implications**

#### **4.1 Resource**

Risk, Health and Civil Contingencies Manager time to take forward the actions noted above.

#### **4.2 Risk**

The report examines Midlothian Council's approach to risk management and includes a number of recommendations on how this should be taken forward.

#### **4.3 Single Midlothian Plan**

Themes addressed in this report:

- Community safety**
- Adult health, care and housing**
- Getting it right for every Midlothian child**
- Improving opportunities in Midlothian**
- Sustainable growth**
- Business transformation and Best Value**
- None of the above**

#### **4.4 Key Priorities within the Single Midlothian Plan**

Risk management impacts on all of the key priorities with the Single Midlothian Plan.

#### **4.5 Impact on Performance and Outcomes**

The effective management of risks impacts directly on performance and outcomes.

#### **4.6 Adopting a Preventative Approach**

Effective risk management assists with adopting a preventative approach.

#### **4.7 Involving Communities and Other Stakeholders**

The draft report has been referred to the Risk Safety Health and Civil Contingencies Manager, the Head of Finance and Integrated Services; and the Chief Executive.

#### **4.8 Ensuring Equalities**

There are no equalities issues with regard to this report.

#### **4.9 Supporting Sustainable Development**

There are no sustainability issues with regard to this report.

#### **4.10 IT Issues**

There are no IT issues with regard to this report.

### **5. Recommendations**

The Audit Committee is invited to:

- note and approve the requested postponement of the Internal Audit of the Council's risk management system until quarter 4 2014/15; and
- note the areas for improvement identified through the initial Internal Audit review have been agreed with the Risk Safety Health and Civil Contingencies Manager with actions to be updated to Covalent for tracking purposes.

**Date:** 19 May 2014  
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**Declaration Box**

*Instructions: This box must be completed by the author of the report. The box will be copied and saved by the Council Secretariat who will delete it from the report prior to photocopying the agenda.*

*Title of Report:*

*Meeting Presented to:*

*Author of Report:*

***I confirm that I have undertaken the following actions before submitting this report to the Council Secretariat (Check boxes to confirm):-***

- All resource implications have been addressed. Any financial and HR implications have been approved by the Head of Finance and Human Resources.***
- All risk implications have been addressed.***
- All other report implications have been addressed.***
- My Director (Chief Executive) has endorsed the report for submission to the Council Secretariat.***

***For Cabinet reports, please advise the Council Secretariat if the report has an education interest. This will allow the report to be located on the Cabinet agenda among the items in which the Religious Representatives are entitled to participate.***

***Likewise, please advise the Council Secretariat if any report for Midlothian Council has an education interest. The Religious Representatives are currently entitled to attend meetings of the Council in a non-voting observer capacity, but with the right to speak (but not vote) on any education matter under consideration, subject always to observing the authority of the Chair.***