GOVERNANCE AND AUDIT COMMITTEE
21 SEPTEMBER 2010

AUDIT AND RISK MANAGEMENT UPDATE
(Head of Audit and Risk Management)

1   PURPOSE OF REPORT

1.1   This report provides the Governance and Audit Committee with an update on progress on risk management at the Council and on general audit progress. Full details of progress on internal audit reviews will be included in the Head of Audit and Risk Management's six monthly report which will be presented at the next Governance and Audit Committee meeting.

2   RECOMMENDATION

2.1   That the Governance and Audit Committee review and agree the Risk Management Strategy for 2010/11.

2.2   That the Governance and Audit Committee note the developments on risk management.

2.3   That the Governance and Audit Committee note the update on internal audit.

3   ADVICE RECEIVED FROM STATUTORY OFFICERS

Borough Solicitor

3.1   No comments to add.

Borough Treasurer

3.2   No comments to add.

Strategic Risk Management

3.3   Robust internal audit arrangements are an important part of effective risk management. Audit plans should be targeted to areas of greatest risk to the Council and individual internal audit reviews should focus on controls in place to mitigate risk and highlight any gaps in assurance.

4   SUPPORTING INFORMATION

Risk Management

4.1   Under the Accounts and Audit Regulations 2003, the S151 Officer is required to ensure that there are measures in place to ensure that risk is appropriately managed. The Council has strengthened its risk management arrangements over the last two and a half years by:

•   updating the Risk Management Strategy and producing a Risk Management Toolkit to provide guidance for officers and Members;

- developing a Strategic Risk Register and ensuring this is updated and reviewed quarterly by the Strategic Risk Management Group and the Corporate Management Team (CMT) and approved by the Executive twice a year;

- drawing up strategic risk action plans and monitoring these through the Performance Monitoring Reports;

- improving documenting of risks and mitigating actions in Service Plans and Performance Monitoring reports;

- providing training on general risk management to managers as well as running training sessions on risk in financial planning, procurement risk and procurement fraud risk to specific groups of officers; and

- providing training on risk management to Members.

4.2   Whilst the Strategic Risk Register was being reviewed and updated quarterly, there had not been a fundamental refresh of the risk register since January 2008. Hence in March 2010, officers were asked to identify significant risks facing the Council from first principles. The results of this were drawn together into a new draft Strategic Risk Register and this was then circulated for comment to all DMTs and the Assistant Chief Executive's management team. The feedback from senior officers was taken on board and CMT agreed the risks on 30 June and considered by the Executive on 14 September 2010.

4.3   In doing this, the opportunity was taken to re-design the format of the Strategic Risk Register to assign a risk score to each trigger which will inform the overall risk score, incorporate planned actions into the body of the Strategic Risk Register and the officers responsible for these actions. In future, progress on actions will be reported in one place, the Corporate Performance Overview Report, rather than individual Directorates' Performance Monitoring Reports.

4.4   When re-formatting the Register, the Head of Audit and Risk Management reviewed the alpha numeric risk scoring methodology applied since January 2008. There was some concern that this scoring system was confusing and the severity of risks was not instantly recognisable as it would be with a fully numeric system. It was also not consistent with the numeric risk scoring approach advocated under PRINCE 2 for project management. The Head of Audit and Risk Management recommended that a numeric 5 by 5 scoring system should be introduced and this was agreed by CMT on 30 June 2010. The strategic risks identified were scored at CMT on 28 July 2010.

Directorate Risks

4.5   Internal audits of directorate risk management arrangements are being completed in all areas. Three of these reviews have been completed and draft reports issued and the remaining audits are in progress. This has highlighted a need to strengthen the processes for identifying, documenting and mitigating risks to include significant operational risks for business as usual. CMT agreed on 30 June 2010 that risk factors for planned outcomes in Service Plans are replaced by the setting up of directorate risk registers covering the top 10-15 risks. This will ensure that Directors and Departmental Management Teams (DMTs) identify their major risks for all aspects of the service and if there were any significant risks associated with planned outcomes these will be picked up by this process as a matter of course. It is intended that these would be reviewed and updated by DMTs quarterly prior to the updating of

the Strategic Risk Register so that the directorate risk registers can inform the assessment of strategic risks.

Electronic Risk Management System

4.6   The Strategic Risk Register is currently maintained as a "Word" table. There is the facility within PARIS for risk management and it is proposed that this functionality is utilised. This would facilitate greater oversight of actions and progress and improve efficiency in the maintaining of risk registers. CMT are asked to agree the proposal to use PARIS for risk management.

Risk Management Strategy and Guidance

4.7   The Risk Management Strategy was updated and approved in 2009/10 when guidance for officers on managing risks was also developed in the form of the Toolkit. The Risk Management Strategy for 2010/11 has been developed and the Toolkit has been updated in line with the way forward agreed with CMT for maintaining the Strategic Risk Register and managing risks in the directorates and were reviewed at the Strategic Risk Management Group on 23 August 2010. The Strategy is now attached for Governance and Audit Committee review and approval.

Internal Audit

4.8   The Head of Audit and Risk Management provides detailed updates on progress against the Annual Internal Plan twice a year. The first report on the 2010/11 Plan will be presented to the next meeting of the Governance and Audit Committee. Audits where limited assurance has been concluded should be drawn to the attention of the Committee at the earliest opportunity. At the time of writing this report, no limited assurance opinions have been concluded for audits under the 2010/11 Internal Audit Plan.

4.9   At the Governance and Audit Committee on 29 June 2010, the Head of Audit and Risk Management reported to the Committee that the draft internal audit report on procurement conclusion was that only limited assurance could be given due to a number of priority 1 weaknesses which she set out in her report. The Head of Audit and Risk management was asked specifically to report to the next meeting with detailed information about the largest value contract that could not be located from the list of 5 contracts that had not been presented for audit inspection.

4.10   The draft procurement report was discussed at CMT on 30 June when the need for further action to locate the signed contracts was agreed. Copies of all 5 signed contracts have now subsequently been presented to Internal Audit for inspection. The largest of these is for £2.2m for demolitions, alterations to existing buildings and construction of an extension for the Brakenhale Open Learning Centre.

4.11   A full update on fraud and irregularities will be included in the Head of Audit and Risk Management's report to the next meeting. However the Committee's attention is drawn to a case of misuse of the Memorandum of Understanding with the Department for Works and Pensions by one member of staff accessing their own records. The situation was investigated by Internal Audit and before completion of the investigation, the individual concerned resigned. The Department for Works and Pensions was happy with how the Council dealt with this matter and the Department is taking no further action.

Counter Fraud Strategy

5.1 Local authorities have a responsibility to ensure that they have adequate anti-fraud and corruption procedures. The Council has in place a number of measures for countering fraud including the Fraud and Corruption, Disciplinary, Whistle Blowing and Benefit Fraud Policies and the Financial Regulations. To ensure that the Council's arrangements are adequate, it is important to draw together the framework for countering the risk of fraud and responding to cases of suspected fraud and irregularity. The Counter Fraud Strategy documents the Council's counter fraud framework and sets out time frames for review of individual elements of the framework to ensure these are updated on a regular basis. The Strategy is now attached for Governance and Audit Committee review and approval.

5 CONSULTATION

Principal Groups Consulted

5.1 The Chief Executive, Strategic Risk Management Group, Directors and Chief Officers at the Council have been engaged in the process of developing the new Strategic Risk Register. The Risk Management Strategy was reviewed by the Strategic Risk Management Group.

5.2 The Governance Working Group and CMT were consulted on the Counter Fraud Strategy.

Method of Consultation

5.3 A workshop of senior managers was held to identify strategic risks across 4 key themes. The results were collated by the Head of Audit and Risk Management and summarised in a new Register which was discussed at DMTS, the Strategic Risk Management Group and CMT.

5.4 A draft Counter Fraud Strategy was drawn up by the Head of Audit and Risk Management. This was considered by the Governance Working Group and comments made taken on board before this was considered at CMT.

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