

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 19 January 2016

**BY:** Depute Chief Executive – Resources & People Services

**SUBJECT:** Internal Audit Report – Risk Management

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## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Risk Management.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

## **3 BACKGROUND**

- 3.1 A review of Risk Management was undertaken as part of the audit plan for 2015/16. This is the first review of Risk Management by Internal Audit.
- 3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 EQUALITIES IMPACT ASSESSMENT**

- 5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

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<b>DATE</b>	7 January 2016

## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT RISK MANAGEMENT**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

As part of the Audit Plan for 2015/16 a review was undertaken of Risk Management. A summary of our main findings is outlined below.

#### **1.2 Areas where Expected Controls were Met**

- The Council has a Risk Management Strategy in place – the updated Strategy was approved by the Audit and Governance Committee in January 2015.
- The Corporate Risk Register is formally approved by Cabinet.
- The Audit and Governance Committee provide effective scrutiny of both the Corporate Risk Register and Service Risk Registers.
- A standardised format has been adopted for all risk registers, which sets out key risks, risk scores, existing control measures and planned risk control measures.
- Ownership and accountability for the management of risks are clearly assigned to named individuals – risk owners review risk registers on a six monthly basis.
- Risk registers are presented to the Council Management Team (CMT) for review.
- In some service areas, individual risks are linked to the Single Outcome Agreement.

#### **1.3 Areas with Scope for Improvement**

- In some cases inconsistencies were noted in the ranking and prioritisation of risks by service areas – there had been a failure to comply with the guidance issued when scoring the likelihood and impact of risks occurring. *Risk – inconsistency in the risk assessment process.*
- In some cases the planned risk control measures identified had led to a reduction in the reported residual risk score, although these measures were either unlikely to be implemented or were not new measures which would assist in mitigating the risk further. In one case, the planned risk control measure reduced the current risk score of 10 to a residual risk score of 4 even though the risk register indicated that the planned measure was unlikely to be implemented due to budget constraints. *Risk – residual risk scores may be unreliable.*

#### **1.4 Summary**

Our review of the Council's Risk Management processes has identified some areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

**Mala Garden**  
**Internal Audit Manager**

**January 2016**

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT  
RISK MANAGEMENT**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.3.2	<p>Management should ensure that a consistent approach is adopted across the Council to the assessment of risk scores.</p> <p>Management should ensure that the guidance issued on scoring the likelihood and impact of risks is adhered to.</p> <p>Management should ensure that training is provided to all managers responsible for assessing risks to ensure that the scoring accurately reflects the actual risks faced by the Council.</p>	Medium	Service Manager – Corporate Policy & Improvement	Agreed – this will be done as part of the regular review of Risk Registers.		Ongoing
3.3.3	<p>Management should ensure that the planned risk control measures identified are new measures to mitigate risks and not a continuation of the existing control measures already in place.</p> <p>Management should ensure that a reduction in the residual risk scores only occurs where the planned control measures identified will lead to a reduction in risk.</p>	Medium	Service Manager – Corporate Policy & Improvement	Agreed – this will be done as part of the regular review of Risk Registers.		Ongoing

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	Management should review the statement of risk appetite included in the Risk Management Strategy to ensure that it clearly sets out the level of risk that the Council is prepared to tolerate or accept in the pursuit of its strategic objectives.	Medium	Service Manager – Corporate Policy & Improvement	To be considered as part of the next review of the Risk Management Strategy.		December 2016

### **Grading of Recommendations**

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
<b>High</b>	Recommendations which are fundamental to the system and upon which Management should take immediate action.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.