



REPORT TO: East Lothian IJB – Audit and Risk Committee

MEETING DATE: 28 June 2018

BY: Chief Internal Auditor

SUBJECT: Internal Audit Report – Risk Management

1 PURPOSE

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

2 RECOMMENDATION

- 2.1 That the Audit and Risk Committee note the contents of the audit report.

3 BACKGROUND

- 3.1 A review of Risk Management was recently undertaken as part of the Audit Plan for 2017/18.
- 3.2 The main objective of the audit was to review the adequacy and effectiveness of the Risk Management arrangements within the IJB.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 ENGAGEMENT

- 4.1 The findings from our review have been discussed with Management, but do not require wider engagement.

5 POLICY IMPLICATIONS

- 5.1 None

6 INTEGRATED IMPACT ASSESSMENT

- 6.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

7 RESOURCE IMPLICATIONS

- 7.1 Financial - None
- 7.2 Personnel - None
- 7.3 Other - None

8 BACKGROUND PAPERS

- 8.1 None

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INTERNAL AUDIT REPORT
ON
RISK MANAGEMENT

**EAST LoTHIAN IJB – INTERNAL AUDIT
RISK MANAGEMENT**

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EAST LoTHIAN IJB – INTERNAL AUDIT RISK MANAGEMENT

1. INTRODUCTION

- 1.1 As part of the Audit Plan for 2017/18, a review was undertaken of the Risk Management arrangements operating within the East Lothian IJB.
- 1.2 Our main findings, recommendations and action plan from the review, form the basis of this report.

2. OBJECTIVE

- 2.1 The main objective of the audit was to review the adequacy and effectiveness of the risk management arrangements within the IJB.

3. FINDINGS

3.1 Strategy and Policy

- 3.1.1 The East Lothian Integration Scheme requires the IJB to develop and agree its own risk management procedure in relation to the carrying out of integration functions.
- 3.1.2 We sought to establish if adequate risk management arrangements are in place. We note that a draft Risk Management Strategy and a draft Risk Management Policy have been developed outlining the IJB's approach to risk management. The strategy outlines the specific risk management objectives of the IJB as follows:
 - To integrate governance and risk management into the planning and oversight of the operational delivery of the functions delegated to the IJB.
 - To promote practical measures to reduce the IJB's exposure to risk and potential loss.
 - To define clear lines of responsibility for the management of risk.
 - To provide a system for monitoring the effectiveness of the risk management framework.
 - To provide a system for feedback on the management of key risks to the IJB.
 - To comply with legislative requirements.
 - To comply with the requirements of Corporate Governance.
- 3.1.3 We note that the draft Risk Management Strategy and the draft Policy were presented to the IJB Audit and Risk Committee on 6 March 2018 and the Committee agreed to recommend the strategy and the policy to the IJB.
- 3.1.4 At the time of our review, the Risk Management Strategy and Policy had yet to be finalised and presented to the IJB. We are informed that these documents will be submitted to the IJB meeting of 28 June 2018 for approval.

3.2 Risk Register

- 3.2.1 We note that an IJB Risk Register is in place – the register was initially presented to the IJB Audit and Risk Committee on 21 June 2016.

3.2.2 We note that the register sets out clear lines of responsibility for the management of risks.

3.3 Risk Assessment

3.3.1 We sought to ensure that the risk register in place was consistent with the strategy. We note that the draft Risk Management Strategy states that the risk register will include the following:

- Risk identification number
- Risk description (linked to the achievement of business objectives)
- Likelihood/impact rating
- Risk rating
- Controls in place
- Potential residual risk
- Planned actions
- Service or person responsible for planned actions/managing the risk
- Timescale for completion of action
- Evidence of regular review

3.3.2 We found that the risk register did not fully comply with the strategy in respect of the following:

- Likelihood/impact rating – a risk matrix does not currently form part of the risk register or of the draft Risk Management Strategy, to allow risks to be analysed in terms of likelihood of occurrence and potential impact. We were unable to verify the risk ratings used in the risk register or to confirm the basis by which risks were categorised as high, medium or low risk.
- Planned actions – we note that a key objective of risk management is to identify measures to reduce the IJB's exposure to risk and potential loss. We found that planned actions are identified for each risk on the risk register, however no updates are being provided to the Audit and Risk Committee to confirm that planned actions have been completed in respect of specific risks.
- Evidence of regular review – we found that the risk register does not currently record details of when risks were last reviewed or the outcome of the review. For example, the current risk rating for risk No. 3927 reduced from 16 to 12 and then subsequently to 9, however no details were recorded on the register of the review carried out or of the reasons for the reduction in risk rating.

We are informed that relevant information is contained in the risk management system used for maintaining the risk register, but that difficulties had been encountered in extracting information for reporting purposes.

3.3.3 We note that for each risk on the risk register, the adequacy of controls column currently states "Adequate but partially effective; control is properly designed but not being implemented properly", however no details are recorded to explain why specific controls are not being implemented properly. We are informed that this wording is one of the options available on the risk management system, although it may not accurately reflect the assessment of the control environment.

3.4 Monitoring and Reporting

- 3.4.1 We note that the strategy states that there will be routine reporting of risk information to the Audit and Risk Committee with appropriate escalation to the IJB as required. It further states that there will be periodic reassessment of individual risks, proportionate to the significance of risks (i.e. low and medium risks fully reassessed every two years and high and very high risks annually) including routine audit of robustness of measures implemented to control risks.
- 3.4.2 We note that the risk register is presented to the Audit and Risk Committee on a regular basis, however we found that:
- the version of the risk register presented to the Audit and Risk Committee meeting of 6 March 2018 did not include the risk owner, planned action, completion dates or updates on outstanding actions;
 - the register had not been updated to reflect new and emerging risks – we are informed that since 2016, no new risks have been identified which may impact on the business of the IJB.
- 3.4.3 We note that the Risk Management Strategy states that operational risks identified that are sufficiently significant to impact upon the business of the IJB can be entered on the IJB's risk register, however the risks will continue to be managed by the appropriate partner(s) and the IJB will require the partner(s) assurance around the management of the risk. At present, no formal mechanisms are in place to ensure that significant risks of partner organisations that may impact upon the IJB's ability to deliver the strategic plan are identified and included in the IJB's risk register.
- 3.4.4 The strategy further states that the IJB will receive a report from the Audit and Risk Committee annually laying out the risk register, the risks and the management actions to mitigate them and confirmation that this process is providing an appropriate level of assurance. We note that although the risk register is regularly presented to the Audit and Risk Committee, there was a lack of evidence of annual reports being presented to the IJB.

4. CONCLUSIONS

Our review has found that risk management arrangements are in place within the IJB, however some areas with scope for improvement were identified, including the monitoring and reporting arrangements and the assessment of risks. Detailed recommendations are contained in our attached action plan.

Weaknesses identified during the course of our audit have been brought to the attention of management. The weaknesses identified are those, which have come to our attention during the course of our normal audit work and are not necessarily all of the weaknesses, which may exist. Although we include a number of recommendations, it is the responsibility of management to determine the extent of the internal control systems appropriate to risk management.

The content of this report has been discussed with the Chief Finance Officer to confirm factual accuracy.

5. ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
5.1	Management should ensure that the draft Risk Management Strategy and Policy is finalised and submitted to the IJB for approval.	Medium	Chief Finance Officer	To be presented to the IJB for agreement at its June 2018 meeting		June 2018
5.2	Management should ensure that clear guidance is available to Members on the categorisation of risks – a risk matrix should be appended to the risk register.	Medium	Chief Finance Officer	Risk workshop to be prepared for the September A&R meeting – lay out risk matrix		September 2018
5.3	Management should ensure that all risks detailed on the risk register record both the likelihood and impact rating.	Medium	Chief Finance Officer	Risk report to be amended		June 2018
5.4	Management should ensure that the status of all planned actions is included in the risk register, together with details of completed actions.	Medium	Chief Finance Officer	Risk report to be amended		June 2018
5.5	Management should ensure that the outcome of the periodic reassessment of risks is recorded on the risk register.	Medium	Chief Finance Officer	Risk report to be amended		September 2018

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
5.6	Management should review the column headed 'adequacy of controls' in the risk register – where system options are limited, consideration should be given to inserting relevant comments in respect of each control.	Medium	Chief Finance Officer	'Adequacy of controls' will be reviewed		September 2018
5.7	Management should ensure that the Audit and Risk Committee and the IJB are provided with the complete risk register.	Medium	Chief Finance Officer	Risk report to be amended		June 2018
5.8	Management should ensure that the risk register in place is regularly reviewed and updated to include all new and emerging risks, which may impact upon the business of the IJB.	Medium	Chief Finance Officer	Risk register will be reviewed before every A&R meeting		September 2018
5.9	Formal mechanisms should be put in place to ensure that significant risks of partner organisations, which may impact upon the business of the IJB are identified and reflected in the IJB risk register.	Medium	Chief Finance Officer	Report to be prepared for the September A&R meeting		September 2018
5.10	Management should ensure that the risk register is submitted to the IJB on an annual basis.	Medium	Chief Finance Officer	Risk register to be submitted to October IJB		October 2018

6. 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
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.