



Internal Audit Report  
Corporate Risk Management  
Assignment 15-34  
March 2016

## Final Report

Finance Division  
Corporate and Democratic Services  
Perth & Kinross Council  
Blackfriars Development Centre  
North Port  
Perth PH1 5LU

### Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

On 27th March 2013, the Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Consultancy work aims to support management in building in controls at the outset for the implementation of systems, processes and procedures and also provides specific assurance for particular projects or issues at the request of management. This approach is consistent with the PSIAS.

### Background and Introduction

This audit was carried out as part of the audit plan for 2015/16, which was approved by the Audit Committee on 1 April 2015. The indicative scope was to ensure the adequacy of corporate risk management within the Council.

In order to be effective, risk management should be embedded throughout the Council in such a way as to facilitate the timely identification and mitigation of risks to achieve business objectives. This means that risk registers should be based on the Council’s strategic and operational plans, and in particular those risks that would prevent the achievement of strategic and operational objectives.

It is also essential that there is appropriate management and Elected Member oversight of the corporate risk management framework and risk registers.

It is planned to revise corporate risk management arrangements within the Council in the near future. As such, the audit was re-focussed to providing advice to management. It is anticipated that this audit will provide input to support decisions on the future design of corporate risk management arrangements. This audit provided advice to bring the Council in line with current best practice for risk management, whilst acknowledging that there are arrangements in place which manage risks on a day to day basis.

### Scope and Limitations

In order to arrive at an opinion on the achievement of the control objectives, the audit included interviews with relevant staff across the Council who have a role in the corporate risk management process.

### Opportunities

We have identified a number of opportunities for the Council to develop its risk management arrangements further, in line with best practice. These should provide greater levels of assurance to executive management and Elected Members that key risks are being managed effectively.

Opportunities for further improving the approach include:

- The Executive Officer Team should be tasked with defining the Council’s risk appetite. This should define and drive the Council’s approach to risk management and provide officers with clear guidance around how risks should

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be managed. The risk appetite should also be used to promote a more positive approach to risk which makes it clear that the Council is not risk averse and should be used for identifying and exploiting opportunities.

- The Council should publish and implement a revised stand-alone Corporate Risk Management Strategy along with the overarching Risk Management Framework. These should be approved by the appropriate Council committee and communicated to all officers to emphasise the importance of developing and embedding a positive risk management culture.
- The Council should consider restructuring the format of the current risk profiles (risk registers). This should reflect the needs of all strategic and operational decision making groups (e.g. Committee, EOT and SMTs), link to operational risk profiles and have a focus on overall risk assessment. This should include appropriate analysis of internal and external factors/conditions rather than changes to identified controls associated with risks as is currently the case.
- To ensure appropriate awareness of and engagement in risk management, Elected Members should have sight of Corporate and Service Risk Profiles on a regular basis (at least 6-monthly) through reporting to relevant Council Committees.
- Executive and Service management should ensure that there is assessment of risk profiles on a more frequent basis. This will allow for continuous identification and assessment of emerging risks and this should encourage a more pro-active approach to risk management.
- Evidence from the review indicates that there is scope to enhance risk management reporting to ensure a more targeted and focused approach within strategic and operational Council governance groups. At present, risk is being reported alongside performance information but there was limited evidence of risk management being subject to regular detailed assessment.
- There should be an assessment of the effectiveness of those groups (e.g. Scrutiny Committee, EOT and SMTs) identified in the Corporate Risk Management Strategy as having risk management responsibilities to confirm the extent to which they are contributing to effective risk management throughout the Council.
- Formal risk management training should be provided for all risk-responsible staff within the Council. Training should also be provided to staff at all levels of the Council to ensure all staff are empowered to highlight new and emerging risks.
- Staff with responsibility for risk management at Corporate and Service levels should be encouraged to obtain a formal risk management qualification.

Further details of the points noted above are included in the Control Objectives and Opinions section.

Perth and Kinross Council's Internal Auditors will provide advice, support and guidance to assist the Service in developing an action plan which will take account of the findings of this report and will build on the opportunities identified above.

### Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the

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actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective 1: There is a robust risk management framework, including a risk management strategy and policies, for managing strategic and operational risks in place.

### Auditor's Comments:

The Council's Corporate Risk Management Strategy for 2015/16 was approved by both the Strategic Policy and Resources Committee and Scrutiny Committee in December 2014. The paper presented to both committees also included the 2013/14 annual risk report.

The full paper sets out strategic planning, risk management objectives, roles and responsibilities, progress update 2013/14 and key areas for improvement. It also included detail around the corporate and service risk profiles (risk registers) and the Council's 'Impact Scale' (this supports the assessment/scoring of individual risks).

By presenting the Corporate Risk Management Strategy together with an annual report from a previous year, there is a risk that the strategy was not given the required level of prominence. To ensure that the strategy is communicated effectively the Council should consider creating a stand-alone document. The revised strategy should be authorised by the relevant committee, in line with current practice, and communicated to staff to emphasise the importance of developing a positive risk management culture.

In addition, management should consider the development and communication of the Council's risk appetite. This should define and drive the Council's approach to risk management and provide officers with clear guidance around how risks should be managed. The risk appetite should also be used to promote a more positive approach to risk which makes it clear that the Council is not risk averse and should be used for identifying and exploiting opportunities.

We noted that guidance for maintaining Service Risk Profiles has been issued recently with a view to have standard document completed from 1 April 2016. This document sets out the risk management process, 'impact scale', risk management and performance reporting and an example risk profile. There was no evidence of similar guidance in relation to the corporate risk profile. It is recommend that the Council develops, authorises and issues an overarching risk management framework which covers both corporate and operational risk management.

We noted that the Corporate and Service Risk Profiles are in place and are considered periodically by relevant groups and individuals. The format of the risk profiles include a headline risk theme and include details of strategic objectives, risk manager, risk impact with controls, risk probability with controls, risk control effectiveness, current internal controls, control owner, strength, improvement action and timescale and progress against improvement actions. The current format is very detailed with a long list of controls associated with each risk and details of subsequent actions for each control. The vast majority of these controls are embedded and will not change. This has led to a large amount of stagnant information being maintained and considered periodically. There is a risk that the

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current level of detail around risk profiles does not foster a positive approach to risk management.

The Council should consider restructuring the format of the current risk profiles (risk registers). This should reflect the needs of all strategic and operational decision making groups (e.g. Committee, EOT and SMTs), link to operational risk profiles and have a focus on overall risk assessment. This should include appropriate analysis of internal and external factors/conditions rather than changes to identified controls associated with risks as is currently the case.

Control Objective 2: Governance arrangements surrounding risk management are appropriate (i.e. there are clear reporting lines in relation to risk registers, via formal Council committees).

### Auditor's Comments:

The Corporate Risk Management Strategy approved in December 2014 states that it is the role of the Strategic Policy and Resources Committee to approve the Corporate Risk Management Strategy and Annual Risk Report annually. We could not find evidence of an Annual Risk Report for 2014/15 having been produced and presented to Committee. The Service has advised that a Corporate Risk Management Strategy for 2016/17 and an Annual Risk Report for 2015/16 is being compiled for presentation to Elected Members.

The Scrutiny Committee's role in risk management is to scrutinise and comment on the performance of Services in managing the Corporate and Service Risks. We did not find any evidence to confirm that the Scrutiny Committee has had sight of Risk Profiles or considered risk management arrangements since December 2014. To ensure appropriate awareness and engagement in risk management, Elected Members should have sight of Risk Profiles on a regular basis (at least 6-monthly) through relevant Council Committees.

The Executive Officer Team (EOT) has overall responsibility for the Council's risk management framework and corporate risks. The current process aims to ensure that all corporate risks are reviewed on a 6-monthly cycle. The Council has five strategic objectives. On a cyclical basis, an individual strategic objective will be reviewed at EOT each month. Risks have been mapped out to individual objectives to ensure these are considered by EOT on a 6-monthly basis.

The Depute Chief Executive, Environment (Sustainability, Strategic and Entrepreneurial Development) is the Executive Sponsor for Risk Management and the Head of Strategic Commissioning and Organisational Development is the Senior Responsible Officer.

The Senior Management Team in each service has responsibility for ensuring risk management is embedded as part of day-to-day processes within their Service. This includes active development and monitoring of their Service Risk Profile along with any Corporate Risks that they have responsibility for and reporting on the progress of mitigating the risk by implementing controls.

Risk management is also considered as part of performance management reporting. Our review identified that, within the Performance, Planning and Risk

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Group, there is limited review of risk management, with the primary focus being on performance.

The above evidence indicates that risk could be used more constructively to direct and influence decision making process. The Council should consider giving greater prominence to risk management reporting at corporate and Service level e.g. details of all changes made to risk profiles such as new risks, removed risks including the reasons for the change.

Control Objective 3: Processes are in place to support a consistent approach for the accurate and timely identification and evaluation of strategic and operational risks.

### Auditor's Comments:

As indicated previously, there is scope to improve the risk management framework to clearly outline key roles and responsibilities as well as supporting procedures for day to day risk management processes. This would be of particular value for the management of corporate risks.

The Corporate Risk Management Strategy and 2013/14 Annual Risk Report are accessible via the Council intranet as is Service Risk Profile guidance.

At the time of our review, there were four risk champions, one for each of the Council's Services. They are responsible for coordinating the Service information and providing this to the Strategic Planning, Improvement and Risk team who in turn collate the information for the EOT. This is undertaken on a monthly basis.

It was confirmed that there has been no recent specific training or awareness campaigns to create a positive risk management culture across the Council. The introduction of formal risk management training for risk-responsible staff is likely to benefit the organisation in the short-medium and long term. Training should be provided to staff at all levels of the Council to ensure all staff are empowered to highlight risks.

Feedback confirmed that there was no risk qualified staff (e.g. those provided by the Institute of Risk Management) currently involved in the corporate team dealing with the risk management process at the Council. In addition, there has been significant turnover within the team over the last few months. Staff who are responsible for risk management at corporate and Service levels should be encouraged to obtain a formal risk management qualification, where appropriate.

Control Objective 4: Risk management and risk registers are maintained throughout the organisation and are used to record, track and report risks that are clearly linked to business objectives.

### Auditor's Comments:

The Council currently uses Risk Profiles to record, track and report risks. The current structure is based upon a Corporate Risk Profile and a Service Risk Profile

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for each of the four Services.

As mentioned in Control Objective 2, the processes in place seek to ensure that all corporate risks are reviewed on a 6-monthly basis as part of the review of risks associated with each of the five Council strategic objectives.

The Corporate and Service Risk Profiles are re-assessed annually, as part of the annual risk report, to identify if any risks should be added or removed. Risk Profiles should be subject to ongoing review to include any new/emerging risks as well as confirming whether existing risks remain relevant and that mitigating controls are being implemented effectively.

The Council should ensure that there is a more active risk management process in place which ensures that all relevant risks are being managed proactively. This should ensure that any new risks identified at Corporate or Service level are included in Risk Profiles promptly and are then subject to formal assessment with appropriate mitigation put in place. Similarly, where risks have been identified as being fully controlled or no longer relevant, these should be removed from Risk Profiles.

Control Objective 5: Mitigating actions are identified to manage residual risks down to an acceptable level and these actions are allocated a responsible officer and deadline completion.

### Auditor's Comments:

As mentioned in Control Objective 2, the processes in place seek to ensure that all corporate risks are reviewed on a 6-monthly basis as part of the review of risks associated with each of the five Council strategic objectives.

The Service Risk Profiles are provided to the appropriate SMTs on a regular basis where the Service Risks are reviewed and changes are highlighted for consideration.

Additionally, each Service has a representative on the Council's Performance, Planning and Risk Group whose responsibility it is to implement/embed risk management through their Service. The Group meets monthly to discuss performance and any other risk management items. From review of minutes of this Group, we identified that there is limited evidence of risks being actively considered.

Control Objective 6: There is an effective process for escalating risks to the corporate risk register and for reporting risks to senior management and Elected Members.

### Auditor's Comments:

Current escalation process outlined in the Service Risk Profiles guidance and format document states that:

- Corporate risks will be monitored monthly by the Executive Officer Team by

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strategic objective.

- It is expected that Service risks will also be discussed/reviewed each month either at a Service level by their respective SMT or at a team level.
- A service may choose to put in place a system of exception reporting so that individual teams can report to SMT on risks that are of concern for that month.
- A full review of the Service Risk must be conducted annually.

Each Service has a representative on the Councils Performance, Planning and Risk Group whose responsibility it is to drive risk management through their Service. The Group meets monthly to discuss performance and any other risk management items. As mentioned in Control Objective 5, from review of minutes of this Group, we identified that there is limited evidence of risks being actively considered.

We noted that, if an identified risk is likely to have an impact at a strategic level or will be likely to affect other services it may need to be monitored as a corporate risk and the service should contact the Strategic Planning and Improvement team to discuss further. However, we found no evidence of risks being escalated over the past 12 months.

### Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation of staff and management in Strategic Commissioning and Organisational Development during this audit.

### Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

### Distribution

This report has been distributed to:

B Malone, Chief Executive

J Valentine, Depute Chief Executive, Environment (Sustainability, Strategic and Entrepreneurial Development)

J Walker, Depute Chief Executive, HCC (Corporate and Community Development Services) and Chief Operating Officer

K McNamara, Head of Strategic Commissioning and Organisational Development

G Dawson, Team Leader, Strategic Planning and Improvement

J Symon, Head of Finance



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G Taylor, Head of Democratic Services  
P Dickson, Complaints & Governance Officer  
External Audit

### Authorisation

The auditor for this assignment was D Stark (Scott Moncrieff). The supervising auditor was P Kelly (Scott Moncrieff).

This report is authorised for issue:

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Jacqueline Clark  
Chief Internal Auditor  
Date: 31 March 2016