

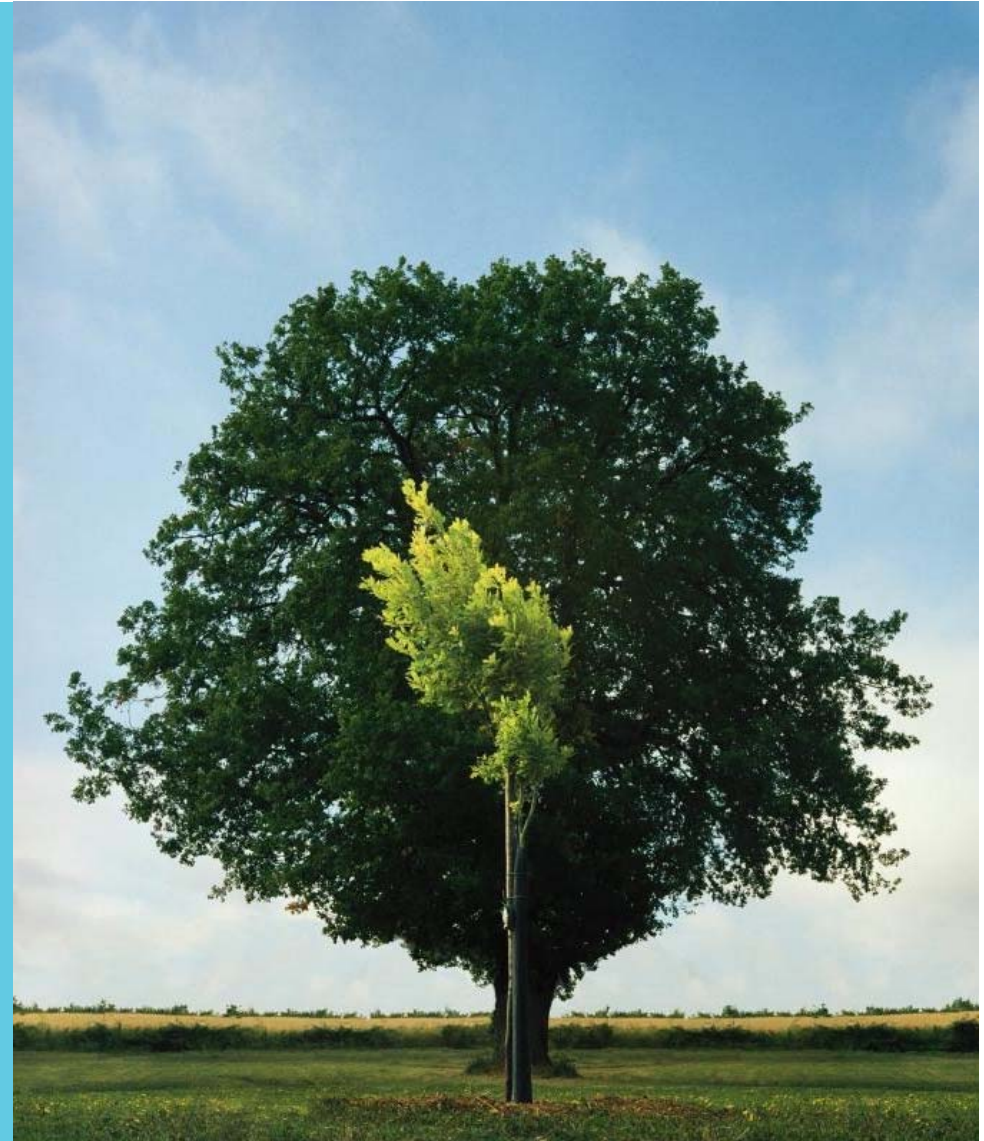
Brentwood Borough Council

INTERNAL AUDIT REPORT

Risk Management

Audit 15.2015

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Limited	Moderate



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REPORT STATUS	
Auditor:	Liana Nicholson Richard Haynes
Dates work performed:	March 2015
Draft report issued:	24 April 2015
Final report issued:	8 June 2015

DISTRIBUTION LIST	
Chris Leslie	Finance Director
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Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

EXECUTIVE SUMMARY

CLIENT STRATEGIC RISKS

Risks All This review covers all strategic risks.

LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)

Design Limited A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.

Effectiveness Moderate A small number of exceptions found in testing of the procedures and controls.

SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II)

High  3

Medium  5

Low  1

Total number of recommendations: 9

OVERVIEW

The purpose of this review was to consider the design and effectiveness of the controls in place around the Council's Risk Registers and to highlight any areas where the controls could be improved. The review focused on how risks are identified and monitored and whether there is clear ownership of Risk Management at the Council.

Our review found the following areas of good practice:

- The Council has recently made use of a Strategic Risk Management Consultant from Zurich to obtain strategic risk management support as part of their risk improvement activities. An action plan is in place to address the findings from this review.
- The Strategic Risk Register has been redeveloped over the last year and is a well structured document which clearly documents the action required and target date for the actions to be completed.
- Training has been provided to all members of CLB and the Audit and Scrutiny Committee.
- The Risk and Insurance Manager and the Health and Safety Officer have an effective working relationship and well thought out processes that helps them to effectively identify and monitor health and safety risks facing the Council.

We also found some areas for development and improvement:

- There is no clear link between the risks included on the Risk Register and the Council's Corporate Plan. There is not a strong process in place for considering and identifying the risks that may inhibit the Council from achieving its Corporate Objectives. (High priority recommendation).
- Risks in relation to the Council's projects are not included on the Risk Registers (High priority recommendation).
- The Operational Risk Register is in need of a refresh in line with the Strategic Risk Register to ensure that it includes the likelihood and impact of each of the risks and the target date for completion of the actions required. The Council has already recognised the need for this and is already in talks with Zurich to ensure that this is completed over the coming months. (Medium priority recommendation).
- The Insurance and Risk Management Strategy and the User Guide need to be updated to reflect current practices that are undertaken at the Council in relation to Risk Management. (Medium priority recommendation).
- Risk Management should feature as a standing agenda item for both the Corporate Leadership Board (CLB) for the Strategic Risk Register and the Senior Management Team (SMT) for the Operational Risk Register. Risks should be discussed and monitored at these meetings at least bi-monthly. (High priority recommendation).
- Training on Risk Management should be rolled out to all staff at the Council, especially focusing on Risk Owners that have not received any formal training in the last year. (Medium priority recommendation).
- Someone with overall responsibility for Risk Management should oversee the implementation of the required actions noted on the Risk Register and also challenge the controls in place to mitigate the risks and the assurances that Risk Owners have over the effectiveness of the controls in place. At present there is no responsibility for this within the Council. Risk Owners should be reminded of their roles and responsibilities in relation to Risk Management. (Medium priority recommendations).

Overall the level of assurance is limited for design, given there are some gaps in the current processes and controls, however testing indicated limited exceptions arising as a result of the control gaps.

DETAILED FINDINGS AND RECOMMENDATIONS

Risk: The risks within the Risk Register are not the risks facing the Council and do not link to the Corporate Plan

Ref.	Finding	Sig.	Recommendation
1A	<p>The Corporate Leadership Board (CLB) has overall responsibility to ensure that the risks included on the Risk Registers link to the Corporate Plan. The Risk Strategy also prompts Risk Owners to identify risks that might prevent the Council achieving its Corporate Objectives.</p> <p>On review of the current Risk Registers in place (both the strategic and operational) neither of them show a clear link between the Corporate Plan and the risks that have been identified to ensure that the Council achieves its Corporate Objectives.</p> <p>On discussion with Management it was confirmed that there is not a strong process for identifying the risks that may inhibit the Council from achieving its Corporate Objectives and how the risks identified and included on the Risk Registers link to the Corporate Plan.</p> <p>As the Corporate Plan will be undergoing review later in the year, the Council should consider the risks associated with the new Corporate Objectives and ensure that these feature on the Risk Register and that a clear link is documented.</p>	H	<p>The Risk Registers (both strategic and operational) should be linked to the Corporate Plan. The Risk Registers should be set out to show the risks associated with each Corporate Objective. For example, showing the risks under each Corporate Objective rather than by Department.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
Agree with the recommendation.		<p><i>Responsible Officer: Financial Services Manager (Ramesh Prashar)</i> <i>Risk and Insurance Officer (Sue White)</i></p> <p><i>Implementation Date: 1st July 2015</i></p>	

DETAILED FINDINGS AND RECOMMENDATIONS

Risk: The risks within the Risk Register are not the risks facing the Council and do not link to the Corporate Plan

Ref.	Finding	Sig.	Recommendation
1B	<p>On review of the Strategic and Operational Risk Registers and through discussions it was noted that the Strategic Risk Register has undergone a refresh with the assistance of Zurich. The Risk Register is clear and detailed and includes a target date for completion of the actions required.</p> <p>The Operational Risk Register is in need of a refresh in line with the Strategic Risk Register to ensure that it includes the likelihood and impact of each of the risks and the target date for completion of the actions required. The Council has already recognised the need for this and is already in talks with Zurich to ensure that this is completed over the coming months.</p> <p>Neither Risk Register however includes a date for review for each of the risks or details of assurances gained over the controls in place.</p> <p>Linked to recommendation 1A, as part of this process the Council should ensure that the Risk Registers show a clear link to the Corporate Plan.</p>	M	<p>The Operational Risk Register is in need of a refresh and should be updated in line with the new Strategic Risk Register to ensure that it includes the likelihood and impact of each of the risks and the target date for completion of the actions required. (Note: Zurich is planning on working with the Council to do this).</p> <p>Both Risk Registers should include a date for review for each of the risks and should note the assurances that have been gained over the controls to confirm that they are in place.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
Agree with the recommendation.		<p><i>Responsible Officer: : Financial Services Manager (Ramesh Prashar)</i> <i>Risk and Insurance Officer (Sue White)</i></p> <p><i>Implementation Date: 1st September 2015</i></p>	

DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Risks are not effectively identified and included on the Risk Register. Risks are not effectively monitored.			
Ref.	Finding	Sig.	Recommendation
2A	There is an Insurance and Risk Management Strategy in place and a User Guide, both of which are available for all staff to access on the shared microsite. Both documents refer to an on-line Risk Management tool which the Council no longer uses. Both documents should be updated to correctly reflect current practices. This will also help to embed the Risk Management process amongst all staff at the Council.	M	<p>Review and update the current Insurance and Risk Management Strategy and User Guide to ensure that they document the current Risk Management processes in place at the Council.</p> <p>Ensure that the guidance includes the following details:</p> <ul style="list-style-type: none"> • How a risk is removed from the Risk Register • The definition of when an operational risk turns into a strategic risk • The definition of gaining 'assurance' over controls in place and the Risk Owners responsibility for this • Clarify the responsibilities of all staff involved with the Risk Management process.
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
Agree with the recommendation.		<p><i>Responsible Officer: : Financial Services Manager (Ramesh Prashar)</i> <i>Risk and Insurance Officer (Sue White)</i></p> <p><i>Implementation Date: 1 November 2015</i></p>	

DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Risks are not effectively identified and included on the Risk Register. Risks are not effectively monitored.			
Ref.	Finding	Sig.	Recommendation
2B	Risks associated with the Council's projects are not included in the Risk Register but are instead monitored on a highlights report by the Council's Project Management team. The risks associated with major projects should be considered and included in the Council's overall Risk Registers to ensure that they are effectively monitored, especially where the Council may be subject to reputational risks.	H	Risks associated with Projects being undertaken at the Council should be included on the Risk Registers and monitored alongside all of the Council's risks.
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
Agree with the recommendation.		<i>Responsible Officer: : Financial Services Manager (Ramesh Prashar) Risk and Insurance Officer (Sue White)</i> <i>Implementation Date: 1st November 2015</i>	

DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Risks are not effectively identified and included on the Risk Register. Risks are not effectively monitored.			
Ref.	Finding	Sig.	Recommendation
2C	<p>Heads of Departments and Managers are responsible for identifying and monitoring risks within their departments. When risks are identified they are allocated Risk Owners. The Risk and Insurance Manager emails all Risk Owners on a quarterly basis to review and update the Risk Registers.</p> <p>The Operational Risk Register is reviewed by the Corporate Leadership Board (CLB) and the Audit & Scrutiny Committee every six-months.</p> <p>The Strategic Risk Register is reviewed by CLB and the Audit & Scrutiny Committee on a quarterly basis. CLB also complete an annual review of the Risk Register in full.</p> <p>The Risk Registers and Risk Management are not a standing agenda item for CLB. The approach to Risk Management appears to be reactive rather than pro-active.</p> <p>There is a Senior Management Team (SMT) in place which is attended by the majority of Risk Owners at the Council. They do not however discuss Risk Management at these meetings. SMT would be a good forum to review the Operational Risk Register and to collectively consider risks on an operational basis.</p> <p>To further enhance the Risk Management culture at the Council, Risk Management should be discussed, reviewed and monitored more regularly and should feature as standing agenda items for CLB and SMT.</p>	H	<p>The review of the Strategic Risk Register and the discussion of risks should be a standing item on the agenda for CLB. This should be discussed at least bi-monthly.</p> <p>The review of the Operational Risk Register and the discussion of risks should be a standing item on the agenda for SMT. This should be discussed at least bi-monthly.</p> <p>CLB should review the Operational Risk Register on a quarterly basis.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
Agree with the recommendation which has been implemented.		<p><i>Responsible Officer: : Financial Services Manager (Ramesh Prashar) Risk and Insurance Officer (Sue White)</i></p> <p><i>Implementation Date: Implemented - 1st June 2015</i></p>	

DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Risks are not effectively identified and included on the Risk Register. Risks are not effectively monitored.			
Ref.	Finding	Sig.	Recommendation
2D	Through discussions with a sample of Risk Owners we noted that some of the Risk Owners would benefit from having sight of the Strategic Risk Register as well as the Operational Risk Register to understand the key risks impacting on the Council as a whole. This was particularly noted with the Health and Safety Manager, who currently only sees the Operational Risk Register.	L	The Strategic Risk Register should be circulated more widely to ensure that all relevant officers (particularly the Health and Safety Officer) have sight of the key risks impacting on the Council as a whole.
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
Agree with the recommendation which has been implemented.		<i>Responsible Officer: : Financial Services Manager (Ramesh Prashar) Risk and Insurance Officer (Sue White)</i> <i>Implementation Date: Implemented 1st June 2015</i>	

DETAILED FINDINGS AND RECOMMENDATIONS

Risk: There is a lack of ownership of the risks at an operational and strategic level			
Ref.	Finding	Sig.	Recommendation
3A	The Risk and Insurance Manager has responsibility of ensuring that Risk Owners keep the Risk Register up to date on a quarterly basis and to provide reporting updates to the Audit and Scrutiny Committee. However there is no overall remit to ensure that actions required on the Risk Registers are promptly cleared and whether actions are dealt with on a timely basis.	M	An overall review of the Risk Registers should be completed on a regular basis. The status of the risks and the required action to be taken to mitigate the risks should be more closely monitored to ensure that the actions are dealt with promptly. Controls and assurances within the Risk Register should be challenged. This responsibility should lie with CLB.
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
		<i>Responsible Officer: Risk and Insurance Officer</i> <i>Implementation Date: Implemented 1st June 2015</i>	
3B	On discussion with a sample of Risk Owners it was evident that they are not aware of the actual roles and responsibilities of the Risk and Insurance Manager, sometimes relying on the Risk and Insurance Manager to provide the overall monitoring role noted in 3A above.	M	Risk Owners should be reminded of their responsibilities in relation to Risk Management and the role of the Risk and Insurance Manager should be clarified with Risk Owners. This could be incorporated within the updated procedure notes noted in 2A above.
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
Agree with the recommendation.		<i>Responsible Officer: : Financial Services Manager (Ramesh Prashar)</i> <i>Risk and Insurance Officer (Sue White)</i> <i>Implementation Date: 1st October 2015</i>	

DETAILED FINDINGS AND RECOMMENDATIONS

Risk: There is a lack of ownership of the risks at an operational and strategic level			
Ref.	Finding	Sig.	Recommendation
3C	Training on Risk Management has been provided to all members of CLB , members of the Audit and Scrutiny Committee during 2014 and some Risk Owners. This training was provided by Zurich. However it is recognised that training should be rolled out to all staff at the Council, especially Risk Owners that were not captured by the training that has already been provided.	M	<p>Training should be provided to all staff so that they are aware of the Risk Management process within the Council. This training should capture Risk Owners that did not receive the training in 2014. The Council should consider incorporating this training into any induction training provided to new staff.</p> <p>During the training staff should be reminded of their responsibilities in relation to Risk Management at the Council and the need for Risk Management processes to be pro-active.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
Agree with the recommendation.		<p><i>Responsible Officer: : Financial Services Manager (Ramesh Prashar)</i> <i>Risk and Insurance Officer (Sue White)</i></p> <p><i>Implementation Date: 1st February 2016</i></p>	

DETAILED FINDINGS AND RECOMMENDATIONS

Risk: The existing controls in place to mitigate the risks in the Risk Register are inappropriate or non-existent.			
Ref.	Finding	Sig.	Recommendation
4A	<p>Risk Owners are responsible for identifying controls in place that mitigate risks identified. On review of the Risk Registers the controls identified appear to be reasonable and appropriate for the risks that they are mitigating.</p> <p>However it is not clear where the Council gains its assurances over the controls that mitigate these risks. The Risk Owners are wholly responsible for ensuring that they have adequate assurances, however there is little evidence that this happens in practice.</p> <p>There is also no overall challenge on the controls in place and the assurances that have been gained.</p>		Recommendation incorporated into 3A above.
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
N/A		<i>Responsible Officer: N/A</i> <i>Implementation Date: N/A</i>	

APPENDIX I - STAFF INTERVIEWED

NAME	JOB TITLE
Sue White	Risk & Insurance Manager
Chris Leslie	Acting S151 Officer
Phil Ruck	Business Development Manager
David Wellings	Health & Safety Officer
Mark Stanbury	Environmental Health Manager
Helen Gregory	Interim Head of Housing
Steve Summers	Head of Customer Services

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.

APPENDIX II - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective. Agree with the recommendation.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

APPENDIX III - TERMS OF REFERENCE

BACKGROUND

The Council is required to effectively manage the organisational risks that it faces to ensure that its strategic objectives in the Corporate Plan are achieved. A well developed Risk Register (including both strategic and operational risks) is an important tool for identifying key risks to the Council and how these will be managed within the organisation's overall risk appetite.

The Council has recently made use of a Strategic Risk Management Consultant from Zurich to obtain strategic risk management support as part of their risk improvement activities. An action plan is in place to address the findings from this review.

PURPOSE OF REVIEW

The purpose of this review is to consider the design and effectiveness of the controls in place around the Risk Register and to highlight any areas where the controls might be improved.

KEY RISKS

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding, the key risks associated with the area under review are:

- The risks within the Risk Register are not the risks facing the Council and do not link to the Corporate Plan
- Risks are not effectively identified and included on the Risk Register
- The risks are not effectively monitored
- There is a lack of ownership of the risks at an operational and strategic level
- The existing controls in place to mitigate the risks in the Risk Register are inappropriate or non-existent.

APPENDIX III - TERMS OF REFERENCE

SCOPE OF REVIEW

The review will consider the following areas:

- The process for determining how the risks are entered onto the Risk Register and how they link to the Corporate Plan
- The process for how risks are identified, monitored and acted upon
- The level and understanding of risk appetite within the Council
- The ownership of risks at an operational and strategic level
- Whether the controls in place to mitigate the risks which are identified in the Risk Register are inappropriate or non-existent
- The process the Council adopts for obtaining and reporting on assurances against their risks.

EXCLUSIONS

Our work will be restricted to the areas of consideration within our scope of review. Our focus will be on ensuring that the Council has in place a robust system for identifying, prioritising and managing its operational and strategic risks.

APPROACH

Our approach will be to conduct interviews to establish the controls in operation for each of our areas of audit work. We will then seek documentary evidence that these controls are designed as described. We will evaluate these controls to identify whether they adequately address the risks.

MANAGEMENT COMMENTS

No management comments have been raised regarding the areas under review.

LOCATIONS

Fieldwork will be performed exclusively at Brentwood Borough Council offices.

APPENDIX III - TERMS OF REFERENCE

DOCUMENTATION REQUEST

Please provide the following documents in advance of our review (where possible):

- The Insurance and Risk Management Strategy
- Any procedure notes in place around Risk Management
- A copy of the latest strategic and operational Risk Registers

Any documents provided will assist the timely completion of our fieldwork, however we may need to request further documentation and evidence as we progress through the review process.

KEY CONTACTS

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BRENTWOOD BOROUGH COUNCIL

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APPENDIX III - TERMS OF REFERENCE

PROPOSED TIMETABLE




Audit Stage	Date
Commence fieldwork	09/03/2015
Number of audit days in plan	20
Planned date for closing meeting	w/c 30/03/2015
Planned date for issue of the draft report	w/c 06/04/2015
Planned date for receipt of management responses	20/04/2015 (note that these will be agreed in principal at the closing meeting)
Planned date for issue of proposed final report	27/04/2015
Planned Audit Committee date for presentation of report	28/07/2015

SIGN OFF



On behalf of BDO LLP:	On behalf of [Client]:
Signature:	Signature:
Title:	Title:
Date:	Date:



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