Internal Audit
Final Report

Risk Management

Directorate: Cross Cutting
Date: February 2006

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1.   Introduction

1.1   An audit review was undertaken of the operation of the Risk Management activity across the whole of BCBC, at both the Corporate and Directorate level. In addition input into the risk Management process from external bodies (such as WAG, ACiW and external auditors) and Committees was examined.

1.2   A Risk Management Strategy, based on good Corporate Governance, was endorsed by Cabinet during March 2003, and led directly to the formation of the Corporate Risk Management Group. Subsequent developments include the formation of the Performance Improvement Group and the more proactive role of Scrutiny Committees in risk evaluation activities. Risk Assessment is one of the key aims of the 2005/8 Corporate Improvement Plan.

1.3   A Risk Management Group (RMG) has been established which reports high level/strategic risks to the Performance Improvement Group. Following a period of initial inactivity, the RMG began to reconvene during 2003 and presently holds monthly meetings.

1.4   The Risk Management process within BCBC continues to develop in order to achieve the objectives set by the Risk Management Policy. Directorates are at different stages of development and embedding, as would be expected from such an all encompassing activity.

1.5   A draft report on Risk Management has recently been issued by the Risk Management & Insurance Officer. The report identifies weaknesses and recommendations, and these results have been incorporated into a revised Risk Management Policy. These issues have been included in Section 4 of this report and are identified in *italics.*

2. Objectives of the Audit

2.1 The main objectives of the audit were to:
- Review documented policies and procedures relevant to the Risk Management process.
- Determine whether there is clear understanding and accountability for risk. This required an examination of Structures, Roles and Responsibilities.
- Examine whether procedures for the he identification of risk are comprehensive, timely and part of business planning.
- Determine if adequate procedures exist to categorise and prioritise risks at an appropriate managerial level.
- Evaluate if responses to identified risks are adequately managed.
- Determine if risks and controls are regularly assessed, evaluated and reported in relation to changes in objectives/plans, and external influences.

2.2 The audit included a review of risk identification and management procedures across all the Directorates in order determine the Authority's current position. The guidelines developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) were used as a basis to evaluate BCBC's current position.

2.3 The audit involved discussions with personnel, reviews of policies, procedures, business and other plans, and also examined detailed records where required. Existing systems and procedures were examined during the period May/June 2005 and it is recognised that both were in a continued state of development and refinement.

3. Audit Opinion

3.1 The risk management process appears to have been fully taken on board at Executive level within BCBC but this has not generally been reflected in the commitment within Directorates and at Service levels. There appears to be uncertainty as to the day to day roles and activities required at Member, Directorate, Service and Departmental level with a general lack of detailed guidance and commitment. Some guidance has been given by Marsh, but mainly from an insurers and financial perspective.

3.2 A number of points requiring management attention and discussion have been identified, and are summarised as follows:
- It is generally accepted that all risks should be associated with non-attainment of stated objectives. A clear link between risk and stated objectives is not always apparent for those risks which have been identified and included in the Corporate Risk Register, particularly at Directorate level and below. The ICT section was seen to have been proactive in this area and the Education and Leisure Directorate has developed individual service area business plans which specify objectives at the service level.
- Objectives at Directorate level and below are ill-defined
- The Authority seems unclear as to the planned levels of embedding the risk management process.
- Inconsistent methods for scoring risks across Directorates so as to provide consistency throughout the organisation and to enable accurate ranking across Directorates.
- Present arrangements depend significantly on identification of high level risks, with no specific tools to identify and evaluate risks at lower levels.

- Generally**,** the risk management process is seen as a mitigation exercise and potential benefits, such as efficiency gains, have not been addressed. However, the ICT Section has demonstrated a pro-active approach in this area.
- Good practice within individual Directorates has not been formally identified so as to provide examples and measures of good practice.

3.3   The overall audit opinion is that, in general, initial procedures have been put in place and continue to develop but there is significant and sustained effort required to embed the risk assessment process within Directorate, Service and Departmental levels.

4. Findings, Recommendations &Management Comments

No.	Audit Findings	*Risk Management Report Weakness*	Audit Recommendation/ *Risk Management Report Recommend Solution*	Management Comments **Action Plan Reference (APR)**
1	The roles of the various groups with interests in risk management remain unclear, which can lead to duplication and possible omission and also results in confusion in individuals' roles and responsibilities.	*Member involvement is limited to two persons.* *Not all members have received training.* *Work to identify strategic risk is principally within PIG. This is an Officer Group resulting in limited Member involvement in limited member involvement in strategic risk.*	**1a**. The roles and responsibilities of individuals within each group involved with Risk Management should be clarified and documented. **1b.** The remit, purposes and outcomes of each group and committee should be established and documented**.** **1c**. The interrelationship of each group and committee should be considered thereby ensuring greater clarity in the roles of PIG, RMG**,** and Scrutiny Committees. *Member representation will form a major part of the newly formed Risk Management Programme Board* *A further risk management Member training session is to be arranged giving those Members plenty of notice of the date. Consideration to be given to an evening training session.* *PIG will report to the Risk Management Programme Board, which will have significant Member involvement. Risk Management Programme Board can question PIG.*	Agreed Implemented The findings have also been noted in the findings of the Insurance and Risk Manager's review -with recommendations made and included in the updated draft of the Risk Management Policy. APR 1

4. Findings, Recommendations &Management Comments

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2	All levels of personnel do not appear to be clear as to their roles and responsibilities in the risk management process. A full bottom up risk identification, evaluation and risk management process requires a significant managerial commitment from the whole organisation, together with the resources to initiate, continue and maintain the process. The present arrangements indicate a lack of knowledge and commitment at lower levels, together with inadequate resources required to initiate and maintain an indefinite, ongoing, management process.	*Risk management policy needs higher profile within the Authority*	**2a**. The Authority should be clear as to what level it decides to engage in a risk management process and to fully evaluate the requirements and resources needed to initiate and maintain the process in a meaningful and progressive fashion. **2b**. All personnel should be informed of what is required of them in the risk management process. **2c**. To maximise future benefits all personnel should be trained so as to participate fully in the process. *Directorate representative on the Risk Management Programme Board has responsibility for raising awareness. Support to be provided by Risk Management & Insurance Officer.*	Agreed Implemented/ On-going The findings have also been noted in the findings of the Insurance and Risk Manager's review -with recommendations made and included in the updated draft of the Risk Management Policy. Responsibility for implementing policy rests with the individual Directorates. Operating procedures and training will be developed to support the Policy. APR 1 APR 6

4. Findings, Recommendations &Management Comments

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3	There is currently no forum for all Directorates to collectively discuss and consider risk management issues. Present arrangements are centred on the risk already having been identified and only then are they discussed. There is a general lack of communication and ongoing dialogue between and within Directorates regarding risk management issues.	*Reviews of risk at Risk Management Group are ineffective and unchallenged*	The roles, and interrelationships, of all Corporate, Departmental, and Members groups involved with identifying and managing risks should be clearly established. *Greater Member involvement in Risk Management Programme Board will enhance scrutiny*	Agreed Implemented The findings have also been noted in the findings of the Insurance and Risk Manager's review -with recommendations made and included in the updated draft of the Risk Management Policy. APR 6a
4	Individuals within Directorates have not been given the specific roles of risk champions. Risk champions have been vaguely defined as individuals who have attended the Marsh Risk Management Workshop. The risk management process, in its purest form, requires participation at all levels within an organisation and is driven from the bottom up. The present failure to identify and encourage proactive risk champions increases the possibility of not achieving the full benefits of the risk management initiative.		Willing risk champions should be identified and given guidance and training on the activities and expectations required of the role.	Agreed April 2006 The general understanding was that risk champions had been put in place within all necessary areas. The situation will be addressed and appropriate individuals informed of the necessary duties. APR 6.

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5	There is a general lack of formal structures within Directorates to enable a meaningful risk management process. For example there are no formal procedures for identifying detailed objectives and attendant risks in their non achievement.		**5a.** Formal structures should be established for the identification and evaluation of risk within each Directorate. **5b**. Detailed formal objectives should be identified within each Directorate and associated risks identified and documented. **5c**. The potential benefits of the process should be explored within each Directorate.	Agreed On going This will be addressed as part of the on-going performance review initiative, together with the implementation of the new system. Responsibility for implementing policy rests with the individual Directorates. APR 6
6	In some Directorates/Service areas risk continues to be narrowly defined and is equated with Health and Safety and Insurance issues. Such a narrow view of risk is limiting and dose not fully address the importance of risk management issues.		All areas and activities should be included in the risk management process.	Agreed On-going This was the original position when examined by Marsh. APR 6

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7	The concept of risk varies across Directorates with no common processes or procedures to systematically identify and evaluate all the risks to which individual Directorates are exposed. Heavy reliance is placed on the knowledge base of individuals, with little or no systematic activity in the risk management process. However individual cases where progress has been made were identified. For example E&L have recently introduced a system whereby individual Service Managers are responsible for identified risks within their own areas.	*The procedure for reporting of operational risk is not effective*	Common policies and procedures should be determined and established for all Directorates. *Directorates have their own Risk Registers overseen by Directorate Management Team. Operational risks are identified and monitored within each Directorate. The Directorate representative will present a briefing paper to the Risk Management Programme Board, for the purpose of monitoring and scrutiny of operational risk*	Agreed On-going The findings have also been noted in the findings of the Insurance and Risk Manager's review -with recommendations made and included in the updated draft of the Risk Management Policy. Responsibility for implementing policy rests with the individual Directorates. Operating procedures will be developed to support the Policy. APR 3 APR 6

4. Findings, Recommendations &Management Comments

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8	The detail of objective setting at Directorate/Service/Departmental level was variable and generally unsatisfactory at the lower levels. The identification and statement of clear objectives is one of the key components in identifying and evaluating risk. The lack of clear, detailed, set objectives at service level is a significant barrier to fully implementing an Authority wide, bottom up, risk management regime.		As in recommendation **5b**	See 5b.
9	One of the stated benefits of a risk management process is to identify all risks to which an organisation is exposed, which necessarily involves a detailed examination of all objectives and procedures. Such a process can generate alternatives to existing established procedures and processes and so enable risks to be 'managed out'. At the same time the process can generate alternatives and identify more effective and efficient ways of performing tasks/achieving outcomes and thereby promotes the efficiency saving agenda. There was no evidence that any of these activities were in operation within the Authority.		Consideration be given to extend the risk identification and mitigation process so as to identify alternatives to current practices and procedures and to provide more effective and efficient means of delivering required outcomes.	Agreed This is one of the long term aims and consequently a time scale can not be determined at this time. This will be addressed as part of the on-going performance review initiative. Responsibility for implementing policy rests with the individual Directorates. APR 3 APR 6

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10	SWOT analysis is used within some (but not all) Directorates but generally stops short of a full assessment of risks associated with weaknesses and threats.		Consideration should be given to extend all SWOT analysis to include risk issues.	Agreed On-going Where possible it will be considered during future SWOT analysis.
11	Following discussions with various officers within the Directorates the consensus of opinion is that the Marsh model is too focused on financial implications, with the risk threshold set at perhaps too high a level and which is over-focused on 'materiality'. It is also not detailed or flexible enough for the widespread needs of the Authority.		Before the Authority becomes committed to one method of identifying and evaluating risks alternatives should be examined so as to identify that which is best and most appropriate for the Authority.	Agreed April 2006 This will be addressed before policy is accepted by Council. APR 4
12	Apart from Marsh's view (based on materiality) no attempt has been made to determine the authority's risk appetite and to develop detailed guidelines as to how risks are to be identified and managed.		Although difficult to quantify the policy should give a broad statement on the level of risk acceptable to the Authority. This should not necessarily be confined to a monetary evaluation of risk.	Agreed April 2006 This will be addressed before policy is accepted by Council. APR 1 APR 2

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13	Across the authority over reliance is placed on insurance to address risk issues, with limited activity to manage out risks. A good example of managing out risk was observed in the E&P Highways Dept. whereby implementing prompt inspection and reporting procedures resulted in a significant reduction in successful insurance claims against the Authority.		Insurance should be regarded as the 'last resort' for managing high level risks. Individuals involved with Risk Management should be informed of the role insurance plays within the Risk Management Process.	Agreed On-going Most risks are self insured. Due to the high levels of excess – only significant claims over £100k are indemnified with external risk insurers. Will be included in supporting procedures. APR 6
14	There is a tendency to treat and record all risks in the same way. There is no specific or separate consideration of operational, strategic, political (etc) risks- each group have their own problems and solutions- some having financial implications, others not.		All the various types of risk should be identified and evaluated in accordance with the specific type of risk.	Agreed On-going The current definition of strategic and operational risk is sufficiently wide to encompass all risks. The new system (when fully developed/implemented) will enforce the required risk classification. APR 5 APR 6

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15	Although the use of a Corporate Risk Register has been established for a period of time it has been based on high level reviews and is generally not supported by detailed risk registers maintained in each Directorate. Present arrangements are confined to the examination and monitoring of a limited number of high profile risks. The details of high level risks put forward to corporate level by Directorates do not have a consistent format across all Directorates and thus makes it difficult to combine into one document. Generally there are no reviews or monitoring procedures for risks below corporate level.		Risk registers should be developed at Directorate level and should be focused on non achievement of recognised and stated objectives. The format of risk registers should be consistent across all Directorates and should allow for easy and consistent recording within the Corporate Risk Register.	Agreed On-going As in 14 above. The new system will help reinforce the required discipline and detail required for consistency within, and between, Directorate risk registers. APR 3 APR 6

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No.	Audit Findings	Risk Management Report Weakness	Audit Recommendation/ Risk Management Report Recommend Solution	Management Comments Action Plan Reference (APR)
16	The present Corporate Risk Register is not a living document and there is no specific schedule for frequent and regular update. It is only updated at specific times, usually just before group meetings. Although the significance of a risk could change with time this is not reflected within the existing register. Identified risks that have diminished with time have not been reflected in the register, an example is the Housing Stock Transfer Programme.	The Risk Register is not a "living" document because risk is not regularly reported.	The Corporate Risk Register should be continually updated on an ongoing basis from the subsidiary risk registers held at Directorate level. Other input from members and outside parties should also be fed into the corporate risk management process. *Authority Risk Register populated with strategic risks. Kept up to date by liaison between Risk Management and Insurance Officer and representative of PIG. Risk Management Programme Board can add most significant operational risks to Authority Risk Register*	Agreed On-going The new system will be updated regularly at Directorate level and will include all identified risks. The new system will eventually include all necessary detail and have links between Directorate and Corporate Registers. Responsibility for implementing policy rests with the individual Directorates. APR 3 APR 6
17	The existing Corporate Risk Register does not fully record in clear terms how action has been taken to manage risks at Directorate level, e.g. physical safety issues recorded as having been passed on to H&S Advisers, with no detail of the outcome.		All risk registers should have specific details as to how individual risks are to be managed. General reference to 'Insurance' or other Departments should be avoided.	Agreed On-going The new system will eventually include all necessary detail. APR 3 APR 4 APR 6

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18	There are no robust procedures for incorporating the results of risk evaluation conducted by third parties, i.e. –External Auditors, Welsh NAO, etc.		There should be specified procedures for channelling all comments on risk issues from third parties to the Corporate Risk Register.	Agreed On-going The new system will eventually include all necessary detail and have links between Directorate and Corporate Registers. Directorates will update registers with risks from third parties. APR 3 APR 6
19	The role of Corporate Risk Manger has been incorporated within that of Insurance Officer. The post does not require participation in the proactive monitoring of risk identification and management in each directorate; nor does it provide support and guidance to risk champions. This arrangement does not do full justice to the Risk Management process.		In order to achieve the required profile and to maintain a proactive momentum consideration should be given to establish a new post, or extending the current role of the Risk Manager and Insurance Officer.(RM&IO).	Agreed On-going The creation of a new post poses budgetary problems. In future the RM & IO will be more focused on the Risk Management area. APR 2

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20	Detailed guidance documentation has not been developed for procedures required by the risk management process. Guidance is required so as to provide consistency in the approach to the Risk Management process across the Authority.		Detailed procedures on the Risk Management process should be developed, established and documented. These should be made available to all personnel.	Agreed On-going Will be developed and used to support the Risk Management Policy. APR 2 APR 3 APR 4 APR 6

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