

# **Cherwell District Council Internal Audit Report 2010/11**

**Risk Management**

**Final Report**

**May 2011**

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<b>Distribution list</b>		
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*This report has been prepared solely for Cherwell District Council. In accordance with the terms and conditions set out in our engagement letter. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.*

# 1. Executive Summary

Overall Opinion	Summary of Key Findings																				
<p><b>Overall opinion</b></p> <p><b>Moderate Assurance</b> can be given on the adequacy and operating effectiveness of controls in place over housing benefits. Our assurance ratings are defined in Appendix 1.</p> <p>Our opinion is based on the work performed as set out in the agreed terms of reference (Appendix 3) and is subject to the inherent limitations set out in Appendix 2.</p> <p><b>Scope and limitations of review</b></p> <p>We conducted a review of Risk Management in accordance with the International Standard for Assurance Engagements 3000, “ISAE 3000”. The key objectives of the review, the scope and the limitations of scope were agreed with management in advance and are set out in the terms of reference (Appendix 3).</p>	<p>The number of key findings resulting from audit work undertaken is as follows:</p> <table border="1" data-bbox="1050 483 1798 722"> <thead> <tr> <th colspan="2">Control Design</th> <th colspan="2">Operating Effectiveness</th> </tr> </thead> <tbody> <tr> <td>Critical</td> <td>0</td> <td>Critical</td> <td>0</td> </tr> <tr> <td>High</td> <td>0</td> <td>High</td> <td>0</td> </tr> <tr> <td>Medium</td> <td>1</td> <td>Medium</td> <td>1</td> </tr> <tr> <td>Low</td> <td>3</td> <td>Low</td> <td>2</td> </tr> </tbody> </table>	Control Design		Operating Effectiveness		Critical	0	Critical	0	High	0	High	0	Medium	1	Medium	1	Low	3	Low	2
Control Design		Operating Effectiveness																			
Critical	0	Critical	0																		
High	0	High	0																		
Medium	1	Medium	1																		
Low	3	Low	2																		

## 2. Background and Scope

### Introduction

This review was undertaken as part of the 2010/11 Internal Audit Plan agreed by the Accounts, Audit and Risk (AAR) Committee.

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### Background

Effective risk management is essential in helping any organisation to improve governance, focus decision making and achieve objectives. Risk management is ensured through maintenance of risk registers and an awareness of risk throughout an organisation. During 2010/11 the Council has integrated performance management with risk management and the risk register is now maintained on the performance management system (Performance Plus). The current Strategic, Corporate and Partnership register has 9 Strategic risks, 7 Corporate risks and 5 Partnership risks. Every risk has an owner who is responsible for updating the risk and implementing the actions.

The Accounts, Audit and Risk Committee are responsible for overseeing risk

management. We noted that between April 2010 and November 2010 risks had not been reported to the Accounts, Audit and Risk Committee however since that time reporting has been regular and a future reporting plan has been agreed therefore no recommendation has been raised in relation to this issue.

This report reflects our findings over the controls and processes in place as at the time of our internal audit fieldwork which took place during March 2011.

### Scope of review

In accordance with our Terms of Reference (Appendix 3), agreed with the Corporate Strategy and Performance Manager, we undertook a limited scope audit of the Risk Management process. This limited scope audit involved a review of the design of the key controls together with detailed testing to determine whether the controls were operating in practice.

### Limitations of scope

The scope of our work was limited to those areas which were identified in the terms of reference.

# 3. Overall Evaluation

## Summary of findings

Objective	Total number of issues	Number of control design issues				Number of operating effectiveness issues			
		Critical	High	Medium	Low	Critical	High	Medium	Low
Vision, Commitment and Ownership of Risk Management within the Council	0	0	0	0	0	0	0	0	0
Structure, Roles and Responsibilities are clearly defined in respect of risk management	3	0	0	0	3	0	0	0	0
Risks are identified from across the Authority	2	0	0	1	0	0	0	1	0
Risks are clearly prioritised and rated in terms of impact and likelihood. A consistent method is used across the Council	0	0	0	0	0	0	0	0	0
Actions and responses to risks are identified and monitored on a regular basis	2	0	0	0	0	0	0	1	1
Risks are reviewed on a regular basis	0	0	0	0	0	0	0	0	0
Officers and Members are trained to ensure a wider appreciation of risk management	0	0	0	0	0	0	0	0	0

# 4. Detailed Findings

Issue 1: Responsibilities and Actions		Control Design
<b>Control objective:</b> Structure, Roles and Responsibilities are clearly defined in respect of risk management		
<b>Matters arising</b>		
The current Risk Strategy includes a section on responsibilities for risk management at a corporate level, however a full governance structure including relevant working groups and risk owners responsibilities is not outlined. This is of particular importance given the new shared management arrangements that will come into place in 2011/12.		
<b>Risks arising</b>		
Governance arrangements may not be clearly outlined leading to an increased risk that risk is not effectively identified and managed.		
<b>Recommendations</b>		
Following the new structure the Council should map the full governance arrangements for risk management within the Risk Strategy document.		
<b>Management response</b>		
<b>Priority</b> Low 	<b>Management response</b> Agreed.  Ownership of risk is clear (and roles and responsibilities are outlined in both the risk strategy and the risk handbook). However, governance structures could be more effectively codified through a diagrammatic appendix to the risk strategy. This action is best undertaken when the new shared management structures are in operation as governance structures are likely to be amended during this process.	<b>Action plan</b> <b>By whom: Corporate Strategy and Performance Manager</b> <b>Implementation date: December 2011</b>

Issue 2: Risk Management Handbook		Control Design
<b>Control objective:</b> Structure, Roles and Responsibilities are clearly defined in respect of risk management		
<b>Matters arising</b>		
The risk management handbook has not been updated to reflect how the Council integrates risk and performance management process. In addition the current handbook lacks detail on how actions should be linked to risks and how partnership risks should be managed.		
<b>Risks arising</b>		
Processes lack clarity and therefore risk management may not be enforced consistently across the organisation.		
<b>Recommendations</b>		
The risk management handbook should be updated to reflect the recent improvements in integrating risk and performance management as well as information on mapping action plans to risks, and managing partnership risks		
<b>Management response</b>		
<b>Priority</b>	<b>Management response</b>	<b>Action plan</b>
Low ●	Agreed  The PMF handbook covers how risk relates to performance (pages 20-28). The Risk handbook will be updated to briefly cover how it integrates to performance (i.e. by referencing the PMF and overviews the process). An additional section will be added to the handbook on partnership risks. The service planning guidance will also be amended to reflect how actions should be related to risks.	<b>By whom: Corporate Strategy and Performance Manager</b> <b>Implementation date: July 2011</b>

Issue 3: Partnership risks		Control Design
<b>Control objective:</b> Risks are identified from across the Authority		
<b>Matters arising</b>		
The Council does not currently have procedures in place to provide assurance that joint projects are subject to risk management processes. Separate risk registers are not in place for all significant partnerships.		
<b>Risks arising</b>		
Risks may not be managed at a partnership level.		
<b>Recommendations</b>		
The Council should ensure that all significant partnerships have a separate risk register detailing identified risks and mitigating actions..		
<b>Management response</b>		
<p><b>Priority</b> Medium</p> <p>●</p>	<p><b>Management response</b></p> <p>Agreed. For the council's highest profile projects, such as Brighter Futures in Banbury and the Shared Management project separate risk registers are in place. Some partnerships do not hold separate risk registers but the council's risk associated with them is entered on to the partnerships register. Other partnerships do have risk registers (e.g. the Community Safety Partnership) During 2011 all partnerships will be reviewed given the national policy context, as such partnership risks will be identified as part of this process.</p>	<p><b>Action plan</b></p> <p><b>By whom: Partnership lead managers</b> <b>Implementation date: September 2011</b></p>

<b>Issue 4: Updating Risk Register</b>		<b>Operating Effectiveness</b>
<b>Control objective:</b> Actions and responses to risks are identified and monitored on a regular basis		
<b>Matters arising</b>		
All risks should be reviewed and updated on a monthly basis and reported to the Corporate Management Team (CMT). As per the January 2011 CMT reports, 5/19 risks included on the Strategic Risk Register had not been updated. 1 of these risks (Horton Hospital) was rated as having a high gross risk and had not been updated since the October report.		
<b>Risks arising</b>		
Risks are not subject to appropriate monitoring or managed effectively.		
<b>Recommendations</b>		
A reminder of the importance of effective risk management should be issued to risk owners to ensure that risks, controls and actions are reviewed and updated on a monthly basis. CMT should seek to hold risk owners to account to ensure that this process is adhered to.		
<b>Management response</b>		
<b>Priority</b> Medium 	<b>Management response</b> Agreed.	<b>Action plan</b> <b>By whom: Corporate Strategy and Performance Manager</b> <b>Implementation date: May 2011</b>

Issue 5: Controls description		Operating Effectiveness
<b>Control objective:</b> Actions and responses to risks are identified and monitored on a regular basis		
<b>Matters arising</b>		
It was noted when reviewing the Corporate Risk Register that it is often difficult to distinguish whether the “controls” that are detailed relate to existing processes or future planned action. It is therefore not possible to fully understand the respective risk scores in this context.		
<b>Risks arising</b>		
Risk scores may not be accurate, increasing the risk that appropriate action may not be taken.		
<b>Recommendations</b>		
Guidance should be provided to clarify how controls and planned actions should be recorded and mapped on the risk register. Work should be performed to ensure that the “net” risk score reflects whether controls are currently in place.		
<b>Management response</b>		
<b>Priority</b> Low 	<b>Management response</b> Agreed. The risk handbook update will include guidance on risk actions and appropriate commentary when updating risks. The issue will be raised at EMT.	<b>Action plan</b> <b>By whom: Corporate Strategy and Performance Manager</b> <b>Implementation date: June 2011</b>

Issue 6: Responsibilities and Actions		Control Design
<b>Control objective:</b> Structure, Roles and Responsibilities are clearly defined in respect of risk management		
<b>Matters arising</b>		
There is currently no Terms of Reference in place for the Council's Risk Management Group. The group do not formally monitor progress on actions.		
<b>Risks arising</b>		
Roles and responsibilities are not clearly defined, increasing the risk that effective governance of Risk Management is not maintained.		
<b>Recommendations</b>		
A Terms of Reference should be drawn up for the Risk Management Group. Documentation should be maintained to show designated actions and progress against these.		
<b>Management response</b>		
<p><b>Priority</b></p> <p>Low</p> <p>●</p>	<p><b>Management response</b></p> <p>Agreed. The integration of performance and risk means that the risk management working group and the performance managers group will be integrated. The first meeting is scheduled for May 9<sup>th</sup> at which a single set of terms of reference will be agreed.</p>	<p><b>Action plan</b></p> <p><b>By whom: Performance and Risk officer</b></p> <p><b>Implementation date: 9<sup>th</sup> may 2011</b></p>

**Control objective:** Risks are identified from across the Authority.

**Matters arising**

The Corporate Risk Register was reviewed in line with CIPFA guidance (Strategic Risk Management, Governance Risks in 2011) to confirm that potential high risks identified by CIPFA, have been included on the Corporate Risk Register where appropriate.

During testing, it was noted that 4/10 potential risk areas identified by CIPFA are not reflected on the register. These areas are:

- Transparency Agenda
- Changes to information governance legislation
- Forthcoming changes to the standards regime (England)
- Local Accountability

**Risks arising**

Potential risk areas are not identified and managed effectively..

**Recommendations**

The Council should review those risks that have been omitted and consider inclusion in the corporate risk register.

**Management response**

<b>Priority</b>	<b>Management response</b>	<b>Action plan</b>
Low 	Agreed. Both the transparency agenda and the information governance legislation were identified at EMT in February 2011 as issues and will appear on the 2011/12 risk register. The risk associated with the standards regime is underassessment and will be reviewed by CMT at their monthly performance review. In terms of local accountability the Council has made this area a priority and it is reflected in this public performance pledges for 2011/12. The issue is included as part of the council’s risk assessment of transparency as the controls form part of the same action plan.	<b>By whom: Corporate Strategy and Performance Manager, Head of Legal and Democratic Services</b>  <b>Implementation date: implemented in part outstanding issues to be resolved by June 2011.</b>

# Appendix 1 – Basis of our Opinion

## Individual risk ratings

Each of the control weaknesses identified have been categorised according to risk as follows:

Risk rating	Assessment rationale
Critical ●	<p>A control weakness that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Significant</b> impact in the achievement of the <b>organisation’s operational objectives</b> as set out in its operational plan; or</li> <li>• <b>Material</b> financial impact on the organisation; or</li> <li>• Significant breach in laws and regulations resulting in <b>severe fines or consequences</b>; or</li> <li>• Critical impact on the reputation of the organisation which could <b>threaten its future viability</b>.</li> </ul>
High ●	<p>A control weakness that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Significant</b> impact in the achievement of the <b>objectives of the system, function or process</b> under review as set out in the terms of reference; or</li> <li>• <b>Significant</b> financial impact on the organisation; or</li> <li>• Breach in laws and regulations resulting in fines and consequences which are <b>significant to the system, function or process under review but not the overall organisation</b>; or</li> <li>• Significant impact on the reputation of the organisation.</li> </ul>
Medium ●	<p>A control weakness that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact in the achievement of the <b>objectives of the system, function or process</b> under review as set out in the terms of reference; or</li> <li>• <b>Moderate</b> financial impact on the organisation; or</li> <li>• Breach in laws and regulations resulting in fines and consequences which <b>impact but are not significant</b> to the system, function or process under review; or</li> <li>• Moderate impact on the reputation of the organisation.</li> </ul>
Low ●	<p>A control weakness that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on the achievement of the <b>objectives of the system, function or process</b> under review as set out in the terms of reference; or</li> <li>• <b>Minor</b> financial impact on the organisation; or</li> <li>• <b>Minor</b> breach in laws and regulations with <b>limited consequences</b>; or</li> <li>• Minor impact on the reputation of the organisation.</li> </ul>

## Assurance Ratings

The table below details the assurance ratings for grading individual audits:

Level of assurance	Description
High	<p>No control weaknesses were identified; or</p> <p><b>Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.</b></p>
Moderate	<p>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be less than significant or they are unlikely to occur.</p>
Limited	<p><b>There are some weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of key system, function or process objectives but should not have a significant impact on the achievement of organisational objectives. However, there are discrete elements of the key system, function or process where we have not identified any significant weaknesses in the design and / or operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give limited assurance over certain discrete aspects of the system, function or process.</b></p>
No	<p>There are weaknesses in the design and/or operation of controls which, in aggregate, could have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of organisation objectives.</p>

# Appendix 2 – Limitations and Responsibilities

## Limitations inherent to the internal auditor's work

We have undertaken this review of Risk Management subject to the limitations outlined below. This is an independent assurance report and our work has been performed in accordance with ISAE 3000 (“International Standard on Assurance Engagements”).

## Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

## Future periods

The assessment of controls relating to Risk Management is as at March 2011. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

## Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

# Appendix 3 – Terms of Reference

## Objectives

Our objective is to undertake a review of risk management arrangements to ensure an adequate level of controls exist over managing and responding to risks.

## Deliverables

Our deliverable will be a report detailing our findings with regard to our assessment of the design and effectiveness of controls in place over managing and responding to risks.

## Scope and Approach

Our work will focus on identifying the guidance, procedures and controls in place to mitigate key risks through:

- Documenting the underlying guidance, policy and processes in place and identifying key controls;
- Considering whether the policies and procedures in place are fit for purpose; and
- Testing key controls.

The key points that we will focus on are:

- Vision, Commitment and Ownership of Risk Management within the Council.
- Structure, Roles and Responsibilities are clearly defined in respect of risk management.
- Risks are identified from across the Authority.
- Risks are clearly prioritised and rated in terms of impact and likelihood. A consistent method is used across the Council.
- Actions and responses to risks are identified and monitored on a regular basis.
- Risks are reviewed on a regular basis.
- Officers and Members are trained to ensure a wider appreciation of risk management.

## Limitations of Scope

The scope of our work will be limited to those areas identified in the terms of reference.

## Stakeholders and Responsibilities

Role	Contacts	Responsibilities
Corporate Strategy and Performance Manager Risk Management and Insurance Officer	Claire Taylor  Rosemary Watts	<ul style="list-style-type: none"> <li>Review and approve terms of reference</li> <li>Review and meet to discuss issues arising and develop management responses and action plan</li> <li>Review draft report.</li> <li>Review final report.</li> </ul>
Head of Finance  Head of Legal and Democratic Services	Karen Curtin Liz Howlett	<ul style="list-style-type: none"> <li>Receive agreed terms of reference</li> <li>Receive draft and final reports.</li> </ul>
Interim Chief Executive	Ian Davies	<ul style="list-style-type: none"> <li>Receive final report</li> </ul>

## Our Team

<b>Chief Internal Auditor</b>	<b>Chris Dickens</b>
<b>Audit Manager</b>	<b>Katherine Bennett</b>
<b>Auditor</b>	<b>Sarah Swan</b>

## Timetable

Steps	Date
<b>TOR approval</b>	<b>February 2011</b>
<b>Fieldwork commencement</b>	<b>21<sup>st</sup> February 2011</b>
<b>Fieldwork completed</b>	<b>T + 1 weeks</b>
<b>Draft report of findings issued</b>	<b>T + 3 weeks</b>
<b>Receipt of Management response</b>	<b>T + 5 weeks</b>
<b>Final report of findings issued</b>	<b>T + 6 weeks</b>

## Budget

Our budget for this assignment is 5 days. If the number of days required to perform this review increases above the number of days budgeted, we will bring this to management attention.

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