



INFRASTRUCTURE & GOVERNMENT

**West Wiltshire District Council**  
**The Council's approach to risk management**

Internal Audit Report 1/06

October 2006

AUDIT

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# 1. Executive summary

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## Introduction

This report sets out our findings from our review of the Council's approach to risk management.

## Key findings and recommendations

The Council's approach to risk management continues to develop strongly. It is driven by senior management, with support from members and service managers. The Council provides specific risk management training to Cabinet members and to service managers, and is looking to expand the provision of such training to all members and members of staff at service and team level. The Council provides ongoing risk management support to members and officer through the Risk Management Group.

The Council has in place a robust risk management policy and strategy. The strategy sets out a range of information regarding the Council's approach to risk management, as well as detailed guidance on the Council's risk management arrangements, processes and procedures.

The Council works with a variety of partners to deliver services to people and organisations in the district. The Council does not, however, currently have a corporate approach to managing risk within partnership working arrangements. Given the level of partnership working with which the Council is engaged, the development of such an approach is central to the effective management of risk.

The Council has worked successfully to incorporate risk management principles into its operational processes and procedures. The Council is now seeking to embed these principles further into activities across the organisation.

The Council has in place robust arrangements for preparing and reviewing the annual statement on internal control.

Key challenges facing the Council are to develop a robust approach to managing risk within partnership working arrangements and to implement mechanisms to embed risk management principles across the organisation. We have set out in our report a number of recommendations as to how the Council could address these and a small number of other issues.

## Conclusion

We have assessed the control environment in respect of the Council's approach to risk management as good. There is an adequate and effective system of risk management, control and governance to address the risk that objectives are not fully achieved.

## 2. Introduction

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### Overview

In developing and implementing strategies to achieve its objectives, the Council will encounter circumstances in which the outcome of any particular course of action is uncertain. Effective management of the risks arising from this uncertainty is critical to the achievement of the Council's objectives.

The aim of this audit was to review the Council's approach to risk management, and to review the preparation of the Council's statement on internal control.

### Objectives

The specific objectives of our audit were to review the arrangements in place within the Council, which seek to ensure that:

- the Council and its senior managers provide leadership in supporting and promoting effective risk management;
- councillors and officers are equipped and supported to manage risk effectively;
- the Council has clear policies on the identification and management of risk;
- risks with partners are managed appropriately and effectively;
- the Council's operational processes incorporate effective risk management principles;
- the Council's statement on internal control is prepared robustly and supported by appropriate documentation.

### Our report

This report sets out our findings in respect of the Council's approach to risk management together with our audit opinion and our recommendations for how the Council could improve further the effectiveness of its risk management activities.

## 3. Our findings and recommendations

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### Leadership in supporting and promoting effective risk management

The Council's approach to risk management continues to develop strongly. It is driven by senior management, with support from members and service managers.

Central to the Council's risk management arrangements is the Risk Management Group, which brings together the Portfolio Holder, the Financial Accountant (who acts as the Council's risk management lead) and those service managers responsible for areas that have been assessed as high risk. This group is responsible for developing risk management policies, planning appropriate training for members and staff, and promoting risk management across the Council.

The Council has secured the engagement of members, directors and service managers in identifying and responding to strategic and operational risks, through risk assessments and the development and review of action plans.

In developing its risk management arrangements, the Council recognises that it has limited scope to divest itself of activities that it views as high risk. Consequently, the Council draws upon its risk management processes and expertise to determine how best to approach these activities, in order to manage appropriately the level of risk to which the Council is exposed.

In managing risk, the Council allocates responsibility for specific strategic and operational risks to named members of staff. These members of staff are then responsible for taking the necessary action to mitigate these risks, and for responding appropriately should these risks crystallise. We have noted through discussions with service managers, however, that the authorisation procedures in place within the Council have the potential to delay urgent action required to respond to the crystallisation of specific risks, for example if actions relating to specific projects require senior management or member approval. We would like to note, however, that we have not identified any instances where this has occurred in practice.

### Risk

If authorisation processes are not clear, officers responsible for the management of strategic and operational risks may not be able to take timely action to address the crystallisation of these risks.

### Recommendation 1

**The Council should ensure that appropriate mechanisms (such as the delegation of authority to appropriate senior members of staff) are in place to authorise urgent action in response to the crystallisation of strategic and operational risks, and that all relevant staff are aware of these mechanisms.**

## 3. Our findings and recommendations

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### Support to councillors and officers in managing risk effectively

The Council has provided periodic training for Cabinet members on risk management and the Council's approach to it. This training has focused on members' roles with regard to risk management and on the Council's approach to identifying and responding to strategic risks. The Council is planning to extend the provision of this training to all members.

The Council includes in all reports to Cabinet details of the risk implications of the subject of the report. In some cases, the issue under consideration will expose the Council to specific risks, of which the Cabinet should be aware when making decisions. In other cases, the issue in question may relate directly to one of the Council's identified strategic risks or to the Council's response to it. The explicit consideration of such issues in reports ensures that Cabinet members are apprised of the potential risk impact of their decisions.

The Council holds risk management briefings for service managers as part of the service and resource planning process. The Council also provides service managers with ongoing risk management support and guidance as required, through the risk management lead and the wider Risk Management Group.

The Council does not currently provide risk management training to members of staff below service manager level, although it is considering the introduction of such training in the near future. If risk management training were focused on the roles and responsibilities of the members of staff receiving it, it would have the potential to raise further the profile of risk management within the Council and to ensure that risk management arrangements are implemented consistently across the organisation.

### Risk

If members of staff are not provided with appropriate risk management training, the Council's risk management arrangements may not be implemented consistently across the organisation.

### Recommendation 2

**The Council should develop and provide training on risk management to members of staff below service manager level. This training should focus on how risk management impacts on the roles and responsibilities of those members of staff receiving it.**

## 3. Our findings and recommendations

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### **Support to councillors and officers in managing risk effectively (continued)**

In developing and promoting its risk management arrangements, the Council places a high level of reliance on the Financial Accountant, who acts as the risk management lead.

While the development of a central resource for promoting risk management and providing advice to members of staff across the Council has proven to be an effective way of driving forward the Council's risk management agenda, the reliance on an individual member of staff could result in resource or capacity issues at some point in the future.

Consequently, the Council may find it more efficient and effective in the longer term to broaden (although not necessarily to increase) the level of resources involved in the central coordination and promotion of the Council's risk management activities.

### **Risk**

If the Council relies too heavily on an individual member of staff to coordinate and promote its risk management activities, this could lead to resource and capacity issues in the future. (The significance of this risk is emphasised by the recent departure of the Council's Financial Accountant and the appointment of another member of staff to this post.)

### **Recommendation 3**

**The Council should take action to reduce the level of reliance placed on the Financial Accountant in coordinating and promoting the Council's risk management activities.**

Such action could include:

- involving other suitable individuals in the central provision of risk management support;
- enhancing and promoting the role of the Risk Management Group;
- establishing a risk management lead within each service or directorate.

## 3. Our findings and recommendations

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### Policies on the identification and management of risk

The Council has in place a robust risk management policy and strategy, which have been approved by the Cabinet. These documents are available to members of staff and other stakeholders via the Council's intranet and external website.

The Council's risk management strategy sets out a range of information regarding the Council's approach to risk management. The strategy also sets out detailed guidance on the Council's risk management arrangements, processes and procedures.

In addition to business risk management issues, the Council undertakes a number of activities that fall under the broader risk management umbrella. These activities include health and safety related issues, procedures for responding to complaints, incident reporting, and the Council's insurance arrangements. While the Council has arrangements in place to address each of these issues, it is not clear to what extent they are considered in an integrated manner as part of the Council's overall approach to risk management.

### Risk

If the Council does not link together all elements of its risk management activities, the broader impact of specific risk-related issues may not be identified and addressed.

### Recommendation 4

**The Council should develop and implement mechanisms for enhancing the links between the different activities (e.g. business risk management, health and safety, incident reporting) that form part of its overall approach to risk management.**

Such mechanisms could include:

- the development of a 'map' showing all the activities that relate to risk management, with this information being communicated to all those involved in risk management;
- the inclusion of health and safety, incident reporting, etc., reports in the Council's business risk reporting arrangements;
- the representation of health and safety, incident reporting, etc., activities on the Risk Management Group.



## 3. Our findings and recommendations

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### Management of risk with partners

The Council works with a variety of partners to deliver services to people and organisations in the district. These partnerships cover a broad range of relationships, from formal contractual arrangements to informal consultative groups.

The Council does not currently have a corporate approach to managing risk within partnership working arrangements. Given the level of partnership working with which the Council is engaged, the development of such an approach represents a key challenge to the Council as it seeks to develop further its arrangements for managing risk.

The management of risk in partnership working arrangements introduces the concept of 'shared risk', meaning that the Council will have to think not in terms of 'what is the risk to us?' but rather 'what is the risk to the partnership and its objectives?' Partnership working also means that the Council will have to be prepared to accept some loss of control over partnership activities. This increases further the importance of effective risk management when working with service delivery partners.

### Risk

If the Council does not have a robust corporate approach to the management of risk with partners, risk inherent to partnership working arrangements may not be managed appropriately and the Council may expose itself to an unnecessary level of risk.

### Recommendation 5

**The Council should develop and implement a robust corporate approach to the management of risk in partnership working arrangements.**

The Office of Government Commerce (OGC) has recently produced specific guidance for public sector organisations on the management of risk within partnership working arrangements. This guidance is set out in the publication 'Managing risks with delivery partners', which is available on the OGC website. We have set out in appendix one a summary of the issues that the OGC suggests should be considered when preparing a risk management approach for partnerships.

In our report 05/06 on the Council's approach to the management of contracts, we identified scope to improve the assessment of risk in respect of contracts with partners. Given the close link between contract management and partnership working, the Council may wish to consider the recommendation above in the context of these earlier findings.

## 3. Our findings and recommendations

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### Incorporation of risk management principles into operational processes

The Council has worked successfully to incorporate risk management principles into its operational processes and procedures. In particular, the Council has integrated its annual operational risk assessment process into the service and resource planning framework. As part of this process, all services undertake a risk assessment in respect of their annual service plans, and develop an action plan to respond to the risks identified. Progress against these action plans is then reviewed quarterly by service managers and six-monthly by the Risk Management Group.

In addition to these formal procedures, the Council undertakes a range of other activities that contribute to the effective management of risk. This includes the employment of experience members of staff, the proactive management of resources, the development of strong working relationships between members and officers and the engagement of local residents and groups in the operation and development of Council services.

From discussions with service managers, we note that the Council's risk management arrangements have proven particularly useful in the management of specific projects, and when explaining risk management and related activities to members and other stakeholders. Service managers have also used the identification and consideration of risk as a tool for developing and challenging service plans.

Having developed and implemented robust risk management arrangements, the Council is now seeking to embed these arrangements into activities across the organisation. This will help to ensure that risk management considerations inform the Council's work at all levels, and that the Council avoids the development of a 'box ticking' mentality.

### Risk

If the Council does not embed the principles of risk management across the organisation, its risk management arrangements may become a mere formality rather than an effective means of addressing change and uncertainty.

### Recommendation 6

**The Council should develop and implement mechanisms for embedding further the principles of risk management across the organisation.**

### 3. Our findings and recommendations

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#### **Preparation of the statement on internal control**

The Council has in place robust arrangements for preparing and reviewing the annual statement on internal control. In accordance with the Accounts and Audit Regulations 2003, the Council undertakes on an annual basis a review of the effectiveness of its system of internal control. The statement on internal control sets out the results of this review.

This statement is prepared by the Head of Finance and is reviewed and approved by the Chief Executive and the Leader of the Council. From 2005/06, the statement will also be reported to the newly-formed Audit Committee.

When conducting his review of the effectiveness of the system of internal control, the Head of Finance seeks assurance regarding this system from the work of internal and external audit, as well as from the Council's risk management activities and its performance reports.

While the statement for 2005/06 had not been prepared at the time of our review, we note that the statement for 2004/05 has been compiled in accordance with the requirements of the Accounts and Audit Regulations and has been published with the Council's financial statements. The Council plans to follow a similar format for the current year's statement.

## 4. Our audit opinion

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As internal auditors of the Council we are required to provide a statement on the systems of internal control. However, in giving our opinion, it should be acknowledged that our work is designed to enable us to form an opinion on the quality of the systems examined based upon the work undertaken during our current review. It should not be relied upon to disclose all weaknesses that may exist and therefore the opinion is not a guarantee that all aspects of the systems reviewed are adequate and effective.

**On the basis of the work that we have undertaken, we have assessed the control environment in respect of the Council's approach to risk management as good.**

### **Good**

There is an adequate and effective system of risk management, control and governance to address the risk that objectives are not fully achieved.

### **Satisfactory**

There is some risk that objectives may not be fully achieved. Slight improvements are required to enhance the adequacy and / or effectiveness of risk management, control and governance.

### **Weak**

There is considerable risk that the system will fail to meet its objectives. Significant improvements are required to improve the adequacy and effectiveness of risk management, control and governance and to place reliance on the system for corporate governance assurance.

### **Unacceptable**

The system has failed or there is a real and substantial risk that the system will fail to meet its objectives. Immediate action is required to improve the adequacy and effectiveness of risk management, control and governance.

## 5. Action plan

Ref.	Recommendation	Management response
1	<p>The Council should ensure that appropriate mechanisms (such as the delegation of authority to appropriate senior members of staff) are in place to authorise urgent action in response to the crystallisation of strategic and operational risks, and that all relevant staff are aware of these mechanisms.</p> <p><b>Priority: Low</b></p>	<p>Draft guidance on what to do if a risk should happen will be developed by Risk Management Group (reviewing Factsheets and Risk Management policy).</p> <p><b>Timescale: 31 October 2006</b></p> <p><b>Officer responsible: Financial Accountant and Risk Management Group</b></p>
2	<p>The Council should develop and provide training on risk management to members of staff below service manager level. This training should focus on how risk management impacts on the roles and responsibilities of those members of staff receiving it.</p> <p><b>Priority: Low</b></p>	<p>Training scheduled for November 2006.</p> <p><b>Timescale: November 2006</b></p> <p><b>Officer responsible: Head of Finance and Risk Management Group</b></p>
3	<p>The Council should take action to reduce the level of reliance placed on the Financial Accountant in coordinating and promoting the Council's risk management activities.</p> <p><b>Priority: Medium</b></p>	<p>The current arrangements spread Risk Management across Corporate Management Team and Service Managers. The arrangements in place to deliver training will raise awareness and increase the levels of skill and knowledge across the Council. A new finance structure was implemented in August 2006 and this provided additional support to the Financial Accountant from the new post of Accounting Technician (Services).</p> <p><b>Timescale: November 2006</b></p> <p><b>Officer responsible: Head of Finance</b></p>
4	<p>The Council should develop and implement mechanisms for enhancing the links between the different activities (e.g. business risk management, health and safety, incident reporting) that form part of its overall approach to risk management.</p> <p><b>Priority: Low</b></p>	<p>Risk Management 'map' to be developed and form part of procedures. Health and Safety incident reporting will be reported to Risk Management Group. The area is represented on the group by the Head of HR.</p> <p><b>Timescale: 31 December 2006</b></p> <p><b>Officer responsible: Financial Accountant and Risk Management Group</b></p>

## 5. Action plan

Ref.	Recommendation	Management response
5	<p>The Council should develop and implement a robust corporate approach to the management of risk in partnership working arrangements.</p> <p><b>Priority: Medium</b></p>	<p>Guidance will be developed by the Risk Management Group to supplement existing arrangements.</p> <p><b>Timescale: 31 December 2006</b></p> <p><b>Officer responsible: Head of Finance and Risk Management Group</b></p>
6	<p>The Council should develop and implement mechanisms for embedding further the principles of risk management across the organisation.</p> <p><b>Priority: Low</b></p>	<p>On-going as Risk Management is embedded across the Council and through implementation of recommendations 1 to 5.</p> <p><b>Timescale: 31 December 2006</b></p> <p><b>Officer responsible: Head of Finance</b></p>

## 6. Logistics of our review and our report

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### Our review

Audit sponsor	Ian Jamieson, Head of Finance
Auditor	Simon Perks
Date of fieldwork	March 2006

### Our report

Discussion draft issued	18 May 2006
Management responses received	4 October 2006
Final report issued	4 October 2006

### Our recommendations

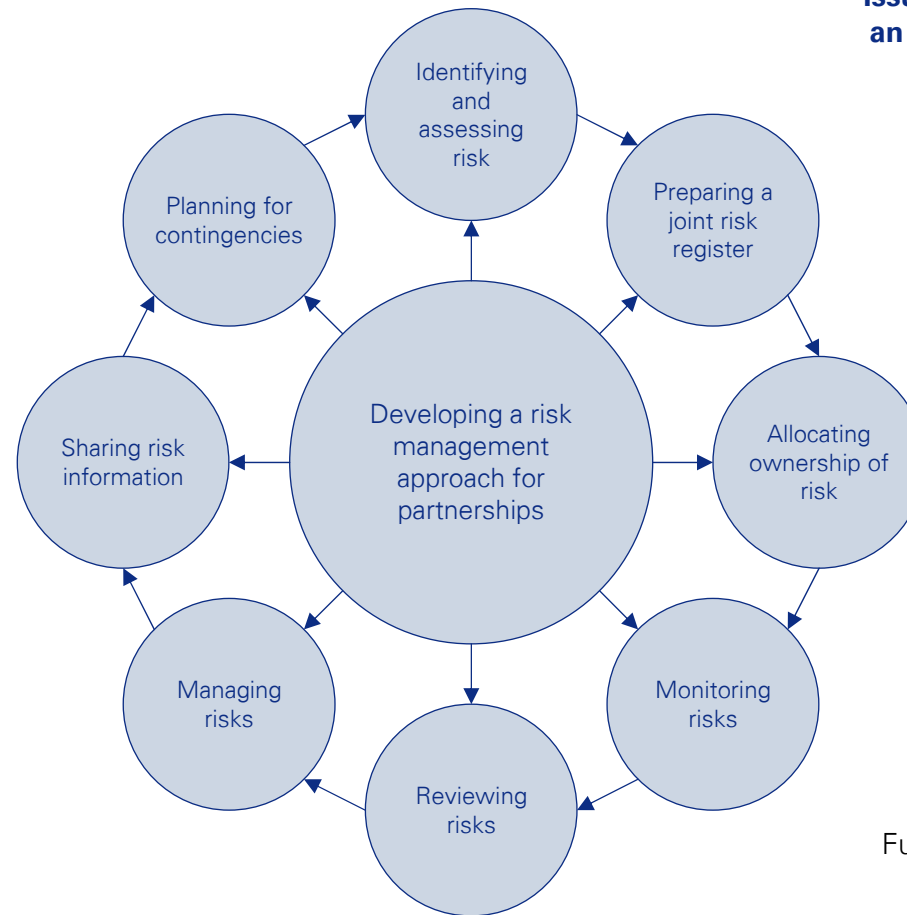
High priority recommendations	0
Medium priority recommendations	2
Low priority recommendations	4

# Appendix 1

## Developing a risk management approach for partnerships

The Office of Government Commerce suggests a number of issues that the Council should consider when developing an approach to the management of risk in partnership working arrangements. We have summarised these issues in this appendix to our report.

### Issues to consider when developing an approach to the management of risk in partnership working arrangements



Further details with regard to each of these issues are set out on the following page



# Appendix 1

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## Developing a risk management approach for partnerships (continued)

### Identifying and assessing risk

Is there a common understanding of the risks and how they can be managed? Is this based on a shared understanding of the objectives of the partnership?

### Preparing a joint risk register

Do partners share their assessment of risk? Do partners have the opportunity to come to agreed judgements, allocate responsibility for action and trigger monitoring information?

### Allocating ownership of risk

Is there clarity about who is carrying which risks? Are risks allocated to those partners who are best placed to manage them? Does the Council recognise that overall service delivery and reputational risks may remain with it, even if some specific operational and financial risks lie with partner organisations?

### Monitoring risks

Is good quality, relevant monitoring information available to all partners? Does this information include the scale of risks and how they are being managed?

### Reviewing risks

Are joint risk review meetings held as an integral part of performance management arrangements? Are perceptions of risk shared among partners, even when these perceptions differ?

### Managing risks

Is the management of risk integrated into the day-to-day management of the project? Is appropriate action taken to manage risks and to respond to changes in the partnership's risk profile?

### Sharing risk information

Are the partners' risk assessments and perspectives on risk communicated to all partners? Is there an open dialogue between partners? Do partners have a shared understanding of the risks to which the partnership is exposed?

### Planning for contingencies

Is there a shared understanding of the actions that should be taken if risks are realised, in order to ensure continuity of service? Have these plans been agreed with stakeholders and tested to ensure that they work?