

East Staffordshire Borough Council

Head of Internal Audit Opinion - Stage 1 Memo

January 2024 (report ref ESBC/23-24/10)

Introduction and background

The Terms of Reference for our Head of Internal Audit Opinion work programme was agreed with the Interim Chief Finance and S151 Officer and included in our progress report presented to the September 2023 Audit Committee. This memo sets out the outcome of our stage 1 work on Strategic Risk Management. Our definition of strategic risk management is the management of risk to the achievement of the organisation’s corporate objectives. We consider how the Council utilises its risk registers to support the management of strategic risk which may impact achievement of the Council’s strategic objectives.

Findings

The Council has reviewed its Risk Management Policy and risk register formats during the course of 2023/24 with the new Risk Management Policy and new risk register templates having been approved by both the Cabinet and Audit Committee in September 2023.

The Risk Register is reviewed on a quarterly basis by the Corporate Management Team before being presented to various groups and committees including Cabinet and the Audit Committee.

We have included our observations and findings below, reporting by exception.

Observations

No.	Area of review	Observation
1	Risk Management Strategy	The Risk Management Strategy and revised risk register templates were approved at the Audit Committee in September 2023.
2.	Risk Registers	It was noted that the quarter 1 Corporate Risk Register presented to the September 2023 Audit Committee was in the previous format of the risk register and risk scoring matrix. The revised risk register templates for both strategic and corporate risks were approved at the same meeting. The quarter 2 new format corporate and strategic risk registers were presented to Cabinet in December 2023 and are due to be presented to the Audit Committee in February 2024. We will be reviewing how these risk registers are embedded during the remainder of 2023/24.

Findings

1. Risk Management Policy	
Finding: The revised Risk Management Policy does not include any reference to the Council’s risk appetite.	
Risk: Without defining the Council’s risk appetite the Council will not be able to set target scores for the management of risks.	Medium (Impact x likelihood) 3 x 3
Action: 1. The Risk Management Policy should be amended to include a definition of risk appetite and the Council’s own risk appetite should be determined and included in the policy.	Responsible officers: James Hopwood, Interim Chief Accountant, Deputy Section 151 Officer and Lloyd Haynes, S151 Officer. Implementation date: 31 st October 2024
Management response: A definition of Risk Appetite for the Council will be prepared and included in the next review and update of the Risk Management Policy.	

2. Risk Register Format		
Finding: The revised risk register formats were presented to Cabinet on 18 th December 2023 and it was noted that there were 7 high (red) rated risks included in the Strategic Risk Register and 18 risks (1 medium (amber) and 17 high (red)) included in the Corporate Risk Register. The recently approved Risk Management Policy defines risks as follows: <ul style="list-style-type: none"> • Corporate Risks – liabilities and dangers that the Council faces (mainly external). • Strategic Risks – those that arise from decisions that are made regarding the Council’s objectives and operations. Comparison of the risks contained within both registers identified 6 risks that had been included in both the Strategic and Corporate Risk Register as follows:		
Strategic risk	Corporate risk	Risk Description
S1	C12	Increased costs in relation to Supported Housing
S2	C13	Delivery of the Stronger Towns Fund

S3	C2	Market Volatility, geopolitical circumstances	
S5	C4	Ongoing impact of Covid 19 issues	
S6	C17	Impact welfare reforms	
S7	C18	Public sector funding reductions	
Risk: The lack of clarity in the classification of strategic and corporate risks in the Risk Management Policy is leading to inconsistent application of the policy.			Medium (Impact x likelihood) 3 x 3
Actions: 3. The classification of both strategic and corporate risks in the Risk Management Policy should be further clarified to provide clear guidance on whether risks should be classified as strategic or corporate risks. 4. The risk registers should be reviewed and the duplicated risks detailed above categorised as strategic or corporate risks.			Responsible officers: James Hopwood, Interim Chief Accountant, Deputy Section 151 Officer and Lloyd Haynes, S151 Officer. Implementation date: 31 st March 2024
Management response: The classification of corporate and strategic risks will be reviewed and any duplicated risks will be appropriately amended for the next reported update of the Risk Register.			

3. Risk Register Content

Finding:

We reviewed the content of the strategic and corporate risk registers and identified that both included the following:

- Alignment to strategic objectives
- Risk Description (and risk consequence)
- Unique risk references
- Risk Score - original score and current score but no target scores have been identified (**See finding 1 above**)
- Risk Owner
- No smart actions with action owners and timescales were included in either risk register.

It was noted that the risk consequence and risk treatment narrative did not always correlate to the risk in the risk registers as follows:

Risk	Risk Treatment
S4 - Flood, fire, chemical major disaster and terrorism	The risk treatment relates to the Covid 19 pandemic and there is nothing in place about contingency plans being in place for flooding, fire major disaster etc.
S5 - Covid 19 Pandemic wider issues	Risk treatment is all about funding streams and allocation of funding.
S6 - Welfare reforms	Risk consequence and treatment relates to Climate Change Action Plan and nothing to support welfare reforms.
S7 - Impact of wider public sector funding reductions (homelessness, supported housing, waste changes).	The risk consequence and treatment relate to increases in pension liabilities and increased contributions for the council.

We also noted that the risk consequence Strategic risk 2 ‘Risks of delivering the Stronger Towns Fund’ was too generic and more detail was required as to how the Towns Fund may not be delivered.

<p>Risk: The risk consequence and risk treatment are not clearly defined and aligned to the strategic risk. If the risk appetite for each risk is not defined then officers will not know when the risk is being managed to an acceptable level.</p>	<p>Medium (Impact x likelihood) 3 x 3</p>
<p>Actions:</p> <p>5. Once the strategic and corporate risks have been reviewed (see findings 2 and 3 above) target risk scores should be defined for each risk.</p> <p>6. The strategic risks, S4, S5, S6 and S7, should be reviewed with the risk consequence and risk treatment detail being amended to reflect the risk to which they relate.</p> <p>7. More detail should be included in Strategic risk 2 (Risk of not delivering the Stronger Towns Fund) as to what the risks actually are.</p> <p>8. Smart actions with action owners and timescales should be included in the risk register.</p>	<p>Responsible officers: James Hopwood, Interim Chief Accountant, Deputy Section 151 Officer and Lloyd Haynes, S151 Officer.</p> <p>Implementation dates: Action 5 : 31st October 2024 Actions 6 - 8 : 31st March 2024</p>
<p>Management response: A review of risk consequences and treatment, and of detail of the risk, for the identified risks, and population of SMART actions, will be provided at the next reported update of the Risk Register. The use of Target Risk scores will be incorporated into the next review and update of the Risk Management Policy.</p>	

Internal Audit Plan outturn

We consider the range of assignments undertaken during the year when forming a judgement for our year-end opinion.

To date we have issued 3 final audit reports:

- Stronger Towns Fund – significant assurance
- Stronger Towns Fund follow-up - significant assurance
- Commercial property management follow-up – moderate assurance

Implementation of actions

As at 5th January 2024 the overall follow-up implementation rate is 61% (19/31) and the first follow up rate (implementation by the original due date) is 26% (8/31). There are no high risk actions outstanding.

The implementation rate of actions is one of the elements which informs our Head of Internal Audit Opinion. The Council’s current implementation rate would indicate an opinion of ‘moderate assurance’.

Summary conclusion

The council has refreshed its Risk Management Policy during 2023/24 and introduced new template risk register formats for both strategic and corporate risk registers. We will review how these risk registers are embedded during the remainder of 2023/24.

In stage 2 of our work, we will evaluate how the risk registers are kept “live”, focusing on how addition of new risks and closure of risks and action plans impacts on the overall risk scores. We will review the role of the Corporate Management Team in the strategic risk management arrangements.

We will also follow up progress with the implementation of the actions agreed during our stage 1 work.

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