

AGENDA ITEM NO:

Audit Committee
25 September 2007

Report to: Audit Committee – 25 September 2007

Date: 25 September 2007

Report from: Chief Auditor

Title of report: Review of Risk Management Arrangements

Purpose of report: To advise the committee on the Risk Management improvements that could be adopted to bring the authority up to Best Practice Standard.

Recommendations: To agree the recommended actions required to achieve Risk Management Best Practice.

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Detailed Report

Introduction

1. The Council scored 2 out of 4 in the Use of Resources inspection for Internal Control. The Audit Commission considered an area of possible improvement was that of Risk Management and they made a small number of recommendations. The Council recognises the importance of sound Risk Management and wishes to achieve Best Practice standard. Audit and Investigations were tasked with identifying Best Practice authorities and practices.

Approach

2. The approach taken was to identify Best Practice authorities and compile a 'gap analysis' between Hastings Borough Council and those authorities. Lewes District Council is a neighbouring authority and obtained a maximum score of 4 for risk management in their Use of Resources inspection. Consequently, most of the comparison was with them. We found that many of the necessary processes are already in place however the following improvement opportunities were identified.

Summary of Findings

3. Audit believes that close liaison between Lewes DC with the Audit Commission was instrumental in enabling them to achieve Best Practice. It would be possible to improve Hastings Borough Council systems with medium effort and minimal cost and should result in a much stronger system that reduces risks and improves control through provision of timely management information.
4. Appendix A summarises our recommendations and attempts to identify what we believe needs to be achieved for Best Practice.

Detailed Findings

Risk Development in Lewes District Council

5. It is worthwhile detailing some of the history of Risk Management development in Lewes District Council in order to demonstrate how the early involvement of the Audit Commission has assisted them to achieve Best Practice standard quickly.
6. A decision was made by Lewes District Council in 2002 to seek advice from the Audit Commission on Risk Development requirements. Cabinet approved consultancy of £10k, which was provided by the Audit Commission.
7. Lewes District Council recognised the need to benchmark against an established standard. The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued guidance and work closely with the Audit Commission. The CIPFA standard was the obvious choice.
8. The Audit Commission consultant subsequently made a number of recommendations including:

- Run workshops with Corporate Management Team to advise them of the Framework.
 - Have a strategy.
 - Keep guidance up to date with emerging best practice / guidance.
 - Keep it simple.
 - Hold road shows at DMT meetings to inform managers of the risk approach that they needed to take and for Internal Audit ad hoc attendance at meetings thereafter.
 - Full involvement of the Audit Committee and councillors.
 - Reports to Cabinet to include evidence of risk consideration.
 - Develop a Risk Register that concentrated on key risks.
 - Annual review and reporting of risk management arrangements.
9. An improvement action plan was subsequently prepared and the Consultant returned one year later to Lewes District Council and examined progress against the action plan.

Policy

10. Hastings Borough Council's Policy is stated within the current Risk Framework document and clearly states the authorities commitment to adoption of Best Practice in Risk Management.

Strategy and Guidance

Organisation and Responsibility

11. Risk responsibilities at Hastings Borough Council are set out in the Audit Committee Terms of Reference, the Chief Internal Auditors Job Description. The Hastings Borough Council Risk Framework describes the Strategy, Committee Structure and Heads of Service responsibilities. However none of these documents clearly state that officers or committee members are acting in a supporting role to the Chief Executive. It is **recommended (R1)** that this be clarified within the Risk Framework.
12. Para 10e of the Hastings Borough Council strategy outlines responsibility for Heads of Service as being "to complete a Risk Survey form for each Service Delivery Plan for 2003/4. Thereafter to report significant change only". Risk surveys were completed in 2003, although many were at Directorate Level, not service area. Since then Audit and Investigations have been actively encouraging risk assessment at Service level when undertaking audits and have undertaken reviews of services reporting high-risk aspects.
13. Heads of Service and Managers do consider risk very carefully but Audit and Investigations believe that, as part of embedding risk management, Service managers should consider emerging risk at all times and develop mitigating controls where appropriate. We therefore believe that the most opportune time for formally reviewing all risks as demonstrated in Best Practice, is for Annual Service Delivery Planning to include risk assessment and that the Risk Register is updated by Heads of Service via Audit as risk changes or new risks emerge. It is important that whenever a significant change in risk occurs that the details

are notified to audit who are to ensure that adequate consideration is given to any financial and insurance aspects and escalate appropriately. This is the approach adopted by Lewes District Council.

14. It is **recommended (R2)** therefore that the strategy include responsibility for Risk consideration when developing annual service delivery plans.
15. Maintenance of Hastings Borough Council's Risk Register currently falls to Audit & Investigations. We recommend that Audit:
 - Regularly monitor the Risk Register, analyse and report on key risk changes.
 - Undertake testing of reported key risks, the adequacy and effectiveness of mitigating controls introduced and residual risk.
 - Provide reports to the Audit Committee on the adequacy and effectiveness of the Risk Management Framework.
 - Continuously monitor Best Practice in Risk Management and recommend improvements.
16. It is **recommended (R3)** that these Audit and Investigations responsibilities are formally defined within the Risk Management Framework.
17. Following consultancy advice on maintaining a simple system, Lewes District Council limited their strategy document to a single page. The Hastings Borough Council equivalent is contained within the Risk Framework runs into 5 pages and contains much working detail. It is Audit and Investigations opinion that the strategy will not change frequently and, as with the recent re-write of the Financial Operating Procedures, the strategy and working practices should form separate documents.
18. The Hastings Borough Council strategy was issued in 2003. Risks to the organisations objectives will be influenced by external events, changes in statute and methods used to combat risk may change. It is **recommended (R4)** therefore that the strategy be simplified, reviewed annually for adequacy and results reported to the Audit Committee.

Guidance

19. Within Hastings Borough Council monitoring of developments in Risk management is undertaken by Audit and Investigations. This includes reading professional journals from the major professions to which current Auditors belong and advertising material from major Accountancy bodies e.g. CIPFA who work closely with the Audit Commission and publish many leading documents and attending Risk Management events such as organised by ALARM. However, there are risks that Audit either has information overload or conversely misses useful publications. At Lewes District Council the approach has been to purchase all relevant Audit Commission / CIPFA publications and for Internal Audit to review and compare to existing arrangements In the interests of maintaining an effective system it is **recommended (R5)** that Hastings Borough Council Audit and Investigations invests time into ensuring that it keeps abreast of main publications, for example, by checking with the Audit Commission during the routine meetings.

20. Risk Management is something that most managers already do as part of their day-to-day work, albeit often in a non-formalised way. Lewes District Council has provided Officers with a Guide to Risk Management and a Methodology for Assessing Risk. Risk Management training has been provided, for example, general risk management training and partnership risk management training and further training would go a long way towards raising standards. However readily available procedural guidance also contributes towards quality of work and reduces risk of non-compliance. It is **recommended (R6)** that risk guidance be provided upon the Intranet in text and frequently asked questions (FAQ'S) and incorporate this also into other training such as Corporate Management Training and Project Management training.
21. At Lewes, a series of Risk Management Briefing notes has also been introduced to keep managers up to date with important developments. Their Audit Manager checks guidance is being followed by undertaking reviews (usually 3) during the year and reporting to CMG on compliance. It is **recommended (R7)** that Hastings Borough Council consider adopting a similar scheme.

Risk Register

22. The current Risk Register is maintained by Audit & Investigations in an Access Database. Under current arrangements Service Managers are required to forward new assessments when significant change occurs for input to the system. In practice however this normally occurs when Audit & Investigations undertake a review of the service area and request a new assessment.
23. It is **recommended (R8)** that consideration be given to a spreadsheet-based system be established for each Directorate and Service Area and located on share point server.
24. Services may face a multitude of risks and to detail all risks and controls would be not be an effective use of manual resources and could be counter productive. It is important therefore that the content of the register concentrates upon key activities, key risks and controls.

Risk Reporting

25. The Local Code of Corporate Governance (paragraph17) adopted by Cabinet in April 2003¹ states:

“The Chief Auditor will report annually to the Audit Committee and Cabinet on the state of Corporate Governance within the Council. This report will form the basis of the annual Statement of Assurance on Corporate Governance and Internal Control Systems”
26. Annual reporting on the management of risk has taken place in accordance with the above policy statement.
27. At the time the Council's Risk Framework was approved in April 2003 a Risk Management group existed. Membership consisting of representatives from Finance, Legal, IT, Marketing, H & S, other Directorate representatives and was chaired by the Deputy Chief Executive.

1. _____
¹ Cabinet minute 174(c) 28th April 2003.

28. Following the recent re-structure, Risk management has been identified as a cross-cutting issue and a new corresponding group is being formed Chaired by a Corporate Director and will include representatives from Finance, Health & Safety as well as representatives to be determined from across the services
29. Lewes District Council has taken a different approach. Their Risk Management group was formed in April 2002 and is comprised of representatives from Audit, Finance, H & S, the Insurance Officer, and the Emergency Planning Officer. They use their specialist knowledge to consider the content of the Risk Register and the adequacy of mitigating controls that management have put in place to minimise risk. The group reports to the Corporate Management Group.
30. It is **recommended (R9)** that once membership, constitution, remit and reporting responsibilities of the new Hastings Borough Council group have been agreed, arrangements appropriate to the borough should be implemented.
31. The Hastings Borough Council Chief Auditor prepares and submits the Annual Statement on Internal Control to the Audit Committee. It explains the Risk Framework and is reviewed by the committee before sign off. However new risks will emerge and existing risks may change throughout the year, under present Risk Register arrangements these may not be identified sufficiently early enough for them to be reported and appropriate action taken. Annual consideration of risk at Service Delivery Planning stage, embedding risk management in the day to day culture and timely Risk Register maintenance, would enable regular scrutiny and reporting of risk emergence / change by Audit and Investigations. Audit and Investigations believes that this ability to identify, react to and report upon changing circumstances to the Audit Committee and Corporate Management Group were key factors in Lewes District Council obtaining a high Use of Resources score. It is **recommended (R10)** that Council adopt a similar reporting system.

Strategic Risk

32. The Lewes District Council Corporate Management Team has access to their Risk Register however analysis work is undertaken by the Audit Division. Early analysis enabled identification of 10 Strategic Risks common across Directorates e.g. lack of staff, non availability of buildings and IT failure and sickness levels. These were accepted by CMG, and in doing so; CMG committed itself to minimising the impact of these risks by introducing appropriate controls where possible. These risks are publicised in the Briefing Notes referred to earlier.

Audit Programme

33. The CIPFA Code of Practice for Internal Audit (2003) requires that Heads of Internal Audit develop a Strategy for delivering the Service. The approach to planning in Hastings Borough Council has been to develop annual plans, comprising statutory systems; non-statutory systems identified through analysis of the Risk Register and identification of those with High/Medium scores; and intuitive local knowledge of the quality of control within systems.
34. Compliance with the Code at Lewes District Council has been achieved through development of a 3 Year Risk based Strategic Audit Programme that

considered statutory requirements, the date non-statutory systems were last audited, findings, financial impact, etc. The audit programme is now being updated to include the findings of Risk assessment scores.

35. Audit believes its current approach to risk based audit selection, whilst different to Lewes DC. is concurrent with Best Practice.

Corporate Governance

36. The Council's Risk Framework (Para 8) recognises that "the strategic response to risk is Corporate Governance" and that the council will adopt, maintain and monitor the effectiveness of a Local Code of Corporate Governance (LCCG). Cabinet agreed the Local Code of Corporate governance and Risk Framework on 28th April 2003. However the Code, explanation of Corporate Governance, details of the systems that ensure good Governance and the Risk Framework are not easily found on the Hastings Borough Council Web site. A number of authorities e.g. Lewes, Havant and Leicester have developed a Corporate Governance web page in accordance with the LCCG Guidance. Audit and Investigations recommends (**R11**) that:

- A Hastings Borough Council Corporate Governance web page is established.
- Corporate Governance systems are identified and ownership and responsibility for risk assessment defined.
- Corporate Governance arrangements be risk assessed annually and results of the review reported through the Audit Committee.

Training

Officers

37. At Lewes District Council Internal Audit delivered a series of road shows to each Directorate. Internal Audit also attends DMT meetings (where requested) and provides advice. This also provides opportunity to form a view on the successful integration of the risk management methodology and identification of any areas requiring further guidance / training.
38. The Hastings Borough Council strategy states that:
- A. "The Internal Audit Division has responsibility for training in risk identification and management" but needs to update itself with training to keep abreast of latest developments.
- B. "The Borough Solicitor provided training to officers dealing with contracts in February 2007". Our review has found that Legal Services have issued guidance on when you should involve Legal Services and also some training has taken place but limited to a small number of officers. The Borough Solicitor has recently issued guidance to General Managers, this is being linked to updated conditions of contract and an agreed form of instruction pro forma is currently in the course of preparation. This should produce closer liaison with those officers instructing the Borough Solicitor which in turn should contribute towards reducing risk. The Borough Solicitor has advised that further guidance could be developed, however the timing of this together with development of a formal training plan and delivery to officers is subject to available resources.

39. Much of the Audit Commission Consultant's advice to Lewes DC (paragraph 8) relates to training or communication in one form or another. It is **recommended (R12)** that:
- Audit and Investigation staff be provided with risk management training.
 - Audit and Investigations staff ensures it continues to provide training in risk identification and management.
 - The risks associated with placing contracts and the resources required to reduce these risks through provision of timely training and adequate guidance are considered.
40. This report recommends improvements to the system that could be implemented and achieve Risk Management Best Practice.

Appendix A – Action Plan

Rec.	Recommendation	Responsible Officer	Target Date
1	That the Chief Executives overall responsibility for Risk Management be confirmed within the Risk Framework	Corporate Management Group (Noted)	Sep 07
2	That annual consideration of risk takes place at Service Delivery Planning stage.	Head of Policy & Performance	Oct 07
3	That Audit and Investigations responsibilities are defined in the Risk Management Framework.	Chief Auditor	Dec 07
4	That the strategy be simplified, reviewed annually for adequacy and results reported to Audit Committee.	Chief Auditor	Dec 07
5	That Audit and Investigations ensure it keeps abreast of the latest key publications e.g. new CIPFA / Audit Commission Corporate Governance Publications and review for any action that needs to be taken to maintain statutory compliance / best practice.	Chief Auditor	Dec 07
6	That guidance for service managers on undertaking Risk Assessments be provided via the Intranet and incorporated into other training as appropriate.	Chief Auditor	Dec 07
7	Hastings Borough Council issue Briefing notes via corporate processes e.g. @bit to keep Management up to date with risk management development	Chief Auditor	Dec 07
8	That consideration is given to a spreadsheet-based Risk Register established for each Directorate and Service Area and located on a shared server.	Heads of Service	April 08
9	That arrangements for the cross-cutting risk management group appropriate to the borough should be implemented.	Corporate Director Environmental Services	Mar 08
10	That Audit and Investigations monitor the risk register and report regularly to CMG on any new / changing risks.	Chief Auditor	April 08
11	That Corporate Governance systems be identified; ownership defined; regularly	Chief Auditor	Dec 07

	risk assessed. A Hastings Borough Council Corporate Governance web page should be established, arrangements reviewed annually and results of the review reported to Audit Committee.		
12	<p>That:</p> <p>a. Audit and Investigation staff be provided with risk management training.</p> <p>b. Audit and Investigations ensures it continues to provide training in risk identification and management</p> <p>c. The risks associated with placing contracts and the resources required to reduce these risks through provision of timely training and adequate guidance are considered.</p>	<p>Deputy Chief Executive</p> <p>Chief Auditor</p> <p>Head of Legal Services</p>	<p>Dec 07</p> <p>Mar 08</p> <p>Dec 07</p>

Appendices and background documents:

Risk Management Framework (Report to Cabinet 28th April 2003)

Policy implications

Please tick if this report contains any implications for the following:

Equalities & Community Cohesiveness	<input type="checkbox"/>
Crime and Fear of Crime (Section 17)	<input type="checkbox"/>
Risk Management	<input type="checkbox"/>
Environmental issues	<input type="checkbox"/>
Economic / Financial implications	<input type="checkbox"/>
Human Rights Act	<input type="checkbox"/>
Organisational Consequences	<input type="checkbox"/>

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