

# AUDIT COMMITTEE

## Risk Management 22 April 2009

### Report of Head of Financial Services

#### PURPOSE OF REPORT

To introduce the proposed Code of Practice for Managing Risk and Opportunity 'A Sense of Proportion', and to seek approval for it to be formally adopted in place of the current Risk Management Policy and Strategy.

This report is public.

#### Recommendations

1. That the Committee notes the reasons for reviewing the Council's risk management procedures and the major changes and improvements proposed, and gives approval for the Code to be formally adopted in place of the current Risk Management Policy and Strategy.
2. That the Financial Regulations within the Council's Constitution be amended as set out in the report.

#### Introduction

The Council's first Risk Management Policy and Strategy were adopted on 16 December 2003. Since that date, the Strategy has been reviewed and updated three times; namely, July 2005, June 2007 and May 2008. However, these amendments to the Strategy were fairly minor and so, following a recent Internal Audit Report on Risk Management (08/0742); it became apparent that a much more substantial review was necessary. It is therefore proposed to replace the previous Policy, Strategy and Guidance documents with the consolidated Code of Practice for Managing Risk and Opportunity – 'A Sense of Proportion' (**Appendix A**).

By keeping the separate component elements within the Code of Practice, future updates should prove manageable, i.e. formal approval will be required by Audit Committee for amendments to Section A, the Strategy and Policy, whereas Officers will have authority to review and update Section B, Guidance.

## **Background**

The objectives for the recent Internal Audit Report on Risk Management (08/0742) were;

- To provide assurance as to the effectiveness of Services' current risk management arrangements, particularly focussing on risk associated with business objectives.
- To assist with the development of current risk management arrangements, particularly focussing on integration with the Performance Management Framework.
- Where possible, help the Council improve on its Use of Resources Assessment.

The most significant Agreed Action that came out of the Audit was to develop this proposed Code of Practice for Managing Risk and Opportunity – 'A Sense of Proportion'. This would replace the previous Policy and Strategy and explain the Authority's reviewed approach to risk management, and the framework that will operate to ensure that risks are effectively managed. The Aims and Objectives are outlined in full on page 5 of the Code of Practice, however, they were summarised in the Audit Report as being;

- Fully integrating risk management into the culture of the Council, and its strategic planning process.
- Ensuring that mechanisms for identifying, evaluating, controlling, reviewing, reporting and communicating risks are in place.
- Communicating and co-ordinating risk management activity across the Council.
- Achieving compliance with good corporate governance practice, in terms of providing assurance that risk is well managed.
- The encouragement of innovation and improvement through decision making, this being based on an awareness of risk and opportunity.

## **Alterations**

The new Code of Practice incorporates many simple alterations to the phraseology and lay out of the previous Policy, Strategy and Guidance. There are, however, also numerous changes and improvements. Namely;

- On behalf of Corporate Management Team, the Risk and Insurance Manager will maintain a Strategic Risk Register. This will be reported to Members, in particular Cabinet, in order for it to inform proposals regarding the Budget and Policy Framework, as it is essential that key strategic risks are addressed when setting corporate priorities. This is so that the chosen priorities and non-priorities represent, as best they can, the best way forward to meet the needs and wants of the district, as well as key legal obligations.
- The current 'Corporate Risk Register' will no longer exist, as such. Instead, Service Heads will be responsible for recording their own significant business risks on their Service's Business Plans. (The format of service business plans has recently been updated, to reflect this change as well as others.) Monitoring and reporting of these risks will be on an exception basis, via quarterly performance monitoring systems (PRT reports, PMG etc).
- The 'Scope' (page 8) is more detailed than previously. The five main areas of risk; Business, Project/ Programme, Partnership, Business Continuity Management and

Health & Safety are discussed, and detailed guidance given as to how they should be effectively managed.

- Chapter 8, 'Alignment of Risk Management and Business Planning Frameworks' is a new chapter. It explains the similarities between performance management and risk management, and highlights the benefits from integrating the two processes.
- In addition to the roles and responsibilities that were in the previous strategy, this Code of Practice provides a structure for reporting risks (Table 3, page 23.) Whilst this provides similar information to the earlier 'Roles and Responsibilities' (Table 2, page 12), it introduces numerous specific areas of management for which specific risk reporting is required, taking account of the actions being taken to manage such risks.

## **Council Constitution**

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures involved in ensuring these are efficient, transparent and accountable to local people. Part 5 of the Constitution relates to Financial Regulations. If Audit Committee agrees to adopt the Code of Practice for Managing Risk and Opportunity – 'A Sense of Proportion', then the Financial Regulations and Procedures would need to be updated for various minor wording changes, as set out in the relevant extracts below:

- Financial Regulations (C), page 10, should read:
  - C2 The Audit Committee is responsible for approving the authority's Code of Practice for Managing Risk and Opportunity (Section A; policy and strategy), and for reviewing the effectiveness of risk management. Cabinet is responsible for ensuring that proper insurance exists where advised appropriate.
  - C3 The Corporate Director (Finance and Performance) is responsible for promoting the authority's risk management arrangements throughout the authority, to ensure effectiveness in supporting high standards of corporate governance. The Section 151 Officer is responsible for advising the Cabinet on proper insurance cover where appropriate, and for providing guidance on risk management (Section B of the Risk Management Code of Practice).

- Financial Procedures (C), page 33, should read:

3.03 The key controls for risk management are:

- a) Procedures are in place to identify, assess, prevent or contain risks, and these procedures are operating effectively throughout the authority.
- b) A monitoring process is in place to review regularly the effectiveness of risk management strategies and the operation of these controls. The risk management process should be conducted on a continuing basis.
- c) Managers know that they are responsible for managing relevant risks and are provided with relevant guidance on risk management initiatives.
- d) Provision is made for losses that might result from the risks that remain.
- e) Procedures are in place to investigate claims within required timescales.

- f) Non-acceptable levels of risk are determined and insured against where appropriate.
- g) The authority has identified business continuity plans for implementation in the event of disaster that results in significant loss or damage to its resources.

Responsibilities of the Corporate Direct (Finance & Performance):

- 3.05 To ensure that the Risk Management Code of Practice is effective in supporting high standards of corporate governance.

Responsibilities of the s151 Officer:

- 3.08 To advise on the development and implementation of the Risk Management Code of Practice, and to provide guidance as appropriate.

**Conclusion**

The recent Internal Audit report stated that a reasonable level of assurance was provided in relation to the effectiveness of the Authority’s risk management arrangements. The headline message was that adoption of a new Code of Practice for Managing Opportunity and Risk would serve to enhance this. Therefore, in approving the Code of Practice, the Committee will be endorsing the Council’s dedication to efficient risk management procedures.

<p><b>CONCLUSION OF IMPACT ASSESSMENT</b>  (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)  None directly arising from this report.</p>	
<p><b>FINANCIAL IMPLICATIONS</b>  No implications arising directly from this report.</p>	
<p><b>DEPUTY SECTION 151 OFFICER’S COMMENTS</b>  The Deputy Section 151 Officer has been consulted and has no further comments.</p>	
<p><b>LEGAL IMPLICATIONS</b>  There are no legal implications directly arising from this report.</p>	
<p><b>MONITORING OFFICER’S COMMENTS</b>  The Monitoring Officer has been consulted and confirms that Article 15 of the Constitution provides for this Committee to agree amendments to the Financial Regulations within the Constitution.</p>	
<p><b>BACKGROUND PAPERS</b>  Risk Management Policy and Strategy  Council Constitution</p>	<p><b>Contact Officer:</b> Lynne Armistead  <b>Telephone:</b> 01524 582141  <b>E-mail:</b> <a href="mailto:larmistead@lancaster.gov.uk">larmistead@lancaster.gov.uk</a>  <b>Ref:</b></p>