

## Audit & Governance Committee

4 October 2006

Report of the Assistant Director (Audit and Risk Management)

# The Role of Audit & Governance Committee in Managing and Monitoring the Implementation of Risk Management

## Summary

1. The purpose of this paper is to advise Members of the role of the Audit & Governance Committee in managing and monitoring the process of embedding corporate risk management arrangements at City of York Council and in particular:
  - ensuring that the risk management process and framework is effective
  - monitoring progress against Comprehensive Performance Assessment (CPA) Key Lines of Enquiry, and
  - monitoring the delivery of the risk management development agenda

## Background

2. The Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) definition for the purpose and function of the Audit & Governance Committee:

***“The purpose of the Audit & Governance Committee is to act as the responsible body charged with governance at the Council. In doing so it will provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority’s financial and non-financial performance to the extent that it affects the authority’s exposure to risk and weakens the control environment, and to oversee the financial reporting processes”***

3. The role of risk management is that of developing and delivering a strategy and framework that encourages the systematic consideration of risk in everything that the Council does. This clearly links to principle 4 of the 6 core principles that define good governance as set out in the CIPFA/SOLACE (Society of Local Authority Chief Executives and Senior Managers) guide 'Good Governance in Local Government a draft framework document' issued in June 2006. The key messages of principle 4 are:
  - good governance means taking informed and transparent decisions which are subject to effective scrutiny and managing risk
  - making sure that an effective risk management system is in place
  - ensure that risk management is embedded into the culture of the Council, with Members and managers at all levels recognising that risk management is part of their job
4. The role of the Audit & Governance Committee is to manage and monitor the development of the risk management process and framework. It should provide an independent view on the effectiveness of the process while at the same time helping to raise awareness across the Council of the need for embedding risk management into the culture of the organisation

## Risk Management Framework

5. Regulation 4 of the Accounts and Audit Regulations 2003 sets out the basis for risk management in relation to the internal control environment:
  - *The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk*
  - *The relevant body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in accordance with proper practices*
6. These requirements provide a clear link between the necessity for the Council to report on the effectiveness of its governance arrangements (Statement of Internal Control) and its system of risk management and internal control. Risk management is an integral part of good governance and effective management. There however is often a tendency for risk management to be viewed as a separate function and

process where as in practice it should be embedded into everything that we do and become part of the culture.

7. The CIPFA/ALARM (Association for Local Authority Risk Management) publication Risk Management in Public Services sets out in more detail the attributes required to ensure an effective risk management framework is in place. These are separated into minimum requirements and those that reflect best practice and include:
  - a risk management strategy has been adopted by Members
  - the strategy requires the Council to identify and profile corporate and operational risks
  - that risks are linked to objectives, ownership is assigned and regular reviews undertaken
  - risks are considered in decision making
  - awareness training is delivered to all Members and relevant Officers
  - regular reporting to the responsible Member committee
  - the Council considers positive risks (opportunities) as well as negative risks (threats)

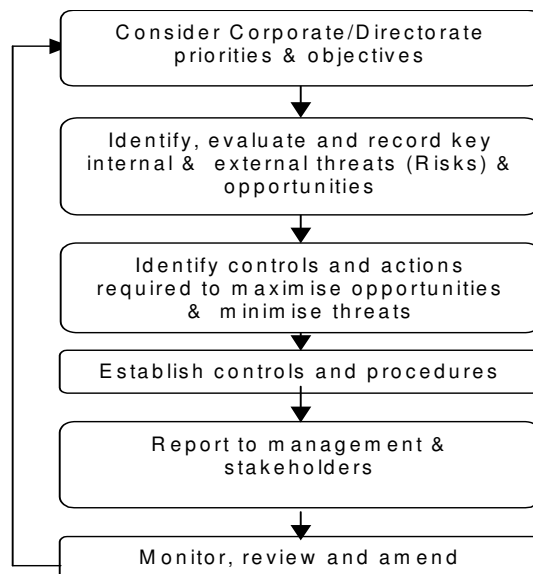
A full list of all the attributes can be found at Annex 1

8. These attributes are also reflected in the Key Lines Of Enquiry (KLOE) with regard to risk management. CPA includes risk management within the internal control element of Use of Resources. The risk & insurance team is making good progress against meeting the requirements of the KLOE's that form part of this years CPA refresh exercise. It is hoped this will help raise the Council's score for risk management from 2 in 2005 to 3 or possibly 4 in 2006. To facilitate the monitoring of progress by the Audit & Governance Committee a full list of the KLOE's and the Council's comments and actions can be found at Annex 2

## The Risk Management Process

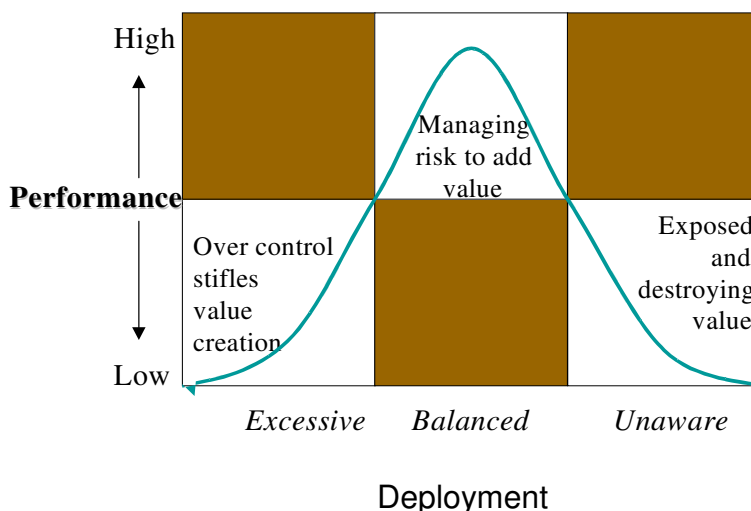
9. The risk management process at York considers strategic risks in relation to the Council's priorities and objectives and operational risks in relation to directorate priorities and objectives. Risk is also considered in relation to the Council's partnerships, programmes and projects. Where workshops have been delivered delegates are asked at the outset to consider what their service is trying to achieve (objectives) and what their priorities are. Delegates are encouraged to consider opportunity as part of the risk identification process. Exhibit 1 below shows this in a little more detail:

Exhibit 1



10. The risk management process at the Council tries to encourage risk consideration as a thought process (culture). Only where significant risks are identified should a systematic evaluation take place to ensure that there is no unnecessary bureaucracy involved. Exhibit 2 more clearly defines the process:

Exhibit 2



11. The identification and recording of key significant risks is an ongoing process. Each individual directorate management team reviews its risks on an annual basis with operational risks identified as part of the

annual Service Planning process. In addition to this projects and partnerships also consider risk as part of their management processes.

12. The recording, evaluation and action planning in relation to key risks is carried out using risk management software (Magique). Magique is a new web based software system recently purchased by the Council that allows a greater flexibility than previously available to analyse and manage risk. Access to the system is available to all Members and relevant officers along with appropriate training if required.

## Development Agenda

13. The risk management team has made considerable progress in developing a robust and effective framework to facilitate the embedding of a risk management culture across the organisation. However there are a number of challenging development issues which include:
  - ensuring the consistency and quality of data entered in to the risk management system (Magique)
  - ensuring all directorates and service areas consider and where relevant record and manage risks using Magique on an ongoing as opposed to an annual basis
  - providing formalised risk management training to Officers to ensure that they have an understanding of the role and purpose of risk management in delivering their services
  - continue to build on the pre-Council seminar on 29 June 2006 by engaging Members more fully in their understanding of risk management and its benefits to the Council
  - developing a risk reporting process so that it provides information on key risks to inform the decision making process
  - working with the Performance Improvement Team to formalise the relationship and role of risk in business planning and performance
14. The role of the Audit and Governance Committee in relation to the development agenda, CPA Key Lines of Enquiry and the risk management framework is to monitor progress. The Executive Members role in the risk management process is to present the strategy to Executive on an annual basis.
15. The way in which the Audit and Governance Committee can effectively fulfil this role is to be regularly informed of progress against the development plan. This could be achieved by providing a mid-term monitoring report delivering information on progress against the

development plan and an outturn report, which in addition to achievements and progress will highlight any other areas of constraint.

## Directorate Overview

16. To provide the Audit and Governance Committee with some perspective on the current position as regards the embedding of risk management at the Council it is worth looking at the progress that has been made by directorates in embedding risk into their culture and process:

**Resources** – Risk is considered on an annual basis by the directorate management team and individual divisional management teams. The quality of risks and understanding of the process is patchy and risk fights with conflicting priorities on crowded agendas. However there are some areas of good practice including the Admin Accomm review, easy@york and FMS replacement

**City Strategy** – As with Resources the management team do look at risk on an annual basis and have some understanding of its role in delivering their services and objectives. Limited work has been done with divisional management teams within the directorate but again conflicting priorities and a lack of resource in the Risk & Insurance team make it difficult to provide adequate training and support to further embed risk into the directorates culture

**Chief Executives** – This directorate again reviews risk on at least an annual basis and has a number of entries within the risk register. However once risks have been identified they believe that the process is complete and do not follow up control and action issues. As with all the above there is very little evidence that risk is part of the culture and is used effectively as a tool.

**Learning, Culture & Children's Services** – The directorate management team is very supportive and do review risks on an annual basis however they do not have a full understanding of the process and what it is trying to achieve. They have offered access to deliver workshops for their divisional teams but at present we are unable to support this.

**Neighbourhood Services** – This is a relatively new directorate the majority of which is made up from the old Commercial Services Directorate. In the past there has been a reluctance to embrace risk management however the new director is more enthusiastic to take a more proactive approach to developing a risk management culture. As with the other directorates how much we can support this depends on the work involved and resource available.

17. One of the key issues underpinning further progress within each directorate and the Council, as a whole is the necessity to deliver a more formalised training programme. This should help with winning both 'hearts and minds' and ensuring a better understanding of the role and purpose of risk management. This is one of the priorities within the development plan and proposed training programmes have already been developed in consultation with two potential providers.
18. A second key issue within the development agenda is that no formal reporting process exists in relation to identified risks. As a result risks are not properly monitored to ensure that progress is made to manage, mitigate or remove them. This is critical as the whole process fails if we do not have a formal reporting process that ensures risks are properly dealt with and opportunities may be missed to find alternative and innovative solutions. A more formal process may instil greater confidence in how we manage risks opening up the opportunity for the Council to undertake more ambitious programmes of work.
19. The Audit and Governance Committee will be kept informed of progress in the deployment of risk management through the monitoring and outturn reports recommended at Paragraph 15. The monitors will provide detail of the actions being taken by directorates to identify manage and mitigate key risks as well as highlighting any gaps in the process across the Council. This information will be provided through the development of a formalised progress report using information from the risk management database (Magique)

## Consultation

20. Not applicable to this report.

## Options/Analysis

21. Not applicable to this report.

## Corporate Priorities

22. Risk management relates directly to the Council's priority to *'improve leadership at all levels to provide clear, consistent direction to the organisation'* clear and consistent leadership and direction requires a thorough understanding of all the risks and challenges to the organisation.

## Implications

23. There are no implications arising from this report in the following areas:

- **Financial**
- **Human Resources**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology**
- **Property**

## Risk Management

24. None.

## Recommendations

24. Audit and Governance Committee are asked to:

- a) note the contents of this report;

Reason

*To raise awareness of the progress made to date in respect of the risk management framework at the Council and advise Members of the further work now needed to support the effective development of the Council's approach in the future.*

- b) approve the proposed role for the committee as set out at paragraph 14

Reason

*To clarify the role and purpose of the committee in relation to the delivery of risk management at the Council*

- c) agree to take a mid-term monitoring and outturn reports (Paragraph 15) including details on progress against CPA criteria (Paragraph 8) and the Development Plan (Paragraph 14).

Reason

*To ensure that Members can fulfil their role in monitoring the progress made by the risk & insurance team against the CPA criteria and the development agenda.*

- d) monitor the progress made by directorates in deploying risk management arrangements (Paragraph 19)



## Reason

*To ensure that Members can fulfil their role in monitoring the progress made by directorates in considering, managing and embedding risk management into their services.*

## Contact Details

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Report Approved



Date 22/9/06

**Specialist Implications Officer(s)** Not applicable

**Wards Affected** Not applicable

All

For further information please contact the author of the report

## Background Papers

CIPFA/SOLACE guide 'Good Governance in Local Government a draft framework document' issued in June 2006.

Accounts and Audit Regulations 2003

Risk Management in Public Services CIPFA/ALARM

## Annexes

Annex 1 CIPFA best practice risk management framework

Annex 2 Key Lines Of Enquiry response CPA refresh 2006

