| AUDIT PANEL | | |
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| **Report Title** | **RISK MANAGEMENT UPDATE** | |
| **Key Decision** | No | **Item No. 5** |
| **Ward** | All | |
| **Contributors** | **Executive Director for Resources** | |
| **Class** | | **Date: 20 DECEMBER 2007** |

1. **Summary & Purpose of the Report**

The purpose of this report is to provide an update on progress on actions to address high priority issues identified in the Statement on Internal Control 2006/07 and to provide assurance that business risks are being actively managed. This report also sets out the assessment of risk reported in the Corporate Risk Register.

2. **Executive Summary**

2.1 Effective risk management and internal control provides assurance to decision-makers that objectives will be achieved. There is a strong and direct link between the effectiveness of an organisation's risk management procedures and the overall performance of that organisation. Regulatory and advisory bodies CIPFA, SOLACE and the Treasury recommend that public sector organisations must be in a position to demonstrate that they have robust systems and processes in place for the identification and management of strategic and operational risk and to manage business risks. Additionally, the Accounts and Audit Regulations 2003 detail the statutory requirement for Local Authorities to undertake risk management.

2.2 The London Borough of Lewisham has developed and adopted a Risk Management Policy and Strategy, which was endorsed by this Panel in September 2007 and which is being implemented with the objective of meeting the Authority's mission statement on risk management, as follows:-

> *The Risk Management Policy of the London Borough of Lewisham is to adopt best practice in the identification, evaluation and cost-effective control of risks to ensure that they are eliminated or managed to an acceptable level.*

> *Risk will be considered in every aspect of our business to ensure that we can deliver excellent, efficient services and the authority's exposure to risk will be effectively managed.*

> *All employees will understand the nature of risk and accept responsibility for risks associated with their area of authority. The necessary support, assistance and commitment of senior management will be provided to equip and enable employees to meet their responsibilities.*

> *A statement on the assessment of the authority's risk management arrangements and their effectiveness will be published annually.*

2.3   This strategy will assist the Authority in achieving compliance with its Code of Corporate Governance - 'Risk Management and Internal Control'.   It will also ensure that the Council meets the statutory regulations for risk management, as identified in Section 5.4 of the Accounts and Audit Regulations 2003 and follows best practice as defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Association of Local Authority Risk Managers (ALARM).
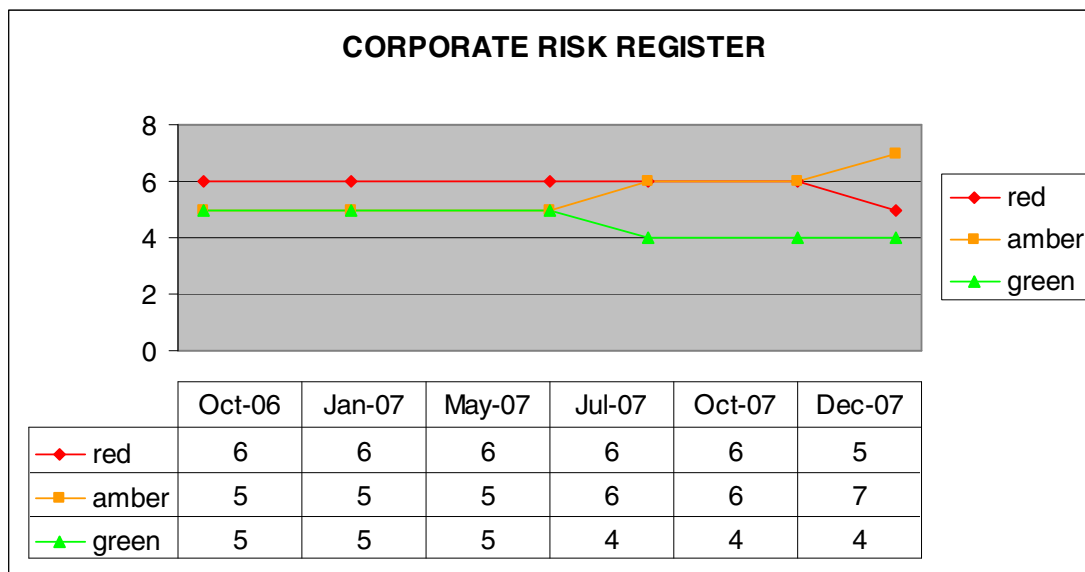
## 3.   Recommendations

The committee is recommended to note the assessment of risk, adequacy of control and actions being taken to ensure that corporate business risks are being actively managed.

## 4.   Background and Management of Risk During 2007/08

4.1   Risk Management is increasingly becoming a key tool for organisations to demonstrate to all stakeholders that its aims and objectives are delivered in a controlled environment whilst recognising that a balanced approach to risk taking and 'opportunity' management is adopted.

4.2   Since 2003, local authorities have been required to publish a statement of internal control with the financial accounts.  This statement must provide assurances that risk management is embedded within the Authority.  The procedure for the review and published statement will change for 2007/08 and this is discussed at item 6 below.

4.3   The Risk Management Action Plan, Strategy, Policy and Terms of Reference for the Risk Management Working Party were updated and agreed by the Internal Control Board and this Panel during 2007. Notable achievements continue to be achieved

4.4   The Internal Control Board (ICB) continues to operate at EMT level with an independent non-executive chair and this establishes a dedicated risk review body at senior officer level within the organisation which was identified by the Audit Commission as exemplary practice.

4.5   The Internal Control Board held formal meetings in January, April, July and October 2007.

4.6   Eight corporate risk categories have been defined by the ICB as:-

- ▪   Disaster
- ▪   ICT catastrophe
- ▪   Health, Safety & Security of Staff
- ▪   Illegality
- ▪   Financial failure and/or fraud/loss against the Council
- ▪   Major service failure by Council and/or its contractors
- ▪   Failure to safeguard children or other clients
- ▪   Industrial action

4.7 Operational risk management was incorporated into the business/service planning process for 2006/07 and this has been enhanced with further quality control introduced for 2007/08 and regular progress reports are made to the Internal Control Board.

4.8 Further improvements to the process and monitoring arrangements, which were identified during workshops held in September 2007 will be rolled out as part of the 2008/09 service planning round and the Internal Control Board will continue to receive regular progress reports on the embedding of risk management into the process.

4.9 The five red risks identified in the corporate risk register are:-

- Ability to maintain and recover service continuity in the event of a corporate disaster/incident

- Dependency on ICT

- Health, Safety and Security

- Ability to maintain corporate estate in safe and effective condition

- Adequacy of Internal Audit

4.10 A graphical summary of the corporate risk register is set out below. This graph also shows the movement of risks over the last year.

**CORPORATE RISK REGISTER**

| | Oct-06 | Jan-07 | May-07 | Jul-07 | Oct-07 | Dec-07 |
|---|---|---|---|---|---|---|
| red | 6 | 6 | 6 | 6 | 6 | 5 |
| amber | 5 | 5 | 5 | 6 | 6 | 7 |
| green | 5 | 5 | 5 | 4 | 4 | 4 |

4.11 There are also seven amber and four green risks. Key actions to mitigate risks are highlighted in the corporate risk register. Responsibility for mitigation of each risk is assigned to a named officer. Action plans are required, and are monitored, for risks which are colour coded red or where there are significant concerns.

4.12 Throughout the year, movement in risks has been monitored and reported to the Risk Management Working Party and Internal Control Board (ICB). Risks are aligned to the Corporate Priorities and reported quarterly in Mayor's Management

Report.

4.13 Whilst significant progress continues to be made, embedding is still not universal and an Action Plan is being devised to identify further improvements required, target areas of specific weakness and a training programme to address the variable standard of risk management skills amongst officers will be delivered by the Head of Audit & Risk during the fourth quarter of 2007/08. The Executive Director Customer Services is leading on the work to address service planning inconsistencies, which is expected to be completed before the next round of service planning.

4.14 Risk Management Training was delivered to this Panel in September 2007 and will be rolled out to all appropriate members during the fourth quarter of 2007/08.

4.15 The ICB have received reports on implementation of recommendations arising out of internal audits. The Board also receive progress reports on implementation of the Internal Audit Improvement Plan, performance against the Audit Plan and outcomes of the Audit Commission's reviews of the Council's Internal Audit arrangements.

4.16 The Risk Management Working Party has held 4 meetings during 2007/08. The outcome of these meetings was reported to the Internal Control Board. In addition to tracking the movement of risk and monitoring action taken to control risks, key items of business have included:-

- Monitoring our preparedness for the Civil Contingencies Act and responsibilities for Business Continuity Management. The status of Business Continuity arrangements continue to be reported to EMT and ICB on a regular basis.

- Considered and agreed to utilise the risk module of the Performance Plus I.T. system as a risk management tool. All Directorate and the Corporate risk registers are now in the process of being built in Performance Plus, and will run in tandem with the existing registers until the end of 2007/08. Roll-out of the application down to the service units, to enable them to capture their operational risk, is expected in the fourth quarter of 2007/08.

- Reviewed the Risk Management Strategy.

4.17 The current self-assessment of the CPA Use of Resources scores relevant to risk management and internal control indicates a rating of 3.

## 5. High Priority Issues identified in the Statement on Internal Control 2006/07

5.1 Business Continuity Planning is a standing item on the ICB agenda and significant progress has been made during 2007 with all services now having plans in place and a major testing exercise being carried out in November 2007 which will contribute significantly to testing the robustness of plans which is expected to be completed by the end of December 2007, after which time it is anticipated that this risk can be downgraded.

5.2 The risk associated with ICT dependency continues to be reported as a red risk though the driver for this status has changed. The transition risk was managed successfully and business continuity arrangements have now been agreed but weaknesses in the infrastructure have been identified by the new service provider

that may result in ICT continuing to be a significant risk into 2008/09.

5.3 The Executive Management Team feel that sufficient progress has been made with Partnership Risk Management that the risk can now be down graded to amber.

5.4 Progress continues against the Health & Safety action plan with the corporate procedures and the detailed procedures for one directorate having now been completed and updated to incorporate the changes made to OSHAS18001 during 2007 when it was upgraded to a British Standard earlier in the year. An independent review of the procedures and documentation is in progress. An independent review of the targets in the original plan has also been carried out and indicated that these were over ambitious and unlikely to be achieved. A revised plan has been prepared to enable each directorate to achieve accreditation against the more stringent BSOSHAS18001 when they are ready with a target for all to achieve this by July 2008, at which time it may be appropriate to reconsider the status of this risk.

5.5 Inability to maintain the corporate estate in a safe and effective condition continues to be regarded as a red risk with a number of buildings considered to be at risk of failure that could lead to building closure. A rationalisation programme, investment and short term increase in revenue resources is required and will be included in the 2007/08 Asset Management Plan which was considered by EMT in October 2007.

## 6. Annual Governance Statement for 2007/08

6.1 The requirements for assessing and reporting on the effectiveness of the Authority's systems of internal control have changed for 2007/08 where the Statement on Internal Control (SIC) is to be replaced by an Annual Governance Statement (AGS). In essence, the Annual Governance Statement is the formal statement that recognises, records and publishes the Council's governance arrangements as defined in the CIPFA/SOLACE governance framework. The links between the SIC and the AGS are close which means that the established and robust assurance gathering process used by the Council should transfer easily to the new regime.

## 7. Legal Implications

7.1 The Council is under a duty by virtue of the Accounts and Audit Regulations 2003 to ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk.

7.2 The regulations applicable to the 2006/07 accounts further provide that the Council must review at least once a year the effectiveness of its system of internal control, and prepare a statement of internal control with its accounts.

7.3 The accounts must be approved by a committee of the authority or by full Council and signed by the person presiding. That approval was given on 27 June 2007 when the accounts were signed by the Chair of Council. Failure to comply with the regulations, (including the timescales set out in them) would be likely to result in the accounts being qualified by the Audit Commission.

## 8. Financial Implications

8.1 There are no financial implications arising directly from this report but effective risk management will reduce the cost of risk and ensure the security of people, assets and service delivery.

8.2 Failure to comply with the requirements of the Accounts and Audit Regulations 2003 would result in the qualification of the Final Accounts. This could result in the removal of freedoms and benefits the Council currently enjoys through its 'Good' rating.

## 9. Equalities Implication

There are no specific equalities implications. However, one of the major corporate risks to be addressed in each risk register is illegality and non-compliance with Disability Discrimination Act (DDA) and effective management of this risk will result in compliance with the Council's Race Equality Scheme, the Disability Discrimination Act (2005) and the Gender Equality Duty 2007.

## 10. Crime and Disorder Implications

There are no specific Crime and Disorder implications but security, stability and a reduction in exposure to risk will have positive implications.

## 11. Environmental Implications

There are no specific environmental implications but security, stability and more efficient use of resources as a result of effective management of risk will have positive environmental implications.

### Background Papers

It's A Risky Business: A Practical Guide to Risk Based Auditing (CIPFA, 2005)

Risk Management in the Public Services (CIPFA/ALARM, 2001)

Accounts and Audit Regulations 2003 (Audit Commission, 2003)

Chance or Choice – Risk Management and Internal Control (Zurich Insurance & SOLACE, 2000)