Southend-on-Sea Borough Council

Report of the Chief Executive

to

Audit Committee

on

26th September 2018

Report prepared by: Andrew Barnes, Head of Internal Audit

Audit Committee Role in the Risk Management Framework

A Part 1 Public Agenda Item

1. Purpose of Report

1.1 To provide Audit Committee with:

- a clear understanding of its role in respect of the Council's risk management framework

- assurance over the current operation of the risk management framework

- an outline of the future plans to develop the risk management approach during 2018/19 and beyond, as the changes introduced by Southend 2050 impact on the governance framework and arrangements for the Council.

2. Recommendation

2.1 It is recommended that Audit Committee notes the role that it has to play in the Council's risk management framework, the assurance over its current operation and the future plans to develop the Council's governance framework arrangements, including risk management, as a result of the changes arising from the introduction of Southend 2050.

3. Background

3.1 In determining the Audit Committee's responsibilities towards risk management, authorities should have regard to the responsibilities of other committees and the specific responsibilities of those charged with governance in relation to risk management.
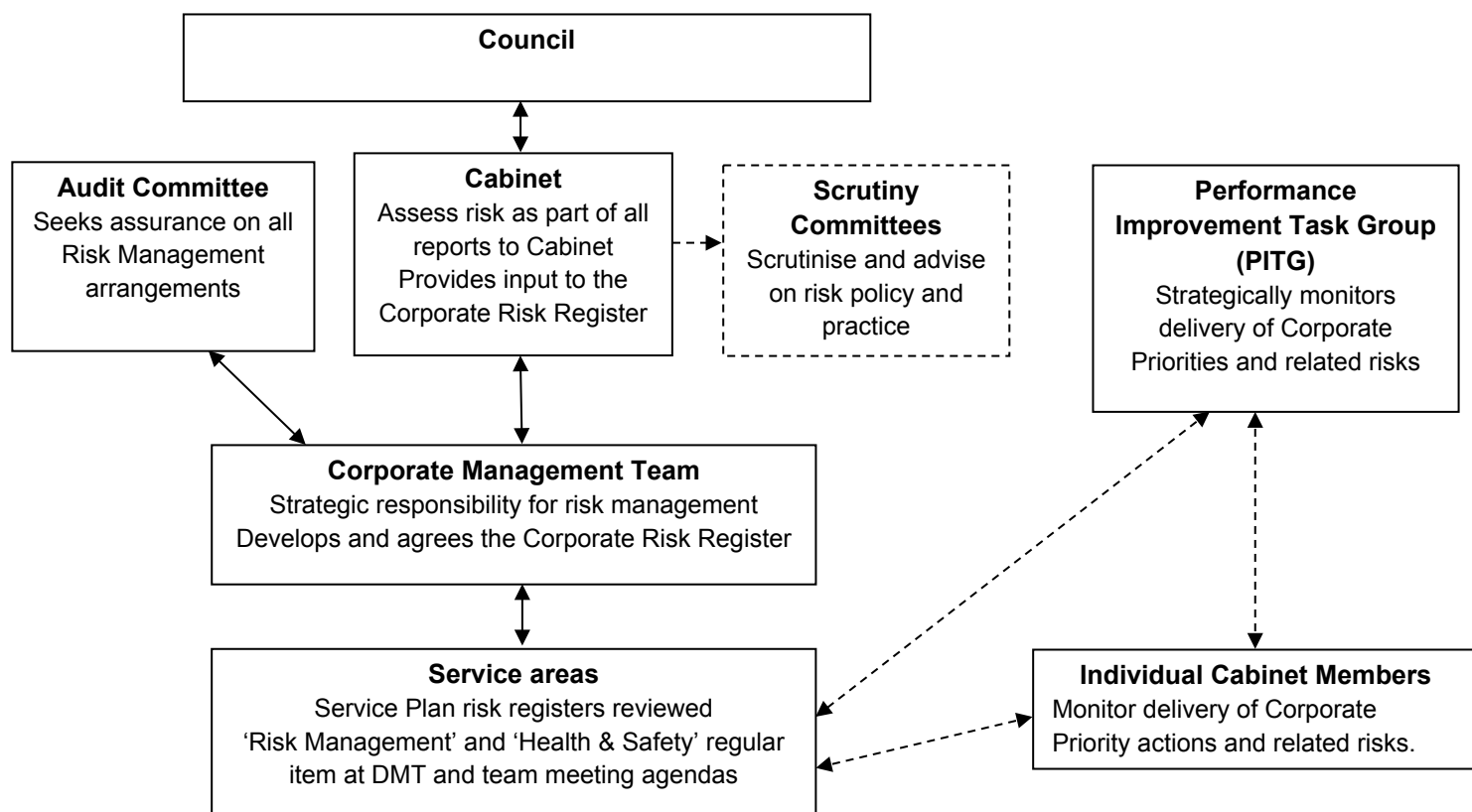
4. Role of the Audit Committee

4.1 As recorded in the Council's Risk Management Policy (June 2015) the roles and responsibilities and risk management reporting structure are as follows:

Roles and Responsibilities

Group or Individuals	Role & Responsibilities
Leader of Council	• Ultimate Member with responsibility for embedding risk management throughout the council
Cabinet	• Approve and adopt the Risk Management Policy and Strategy • Contribute towards identification of strategic risks. • Receive reports on key strategic risk issues, including as part of the annual statement of assurance, to ensure that corporate business risks are being actively managed. • Actively consider the risk management implications contained within reports to Council, Cabinet and other Council committees
Audit Committee	• Assess and approve the corporate risk arrangements and monitor the effective development and operation of good practice risk management and corporate governance arrangements across the Council
Scrutiny Committees	• Be consulted and comment on forthcoming decisions of Cabinet and Council and the development of policy. Conduct inquiries into matters relating to risk management, make recommendations on policies, budget and service delivery
Members	• Contribute to the identification of risks relating to business planning across the Council and its partners

Risk Management Reporting Structure

4.2 CIPFA's document 'Audit Committees: Practical Guidance for Local Authorities' (2018) outlines that the role of the audit committee in relation to risk management covers three major areas:

First, assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks. The specific actions this requires include:

- overseeing the authority's risk management policy and strategy and their implementation in practice

- overseeing the integration of risk management into the governance and decision making processes of the organisation

- ensuring that the AGS is an adequate reflection of the risk environment.

Second, keeping up to date with the risk profile and the effectiveness of risk management actions by:

- reviewing arrangements to co-ordinate and lead risk management. An example of such an arrangement is the existence of a group to examine, challenge and support the risk assessment process to ensure consistency [at Southend this is the Good Governance Group]

- reviewing the risk profile and keeping up to date with significant areas of strategic risks and major operational or major project risks and seeking assurance that these risks are managed effectively and owned appropriately

- seeking assurance that strategies and policies are supported by adequate risk assessments and that risks are being actively managed and monitored

- following up risks identified by auditors and inspectors to ensure they are integrated into the risk management process.

Third, monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management by:

- overseeing any evaluation or assessment such as a risk maturity assessment or risk benchmarking

- reviewing evaluation or assurance reports on risk management and monitoring progress on improvement plans

- monitoring action plans and development work in the field of risk management practice.

Flexibility in the audit committee agenda to adapt to new or heightened risks will ensure that the committee is responsive and focused on priority issues.

4.3 From this it can be seen that the Audit Committee's role as set out in both the Council's Policy and the expectations of CIPFA are to provide an oversight and assurance function of the design of the arrangements and the effectiveness of the implementation of those arrangements, but that the actual responsibility to manage the risk management arrangements themselves, is the responsibility of CMT reporting to Cabinet.

4.4 This is as currently set out in the Terms of Reference of the Audit Committee that state that two of the four purposes of the Audit Committee are to:

- provide independent assurance of the adequacy of the risk management framework and the internal control environment

- provide independent review of its [the Council's] governance, risk management and control frameworks.

Therefore the Audit Committee should focus on delivering its role in respect of risk management as outlined above, so that the Council can benefit from the assurance and strengthening of the risk management arrangements that the effective implementation of the Audit Committee role can help to deliver.

5.   Assurance provided

5.1   In 2017/18 the Audit Committee received independent assurance from a Senior Manager from Mazars, who undertook a review of the risk management framework and reported to the Council and the Audit Commitee.

This concluded that:

- There is a strong understanding of risks being faced by individual Directors, but that this is not effectively captured within the formal risk management framework

- The framework meets good practice, but it is inconsistently applied and therefore there is still work to do to embed it

- There is embedded performance management throughout the organisation, but no link between this activity and the risk registers

- There is a discipline around the production of the Corporate Risk Register, but the value of the process is not optimised

- The Framework is not overly onerous on management, but there is a perception of bureaucracy

- A good infrastructure of people resources to support implementation exists, but there is an over reliance on them in terms of responsibility for risk

- The framework and approach should focus on horizon scanning and cascade of the emerging risk to the relevant parts of the business and developing criteria to help facilitate efficient escalation of risks

- There are gaps in assurance and insufficient evidence of the management of impact for some risks, despite the regular update and reporting.

5.2   As a result it was agreed that further work would be undertaken to build on the good foundations that were already in place so that risk management would become better embedded in the way the Council works and from this the benefits that this could deliver would be realised.

5.3   With the Council's work on developing the Southend 2050 ambition and the changes to the way that the Council works that will follow, the work to further embed the risk management arrangements will re-commence as part of the review of the Council's governance arrangements in response to the changed approach being sought to deliver Southend 2050.

6.   Future plans to develop the risk management approach

6.1   With the development of the Southend 2050 ambition and outcomes there is going to be a need to review the Council's governance arrangements to support the Council's element of the delivery of that ambition, to ensure that these are:

- effective, but as simple as possible and easy to understand

- joined up and complementary, not conflicting with each other

- designed around customers

- making best use of technology and will be digitally enabled where this makes sense

- compliant with legislative requirements and ensure that resources are used efficiently and effectively

- driving the desired outcomes.

6.3   This review will include the risk management arrangements and there are a number of core principles that will be central to this work, to ensure that the required outcomes are achieved. These include that:

- risk management is a positive value added activity, focused on achievement and successes, not a negative bureaucracy – by changing the perception and raising awareness officers will have increased confidence when managing operational risks

- management are responsible for risk management and resources that support the framework are there to 'support and challenge' not 'own and do'

- wider Member involvement in identifying and monitoring the most Strategic Risks the organisation faces would add value, the roles of the Audit Committee, Scrutiny and Cabinet are critical to robustness of the overall Framework

- the Southend 2050 ambition and outcomes need to drive the risk management, budget and outcome delivery plans

- by getting the conversations happening with the right people, at the right time and in the right place, the processes to capture and report risks will be simple and become part of business as usual

- the framework will seek to ensure joined up Strategic, Operational and Project Risk Management whilst recognising the differences between them.

6.4   The review will include updates to the risk management framework with the aim that it becomes part of business as usual and that the Council can fully gain the benefits that can be provided by an effective and embedded approach to risk management.

6.5   It is expected that this review will take place over the months following the approval of the Southend 2050 ambition and outcomes, with a proposed updated risk management framework being reported to the Audit Committee in April 2019.

7. Corporate Implications

7.1 Contribution to Council's Vision & Corporate Priorities

As risks are simply 'the things that could prevent us from achieving our objectives' any action to ensure that the risk management approach is proportionate and embedded will have a positive effect on the successful achievement of objectives, either through improving outcomes or from achieving the outcome with less resource input. It will also (through increased understanding of risk and confidence in the assurances available) enable management to exploit risks within the risk tolerance set by senior management and Members.

7.2 Financial Implications

There will be a cost to the updated risk management arrangements, but for the most part, this can be met by refocusing in-house resources currently involved with risk and assurance activity, both within management of services and the back office teams who support the business.

By aligning the input across the Council, there will be efficiencies that can be driven out and/or better outcomes from the time spent, which will save time in the long run both in services and corporate teams.

7.3 Legal Implications

None

7.4 People Implications

Effective risk management requires ownership of risk by managers and management teams. It requires the Senior Leadership Team to take on a more active role in the risks that are corporate in nature and requires the Corporate Management Team to focus on the very strategic risks to the organisation. It requires the support services, both within the services themselves and the corporate teams to potentially refocus their own activities to support the risk management framework in a more effective way, so that it becomes part of business as usual.

7.5 Property Implications

None

7.6 Equalities and Diversity Implications

None

7.7 Risk Assessment

The risk of not managing 'risk' robustly is that objectives will not be met, or that the opportunities to make efficiencies in how outcomes are achieved across the organisation as a whole are lost. Decisions themselves will be weaker and/or the ability to evidence robust decision making becomes more challenging.

7.8 Value for Money

The planning of revised arrangements will be developed so that the need for additional resource is minimised. Many of the actions can be carried out using existing resource. Minimising additional cost is likely to require a commitment by the Council and their management teams to give internal communications, in respect of risk, increased levels of attention.

The Council has contractual relationships with providers of audit and assurance services who can provide any specialist support or additional capacity required.   These services are procured via framework agreements, which will seek to offer value for money for the services being procured.

7.9   Community Safety Implications

None.

7.10   Environmental Impact

None.

8.   Background Papers

The following documents are available on request:

a. CIPFA – Audit Committees Practical Guidance 2018

b. CIPFA – Audit Committee Update 24:The Audit Committee Role in Risk Management 2018

c. Southend Council - Audit Committee Terms of Reference 2018