CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

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Date of meeting: 22 January 2015
Report of: Corporate Manager Governance and Audit
Title: Risk Management Update Report
Portfolio Holder: Councillor David Brown

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1.0 Report Summary

1.1 Audit and Governance Committee has responsibility for monitoring the effectiveness of the Council's risk management arrangements. In order to support the Committee in fulfilling its role this report provides Members with:

- the key role an audit committee plays in supporting and reviewing risk management in their organisation;
- details of the Council's risk maturity assessment and the work required to move the Council towards the minimum target standard; and
- an update on the current status of the Council's Corporate Risk Register

2.0 Recommendation

2.1 That the Committee:

i) Note and consider the contents of this report;
ii) Note that a further update report will be brought to the Committee in March 2015; and
iii) Consider selecting one of the Corporate Risks for review at the meeting in March 2015.

3.0 Reasons for Recommendations

3.1 The terms of reference for the Audit and Governance Committee include:

- monitoring the effectiveness of the Council's risk management arrangements;
- monitoring progress in addressing risk related issues reported to the committee; and
- advising the Council on the adequacy and effectiveness of these arrangements.

3.2 In order to fulfil its role Audit & Governance Committee has traditionally requested that it receives a short briefing from one of the Corporate Risk Owners / Managers.

4.0 Wards Affected

4.1 All

5.0 Local Wards Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Effective risk management provides organisations with a means of improving strategic and operational performance.

7.0 Financial Implications (Authorised by the Chief Operating Officer)

7.1 Effective risk management helps to maximise opportunities and minimise loss events including those with financial consequences.

8.0 Legal Implications (Authorised by the Head of Legal Services)

8.1 The Accounts and Audit (England) Regulations 2011 require the Council to have a sound system of internal control which includes arrangements for the management of risk.

9.0 Risk Management

9.1 Best practice dictates that governance, risk management and strong internal controls be embedded in the daily and regular business of an organisation. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues.

9.2 Effective internal control and the establishment of an audit committee can never eliminate risk. However, an effective audit committee can:

- raise awareness of the need for robust risk management arrangements
- support the establishment of effective arrangements to govern and manage risks that help the Council to achieve its goals and objectives
- provide assurance through a process of independent and objective review of actions being taken on risk related issues

10.0 Background and Options

<u>The key role an audit committee plays in supporting and reviewing risk management in their organisation</u>

10.1 Risk management is important to the successful delivery of public services. An effective risk management system identifies and assesses risks, decides on appropriate responses and then provides assurance that the chosen responses are effective. Risk management isn't just about dealing with problems effectively; it is also an aid to improvement.

10.2 The internal controls of an organisation should be influenced by the risks. An effective control will manage an identified risk, perhaps by reducing the likelihood of the risk happening, or minimising the impact if it did. When controls are reviewed their success in managing those risks should be considered. Sometimes controls are put in place to manage risks but continue to operate even though the risk has changed or other controls now address the risk. This can lead to inefficiency.

10.3 The importance of risk management in supporting good governance is clearly set out in principle (4) of the Good Governance in Local Government Framework, 'Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.' The framework emphasises the importance of risk management for the successful delivery of services, challenging organisations to put themselves in a position where they can demonstrate that they have a formal framework in place for managing risk.

10.4 An audit committee's role in relation to risk management covers three major areas:

- 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

- monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management

- keeping up to date with the risk profile of the organisation and the effectiveness of risk management actions

10.5 The way that an audit committee fulfils these roles include:

- commenting on changes to the risk management policies of the organisation
- reviewing the risk management annual report
- reviewing the assessment of risk maturity of the organisation (see paragraph 10.10)

- understanding the key risks facing the organisation, by reviewing risk registers or receiving briefings on key risk areas and seeking assurance that these risks are managed effectively and owned appropriately
- reviewing arrangements to co-ordinate and lead risk management. An example of such an arrangement is the existence of a group to examine and challenge and support the risk assessment process to ensure consistency.

10.6 A good understanding amongst audit committee members of what risk management can and should be doing, will help to raise the profile of risk management across the organisation.

10.7 By monitoring the effectiveness of risk management and any obstacles to improvement, an audit committee can help to ensure the adoption of good practice across the organisation.

10.8 When an audit committee reviews the organisation's key risks it may want to seek assurance that the actions being undertaken are having an effect. If there are concerns about critical risks then questions from an audit committee can help to ensure that the appropriate action is taken.

The Council's risk maturity assessment

10.9 An assessment of risk maturity helps an organisation to determine where it is with regards to the development of risk management and where it wants to be.

10.10 As previously reported to this Committee the Council has been assessed as between risk aware and risk defined with Cabinet setting a target minimum standard of risk managed.

Risk Naive	Risk Aware	Risk Defined	Risk Managed	Risk Enabled
No formal approach or processes developed for risk management, avoidance and lack of engagement.	Scattered silo based approach to risk management using standalone processes, reactive approach.	Risk appetite defined. Strategy and policies in place and communicated. Some understanding and application but passive acceptance and compliance with reliance on risk registers.	Enterprise approach to risk management developed and communicated, risk embedded in key processes. Active engagement and risk based decision making.	Risk management and internal controls fully embedded into the operations. Regular review and improvement of risk processes, fully committed to risk management and confident risk taking.

<u>Planned work to move the Council towards the minimum target standard</u>

10.11 In order to provide a high level focus on risk management, control and governance arrangements the Corporate Governance and Risk Management (CRMG) Groups have merged to become the Corporate Assurance Group (CAG). Merging the groups will help to ensure that assurance is planned and delivered in an efficient and cost effective manner and more specifically that:

- assurance regarding the robustness of the risk management approach will be strengthened; and
- all risk activities/disciplines will be integrated into corporate governance processes

Terms of Reference and membership need to be finalised and a comprehensive work programme developed to ensure that the Group is clear about, and fulfils its responsibilities.

10.12 The Corporate Assurance Group has recently considered how to move the Council towards the target standard and address the sometimes ad hoc approach to updating, escalating and reporting on risks that was observed in the Corporate Risk Management Group Annual Report to this Committee in June 14. A small number of actions have initially been identified that will be taken forward by CAG over the coming months the outcomes of which will be reported to future meetings of the Committee. The actions are as follows:

- The arrangements for Risk Management are set out within the 'Risk Management Policy 2014/2015' which was last updated in June 2014. The Policy provides a strong basis on which to develop the Council's risk management approach but it was felt that it may not be readily understood by those less familiar with the risk management process. The Policy will therefore be revised in order to provide greater clarity with regard to:
  - o how the Council's Senior Managers and elected members intend to manage risk – being explicit about what needs to be accomplished, how, by when, and who is responsible for what, recognising that embedding risk management and strong controls in the daily and regular business of the Council is an iterative process
  - o the scope of the risk management activity in the Council – being explicit about how all of the risks faced by the organisation are being considered, starting at the strategic level and cascading down into the Council's structure as considered appropriate
  - o what processes are to be applied corporately to ensure consistency of approach.

- The work the Council has been carrying out to introduce commissioning plans has afforded the opportunity to fully integrate risk management as part of the Service Planning process. Once complete this will help ensure that risk is considered and responses chosen at the business planning stage and that risk activity is focused on the delivery of key organisational objectives. Furthermore, the performance management processes should ensure that the Risk Registers are critically examined and refreshed throughout the year. Further refinement to this process is planned to ensure that:

    o a balance is struck in managing risk so that the approach is not over bureaucratic and process driven but has sufficient rigour
    o risk management is not just about preventing things from happening it is also about capitalising on opportunities.

- These changes will need to be underpinned by new learning and development opportunities and guide material to support those tasked with identifying and managing risks on behalf of the Council.

Current status of the Council's Corporate Risk Register

10.13 The Corporate Risk Register forms part of the Council's overall governance arrangements and helps demonstrate that the Organisation is aware of and managing the risks and opportunities it faces in striving to achieve its strategic objectives. The Register has recently been reviewed in line with the Council's Risk Management Policy. The Register identifies 21 Corporate Risks.

10.14 The tables below inform the Audit and Governance Committee on the current status of the Council's Corporate Risk Register in terms of the 3 highest rated corporate risks, the risk watch list and diminishing risks. Attached at Appendix A is a more detailed summary of these risks including the Risk Owner, Cabinet Strategic Lead and comments on the net risk rating.

3 Highest Rated Corporate Risks				
Ref	Type	Short Risk Title	Net Rating	Direction
08	O	Public Sector Effort	12 High	⇔
12	T	Cheshire East Local Plan Examination	12 High	⇧
15	T	Protection of Children & Young People	12 High	⇔
T = Threat, O = Opportunity				

Risk Watch List				
Ref	Type	Short Risk Title	Net Rating	Direction
04	T	Financial Control	9 Medium	⇔
05	O	External Funding	9 Medium	⇔
06	O	Evidenced Decision Making	9 Medium	⇔
07	T	Reputation	9 Medium	⇔
11	T	Commissioning and Service Delivery Chains	9 Medium	⇩
18	T	Legal Services	9 Medium	⇔
19	T	Fraud Risk	9 Medium	⇔
20	T	Contract and Relationship Management	9 Medium	⇩
21	T	Assurance of Information	9 Medium	⇔
22	T	ASDV Business Plans	9 Medium	⇔
23	T	Health Integration	9 Medium	⇔
T = Threat, O = Opportunity				

Managed (diminishing) Risks				
Ref	Type	Short Risk Title	Net Rating	Direction
14	T	Business Planning Resource	6 Medium	⇩
17	T	Adult Social Care	6 Medium	⇩
T = Threat, O = Opportunity				

10.15 The assessment methodology used to score the risks is attached at Appendix B of this report.

10.16 Members are asked to note that the Register will be comprehensively revisited from January 2015 by CAG with reports being made to the Corporate Leadership Board and Cabinet, in order to identify new and emerging risks and seek agreement for the 2015/16 Corporate Risk Register. The outcomes of which will be reported to future meetings of the Committee.

10.17 In order to help Audit & Governance Committee to fulfil its role members are asked to select one of the Corporate Risks for review at the meeting in March 2015.

11.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

Name: Jon Robinson
Designation: Audit Manager
Tel No: 01270 685864
Email: jon.robinson@cheshireeast.gov.uk