

Non-Executive Report of the: Audit Committee 21 July 2020	 TOWER HAMLETS
Report of: Asmat Hussain, Corporate Director, Governance and Monitoring Officer	Classification: Open (Unrestricted)
Risk Management Strategy and Update	

Originating Officer(s)	Paul Rock
Wards affected	(All Wards);

Executive Summary

This report presents the Audit Committee with the findings of the internal risk management review, incorporating the audit of risk management and review of the risk management strategy.

The updated risk management policy and strategy is provided for the Committee's approval; the Corporate Leadership Team approved the policy and strategy in March 2020. Once approved by Audit Committee the risk management policy and strategy will be reviewed on an annual basis.

Recommendations:

The Audit Committee is recommended to:

1. **Note** the outcome of the audit of Risk Management.
2. **Approve** the Risk Management Strategy for 2020 to 2025.
3. **Approve** the Annual Plan for Risk Management.

1. REASONS FOR THE DECISIONS

- 1.1 The Audit Committee has responsibility for oversight of the arrangements for governance, risk management and control and this report assists the Committee in discharging its responsibilities.

2. ALTERNATIVE OPTIONS

- 2.1 None.

3. DETAILS OF THE REPORT

Risk Management Audit

3.1 The Council's approach to risk management has recently been audited by BDO who provide internal audit services under contract to the Council. The audit resulted in a spilt assurance opinion. BDO assessed the design of the Council's approach to risk management as **substantial** but its application/operation as **limited**. The key findings were as follows:

- There was insufficient management review and challenge of the Corporate Risk Register by the Corporate Leadership Team, and discussions were not documented in sufficient detail within minutes of the meetings.
- There was a lack of evidence that regular reviews of directorate and divisional risks was taking place at directorate/divisional meetings, and there was no formal systematic process for identifying new risks.
- The Risk Champions Group is not attended regularly by Risk Champions and discussions are not always documented sufficiently.
- There were insufficient records of attendance at risk training events and key roles were not mandated to undertake risk training, including Risk Champions.
- There was no documented evidence that the Audit Committee were receiving updates on actions relating to the risk register.
- In relation to individual risks BDO found that:
 - Risk reviews and control reviews were not completed in a timely manner.
 - Controls did not contain sufficient information to identify how they operate in practice.
 - Risk scores did not fall within the Council's risk appetite recorded in the risk strategy.
 - Some controls were recorded as being in place but are not scored as 100% complete.
 - Controls did not have review dates listed.
 - In some cases, all controls were listed as 100% complete but the target risk score had not been met.
 - Risks were not sufficiently detailed including triggers and consequences.

3.2 In summary BDO concluded that the Council's risk maturity level lies between 'Risk Defined and Risk Aware'¹. Whilst the framework, strategy and procedures are well documented, compliance with these is variable across the

¹ Risk Aware is defined as a 'Scattered silo approach to risk management' and Risk Defined is described as 'Strategy and policies in place and communicated. Risk appetite defined'.

Council and review and engagement with risk management by directorates requires improvement.

3.3 The recommendations arising from the audit, which the Head of Internal Audit, Anti-Fraud and Risk has accepted on behalf of CLT, can be summarised as follows:

- Directorates should review their risk registers in full on at least a quarterly basis and the discussions/actions should be documented.
- New risk identification should be a standing agenda item (at least bi-annually) at directorate meetings and risks/actions should be adequately documented.
- The Council should ensure that all risks and actions (controls) to mitigate risks are fully and accurately recorded/updated on a timely basis on the JCAD system. Where controls are fully implemented the risk should be reviewed to ensure the risk score remains appropriate.
- The Council should ensure that controlled risk scores fall within the risk appetite as detailed within the Risk Management Strategy.
- The Council should identify and ensure key roles receive risk management training (and refresher training) to include at least CLT, DLT and Risk Champions.
- Deputy Risk Champions should be nominated but used sparingly. CLT members should ensure directorate members of the Risk Champions Group attend group meetings by requesting feedback at directorate leadership team meetings.
- The requirement to attend and actively participate in the Risk Champions Group should be included in Risk Champions appraisal objectives.
- Actions should be tracked, followed up and outcomes also documented within minutes of the Audit Committee meetings.
- The risk appetite matrix, risk category options and risk management strategy should align with one another. Further guidance should be provided to assist managers assessing risks.

3.4 Whilst the Head of Internal Audit, Anti-Fraud and Risk has accepted these recommendations, for the associated actions to be effective requires a strong commitment from CLT and their respective DLT's to devote sufficient time and resources. This report was presented to CLT in March 2020 and CLT gave a firm commitment to improve risk management across the Council.

Recommendation

- 3.5 The Audit Committee to note the findings and agreed management actions arising from the Audit of Risk Management.

Risk Management Strategy 2020 to 2025

- 3.6 In support of improving the application of Risk Management we have reviewed the Risk Management Strategy taking into account the recommendations from the recent audit.
- 3.7 The key changes we have made and have been agreed by CLT (in March 2020) are as follows:
- The Risk Management Policy Statement and Framework have been refreshed.
 - The review and reporting of risk registers has been more clearly defined.
 - Risk escalation and de-escalation criteria have been described.
 - The roles and responsibilities for risk management have been reviewed and updated.
 - The Risk Management Process Guide has been updated.
- 3.8 A copy of the updated 2020 to 2025 Risk Management Strategy is attached at Appendix A.

Recommendation

- 3.9 The Audit Committee is asked to **approve** the Risk Management Strategy for 2020 to 2025.

Risk Management Annual Plan 2020 to 2021

- 3.10 In support of improving Risk Management at the Council the Risk Management team have devised a plan that describes the activity that will be undertaken in the coming year.
- 3.11 In summary, the Risk Management Team will be providing the following:
- Providing support to the Corporate Leadership Team and Directorate leadership Teams, in conjunction with Risk Champion's, to promote effective risk management (including acting as a secretariat to manage activities of the risk champions group).
 - Improvement in the use of JCAD and in the quality of risks (threats and opportunities) and controls recorded.
 - Integrate risk management training with the learning and development training calendar.

- Present quarterly risk updates to CLT and DLT's.

3.12 A copy of the Risk Management Annual Plan is attached at Appendix B. Progress against the plan will be monitored and reported to CLT and the Audit Committee on a quarterly basis.

Recommendation

3.13 The Audit Committee is asked to **approve** the Risk Management annual plan.

Progress and Risk Management since March 2020

3.14 Shortly after CLT committed to improving risk management and agreeing the annual risk management plan (in March 2020) the Corona virus pandemic occurred. This has had a detrimental impact on recruitment to the role of Risk Manager, which has been vacant since the 31 March 2020, and progress against the annual plan and agreed management actions arising from the internal audit of risk management. The plan attached at Appendix B has already been updated to reflect new timescales on the basis we are successful in recruiting a Risk Manager (Interviews held on the 1st July 2020).

3.15 During the course of the pandemic we supported the Council's response by introducing a bespoke risk register that was managed outside of the Council's risk management system (JCAD). The Gold and Silver structures initially received and updated the risk register daily, which has been reduced gradually as the pandemic and lockdown has eased. To support the Council's recovery plans a further bespoke risk register is being developed. Working outside of JCAD has proven beneficial and expedient and management at all levels have been fully engaged in managing their risks. Unfortunately, this has meant that JCAD and the Corporate Risk Register is now out of date. Going forward, and once we have recruited additional risk resources, we will explore integrating the two bespoke risk registers into a single view of risk and, working with senior management, will update the Corporate Risk Register. The bespoke risk registers are available to the Committee Members upon request.

4. EQUALITIES IMPLICATIONS

4.1 There are no specific statutory implications.

5. OTHER STATUTORY IMPLICATIONS

5.1 The Accounts and Audit Regulations 2015 require authorities to ensure they have a sound system of internal control which:

- facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- ensures that the financial and operational management of the authority is effective; and

- includes effective arrangements for the management of risk.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 There are no specific financial implications arising from the content of this report. General comments with regards the importance of effective risk management and the consequences of failure to monitor and manage organisational risks are contained within the body of the report.

7. COMMENTS OF LEGAL SERVICES

- 7.1 The management of risk has a direct impact on the Council's ability to deliver its functions in a manner which promotes economy efficiency and effectiveness. Therefore, the consideration of this report demonstrates the Council's compliance with its Best Value Duty.
- 7.2 The Council is also legally required to ensure that it has a sound system of internal control facilitating the effective exercise of the Council's functions. This includes arrangements for the management of risk and an effective system of internal audit to evaluate the effectiveness of its risks management, control and governance processes, taking into account public sector internal auditing standards and guidance. This report also demonstrates compliance with these legal duties
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Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix A Risk Management Policy Statement and Strategy
- Appendix B Annual Plan for Risk Management

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report

- NONE

Officer contact details for documents:

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