

AUDIT COMMITTEE  
09 September 2014 at 7.00 pm

At the above stated meeting the attached documents were tabled for the following items:

9. Risk Management Training (Pages 1 - 24)

*Bami Cole*

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# Audit Committee

## Risk Management Presentation

Bami Cole

# INTRODUCTION

The presentation is proposed to cover the following key aspects:

- The Committee's Responsibilities in Relation to Risk Management
- Definitions – Risk and Risk Management
- SDC Policy on Risk Management
- Relevance and Importance of an Effective Risk Management Process
- SDC Risk Management Process
- Strategic and Operational Risk Assessments
- Effective Oversight of the Process
- Conclusions
- Questions and Answer
- Close

# THE COMMITTEE'S RESPONSIBILITIES IN RELATION TO RISK ANANGEMENT

The Audit Committee Terms of Reference States:

The Council will appoint the Audit Committee to discharge the functions conferred by the Accounts and Audit Regulations 2011 in relation to the matters set out below and specifically to consider the Council's Financial and Governance arrangements, relating to the system of internal control and the effectiveness of internal audit, the annual governance statement; including the arrangements for the management of business risks, in compliance with Regulations 4 and 6 of the Accounts and Audit Regulations 2011 and any subsequent legislation.

Regulation 4.1 of the Accounts and audit Regulations States:

- 1) The relevant body is 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.

# WHAT IS RISK?

## Definition of Risk

An uncertain event or set of events which, should it occur, will have an effect upon the achievement of objectives. (The outcome could be positive or negative)

# RISK MANAGEMENT

## Definition of Risk Management

The activities required to identify, assess, control and monitor exposure to uncertainties, which might impact on the achievement of objectives.

# Key Aspect of SDC Policy on Risk Management

Sevenoaks District Council is aware that some risks will always exist and could not be eliminated. Hence the main focus is on “managing risks” rather than eliminating risks.



# THE ENVIRONMENT WE LIVE IN IS UNCERTAIN AND POTENTIALLY HAZARDOUS



# WHY MANAGE RISKS?

- Risks exist at all levels:  
corporate/strategic, project, departmental,  
functional, personal, asset . . . .
- It supports the achievement of objectives
- It allows higher risks to be taken safely
- It reduces the chance of serious errors

# EFFECTS OF RISK MANAGEMENT FAILURES

US Oil Spill - "Bad Management Led to BP Disaster" (BBC)



Effects on the Environment



Banking Failures

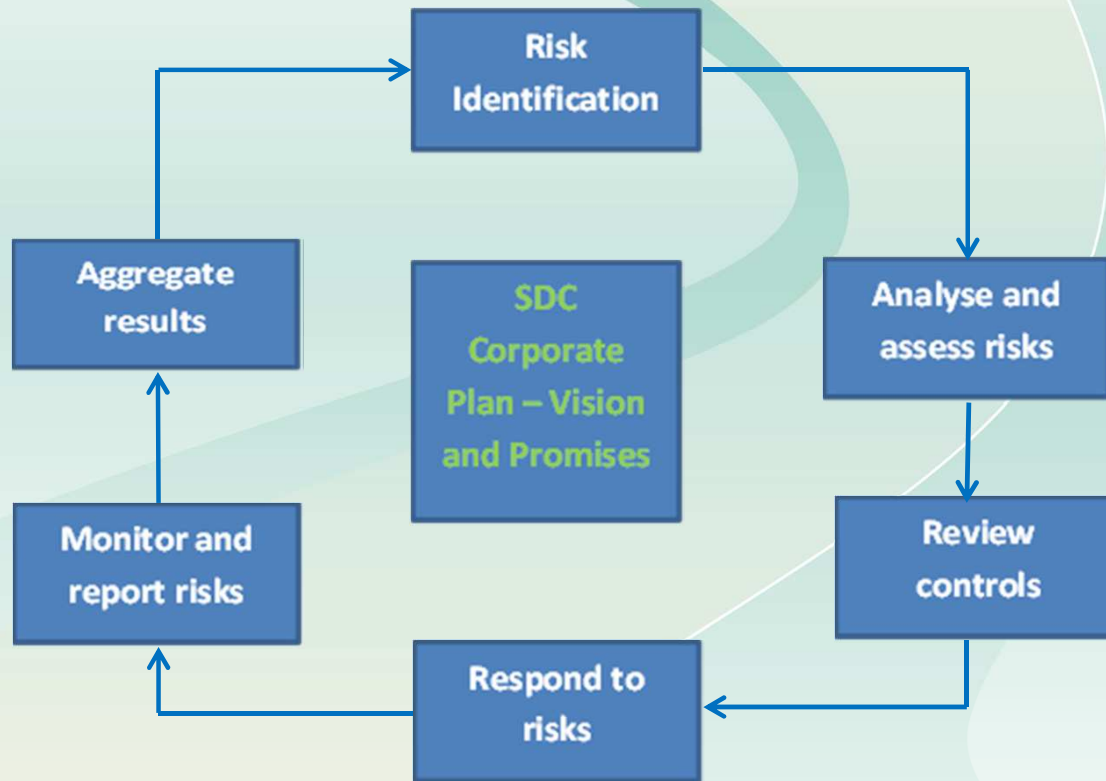


# BENEFITS OF THE PROCESS

To Make Good Managers Better and Provide an  
Appropriate Safety Net for Uncertainties



# SDC RISK MANAGEMENT PROCESS



### Risk Appetite - Key

- Low risk – an overall rating of 1-5 (Accept/Reduce)
- Medium risk – an overall rating of 6-12 (Monitor Controls/Monitor Risks)
- High risk – an overall rating of 15 or above (Improve/On-going Monitoring)

Very Likely (5)	Low (5)	Medium (10)	High (15)	High (20)	High (25)
Likely (4)	Low (4)	Medium (8)	Medium (12)	High (16)	High (20)
Possible (3)	Low (3)	Medium (6)	Medium (9)	Medium (12)	High (15)
Unlikely (2)	Low (2)	Low (4)	Medium (6)	Medium (8)	Medium (10)
Very Unlikely (1)	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
	No impact (1)	Minor (2)	Significant (3)	Serious (4)	Failure to Deliver on Promises (5)
Likelihood					
Impact					

# CATEGORIES OF RISK

## Strategic Risk

These are Corporate risks which relates to High Level Priorities in delivering “Visions and Priorities” within the Council’s Corporate Plan – they are primarily overseen by Chief Officers

## Operational Risk

These are business unit or individual service risks, which relates to the delivery of respective service plans – they are usually overseen by service managers

# EFFECTIVE OVERSIGHT OF THE PROCESS

- Agreeing Amendments to the Policy and Strategy
- Receive Regular Periodic Reports From Officers – Focus on Strategic Risks
- Consider the Risk Register for Completeness and Reasonableness
- Monitor implementation of risk mitigating actions



# MAKING RISK MANAGEMENT EFFECTIVE

- High Level Buy In – “Tone at the Top”
- Sound Governance Arrangements
- Structured Framework – ERM
- Effective Implementation/Communication
- Monitoring – Lessons Learnt

# CONCLUSIONS

- The Council has a duty to ensure proper arrangements for the management of its business risks
- The Audit Committee is charged with oversight responsibility
- This can be effectively implemented by monitoring and review of process

# Questions & Answers

Thank you for Listening

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## Summary

Summary			Links to the Corporate Plan				
ID	Risk	Net Risk Rating	Value for Money	Keep the District Safe	Collect rubbish effectively & efficiently	Protect the Green Belt	Support and develop the local economy
01	Finance	Low	✓	✓	✓	✓	✓
02	Investments & Borrowing	Low	✓				✓
03	Asset Management	Medium	✓			✓	✓
04	Knowledge, capacity & culture	Medium	✓	✓	✓	✓	✓
05	Technology	Medium	✓	✓	✓	✓	✓
06	Information & Data Management	Medium	✓	✓	✓	✓	✓
07	Legal Compliance, Governance & Ethics	Medium	✓	✓	✓	✓	✓
08	National Planning Policy Framework	Medium	✓			✓	✓
09	Capacity of Community Partners	Medium	✓	✓			✓
10	Shared service partners	Medium	✓				
11	Health & Safety (incl. Staff Wellbeing)	Medium	✓	✓	✓	✓	✓
12	Severe weather events	Medium	✓	✓	✓	✓	✓
13	2015 Elections	Medium	✓	✓	✓	✓	✓

**Strategic Risks (May 2014)**

ID	Risk	Risk Factors	Potential Effect	Links to Corporate Plan	Gross Likelihood	Gross Impact	Gross Risk Rating	Internal Controls	Net Likelihood	Net Impact	Net Risk Rating
SR 01	<p><b>Finance</b></p> <p>The ability to deliver a balanced budget</p> <p><b>Lead Officer: Adrian Rowbotham</b></p>	<ul style="list-style-type: none"> <li>- Limited opportunity to generate income through the business rates retention scheme and New Homes Bonus</li> <li>- Pressure of funding the local council tax support scheme from revenue support grant</li> <li>- Effect of council tax capping and referendum costs</li> <li>- Low and decreasing level of government support grant</li> <li>- Loss of external funding</li> <li>- Accuracy of budget assumptions</li> <li>- Failure to meet savings targets</li> <li>- Poor financial plans and strategies</li> <li>- Ineffective financial governance</li> <li>- Lack of capacity and skilled professionals within the finance team</li> <li>- Failure to maintain proper</li> </ul>	<ul style="list-style-type: none"> <li>- Poor financial health</li> <li>- Inability to maintain services and deliver Council Vision and Promises</li> <li>- Reputational damage</li> <li>- Negative impact on staff morale and potential recruitment and retention difficulties</li> <li>- Poor outcome for the Audit of Accounts or Value for Money assessment</li> <li>- Potential for increased intervention</li> </ul>	<ul style="list-style-type: none"> <li>- Ability to deliver Value for Money</li> <li>- Ability to work in Partnership to keep the District safe</li> <li>- Ability to collect rubbish effectively and efficiently</li> <li>- Ability to Protect the Green Belt</li> <li>- Ability to support and develop the local economy</li> </ul>	4 Likely	5 Failure to deliver on Promises	20 High	<ul style="list-style-type: none"> <li>- Long term 10 year budget framework</li> <li>- Savings Plan</li> <li>- Strategy and projects in place to aim for self sufficiency through improved use of reserves and income generation</li> <li>- Strong financial and scenario planning over the short, medium and long term</li> <li>- Effective budget setting and financial monitoring processes embedded</li> <li>- Financial and budget risk management process in place</li> <li>- Effective financial governance including reports to FRAC, Cabinet, Audit Committee and Scrutiny Committee</li> <li>- Qualified and experienced officers in post with continued professional</li> </ul>	1 Very unlikely	5 Failure to deliver on Promises	5 Low

ID	Risk	Risk Factors	Potential Effect	Links to Corporate Plan	Gross Likelihood	Gross Impact	Gross Risk Rating	Internal Controls	Net Likelihood	Net Impact	Net Risk Rating
		financial and budgetary controls						development - Annual Internal and External Audit reviews			

ID	Risk	Risk Factors	Potential Effect	Links to Corporate Plan	Gross Likelihood	Gross Impact	Gross Risk Rating	Internal Controls	Net Likelihood	Net Impact	Net Risk Rating
SR 07	<p><b>Legal compliance, governance &amp; ethics</b></p> <p>The ability to recognise and adapt to changes in legislation and to deliver proper governance, scrutiny and internal control to protect the Council from poor practice and mismanagement</p> <p><b>Lead Officer: Christine Nuttall</b></p>	<ul style="list-style-type: none"> <li>- Lack of capacity in the workforce to identify and formulate a response to legislative changes</li> <li>- Lack of finance to adjust to changes in legislation</li> <li>- Incidences of fraud and corruption</li> <li>- Lack of Member or Senior Management support to deliver service changes in response to new legislation</li> <li>- Breakdown in relationships between Members and Officers</li> <li>- Failure to adhere to changes of legislation</li> <li>- Lack of capacity and skilled professionals within the Legal, Democratic and Internal Audit teams</li> <li>- Lack of financial resources to deliver high quality governance arrangements and adjust to changes of legislation</li> <li>- Existing governance arrangements may not reflect</li> </ul>	<ul style="list-style-type: none"> <li>- Failure to fulfil statutory duties resulting in government intervention and an increase in legal liabilities</li> <li>- Failure to continue to deliver high quality services</li> <li>- Increase in customer complaints and falling satisfaction levels</li> <li>- Increase in incidences of fraud and error</li> <li>- Failure to maximise the opportunities changes to legislation may bring</li> <li>- Ineffective political and management leadership</li> <li>- Ineffective scrutiny of decision making and performance</li> <li>- Failure to deliver statutory requirements including an up to date constitution, an effective Internal Audit function and an Annual Governance Statement</li> </ul>	<ul style="list-style-type: none"> <li>- Ability to deliver Value for Money</li> <li>- Ability to work in Partnership to keep the District safe</li> <li>- Ability to collect rubbish effectively and efficiently</li> <li>- Ability to Protect the Green Belt</li> <li>- Ability to support and develop the local economy</li> </ul>	3 Possible	4 Serious	12 Medium	<ul style="list-style-type: none"> <li>- Dedicated in house Legal team with qualified and experienced officers in place</li> <li>- Professional managers within service areas</li> <li>- Council's Constitution including Codes of Conduct, Officer / Member Protocol and Standards regime</li> <li>- Anti-Fraud and Corruption Policy in place</li> <li>- Cabinet and Committee Structure including Advisory, Governance, Audit, Scrutiny &amp; Standards Committee's</li> <li>- Experienced Monitoring Officer and Section 151 officers in post</li> <li>- Internal Audit function complies with CIPFA Code of Practice</li> <li>- Risk Management processes embedded</li> <li>- Effective budget setting and financial monitoring</li> </ul>	2 Unlikely	3 Serious	6 Medium



ID	Risk	Risk Factors	Potential Effect	Links to Corporate Plan	Gross Likelihood	Gross Impact	Gross Risk Rating	Internal Controls	Net Likelihood	Net Impact	Net Risk Rating
		proper arrangements for the oversight of shared service arrangements	- Reputational damage					processes embedded - Annual review of Committee Terms of Reference			

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