

### **Report for Resolution**

Committee: Audit Committee

Date: 27 June 2008

Subject: Audit & Risk Management Service Improvement Project

Report Of: The City Treasurer

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#### **Purpose of Report**

To provide a report on the progress and outcomes to date of the Audit and Risk Management Service Improvement Project (SIP).

#### **Recommendations**

To note outcomes to date and seek the Committee's views on the emerging proposals for the future.

#### **Financial Consequences for the Capital and Revenue Budget**

No specific consequences at this stage, although implementation of proposals to strengthen the Risk Management Service would result in revenue budget implications which still need to be firmed up and a funding approach addressed.

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#### **Background Documents**

Progress Report to Audit Committee on 18 January 2008.

Working papers held by Audit & Risk Management Team.

#### **Wards Affected**

N/A

## **Implications for Key Council Policies**

<b>Anti Poverty</b>	<b>Equal Opportunities</b>	<b>Environment</b>	<b>Employment</b>
None	None	None	None

### *Introduction*

1. Since the initial report to the Committee's January meeting, work on the SIP has progressed via the completion of site visits, benchmarking with comparator authorities and consultation with internal stakeholders. The information collected has been reviewed and initial proposals for the future of the services have been developed and considered by the Project Board. This report summarises the current thinking of the Project Board in relation to the overall future management arrangements for the services and, separately, the way forward for the Risk Management and Audit functions. This thinking has been influenced by External Audit's recent reviews of both service areas and is reflected in the action plans in response to those audits, reports of which are included as separate agenda items. It has also been influenced by the process and outcomes of the major review of the Council's governance arrangements.

### **Overall Management Arrangements**

2. As noted in the previous report, there is no preferred model for the management of audit and risk management in local authorities although quite a number, including several of the core cities, do opt for a single individual to lead the two services as Manchester has done. Having reviewed the position the Project Board concludes this remains the appropriate approach for the City. This recognises the synergies between the two services and the risk based nature of the focus of audit assurance work. It is also felt to produce a role that can command the appropriate status needed for its effective exercise and hence the salary needed to attract an appropriate postholder. In reaching this view the synergies between risk management and other activities such as performance management is recognised, as is the need for the postholder and the Audit and Risk Management services to work closely with and contribute to the broader governance arrangements of the Council.

### **Risk Management**

3. The Project Board debated and agreed the following principles should underpin the future development of Risk Management and Insurance.
  - Risk Management must be developed to deliver more than it is doing now.
  - It has to be undertaken by all managers at all levels, addressing both operational and strategic management functions.
  - It must assist managers in identifying and focusing on the areas where resource allocation can have maximum impact.
  - It must be further embedded into operational management.
  - Elected members must engage with the risk management process.

- Risk management training must be further developed, embracing three streams: specialist staff, generic staff and elected members.
  - Better synergies must be created with other key services
  - New systems must allow for regular report generation for all managers and support interrogation and scrutiny of the dataset.
  - The Council's insurance function must be integrated into the risk management programme.
4. Corporate Risk Management is currently supported by the provision of 1 FTE post. Other services are resourced that provide risk management related services including Corporate Health and Safety Team, Business Continuity, Emergency Planning, and Risk Management within Capital Programmes. Heads of Service and their management teams also have key roles to play in ensuring that risk assessment underpins the Business Planning framework. The key points as regard the current allocation of resources are:
- There is a wide range of resource allocated to delivering aspects of the risk management programme. However, these are disparate and managed separately from each other.
  - Synergies between services are currently under-exploited.
  - Establishing closer linkages may provide opportunities to realise economies of scale.
  - There are opportunities through the re-alignment of the Insurance function into a risk focussed service to make significant savings both in terms of claims reduction and decreased insurance premiums as risk mitigation activity improves the claims history.
5. The Research and Proving visits made it apparent that there is no consensus on the level of resources that should be allocated to corporate risk management and that Councils had developed systems that varied widely in terms of both scale of resources and roles and activities undertaken by risk management teams.
- All Councils visited provide corporate resources to support risk management that exceed those provided within Manchester
  - There is no agreement about the need to align all related services through a single management structure.
  - There is an identified need to create a corporate management forum at a strategic level to drive forward the delivery of objectives, scrutinise data, mandate action, set and monitor strategic priorities.
  - Synergies between Risk Management, Business Continuity Management, Emergency Planning, Health and Safety and Capital Projects, arguably should receive greater emphasis.
  - There appears to be significant scope for enhancing the effectiveness of the management of claims handling within Manchester by creating an integrated corporate service using one information system.

6. In addition to the external visits, managers within Manchester City Council were also consulted. Key points can be summarised as follows:
- Corporate support for services undertaking risk management is essential
  - Corporate scrutiny provides assurance that risk management is a mainstream management activity.
  - Corporate support in undertaking risk assessment within services adds value and improves the quality of outputs.
  - There is a need for a corporate risk management group that includes service representatives.
  - Risk Management is not yet embedded in all services. Additional input will be required in order to change attitudes towards the risk process if all managers are to understand how it may be used to support operational and strategic decision making.
  - Services would benefit from a structured risk training programme.
7. From the above analysis it is concluded that effective risk management can make an important contribution to the wider governance function within the Council as risk identification and mitigation provides assurance that key strategic and operational objectives that contribute to the delivery of the Corporate Objectives are effectively managed both corporately and within services. In addition, effective risk scrutiny will enable risks that are ineffectively controlled to be escalated to the appropriate managerial level. Councils visited were clear in identifying that corporate engagement was a necessary component of their structures and held services to account for the delivery of their stated objectives. The mitigation of risks to delivery was a key component within the development of a corporate assurance framework.
8. Whatever model is used for corporate management of risk, there is a need to establish a senior management forum to set strategy, ensure delivery of outputs and hold services to account for the establishment of systems for the management and mitigation of their risks to delivery of business objectives. This group should play an important role in constructing the annual review and Governance Statement, as it will be a vehicle through which assurance is received regarding cost effective delivery of service objectives. This corporate risk management function may be developed either as a discrete activity dealing with strategic risk management as its primary focus or as a role for a corporate governance committee, contributing to a broader corporate assurance that management systems employed within services are properly developed to ensure probity and value for money.
9. Four potential options for further development of Risk Management and Insurance were identified and presented to the SIP Project Board; as follows:

***Option One: Maintain the current level of corporate resourcing. Focus existing resources on provision of a risk management training programme for senior managers in preparation for them adopting risk management within their service planning and service delivery.***

This option was rejected on the basis that the Risk Management Programme had effectively progressed as far as it could within current resources but still had to be further developed in order to achieve its strategic objectives. Existing resources provide little capacity to support services in developing their own risk programmes and additional support to services is vital if risk management is to become embedded in mainstream management.

***Option Two: Provide significant corporate investment to support the development of sufficient resource to fully manage the development of Council-wide risk assessment embracing all services.***

This option reflects the successful approach observed at one site visit but was rejected partially on the basis of prohibitive cost, but mainly because retaining responsibility for development of risk programmes within the corporate centre would do little to encourage services to take responsibility for management of their own risks and to ensure that the risk management process is embedded in all services.

***Option Three: Pull together all related risk management services into one team with shared line management, including Health and Safety, Business Continuity, Emergency Planning, Capital Programmes.***

This option is considered viable and has advantages in terms of creating solid and manageable synergies between services that share common objectives related to the development of risk management. However, its success, will be dependent on ensuring a smooth and decisive transition for services into one unified function; protracted delay or uncertainty would have a detrimental impact on the ability of the services to deliver current work programmes.

***Option Four: Provide an enhanced corporate resource sufficient to provide active facilitation and support to all services in developing their own risk management programmes in line with the current risk management strategy and policy. It is proposed that a total of four corporate posts should be established. One of these is already in place and another is currently funded but vacant as the Insurance and Risk Manager has not been replaced since leaving to Council last year.***

This option combines enhanced corporate capacity and formalisation of support, facilitation and reporting at a service level. Central co-ordination will be required from within a Corporate Risk Management Group. It represents a pragmatic approach to delivering many of the benefits that could be realised by adopting Option 3, whilst avoiding the potential organisational disruption.

10. The Project Board recognised the need to enhance current resources for the risk and insurance services and inclined to option 4 as a pragmatic solution. Whilst no final decision has yet been made the way forward, including the need for additional resources and the introduction of a corporate risk management group, has been incorporated into the action plan in respect of External Audit's review of risk management. The issues recorded by External

Audit are entirely consistent with conclusions drawn by the SIP about what needs to be done to move forward.

### **Internal Audit**

11. As with Risk Management study of the models adopted in other organisations showed a wide variation in the range of scope of internal audit activity and hence in the scale of resource deployed. This leads to the conclusion that the first requirement is to determine exactly what role the Council wishes its internal audit function to fulfil. Once this is decided the necessary resources to achieve the requirement can be determined.
12. It is recognised that in recent years the scope of audit's work has extended beyond the traditional provision of assurance in relation to financial control to all aspects of the control environment. This potentially increases further with the enhanced emphasis on governance arrangements, including the arrangements in relation to our partner organisations. This is, however, informed by the level of assurance that can be provided by mechanisms other than audit review. In addition to assurance work it is generally considered appropriate to involve internal audit staff in the development of systems and associated controls and other governance arrangements – far better to get these right at the outset, drawing on audit expertise. This can also be extended to wider 'consultancy work' being delivered by internal audit. Indeed consultancy and advice activities are provided for by both IAA and CIPFA standards. In the past, although not recently, one aspect of internal audit work was a focus on value for money reviews. The investigation of fraudulent activity, whistleblowing allegations and other irregularities is another area where audit knowledge and skills are appropriately deployed. Internal audit currently has a remit in relation to aspects of fraud investigation including the National Fraud Initiative data matching exercises, but currently the Council's Fraud Investigation Group is managed with the Revenues and Benefit Unit because its focus is almost exclusively on benefit fraud.
13. Relatively low level issues can create significant reputational impact through media interest and public reaction. The audit of schools is resource intensive but is an excellent example where isolated and local difficulties are likely to be raised publicly, and with Members, in ways which exceed their apparent financial significance. In terms of actual cash values, events outlined in the District Auditor's last Public Interest Report on one of our high schools were not significant but the public reaction and the cost of resolving the issues was. Indeed, a particular current focus of school audits is to evaluate the adequacy and effectiveness of controls operating within the school, based on the DCFS' Financial Management Standards in Schools (FMSIS) framework. The audits check governance standards are met, sound financial management processes are in place (including regular budget monitoring) and goods and services are procured properly with best value achieved. With the current resources and hence time devoted to school audits, to go beyond this level of coverage is not possible. But the incidence of a small number of cases of fraud or other investigations not picked up through such audit coverage has led to a

perception in some places that current audit coverage is inadequate. Clearly this is an areas where consideration needs to be given to the appropriate balance between the scale and incidence of risk, reputational issues and value for money in terms of the considerable cost of extending the coverage for such a large number of institutions.

14. As a result of the above considerations the Project Board resolved to seek the views of SMT on what the role and functions of internal audit should be and a paper was drafted. However, prior to its issue the outcome of External Audit of Internal Audit was received, making the same point regarding the need to determine the role and functions of Internal Audit and identifying a number of other issues which need addressing. In response to this the Chief Executive and City Treasurer commissioned a broader based report which is currently being worked on. This will inform the decisions on the right way forward which can then be implemented through the SIP.
15. One of the concerns expressed by External Audit, and indeed echoed by members of the last Audit committee, was the lack of adequate resources to meet the existing identified work load of internal audit. To address this in the immediate term, in a way which will not adversely impact of the outcome of the review, a recruitment process has been set in train to cover existing vacancies within the team and an interim Head of Internal Audit is being sought through the financial services framework agreement to make good the resource shortfall resulting from the appointment of the previous Head of Audit and Risk Management to other duties.

### **Conclusion**

16. Since the last report to the Committee the information gathered through the SIP process has been reviewed and preliminary conclusions on the way forward have been identified. In terms of Risk Management this will be taken forward over the summer as part of a wider programme of work to embed the various aspects of our governance arrangements. In terms of Internal Audit, proposals for the future role and structure of the service are being developed for imminent consideration by SMT. Once agreement on the requirement has been reached implementation of an appropriate structure can be undertaken with a target date of this autumn. A further report on progress and implementation of the SIP will be provided at the end of September.