

**Committee**      **AUDIT AND REVIEW**  
**Date:**            **2 November 2007**

**Report:**            **ANNUAL REVIEW OF THE EFFECTIVENESS OF THE ARRANGEMENTS FOR RISK MANAGEMENT**

### **Purpose of report**

1. To provide members with the opportunity to review the effectiveness of the arrangements for risk management, in line with the annual timetable set out in the Authority's Risk Management policy.

### **Strategic Planning Framework**

2. The information and recommendations contained in this report are consistent with the Authority's statutory purposes and its approved strategic planning framework, and in particular its objective 'to manage all aspects of the Authority's business so as to make the most effective use of our resources' (Best Value Performance Plan 2007/08).

### **Background**

3. Under the heading of 'Evaluation of Effectiveness', the Risk Management policy identifies that:

" The Audit & Review Committee will, on an annual basis (at their autumn meeting), evaluate the effectiveness of the arrangements for risk management. This evaluation is to be based on a report to the Committee by the Head of Finance & Resources, which will address the following issues:

- The latest Statement of Internal Control, and any issues arising from it;
- Audit and inspection reports received since the last annual evaluation, and whether they highlight any particular strengths or weaknesses;
- Any major incidents which have occurred in the period since the last evaluation;
- Any developments in good practice in this area; and
- The extent to which risk management is becoming embedded in organisational processes.

This report will include a copy of the Strategic Risk Register."

### **Discussion**

4. The latest **Statement of Internal Control (SIC)** was approved by this Committee on 9 February 2007. The SIC formed part of the accounting and disclosure arrangements connected with the Authority's annual report and accounts, and was accordingly subject to external audit by the Audit Commission. No risk-related issues arose from that statement, a conclusion that was supported by the external auditor's work.

5. **External audit reports** on all aspects of the Authority's reporting of its annual report and accounts (for the 2006/07 reporting cycle, ending with the Annual Audit and Inspection Letter, which is on the agenda of this meeting) have delivered unqualified opinions on the way in which the Authority conducts and controls its activities. No material risks were identified that had not already been addressed; review of the Authority's Risk Management Policy and risk register informed the audit process.

6. Since the approval of the revised Risk Management Policy by this committee on 9 February 2007, the Committee has been presented with all **Internal Audit reports** completed by our contracted-out internal auditors (this had, of course, also been the practise before approval of the revised policy). The batch of six reports submitted to the last meeting of this committee on 6 August 2007 concluded that in five of the areas reviewed, controls were uniformly 'good' (the highest of four gradings), although only 'satisfactory' in the area of IT Systems (though this is still the second highest 'grade').

7. The reason for the 'satisfactory' result from the IT Systems audit was the lack of a proven test for IT recovery in the event of a disaster such as the destruction of Yoredale, or a major virus attack on the Authority's computer systems. The IT team has now successfully tested a restoration of two system servers to prove the theory of the recovery plan in practice. The next step will be to hire additional server equipment to rebuild working copies of key applications including the finance system, planning system and e-mail.

8. Since February 2007, there have been **no 'new' incidents** that hadn't been identified previously (including changes in the law or in government policy) that would affect the Authority's risk profile. Four of the most obvious current risks are receiving particular attention at present:

- The funding risk caused by a standstill or reduction the Authority's Defra funding. This is being managed by active lobbying of Defra by the Chairman and Chief Executive, alongside similar approaches from other NPAs and ENPA. Internally, the impact of this risk is being dealt with through careful budget management, including the management of the staff resource.
- Changes in practise that may be necessary in response to the introduction of the Corporate Manslaughter and Corporate Homicide Act 2007 (which comes into force in 2008); this act is being kept under close review by the Solicitor and the Personnel & Training officer.
- The impact of a further outbreak of a contagious disease of livestock. The response has been managed by the Head of Park Management, and at this stage has lead to a change in practice when working on or crossing farmland, which requires officers to check with the landowner or farmer to make sure that they do not have any concerns about our presence. Clearly there is no blanket ban on access to the countryside, but it makes sense not to add to the distress that the farming community is already feeling because of the restrictions now in place following outbreaks of diseases elsewhere in the country.
- No longer a 'current' risk, but members will be aware that, as result of an intensive programme of actions undertaken by officers from the Planning Department, other officers and members, the Authority is no longer a 'standards authority' in relation to its performance as measured by application-related statistics.

9. **'Good practice'** development has been undertaken systematically in five main areas:

- Line Management training has been delivered to all of the Authority's line managers. Depending on past training, this has either been a full programme of sessions, or modules where a top-up of experience or knowledge had been identified as useful. The purpose of this training was to create a more uniform understanding of the Authority's working approach and culture, including the content and application of personnel policies and line

management responsibilities. The overall impact is intended to raise the performance of managers in their management duties to a standard, and overall, higher, level.

- A systematic approach to project management has been developed for use in more complex projects, with a structured reporting and recording framework, alongside the introduction of project management software (which is currently being trialed). This is intended to ensure that all risks and operational considerations are considered at the appropriate stage of each project, and also that documentation is adequate for dealing with such contingencies as the departure of key staff or the requirement for a post-project review.
- Linked to the point above, the Senior Management Team is now reviewing new projects and proposals for external funding bids before they are worked up in detail (or recommended for committee approval, if appropriate). This gives a clear 'up front' opportunity for risks to be identified and discussed, as well as a better understanding of the impacts of any proposed work, particularly where the work may be initiated by one Department but may have an effect on another.
- Following work by the Head of Conservation and Policy and the Solicitor, the controls over policies and strategies, and particularly their completeness and review, have been rationalised. There is now a library of current policies and strategies, and a timetable for their review. This will reduce the risk that officers are not aware of the existence of policies in their area of work, or that an out-of-date policy is applied.
- The Authority has developed a procurement strategy to define our approach in this area. Officers have received training on this through team briefings, and it is intended to develop a supplier's guide to contracting with the Authority.

10. The 'good practice' items listed above also provide evidence of the extent to which **risk management is becoming embedded** in organisational processes. Risk management is also supported by the committee process, where areas as diverse as budget performance, health & safety-related accidents and overall business performance against targets are reported regularly (these examples, quarterly).

11. Members of this committee will also be aware of the many 'best practice' approaches introduced by the Authority's Solicitor and that have a relevance to risk management and risk minimisation, both in connection with this committee's work and that of the Standards Committee. These have contributed to the good audit opinions that the Authority has received from the external auditors, and have arguably placed this Authority towards the forefront of the corporate governance field (in the context of other NPAs), something acknowledged by Defra representatives at their annual finance discussion with officers at the start of October.

12. A copy of the **Strategic Risk Register** is attached as an **Appendix** to this report; the items described are the high-level risks, having potential to affect the operation of the Authority as whole. As required by the Risk Management Policy, this register has been subject to quarterly review by the Senior Management Team (the latest such review being on 17<sup>th</sup> October). There are a small number of changes to the detail recorded (but not to the overall risks); additions are highlighted by grey shading, including any changes requested by members at the meeting of this committee in February 2007.

13. Because of the other management process now in place, and particularly the SMT assessment of new projects, the requirement for a formal quarterly review of the risk register has become a less important exercise. There is a view that too frequent review of strategic risk will lead to a more superficial approach over time. Instead, it is proposed that SMT's review of risk be undertaken on a bi-annual basis, before and to inform this half-yearly report.

## **Conclusion**

14. The Strategic Risk Register agreed by this Committee in February 2007 remains fundamentally sound.

## **RECOMMENDATIONS**

15. That Members agree:

- that the Strategic Risk Register contains all identifiable higher level risks which the Audit & Review Committee require to be monitored;
- that the review of risk by the Senior Management Team be undertaken on a bi-annual basis, before and to inform this half-yearly report.

**Richard Burnett**  
**Head of Finance & Resources**

19 October 2007

Background documents: none

## STRATEGIC RISK REGISTER

Category	Risk	Impact	Controls (Responsibility)
1. Reputation	1. <b>Inappropriate contact with the public</b> (officers, members, volunteers).	A	Standing Orders; Declarations / registers of Interest (including Officers); employment clauses, inc. 'Non-political activity'; training and recruitment procedures; District Audit 'probity' reviews; (Members, Monitoring Officer); Member Code of Conduct and disciplinary procedure (Standards Board).
	2. <b>Quality of Committee decisions.</b>	C	Standards Committee; Member training; Senior Officer – including Monitoring Officer - guidance; External Audit - Audit Commission - review & recommendations; officer professional training / competence. <b>Quality of officer reports.</b>
	3. <b>Corruption, fraud and other illegal activities.</b>	B	Internal Audit; Treasurer role; Financial controls; Gifts & Hospitality Code of Conduct (Secretariat); Anti Fraud & Corruption procedure. 'Communications' network of contacts (whole Authority); prescription and separation of duties, including Scheme of Delegation.
2. Resources			
2.1 Financial	4. <b>Budget Failure</b> , including cash flow and working capital management.	B	Budgeting and monitoring process; professionally qualified staff; Financial Regulations; Treasurer; District Audit; DEFRA reporting (F&R Committee; Officers). <b>Continuous review of delivery structures.</b>
	5. <b>Funding risk:</b> failure to maximise grant income / over-reliance on primary funding; Earned income shortfalls.	B	Managed bid process with DEFRA; external funding group; partnership liaison (SMT); budgetary control and reporting (incl. to Senior Management and F&R Committee).
	6. <b>Inflation risk:</b> key when annual increase to settlement falls to below inflation (as is tied to wages increases).	C	Budget setting (especially long-term) and monitoring process.
	7. <b>Asset security;</b> theft and damage.	B	Financial Regulations & Accounting controls; asset registers; insurance; maintenance work (dedicated staff & budgets); car park cash collection contract; Alarm facilities & contracts. (SMT; Contracts Manager; Projects & Estates Officer).
	8. <b>Compliance with financial standards</b>	B	Professional officers, including Monitoring Officer & Solicitor, to identify and interpret new legislation; input from Members, District Audit, Treasurer (SMT).
	9. <b>Pension scheme</b> (risk of mismanagement and of runaway contribution costs).	B	Contracted in to NYCC scheme, with contribution rates set by third party actuarial valuation; regular reports to committee (Head of F&R). Risk assessment, and identification of counter measures, integral to annual Funding Strategy

Category	Risk	Impact	Controls (Responsibility)
			Statement.
	10. <b>Fraud, error</b> (including expenses and collusive supplier fraud).	B	Confidential Reporting policy; Internal Audit; Treasurer role; Financial Regulations and accounting / financial controls; District Audit national fraud initiative; budgetary monitoring and managerial control.
2.2 Human Resources	11. <b>Recruitment</b> risks / difficulties.	B	Recruitment policies, including pre-employment health screening; psychometric testing. Monitoring market-rates of salary levels; Criminal Records Bureau appraisals where critical; employment references (Personnel & Training Officer). Training updates on recruitment to all staff involved in the recruitment process.
	12. <b>Loss of key staff.</b>	C	Notice clause in employment contracts for staff on pay bands B and above; developmental training, including management development, offered to staff to provide a degree of succession planning (SMT, P&T Officer). Use of secondments / 'acting up'; external contracting. Project management notes and recording, to assist hand-overs.
	13. <b>Failure to comply with legislation.</b> Liabilities arising from: Harassment, bullying, sexual assault, other violence, Discrimination, unfair dismissal; Failure to comply with employment legislation.	B	Professionally qualified Personnel staff; Monitoring Officer; advice from NYCC under Service Level Agreement; District Audit; guidance from central and local government; interaction with, and advice from, UNISON. Working with peer group on applicability (principally, other NPAs)
	14. <b>Hazardous working</b> ; includes personal security / lone working.	B	Health & Safety procedures and policies, including appropriate training; compulsory risk assessment process; H&S working Group; insurance; reporting to SMT and F&R Committee.
2.3 Premises	15. <b>Physical damage:</b> Flooding and other extreme weather damage; Fire risk; Terrorism threat; other catastrophic event.	B	Emergency maintenance arrangements; Review of IT equipment proximal to flooding sources ; Insurance cover; IT back up and contingency plans; comprehensive fire safety process. (Senior Administration Officers).
	16. <b>'Health' of buildings:</b> Legionnaires Disease, vermin infestation, ventilation, asbestos.	B	Regular inspection of properties (Projects & Estates Officer; Head of External Affairs).
2.4 IT	17. <b>Network failure</b> across IT links.	B	Systems capable of independent operation; disaster recovery plan (Senior IT Officer),
	18. <b>Unauthorised access</b> and data security. Risk includes Viruses / hacking / sabotage.	B	Firewall and virus control software; password control; back-ups at main server sites; (SMT; Senior IT Officer).

Category	Risk	Impact	Controls (Responsibility)
3. Performance			
3.1 General	19. <b>'External' catastrophes.</b>	D	Civil Emergency Scheme; not primarily a risk for the Authority, as NYCC / CCC have responsibility for managing the regional response to civil 'crises'. (Head of Planning; Monitoring Officer).
	20. <b>Development control:</b> costs of major appeal / public inquiry / litigation.	B	
	21. <b>Contracting:</b> procedural risk; poor tendering / contracting processes; financial stability of suppliers.	C	Financial Regulations (Contracts Officer; Monitoring Officer; Grant applicants in general).
3.3 Partnerships	22. <b>Failure to identify full joint liabilities.</b>	A	Management processes; insurance cover; Authority scrutiny (SMT).
3.4 Third Party liabilities	23. <b>Risks to public</b> whilst on our property or property we maintain; negligence / breach of statutory duty; corporate manslaughter.	B	Park Management and other maintenance work; third party liability insurance; risk assessments for planned work (Senior Admin. Officer, F&R; Contracts Manager, SMT); National Park Centres and Dales Countryside Museum (External Affairs)

**Note:**

'Impact' notations: A= High impact, high likelihood

B= High impact, low likelihood

C= Low impact, high likelihood

D= Low impact, low likelihood

...these being the effects of **not** managing risks in these areas.