Rother District Council

Public Document Pack

Audit and Standards Committee

Date and Time - **Monday 26 September 2022 – 6:30pm**

Venue - **Council Chamber, Town Hall, Bexhill-on-Sea**

Councillors appointed to the Committee:
B.J. Drayson (Chair), R.B. Thomas (Vice-Chair), J. Barnes, Mrs M.L. Barnes, P.C. Courtel, K.M. Harmer (ex-officio), Mrs E.M. Kirby-Green, L.M. Langlands and C.A. Madeley.

Audit Independent Person: Mr Patrick Farmer

AGENDA

1. **MINUTES**

   To authorise the Chair to sign the Minutes of the meeting of the Audit and Standards Committee held on the 27 July 2022 as a correct record of the proceedings.

2. **APOLOGIES FOR ABSENCE**

3. **ADDITIONAL AGENDA ITEMS**

   To consider such other items as the Chair decides are urgent and due notice of which has been given to the Head of Paid Service by 12 Noon on the day of the meeting.

4. **DISCLOSURE OF INTERESTS**

   To receive any disclosure by Members of personal and disclosable pecuniary interests in matters on the agenda, the nature of any interest and whether the Member regards the personal interest as prejudicial under the terms of the Code of Conduct. Members are reminded of the need to repeat their declaration immediately prior to the commencement of the item in question.

PART A - STANDARDS REPORTS - NONE

PART B - AUDIT REPORTS

5. **REPORT OF THE EXTERNAL AUDITOR, GRANT THORNTON - AUDIT PROGRESS REPORT AND SECTOR UPDATE** (Pages 3 - 18)

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For all enquiries please contact
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Rother District Council putting residents at the heart of everything we do.

6. **STATEMENT OF ACCOUNTS 2021/22 - TO FOLLOW**

7. **INTERNAL AUDIT REPORT TO 30 JUNE 2022** (Pages 19 - 28)

8. **RISK MANAGEMENT UPDATE** (Pages 29 - 52)

9. **TREASURY MANAGEMENT UPDATE - QUARTER 2 - TO FOLLOW**

10. **WORK PROGRAMME** (Pages 53 - 54)

Malcolm Johnston
Chief Executive

Agenda Despatch Date: 15 September 2022

Rother District Council
Audit Progress Report and Sector Update

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September 2022

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Agenda Item 5

Contents

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

Your key Grant Thornton team members are:

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This paper provides the Audit and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit and Standards Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications https://www.grantthornton.co.uk/en/services/public-sector-services/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either Darren or Omer.

Progress at August 2022

Financial Statements Audit 2021/22

We undertook our initial planning for the 2021/22 audit in March 2022 and issued a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2021/22 financial statement.

We now plan to commence our work on your 2021/22 draft financial statements from October 2022 and we aim to report to the Committee in our Audit Findings Report in December 2022, issuing the opinion on the Statement of Accounts shortly thereafter.

The Accounts and Audit (Amendment) Regulations 2021 pushed back the date by which principal authorities need to publish their draft financial statements to the first working day of August. The Department for Levelling Up, Communities and Housing (DLUHC) states that they intend, subject to consultation, to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 financial year.

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

Under the 2020 Code of Audit Practice, auditors are required to issue the Auditor’s Annual Report alongside the opinion on the financial statements or, where this is not possible, issue an audit letter setting out the reasons for delay.

As in 2020/21, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements.

Progress at August 2022 (cont.)

Other areas

Meetings

We continue to liaise with Finance Officers to discuss any emerging issues to promote the efficient delivery of the audit.

Sector Updates and workshops

We provide a range of publications to support the Authority. Your officers attended our Accounts Workshop in January/February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Audit Fees

Following the issuance of the 2020/21 audit opinion on 20 May 2022 we have finalised the audit fee for that year with the Council's Chief Finance Officer as set out below.

	£
Planned fee as per Audit Plan	60,059
Review of the accounting treatment for infrastructure assets to address sector-wide issues.	2,500
Additional work arising from local accounting and error issues	2,500
Total	65,059

This is subject to review and agreement by PSAA Ltd.

Audit Deliverables

2021/22 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2021/22 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.	June 2022	Complete
Audit Findings Report The Audit Findings Report was reported to the Audit Committee.	December 2022	Not yet due
Auditors Report This includes the opinion on your financial statements.	December 2022	Not yet due
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	TBC	Not yet due

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Audit and Standards Committee members, as well as any accounting and regulatory updates.

- Grant Thornton Publications
- Insights from local government sector specialists
- Reports of interest
- Accounting and regulatory updates

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make Audit and Standards Committees compulsory for all councils, with each Audit and Standards Committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

Government response to local audit framework: technical consultation - GOV.UK (www.gov.uk)

Department for Levelling Up, Housing & Communities

Levelling up White Paper – Department for Levelling Up, Housing and Communities ("DLUHC")

On 2 February the Department for Levelling Up, Housing and Communities ("DLUHC") published its Levelling Up White Paper.

The paper states "Levelling up requires a focused, long-term plan of action and a clear framework to identify and act upon the drivers of spatial disparity. Evidence from a range of disciplines tells us these drivers can be encapsulated in six "capitals":

- Physical capital – infrastructure, machines and housing.
- Human capital – the skills, health and experience of the workforce.
- Intangible capital – innovation, ideas and patents.
- Financial capital – resources supporting the financing of companies.
- Social capital – the strength of communities, relationships and trust.
- Institutional capital – local leadership, capacity and capability."

The paper also states "This new policy regime is based on five mutually reinforcing pillars." These are set out and explained as:

1) The UK Government is setting clear and ambitious medium-term missions to provide consistency and clarity over levelling up policy objectives.
2) Central government decision-making will be fundamentally reoriented to align policies with the levelling up agenda and hardwire spatial considerations across Whitehall.
3) The UK Government will empower decision-makers in local areas by providing leaders and businesses with the tools they need.
4) The UK Government will transform its approach to data and evaluation to improve local decision-making.
5) The UK Government will create a new regime to oversee its levelling up missions, establishing a statutory duty to publish an annual report analysing progress and a new external Levelling Up Advisory Council.

Levelling Up the United Kingdom - GOV.UK (www.gov.uk)

Grant Thornton – reaction to Levelling up White Paper

On 2 February the Department for Levelling Up, Housing and Communities ("DLUHC") published its Levelling Up White Paper.

Commenting on the release of the government's Levelling up White Paper plans, Phil Woolley, Head of Public Sector Consulting, Grant Thornton UK LLP, said:

"The publication of today's White Paper plans is a welcome first step and it is reassuring to see the government recognise the need for systemic changes in order to deliver its central aim of Levelling up. The '12 missions' can be seen as an attempt to consolidate existing elements of government activity behind a singular banner and now provides a clearer picture of the levelling up opportunity.

"Following a decade of successful regional devolution and mayors, the White Paper marks the next stage of the country's devolution journey. With government now offering a clear framework of devolved powers and accountability, local leaders will need to embrace the opportunity and collaborate across the public and private sector to ensure they negotiate and then deliver the best deal for their communities. Grant Thornton's Levelling Up Index shows that the economies of the 10 worst performing local authorities in England are on average over five times smaller than their best performing counterparts - highlighting the scale of the challenge ahead.

"To level up, these areas would need to grow their economies by £12billion, increase employment rates by 6 percentage points, create 1,700 new businesses a year and increase average weekly pay by £200. It is too early to determine whether the measures announced today will be sufficient, but it is a start. Success will ultimately depend on the ability and willingness of local and national government to translate these new frameworks into meaningful change in people's lives.

"The Spending Review offers the next opportunity for government to show its commitment by realigning departmental objectives behind these new goals."

Prudential Code and Treasury Management Code – CIPFA

On 20 December CIPFA published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code).

CIPFA commented "These two statutory and professional codes are important regulatory elements of the capital finance framework in which local authorities operate. Local authorities are required by regulation to 'have regard to' their provisions. These two codes have been published a principles-based consultation from February to April, which was followed by a second consultation on the detailed changes to the code from September to mid-November.

The updated Prudential Code includes some substantive changes. Most notably, the provisions in Code which present the approach to borrowing in advance of need in order to profit from additional sums borrowed have been strengthened. Additionally, the relevant parts of Code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds."

The updated Prudential Code removes the "advance of need" terminology and emphasises the legislative basis for borrowing, namely that a local authority can borrow and invest for any legislative function and/or for the prudent management of their financial affairs.

The examples listed in the Code of legitimate prudential borrowing are:

- Financing capital expenditure primarily related to the delivery of a local authority's functions;
- Temporary management of cash flow within the context of a balanced budget;
- Securing affordability by removing exposure to future interest rate rises; or
- Refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.

The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, Internal Audit: Untapped Potential, lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

Culture and governance

The Audit and Standards Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, Rob Whiteman share his views on this report.

Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

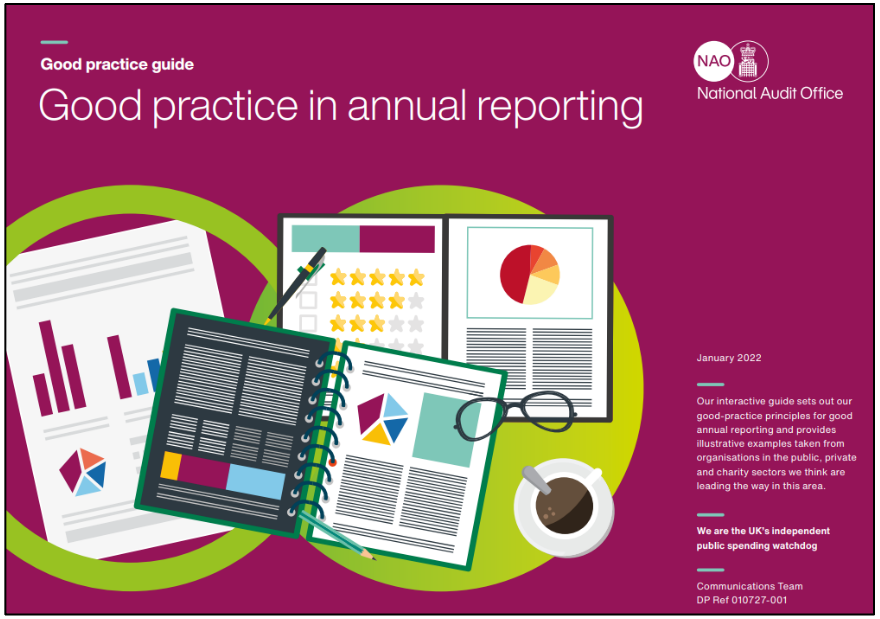
The NAO comment that the guide sets out "good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable."

The NAO further comment "The best annual reports we have seen use these principles to tell the "story" of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation's strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers' money that has been spent to deliver the outcomes the organisation seeks to achieve."

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:
[Good practice in annual reporting - National Audit Office (NAO) Report]

Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit and Standards Committees in assessing their effectiveness.

The NAO comment "Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm's-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

Against this background, the NAO's effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO's effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis."

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit and Standards Committees it is also relevant to local government.

The guide can be found here:
[Audit and Risk Assurance Committee effectiveness tool - National Audit Office (NAO) Report]

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Rother District Council

Report to:	Audit and Standards Committee
Date:	26 September 2022
Title:	Internal Audit Report to 30 June 2022
Report of:	Gary Angell, Audit Manager
Purpose of Report:	To report on Internal Audit activity in the first quarter of 2022/23 and to provide a progress update on the implementation of audit recommendations made in earlier periods.
Officer Recommendation(s):	It be **RESOLVED:** That the Internal Audit report to 30 June 2022 be noted.

Introduction

1. The Council is required to ensure that it has reliable and effective internal control systems in place. The adequacy of these systems is tested by both Internal and External Audit.

2. The Council's Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards. It is a requirement of these Standards that we report to the Audit and Standards Committee on audit matters and any emerging issues not only in relation to audit, but also to risk management and corporate governance.

Summary of Activity to 30 June 2022

3. Two audit reports were issued in the quarter. An overview of the findings arising from each of these audits is given in the Executive Summaries which are reproduced in Appendix A.

4. Both audits only provided limited assurance on the overall governance arrangements. The reasons for this are outlined below:

   - **Procurement** – The limited assurance rating was not due to a specific issue; it is a consequence of the number of issues found. The audit findings highlighted the need for greater awareness of/compliance with the Procurement Procedure Rules.

   - **Capital Programme** – This was given a limited rating because of the number and seriousness of some of the issues found. These include capital project budgets not being monitored by Finance on a regular basis and failures in communication resulting in either project overspends not being promptly identified or the reasons for project slippage not being established.

     Note – Project Managers also have a responsibility for budgetary monitoring, and it is our intention to carry out an audit of projects within the Corporate Programme next year to check that this obligation is being met.

Implementation of Audit Recommendations

5. Each quarter, Members are updated on the progress made on implementing the audit recommendations reported at previous meetings. Appendix B shows a summary of the current position.

6. Only two long outstanding recommendations now remain. Whilst progress continues to be made to resolve the Procurement recommendation, no further progress has been reported this quarter on the other (ICT Governance).

7. Good progress continues to be made on the 2021/22 recommendations, with over three quarters of the issues raised now resolved, including one high risk recommendation made in quarter 4

External Quality Assessment Update

8. As previously reported, the Public Sector Internal Audit Standards require all Internal Audit service providers to undergo an external quality assessment every five years. The Rother District Council (RDC) Internal Audit team's last external assessment was completed in April 2017, so another review is now due.

9. Initial enquires indicate that hiring an external provider to carry out this type of work may cost in excess of £9,000. However, seeing as the Internal Audit teams in our neighbouring authorities will also require external quality assessments in the near future, the Audit Manager has been in contact with audit colleagues from Hastings, Lewes & Eastbourne and Wealden councils to discuss the possibility of conducting reciprocal peer reviews, similar to those carried out in 2017/18. All have since agreed to participate in such an arrangement, and the scope of the assessment and logistics of who will review who has been finalised.

10. The plan is for each council to be reviewed by a team of two, with one auditor acting as the principal (or lead) reviewer and the other assisting in a supporting role only. It was decided to take this approach to reduce the potential for conflicts of interest due to one of the team also being assessed by a council that they themselves have reviewed.

11. The RDC Internal Audit team is due to be reviewed first, and this assessment will be undertaken by the Chief Internal Auditors at Lewes & Eastbourne and Hastings. It is proposed that this review will take place later this financial year, but the precise timing is yet to be determined. A further progress update will therefore be provided at our December meeting.

Conclusion

12. Two audits were completed in the first quarter of 2022/23, both of which provided limited assurance.

13. Progress on the long outstanding audit recommendations remains slow but continues to be monitored.

14. A reciprocal arrangement has been agreed to carry out a peer review of the RDC Internal Audit team later this financial year.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	External Consultation	No
Environmental	No	Access to Information	No
Risk Management	No	Exempt from publication	No

Chief Executive:	Malcolm Johnston
Report Contact Officer:	Gary Angell, Audit Manager
e-mail address:	gary.angell@rother.gov.uk
Appendices:	A – Audit Reports issued during Quarter to 30 June 2022 B – Summary of Progress on Recommendations Made up to 31 March 2022
Relevant Previous Minutes:	AS22/12
Background Papers:	None.
Reference Documents:	None.

PROCUREMENT AUDIT

Service Manager: Malcolm Johnston

Officer(s) Responsible for Implementing Recommendations: Ben Hook, Deborah Kenneally and Joe Powell

Overall Level of Assurance: **LIMITED**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Background

All Council officers are expected to follow Procurement Procedure Rules (PPRs) when obtaining works, goods or services. These rules are designed to promote good purchasing practice, public accountability, and to prevent corruption.

Scope of Audit Coverage

This audit reviewed a sample of paid purchase orders over £5,000 across various Council departments to establish if PPRs are being followed.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

To ensure that officers are complying with the PPRs and obtaining appropriately authorised exemptions where the standard procurement terms cannot be adhered to.	**N**

Level of Assurance

Based on the findings from the audit we have determined that only limited assurance can be given on the overall governance arrangements owing to the number of issues found.

The audit reviewed eight different purchase orders for works ranging from £6k to £222k, but only three of these were found to be fully compliant with the PPRs and some failed on multiple points.

Audit recommendations have therefore been made to underline the need for greater awareness of/compliance with the rules, namely:

- A Procurement Initiation Document (PID) should be completed for all orders of £5,000 or more.

- A minimum of three competitive quotes should be obtained for all orders between £5,000 and £49,999 unless an exemption form has been signed by a senior officer. Exemptions should only be requested and approved in exceptional circumstances.

- For all orders of £25,000 or more (including VAT) a completed PID should be forwarded to the East Sussex Procurement Hub (ESPH) with a request to place the contract details on the government's Contracts Finder website.

- A contract signed by all parties under seal and checked by Legal Services should be obtained for all works exceeding £50,000 in value.

In those cases where a failure was identified and a recommendation was made, the relevant Head of Service/Director has been contacted and their agreement obtained to remind their staff of the importance of following these rules. The issues found were also discussed with the Senior Leadership Team who agreed the need for mandatory Procurement training and to update the PPRs to reflect recent changes.

<u>Note</u> – The need for Procurement refresher training was also acknowledged in the Annual Review of the Council's Procurement Strategy which was reported to Cabinet in February 2022.

Executive Summary

Overall, the control objectives are considered to have only been partially met. We have made four medium risk recommendations to management all of which are aimed at enhancing the governance arrangements and improving value for money.

Internal Audit Service
June 2022

CAPITAL PROGRAMME AUDIT

Service Manager: Antony Baden

Officer(s) Responsible for Implementing Recommendations: Antony Baden

Overall Level of Assurance: **LIMITED**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Background

This audit review was carried out at the request of the Chief Finance Officer.

Scope and Limitations of Audit Coverage

The audit only focuses on a sample of capital projects. It was not possible to review all capital expenditure within the time available.

The adequacy of project appraisals was not specifically tested as part of this review.

It should also be noted that the audit does not include any scrutiny of accounting practices and procedures, as we are not qualified to give an opinion on such matters. External Audit are responsible for reviewing accounting practices.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

The Council's Capital Programme is approved by Members and progress is regularly reported.	**M**
Individual budgets within the Capital Programme are closely monitored.	**N**
All projects within the Capital Programme have been properly appraised; external funding is accounted for and any funding conditions are adhered to.	**P**
Any project slippage is promptly identified, and any funding and cost implications are considered; the implication of any delays to other projects within the Capital Programme is assessed and mitigating action taken where necessary.	**P**

Level of Assurance

Based on the findings from the audit we have determined that only limited assurance can be given on the overall governance arrangements owing to the number and seriousness of some of the issues found.

The main issues found relate to:

- **Monitoring of Expenditure** – Capital project budgets are not being monitored by Finance on a regular basis. Finance should ensure that regular budget meetings are held with project managers for all projects published in the Capital Programme. For all active works projects, this should be carried out on a monthly basis.

- **Communication** – There is currently no effective communication between project managers and Finance to promptly identify and report actual and potential project overspends within the Capital Programme. The Chief Finance Officer should remind all project managers of their responsibility to report Capital Programme overspends in accordance with Financial Procedure Rules. Reporting should include the reasons why the overspend has occurred and this should be included in reports to Cabinet where the overspends exceed £25,000.

- **Identification of Grants** - Grant monies sent by central government are often remitted to the Council with very little information included on the bank receipt. At present, grant receipts are checked by Finance as part of the year end process. However, given the number of anomalies identified at the audit and the difficulty in attributing grant receipts to specific projects, this task should be carried out on a more regular basis throughout the year. Finance should therefore liaise regularly with project managers to ensure that all anticipated grant monies have been received when due. This should help to ensure that any grant funding implications of project slippage are also taken into consideration.

- **Project Slippage** – (1) The reporting of slippage within the Capital Programme is based largely on any underspends during the current financial year which are generally then moved into the following year. There does not appear to be any regular communication from project managers to determine the precise reason for slippage and whether slippage is likely to go beyond the next financial year. Finance should request that project managers provide a quarterly update detailing the reasons for any delays in project delivery. Projected future spend should also be allocated to the most realistic year, fully taking into consideration the reasons for delay. (2) The high rates of inflation and steeply rising costs of certain raw materials mean that project slippage could result in significant additional cost especially for those projects where long delays are anticipated. The Chief Finance Officer should therefore advise project managers that when slippage is anticipated to be more than 12 months beyond the original project delivery date, costs and contingencies should be re-evaluated to ensure that the scheme remains viable.

- **Currency of Capital Programme** – The Capital Programme is not currently reviewed to identify “legacy” projects which may not progress in full, or which may no longer be consistent with corporate objectives. The Chief Finance Officer should liaise with senior management on at least an annual basis to consider removing or revising projects in the Capital Programme which may not be able to progress, or which may no longer be consistent with corporate objectives.

Recommendations were also made for improvements to the Capital Programme monitoring records and for better control over the setting up of new cost centres for capital expenditure.

Note – The Council has recently employed an additional CIPFA qualified accountant on a fixed term basis whose duties will include making improvements to capital reporting and monitoring.

Executive Summary

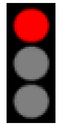
Overall, the control objectives are considered to have only been partially met. We have made one high and eight medium/low risk recommendations to management in order to improve the governance arrangements. The high risk recommendation and management's response to it will be included in the quarterly report to the Audit and Standards Committee.

Internal Audit Service
June 2022

CAPITAL PROGRAMME AUDIT

High Risk Recommendations and Management Responses

The recommendations below arise from audit findings which carry a **High** risk and which have resulted in the control objective not being met **(N)**. Management's response to the recommendation is also included and where the recommendation or an alternative action which will satisfy the control objective is agreed, an implementation date is shown. Progress against these recommendations will be included in the quarterly report to Audit and Standards Committee.

Audit Ref	Finding/Risk	Recommendation	Risk	Management Response
2.1	**Finding** Capital project budgets are not being monitored by Finance on a regular basis. **Risk** Overspends are not promptly identified increasing the risk of further financial loss; project managers are not given enough support to effectively manage project costs.	Finance should ensure that regular budget meetings are held with project managers for all projects published in the Capital Programme. For all active works projects this should be carried out on a monthly basis.	High 	Agreed – The aim will be for the capital programme to be monitored in the same way as the revenue budget. **Agreed Implementation Date** September 2022 **Responsible Officer** Antony Baden – He will allocate resources from within the Accountancy team to carry out this work.

Summary of Progress on Recommendations Made up to 31 March 2022

Long Outstanding Audit Recommendations – 2 Remaining (2018/19)

Previous quarter's performance shown in brackets

Risk	Issued	Implemented		Work-in-Progress		Not Started	
High	3	3	*(3)*	0	*(0)*	0	*(0)*
Medium	39	37	*(37)*	2	*(2)*	0	*(0)*
Low	25	25	*(24)*	0	*(1)*	0	*(0)*
Total	**67**	**65**	***(64)***	**2**	***(3)***	**0**	***(0)***
		97.0%	*(95.5%)*	**3.0%**	*(4.5%)*	**0%**	*(0%)*

Note – All audit recommendations made in 2019/20 and 2020/21 have been resolved.

Breakdown of long outstanding audit recommendations by Service Manager:

Antony Baden (Chief Finance Officer)

- Procurement (2018/19) – issued 05/10/18. Recommendation to formalise an SLA for the service provided by the East Sussex Procurement Hub (Medium).

Graham McCallum (ICT Manager & Data Protection Officer)

- ICT Governance (2018/19) – issued 12/04/19. Recommendation to produce a new ICT Disaster Recovery Plan (Medium).

Last Year – Audit Recommendations 2021/22

Previous quarter's performance shown in brackets

Risk	Issued	Implemented		Work-in-Progress		Not Started	
High	1	1	*(0)*	0	*(0)*	0	*(0)*
Medium	25	19	*(11)*	6	*(6)*	0	*(0)*
Low	21	18	*(10)*	3	*(5)*	0	*(0)*
Total	**47**	**38**	***(21)***	**9**	***(11)***	**0**	***(0)***
		80.8%	*(65.6%)*	**19.2%**	*(34.4%)*	**0%**	*(0%)*

Rother District Council

Report to:	Audit and Standards Committee
Date:	26 September 2022
Title:	Risk Management Update
Report of:	Gary Angell, Audit Manager
Purpose of Report:	To consider the new Risk Management Policy and updated Corporate Risk Register, and to discuss the draft risk appetite statements and other actions outlined in the report.
Officer Recommendation(s):	**Recommendation to COUNCIL**: That the new Risk Management Policy in Appendix A be adopted.

AND

It be **RESOLVED**: That the Council's Corporate Risk Register at Appendix B be noted.

Introduction

1. This report provides a position update on risk management processes and the key strategic risks currently facing the Council.

2. Risk refers to the uncertainty that surrounds future events and outcomes. It is essential that the Council adopts a strong approach to risk management to ensure good governance, especially given the current backdrop of significant financial pressures.

3. The Audit Manager, in his role as Risk Management Coordinator, is currently responsible for facilitating all strategic risk management activity including maintaining the Risk Management Policy and collating and reporting on updates to the Corporate Risk Register. The responsibility for identifying and managing risks, however, remains with Senior Management.

4. In addition to reporting the new Risk Management Policy and latest version of the Corporate Risk Register, this update also outlines some of the recent improvements made to the risk management process.

Recent Activity

5. Following on from their Enterprise Risk Management, Business Continuity and Disaster Recovery Review in February 2022, the Council's insurance provider, Zurich, were engaged to carry out further work to help improve our risk management processes. This work included the use of anonymous feedback surveys and face-to-face workshops; the purpose of which are outlined below:

   5.1 **Survey 1** – Sent to all officers in the Corporate Management Team (CMT) on 9 May 2022 seeking their views and opinions on current and future risks.

5.2 **Workshop 1 (Training and Risk Register Refresh)** – Held on 1 June 2022 and attended by most of CMT. This workshop, which was hosted by Jesper Glasius of Zurich Resilience Solutions, was divided into two parts. Part 1 provided risk management training to ensure a common understanding of the risk framework, descriptions and scoring. Part 2 reviewed the results of Survey 1 and used them to inform a discussion on what new risks should be included in the Corporate Risk Register and what existing risks should be kept/amended or deleted.

Survey 1 produced 43 suggested corporate risks. With duplicates and discarded risks identified through discussion at the workshop, a total of 10 new risks were agreed upon. In addition, a further 12 risks were to be kept or amended from the existing Corporate Risk Register. This initially reduced the total number of risks in the Corporate Risk Register from 38 to 22. However, the final count is even lower as a result of merging certain risks and downgrading others to the service based risk registers.

5.3 **Zurich Report 1 and Follow Up** – The outcome of Workshop 1 was then reported by Zurich and this was used by the Audit Manager to compile a new Corporate Risk Register. Input was then required from the nominated risk owners to further refine the content and scoring of the risk register.

5.4 **Risk Categories and Draft Risk Appetite Statements** – The Audit Manager worked with Zurich to agree the following items in preparation for Survey 2.

(a) the risk categories and descriptions

(b) the risk appetite levels and colour-coding based on a 5x5 risk scoring matrix

(c) draft statements for all risk appetites within each risk category

5.5 **Survey 2** – Sent to CMT and all Members on 4 July 2022 to gauge their opinion on how much risk the Council should be prepared to accept in the pursuit of its corporate objectives.

5.6 **Workshop 2 (Risk Appetite Statement)** – Held on 20 July 2020 and attended by officers in CMT as well as by the Council Leader, Councillor Doug Oliver, and Deputy Leader, Councillor Sue Prochak. This workshop, also hosted by Jesper Glasius, focused on the results of Survey 2 and used to them to inform a discussion on the Council's risk appetite for each category of risk.

5.7 **Zurich Report 2 and Follow Up**

This report contains a proposal for how Rother District Council could articulate their risk appetite. It contains a draft statement for an overall risk appetite and draft risk appetite statements for nine individual risk categories. Both are included in the new Risk Management Policy for Member approval.

External Audit – Annual Report

6. Grant Thornton's Annual Audit Report 2020/21 (April 2022) which was reported to this Committee on 20 June 2022 (Minute AS22/10 refers) makes the following summary recommendation in respect of risk management.

> **Governance** - Recommendation 4
>
> *To further enhance the risk management approach the Council's review of risk management should consider:*
>
> - *Providing detail guidance on risk management for risk managers.*
> - *Reducing the number of risks in the corporate risk register to those risks with greatest impact or likelihood and manage the lower scored risks at Director level.*
> - *Factors such as target risk score, actions required, sources of risk and assurance and dates of last and next review should be recorded on the risk register.*
> - *Developing a comprehensive risk management training programme for Members and staff.*
>
> The section entitled "Auditor Judgement" also goes on to mention that the Council has not defined its risk appetite.

7. The shortcomings of the existing risk management processes were acknowledged in the management response and it is pleasing to note that several of the raised points above have now been addressed as part of our work with Zurich. All outstanding items will be incorporated into further planned improvements.

Risk Management Policy

8. The Council's Risk Management Policy was last reviewed in February 2020. This document has now been completely revised to reflect the changes made to the risk management process and the latest version can be found in Appendix A.

9. The most significant changes made to the previous policy are the inclusion of sections outlining the Council's risk management methodology and how we propose to define the Council's risk appetite.

10. The policy also includes information on:

- the risk categories used in the Corporate Risk Register
- the 5x5 risk scoring matrix
- risk appetite levels (i.e. Averse/Minimal/Cautious/Open/Eager), and
- draft risk appetite statements for each category of risk.

11. This Committee will need to make sure that it is satisfied with the wording of the draft risk appetite statements, and if not, make any amendments it deems necessary prior to the policy being reported to full Council for adoption.

12. Once the risk appetite is agreed, officers will need to ensure that risks associated with their business activities stay within the stated risk appetite.

Corporate Risk Register

13. CMT has recently reviewed and updated the new Corporate Risk Register produced as a result of the Risk Management Refresh exercise. The latest version is shown in Appendix B.

14. The following improvements have been made to the Corporate Risk Register since it was last reported in March 2022:

    - More emphasis is now placed on the monitoring of strategic risks which could impact on the Council's ability to deliver its corporate objectives. Any existing risks that have been identified as operational in nature have therefore been removed and will need to be incorporated into the service based risk registers if they are not already covered.
    - Less emphasis is placed on business continuity planning risks. A few business continuity risks are still included but it is intended that most will be covered in the service based risk registers from now on.
    - The removal of the inherent risk column to aid clarity. (All risk scores are now shown after mitigation.)
    - Ensuring that a designated risk owner is assigned responsibility for each risk.
    - The nature and potential impact of each risk is now described in more detail to improve the reader's understanding. Specifying the root cause of each risk also helps identify risk interdependencies and opportunities for mutually beneficial actions to mitigate common risk areas.
    - The introduction of a 5x5 risk scoring matrix to allow for more precise scoring. The colour-coding of this matrix also ties in with the new risk appetite levels

15. Other proposed improvements include:

    • The inclusion of a target risk score and the dates of the last and next review to help monitor progress.

    • Defining the risk impact thresholds associated the different risk appetite levels within each risk category. For example, the risk impact threshold for economic / financial risk might be *"0.5% of the Capital or Revenue Budget"* at the lowest (Averse) risk appetite level and *"greater than 30% of either a Capital or Revenue Budget"* at the highest (Eager) risk appetite level. Defining the risk impact threshold for these and all levels in between would help quantity the potential consequences of setting the risk appetite level for this type of risk. The same exercise would then need to be repeated for all the other risk categories.

    • Ensuring that all operational risks removed from the previous version of the Corporate Risk Register are covered in the service based risk registers.

16. It remains a longer-term objective to establish a mechanism for the Corporate Plan Risk Register and all service based and project risk registers to feed into the Corporate Risk Register, preferably adopting a similar template, and scoring method for all risk registers at all levels. Training and guidance may also be required to ensure that managers are equipped with the necessary tools to identify and evaluate risk.

Service Based Risk Registers

17. Heads of Service/Service Managers should maintain a risk register for key operational risks within their service area. At present, there is no standard template for a service based risk register nor any formal review mechanism for ensuring that risk registers are kept and regularly reviewed. The Deputy Chief Executive is therefore looking to incorporate the requirement for maintaining risk registers into the service planning process. This should be introduced in 2023/24.

Conclusion

18. The changes made to the Risk Management Policy and Corporate Risk Register will help improve the monitoring of strategic risks, and the inclusion of risk appetite statements should make it easier to check that the Council is not taking on more risk than it is comfortable with. The process of embedding risk management practices at all levels of management will however take more time to achieve.

Risk Management

19. The failure to adequately monitor and respond to an ever changing risk environment could have serious negative consequences for the Council.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	Yes		

Chief Executive:	Malcolm Johnston
Report Contact Officer:	Gary Angell, Audit Manager
e-mail address:	gary.angell@rother.gov.uk
Appendices:	A – Risk Management Policy B – Corporate Risk Register
Relevant Previous Minutes:	AS21/49 Risk Management Update AS22/10 Report of the External Auditors, Grant Thornton Annual Audit Report 2020/21
Background Papers:	Risk Management Policy - March 2021
Reference Documents:	None.

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Appendix A

Rother District Council

Risk Management Policy

Contents
- Introduction - Definition and Purpose of Risk Management - Risk Management Strategy - Risk Framework - Responsibility and Reporting - Risk Management Methodology - Risk Appetite

September 2022

Risk Management Policy

Introduction

1. This is the Rother District Council Risk Management Policy. It sets out the Council's approach to Risk Management and how this will be monitored.

Definition and Purpose of Risk Management

2. Risk Management is the process by which the Council continuously and methodically addresses the risks which could hinder the achievement of its corporate priorities, planned service delivery or the fulfilment its statutory obligations.

3. The focus of good risk management is the identification of risks, assessment of them, and mitigation where necessary, in order that success is achieved. Risk management increases the probability of success and reduces the probability of failure.

4. Risk management allows the Council to:

- Identify risks in the context of corporate objectives, including potential opportunities.
- Assess risks to determine the impact and likelihood of each risk.
- Determine the response to each risk individually – i.e. either treat, tolerate, transfer or terminate the risk.
- Develop the necessary actions, controls and processes to implement the chosen response to each risk.
- Communicate the approach to risk management and the results of risk management activity.

Risk Management Strategy

5. The aim of the policy is to facilitate effective risk management throughout the Council so that risks are identified, evaluated, mitigated, and monitored to enable the Council to achieve its corporate priorities, deliver services as planned and fulfil its statutory duties.

6. This will be achieved through:

- Awareness of the risks faced by the Council.
- Clearly defined responsibilities for risk management activity.
- Ensuring that the Council's priorities, planned service delivery and statutory duties are the focus of risk management.
- Considering not just the present but also the medium and long term.
- Managing risks at an appropriate level.
- Clear ownership of risks.
- Establishing mitigation measures to reduce risks to an acceptable level
- Regular monitoring and reporting on the effectiveness of risk management activities.

7. The Council cannot be risk averse if it is to achieve its corporate objectives, and the principles contained within this policy should help strike the right balance in its approach to business opportunity and risk management.

Risk Framework

8. The Council's risk framework is based on a three-tier approach, namely:

- **Corporate Risks** – Strategic risks that potentially impact on the whole Council. These are recorded and monitored in the Corporate Risk Register.

- **Service Based Risks** – Operational risks that impact on a specific service area. All key operational risks are required to be recorded and monitored in a service based risk registers by the relevant Heads of Service/Service Manager and escalated to the Corporate Risk Register where appropriate.

- **Project Based Risks** – Risks that are specific to Corporate Plan projects. Individual risk registers are required to be kept for all Corporate Plan projects and these form part of their project management plan.

Responsibility and Reporting

9. The responsibilities within this policy are outlined below:

9.1 **Council**

Any policy decisions on Risk are fed through to full Council, via the Audit and Standards Committee. Policy updates will be brought forward as required.

9.2 **Audit and Standards Committee**

The Audit and Standards Committee is responsible for monitoring the Council's strategic risk management. The Committee will receive six-monthly progress updates on Risk Management matters.

9.3 **Senior Leadership Team**

The Senior Leadership Team share overall responsibility for risk management at Rother District Council. The Senior Leadership Team specific responsibilities include:

- Implementing the Risk Management Policy.
- Reviewing the management of strategic risk.
- Monitoring the effectiveness of the controls developed to mitigate risk (including desktop exercises to check their resilience).
- Integrating risk management into project and service planning process.
- Ensuring that appropriate training is provided for officers and Members.

9.4 **Heads of Service and Other Service Managers**

Heads of Service and other service managers are key in maintaining our ability to manage risk. Their responsibilities include:

- Working with the Senior Leadership Team to maintain the Corporate Risk Register and to manage the risks identified.
- Maintaining a service based risk register for key operational risks within their service area.
- Ensuring that project-specific risk registers are kept and closely monitored for all corporate projects within their remit.

9.5 **Audit Manager**

The Audit Manager acts as Risk Management Coordinator and has the following responsibilities:

- Maintaining the Risk Management Policy.
- Encouraging regular reviews of Corporate Risk Register (i.e. whenever specific risk issues arise, and at least six monthly).
- Facilitating and collating updates to the Corporate Risk Register.
- Reporting progress to the Audit and Standards Committee.

Note – All responsibility for the content of the Corporate Risk Register remains with the Senior Leadership Team and/or the officers designated as risk owners.

Risk Management Methodology

10. The risk management methodology describes the way in which risks are managed by the Council.

11. ***Part 1 – Setting our objectives***

11.1 A risk is the effect of uncertainty on objectives. So, before we can identify our risks, we need to know the objectives. To understand the context in which we are undertaking the risk assessment it is important to know:

- What are we seeking to achieve?
- by When? and
- Who is responsible?

11.2 This includes understanding what the Council wants to achieve and the resources it has available to deliver. The Council has set out its corporate objectives in the Corporate Plan. Individual services set objectives in their service plans.

11.3 The link between Council objectives and service objectives is often called the golden thread. When everyone is pulling in the same direction we will have a much greater chance of being able to achieve our shared goals.

12. ***Part 2 – Identifying the risks***

12.1 The purpose of any risk identification exercise is to identify those things that could prevent us from achieving what we set out to do. As time passes, the things we need to do will inevitably change. As such this step has two principal elements:

- ***Initial risk identification*** - for example when embarking on a new project, following a major service change or creating a new service plan, and

- ***Continuous risk identification*** - required to identify new risks, changes to existing risks, including those which become irrelevant over time.

12.2 **Risk categories**

There is no one right way of identifying risks but it can help to use prompts which identify different sources of risk. The following nine risk categories are currently used in the Corporate Risk Register:

- Political
- Economic / Financial
- Social
- Technology
- Legal / Compliance
- Environmental / Climate Change
- Partnership / Contractual
- People
- Project / Programme Risk

12.3 A detail description of the activities encapsulated by each risk category is provided in Appendix 1.

12.4 Common techniques used across the Council to identify risks are horizon scanning, brainstorming, workshops and facilitated discussions. The following questions can help identify risks to your objectives:

- What could prevent us from achieving this objective? What could realistically go wrong?
- What do we need in order to achieve this objective? Do we depend on others to succeed?
- What opportunities might arise?

12.5 The risks generated from the identification exercise should be recorded in a risk register so that they can then be evaluated.

13. ***Part 3 – Evaluating the risks***

13.1 The purpose of this step is to understand the threat posed by the risks identified and whether or not we need to take action to mitigate them.

13.2 Risk evaluation incorporates two principal elements:

- **Impact** – This is a consideration of how severely the Council would be affected if the risk transpires.

- **Likelihood** – This is a consideration of how likely it is that the risk will occur. In other words the probability that the risk will happen and become an event that needs to be managed.

13.3 A scale of 1-5 is used to assign a score to both the impact and likelihood. The bands and criteria used to assess impact and likelihood are shown in the risk scoring matrix below. This should be used to guide your evaluation of each risk identified.

13.4 **Risk Scoring Matrix**

	Impact				
Likelihood	Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost Certain (5)	5	10	15	20	25
Likely (4)	4	8	12	16	20
Possible (3)	3	6	9	12	15
Unlikely (2)	2	4	6	8	10
Rare (1)	1	2	3	4	5

13.5 Risk impact is considered across a number of different criteria, financial and non-financial. The highest potential impact score should be taken as your overall impact score. This means that the overall score for the highest level risk will be 5 x 5 (25) and the lowest 1 x 1 (1).

13.6 This initial scoring of risks is known as the inherent risk. This refers to the risk as it exists currently but ignoring any controls already in place to mitigate it.

Note – This step is no longer documented in the Corporate Risk Register. All risk scores are now shown after mitigation.

14. *Part 4 – Managing and mitigating risks*

14.1 There are four principal ways in which we can respond to risks, these are known collectively as 'the Four Ts' – Treat, Tolerate, Transfer and Terminate.

Treat	This is the most common way of managing risks. The purpose of treating the risk is to continue with the activity, but at the same time take action to bring the risk score down to a lower, more acceptable level.

Tolerate	This means accepting the likelihood and consequences of the risk. You would typically take this approach when it is not cost effective to act, because the likely impact of the risk, should it occur, is minimal.
Transfer	This means shifting the risk, in whole or part, to a third party. The transfer of risk to another organisation can be used to reduce the financial exposure of the Council and/or pass the risk to another organisation which is more capable of effectively managing it (e.g. insurance). However, it is important to note that transferring the risk does not always provide full mitigation, especially against reputational risk.
Terminate	This means stopping an activity altogether or doing things differently so that the risk is removed.

14.2 Addressing risks involves taking actions to reduce the likelihood of the risks occurring or limiting their impact should they materialise. One of the key ways in which a risk can be addressed is through implementation or enhancement of internal controls.

14.3 The costs of managing risks should be understood and be proportionate to the risk being addressed. Resources should be prioritised to the higher-level risks that need active management.

15. ***Part 5 – Assessing the residual risk***

15.1 Once action has been taken to control or mitigate the risks, the next stage is to re-evaluate the impact and likelihood again using the same risk scoring matrix shown in 13.4.

15.2 The managed risk score is referred to as the residual risk. This gives a better indication of whether the action taken to date is sufficient, and if the overall score is within the Council's risk appetite.

16. ***Part 6 – Recording and reviewing risks***

16.1 It is necessary to monitor risk mitigation action plans to regularly report on the progress being made in managing risk. Alternative action will be needed if the mitigations taken prove ineffective.

16.2 All the information relating to the identified risks should be recorded in a risk register. As a minimum, this information should include:

- a description of the risk
- its potential outcome should it occur
- the mitigations in place or being put in place
- the residual risk score, and
- the risk owner

16.3 Specifying the root cause of each risk can also be beneficial as it helps to identify risk interdependencies and opportunities for mutually beneficial actions to mitigate common risk areas.

16.4 Each risk register needs to be reviewed and approved at the right level of management. The Corporate Risk Register should be reviewed and approved by Senior Leadership Team and reported to the Audit and Standards Committee. Service based risk registers/corporate project risk registers should be reviewed and approved by the relevant Head of Service/Service Manager.

Risk Appetite

17. Risks must be assessed against the Council's risk appetite. Risk appetite can be defined as the level of risk that an organisation is willing to accept, tolerate, or be exposed to in pursuit of its objectives.

18. A risk appetite has been formalised in this policy to provide clear guidance to all officers, Members and partners on the level of risk which can be accepted. It should be used to ensure consistency in, and accountability for:

- The reporting and management of existing or emerging risks.
- The extent of governance arrangements and controls required.
- Assessments of the suitability of proposals (savings, strategies, policies etc).

19. **Risk appetite levels**

19.1 The risk appetite levels are specified as follows:

Risk Appetite	Risk Level	Risk Score
Averse	Very Low Risk	1-2
Minimal	Low Risk	3-4
Cautious	Medium Risk	5-10
Open	High Risk	12-16
Eager	Very High Risk	20-25

19.2 The colour scheme used acts as a good visual tool for communicating and understanding risk – i.e. green for low or very low risk, yellow/amber for medium/high risk, and red for very high risk. The same colour scheme is also used in the risk scoring matrix.

19.3 These risk appetite levels are explained in more detail in Appendix 2.

20. **Risk appetite statements**

20.1 A high level summary of the Council's current risk appetite is shown overleaf.

20.2 **Summary Risk Appetite Statement**

Risk Appetite	Statement
Cautious/Open (Medium/High Risk)	The Council's ambitions makes it necessary to be open to a certain level of risk. However, we will be cautious not to jeopardise our ability to sustainably deliver social value and our political promises to our community. In this effort, we will only accept minimal risk to our environmental goals and to our technology infrastructure.

20.3 Risk appetite statements have also been produced for each of the nine risk categories specified in 12.2. A full breakdown of the risk appetite statement by risk category is provided in Appendix 3 and an overview of the risk landscape in Appendix 4.

20.4 The risk appetite statements will need to be reviewed annually to ensure that they continue to meet the Council's requirements.

Appendix 1: Risk Categories

Nine of categories of risk are currently used to quantify the Council's strategic risk exposure. These are:

Risk Category	Description
Political	These risks include both the influence of the external political environment - such as changes in UK government policies that impact the Council, national strikes/fuel shortages, grass roots activism and political criticism - and risks that influence the political priorities of the Council and could lead to failure to deliver on election manifestos of either local or central government.
Economic / Financial	These risks could impact on the ability of the Council to meet its financial commitments or result in a failure to meet expected returns on investment. It covers both internal budgetary pressures, external macro level economic changes and risks associated with insufficient or non-compliant reporting. Examples: Cost of living crisis, interest rates, inflation, budget overspend, investment failures, reserve depletion.
Social	These risks arise from not meeting social needs as a result of changes in demographic, residential or socio-economic trends on the Council's ability to meet its objectives. These risks could lead to a loss of credibility or trust from the community. Examples could include housing supply shortages and failure to meet housing needs, decisions or actions involving treatment of people, staff levels from available workforce; not meeting the needs of an ageing population, not being prepared for bringing all people along when changes occur.
Technology	Risks arising from the use or ineffective use of technology resulting in the inadequate delivery of services whether the failure is due system, process or performance. It also includes breaches of data security or system integrity as well as the capacity of the Council to deal with technological advancements and changing demands. Examples: Change agenda; IT infrastructure; staff/client needs, security standards, digital poverty and (lack of) access to digital services.
Legal / Compliance	Risk related to legal challenges and being subjected to litigation including non-compliance with legal frameworks whether that is in regard to employment, delivery of statutory services, etc. It also includes risks of changing national and international regulations that would threaten the Council's operations and processes, Data Protection breaches, and failure to comply with Health and Safety regulations.

Risk Category	Description
Environmental / Climate Change	These risks arise from the impact of Council services and investment. Risks should be identified from both current operations and projects on how they might impact on both the local environment in terms of resilience to extreme weather (flood defences, drought resistance), the wider context of contributions to climate change (carbon emissions etc.) and the ability to adapt to future needs of the population.
Partnership / Contractual	Risks arising from failures of partners or contractors and weaknesses in the process for management of joint ventures and commercial endeavours including supply chains. Examples: Contractor fails to deliver; partnership agencies have no common goals, insufficient return on investment, service failure, lack of cost control.
People	Risks arising from ineffective leadership and engagement, suboptimal culture, inappropriate behaviours, the unavailability of sufficient capacity and capability, industrial action and/or non-compliance with relevant employment legislation/HR policies resulting in negative impact on performance.
Project / Programme Risk	Risks that change programmes and projects are not aligned with strategic priorities and do not successfully and safely deliver requirements and intended benefits to time, cost and quality.

Note

These risk categories are based on the PESTLE model (i.e. Political, Economic, Social, Technical, Legal, Environmental) plus a few additional areas to handle those areas not specifically covered elsewhere. Reputational risk is not included in the above list as it is considered to be secondary risk that may result from failure in any of other categories.

Appendix 2: Risk Appetite Levels

The Council uses the following risk appetite levels. At each level there is a balance between risk and reward, with 'eager' risk appetite offering the highest risk and reward and 'averse' offering the lowest.

Risk Appetite	Typical Organisational Attitude or Behaviours
Averse (Very Low Risk)	Our preference is for ultra-safe actions that will not result in a loss of reputation, credibility or money. We would rather abandon projects and initiatives than assume risk. Innovation is avoided unless it's forced upon us. We avoid any action that could lead to a legal challenge or breach of regulatory framework.
Minimal (Low Risk)	We accept that risk is unavoidable but will minimise risks as much as possible. All reasonable steps will be taken to manage the risk; we are prepared to be bureaucratic and to tightly control processes. Innovation is generally avoided and will only be entered into if all stakeholders are committed, and success is virtually guaranteed.
Cautious (Medium Risk)	Our preference is for actions that are unlikely to result in a loss of reputation or credibility. We are only prepared to accept the possibility of limited financial loss. We will remain open to innovation but prefer to only engage in initiatives proven to work in similar organisations.
Open (High Risk)	We are willing to be bold and risk our reputation but only if steps have been taken to reduce the risk. Innovation is supported, but only if clear benefits are demonstrated and we are confident in our success. We are prepared to invest for reward and accept moderate financial losses are possible. The likelihood of this risk happening, and the consequences are such that we are happy to live with it.
Eager (Very High Risk)	We are willing to accept increased scrutiny from stakeholders and a loss of credibility if things go wrong. Innovation is pursued - we are willing to break the mould to deliver organisational goals even if failure is a possibility. We are prepared to invest knowing significant financial losses are possible, or that innovation may fail to deliver the anticipated benefits.

Appendix 3: Risk Appetite Statement by Risk Category

Risk Category	Risk Appetite	Statement
Political	**Cautious** (Medium Risk)	We will be cautious in accepting risks that could result in political challenge or prevent us from achieving elements of Council strategy or manifestos. In some cases, we are open to push the boundaries in order to deliver on our ambitions.
Economic / Financial	**Open** (High Risk)	The Council possesses a willingness to think about investment, even where losses could be realised that would impact the Councils reserves, if clear benefits can be expected. Both financial and social benefits should be considered.
Social	**Cautious** (Medium Risk)	We exist to create social value and to be able to deliver sustainable results we will accept some risk to the short-term resilience of the organisation and meeting of community needs, when longer term benefits are deemed to outweigh short term risk
Technology	**Minimal/Cautious** (Low/Medium Risk)	We will focus on proven new technology solutions, where investment in, and adoption of, technology is only be considered after careful analysis of costs, benefits and potential risks. We will accept some risk in systems used in services, but only minimal risk regarding Council technology infrastructure
Legal / Compliance	**Cautious** (Medium Risk)	We are willing to work widely within regulatory frameworks and explore opportunities even if we are exposed to some challenge, but not, knowingly, exposed to breaches.
Environmental / Climate Change	**Minimal** (Low Risk)	In some limited circumstances, we are prepared to accept a risk of increasing our environmental impact or delays to our strategic objectives in this area where there is a clear, demonstrable benefit of increased social value, cost savings or revenue that is essential to the Council.
Partnership / Contractual	**Cautious** (Medium Risk)	We will seek out beneficial partnerships where risks can be managed to only impact some elements of strategic objectives and have limited financial downside. We are willing to be slightly flexible with the conditions of our supplier background checks.

Risk Category	Risk Appetite	Statement
People	**Open** (High Risk)	We will entrust our people with decision making within the guidelines set out by leadership. Services can operate autonomously in some instances, even where there's some risk of detachment from culture with resulting inappropriate behaviours. We will mitigate this risk by establishing expectations and encourage an organisation wide understanding of values.
Project / Programme Risk	**Open** (High Risk)	We support innovation and initiative, where risks are identified and reasonably managed. Oversight from senior management on critical decisions

Appendix 4: Overview of Risk Landscape

Risk Category	**Averse** (Very Low Risk) Risk score 1-2	**Minimal** (Low Risk) Risk score 3-4	**Cautious** (Medium Risk) Risk score 5-10	**Open** (High Risk) Risk score 12-16	**Eager** (Very High Risk) Risk score 20-25
Political					
Economic / Financial					
Social					
Technology					
Legal / Compliance					
Environmental / Climate Change					
Partnership / Contractual					
People					
Project / Programme Risk					

Note

Most strategic risks will fall within the yellow (medium risk) or light green (low risk) zones once mitigated, but the Council's risk appetite also allows for certain categories of risk (i.e. Economic / Financial, People and Project / Programme Risk) to reach scores that put them in orange (high risk) zone. However, anything in the red zone (very high risk) or any of the area shaded in grey would exceed the Council's risk appetite and further action would be needed to reduce the risk to an acceptable level.

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Corporate Risk Register - July 22 **Appendix B**

						Mitigated Risk					
No.	**Category**	**Risk Description**	**Effect**	**Resulting In**	**Caused By**	**Likelihood**	**Impact**	**Score**	**Owner**	**Mitigations**	**Actions/Comments**
#	*Risk category*	*Situation or event (real or perceived) that exposes us to risk*	*The negative impact. How big? How bad? How much? Consider worst likely scenario*	What wider impacts may the risk effect have?	*Circumstances that could lead to the risk being realised*	*1-5 (refer to Risk Scoring Matrix)*	*1-5 (refer to Risk Scoring Matrix)*	*Likelihood x Impact*	*Person managing risk*	*Controls and other mitigations already in place*	*Further action required to reduce risk*
1	Political	**NEW** - Political changes impact delivery of Council services	Negative impact on finances and increased demand for services such as housing benefits	Less money to deliver services and lessening quality of services	● Changing government policy ● Government spending review ● Business Rate reset	4	4	**16**	MJ	● Medium term financial plan well developed and regularly reviewed ● Use of reserves as short term financial support ● Regular budget/financial updates to Members ● Senior officer involvement with national bodies (e.g. LGA, Rural Services Network, Solace) ● Regular meetings with/lobbying of MPs	● Ongoing focus on delivery of Financial Stability Programme to ensure delivery of programme objectives ● Ensure 'horizon scanning' continues through involvement in national bodies ● The support of the LGA/Rural Services Network can play an important role in lobbying the goverment on behalf of district.councils.
2	Social	**NEW** - The Council cannot meet its housing objectives: 1) supply of affordable houses 2) housing list reduction 3) five-year housing supply	● Increased levels of homelessness ● Increased TA cost ● Pressure from partner agencies to provide housing	● Significant revenue costs in TA ● Reputational damage	● Rising cost of living, house prices & rent costs ● National & local planning policy ● AONB and lack of viable land for development ● Local resistance to development ● Lack of resources to effectively prevent homelessness NB - Many of the causes of this risk are outside LA control and we may have to accept some increase in costs.	4	4	**16**	JP	● Rother Tenant Finder (RTF) ● TA investment and Temporary Accommodation Support Scheme (TASS) ● Housing First and RSI ● CIL review ● Competent managers	● Prepare an ITS business case to expand the RTF and TASS ● Continue service improvement through delivery of the Service Plan
3	Technology	**NEW** - IT Failure	Failure to deliver (all) services	● Long term failure ● Significant financial loss ● Rebuilding due to successful attack	● Successful cyber attack - user error/lapse - failure of defences ● Infrastructure failure - power outage - flooding - fire - hardware issues ● Understaffing IT department	3	5	**15**	GM	● Key services now managed in the cloud ● Active antivirus protection ● Secure configuration, threat monitoring and vulnerability testing ● Data backups are maintained ● Robust patching schedule	● Obtain cyber insurance ● Regular phishing awareness training ● Confirm budget arrangements for emergency expenditure
4	Economic/ Financial	**NEW** - Failure to operate within a sustainable budget	Failure to deliver corporate objectives	● Service cuts ● Compulsory redundancies ● Reputational damage ● Section 114 Notice (if all else fails)	● Failure to achieve savings/income targets ● Reduction in business rates income ● Budgets being exceeded and inadequate reserves	3	4	**12**	AB	● Strong partnership between Members and Officers ● Regular monitoring of the Medium Term Financial Plan (MTFP) ● Reporting on performance against targets ● Dedicated resources to lead delivery of targets	● Actively manage and monitor delivery of the Financial Stability Programme (FSP) ● Continue regular monitoring reports to SLT/CMT
5	Project/ Programme	**NEW** - Project delivery compromised	● Project failures or inadequate delivery to budget, deadlines or specifications ● Failure to secure external funding to make project financially viable	● Significant financial loss ● Reputational damage ● Loss of, or inadequate return on, investment	● Strain on resources from competing priorities ● Staff turnover/loss of knowledge ● Lessons not learned from previous projects ● Scope creep ● Inadequate project governance ● High risk appetite within Corporate Plan	3	4	**12**	BH	● Adequate project resources ● Capable project managers ● Training and support ● Robust risk management practices	Continue to ensure that the business case for each project is robust prior to approval
6	Partnership/ Contractual	Significant service contract falls to RDC - e.g. Waste and Street Sweeping, Grounds Maintenance, Leisure Centres, toilet cleaning etc.	● Pressure on staff to manage the transition ● Lack of staff to do the work in-house ● Lack of skills & knowledge ● Lack of equipment/vehicles ● Poor quality of service	● Financial Implications ● Major service disruption ● Reputational damage ● Inability to meet regulatory & statutory requirements	● Contractor failure due to financial issues and lack of staff ● Changes in government regulatory requirements ● Lack of BCP ● Lack of contract partnership management and support (Waste Contract & Grounds Maintenance)	2	5	**10**	DK	● Close working relationship with contractor and regular operational meetings ● Rehearsed BCP Action Card with this scenario ● Three authority BCP for Waste Collection contract ● Separate Waste Contract Risk Register (MG)	● Review legal aspects ● Create waste and street sweeping response plan ● Consider other response plans ● Three authority review needed -budget arrangements for managing financial cost? ● Open book accounting review? ● Service risk register in place for each contractor?
7	Legal/ Compliance	Breach of Data Protection	● Reputational damage/legal ● Financial damage ● Resources drained ● Leakage/theft	Wider issue of Data Protection and consequences of data theft	● Cyber attack/Ransomware ● Internal breach	3	3	**9**	GM	● Regular training for staff ● Learning from incidents ● IT security measures ● Data Risk log	Targeted training
8	Legal/ Compliance	Significant legal case against the Council	● Resources drained ● Project delays ● Corporate objectives not met	● Financial damage ● Reputational damage	● Failure to follow process and procedures ● Failure to update policy to reflect legislative changes	3	3	**9**	LF	● Early Legal Service plan & advice ● Budget arrangements for managing this ● Horizon Scanning and training to understand new duties and requirements	● Work to Identify where service failure is in a legal case ● Take steps to mitigate. Is it covered by liability insurances?
9	People	**NEW** - Lack of quality/quantity of staff to deliver services	● Difficulties in recruiting key posts ● Lack of professional skills ● Financial impact - recruiting is expensive	● Service failure or lower quality ● Higher cost ● Legal liability ● Stress on existing/remaining staff ● Reduction in staff wellbeing ● Loss of knowledge	● Skills shortage ● Staff turnover - competing on both salary and wider location within LA sector and private sector ● Lack of workforce plan	3	3	**9**	MB	● Allow staff greater flexibility where possible ● Remote working facilities ● Use of agencies/outsourcing companies ● Exit process to include full role analysis and capture of unique duties/knowledge	Produce workforce plan
10	People	Significant loss of staff due to pandemic	● 30%+ ● Flu etc. ● Across all services ● Particular note of cover for significant posts	● Unavailability of staff ● Reduction in service provision	● Staff absence through illness ● Travel/access restrictions	3	3	**9**	MJ	● Contacts with local, national & professional agencies ● Homeworking facilities ● Immediate medical prevention supplies available ● Priority list for staff vaccinations ● Priority Grid for Service staffing ● Local Authority duty to cooperate	● Guidance to staff on precautions ● Minimise travel of travelling officers ● Hand cleansers at entrances to Council buildings ● Close receptions ● Comms plan ● Move to online meetings only (subject to legislation for committees).
11	Political	National fuel shortage	● Loss of main services ● Staff committed to emergency ● Travel problems	● Staff unable to travel to work ● Contractors unable to provide key sevices (e.g. refuse collection)	● Fuel distribution problems ● Conflicts abroad	2	4	**8**	BH	● Fuel priority grid including key staff & contractors ● Homeworking facilities ● Priority grid for Service staffing	● Communications Plan needed ● Recent work on Brexit plans helps informs actions required of RDC
12	Environmental/ Climate Change	Coastal/river flooding	● Loss of office accomodation ● Major issues with transport ● Staff diverted to emergency ● Staff committed to recovery programme	● BCP issue for services such as waste, car parking and coastal management (beach management) ● Cessation of visiting officers travel ● Could have an impact on transport	Extreme weather	2	3	**6**	BH	● RDC Emergency Plan ● Local Authority duty to cooperate ● Existing flood plans ● Flood network to cascade information ● BCP plan for affected services. ● Membership of East Sussex Emergency Planning Partnership and Sussex Resilience Forum	● Social media alerts ● Communication - PR implicit ● Manage impact of staff reallocation to rest facilities

13	Environmental/ Climate Change	**NEW** - The intended outcomes from the RDC 2030 net zero target will not be achieved.	Reputation damage (part of bigger issue of not doing our part)	● Lack of trust in Council ● Disenfranchisement ● Lower community morale	● Lack of plan with achievable, measurable outcomes. ● Current outcomes are unachievable - in part because of unclear goals and pathway forward	2	3	**6**	BH	Corporate Plan milestones	Ensure regular reporting of Corporate Plan and other milestones to Members
14	Partnership/ Contractual	Failure of a neighbouring authority or other partner	● Impact on RDC services including shared services ● Financial loss ● Service failure - shared services ● Reputational damage	● Inability to provide services ● Reduction in service quality	● Inability of residents to access advice services ● Reduced availability of specialist advice to the Council	2	3	**6**	MJ	● SLAs to set out process in the event of partner failure ● Quantify the impact on individual shared services ● Access to software and assets	● The Council has a number of key partnerships including shared services. ● For shared services where the Council in not the lead authority need to ensure the inter-authority agreement sets out the process/deliverables in the event of a partner failure. This would need to include access to software and assets as well as staffing.
15	Partnership/ Contractual	Failure of a significant system supplier	● Service Specific ● Unit4 Business World, Ocella, Academy, CRM, Whitespace ● Customer Service	● Impact on business continuity ● Reduction in service quality	● Poor relationship management with suppliers ● Essential system improvements delayed/not possible ● Supplier goes out of business	2	3	**6**	LF	● Contingency for simple alternative e.g. Excel ● ESCROW agreements	● Consider neighbour council back up system or data transfer ● Rights of user software ● Contingency for alternatives ● Web based systems need checking ● System to be replaced if supplier no longer exists ● Corporate direction - similar to Link data and voice, encourage use of county wide systems for the future/future purchase, which will reduce risk ● ESCROW agreements will reduce short term impact
16	Economic/ Financial	Financial shutdown of RDC	● Bank shutdown ● Loss of Income stream/assets ● Build up of backlog	● Impact on payments to suppliers and residents ● Increase in the amount needed to be drawn down from Reserves to fund costs	● Adverse weather conditions ● Software failures ● Hackers	1	3	**3**	AB	● Rehearsed BCP Action Card with this scenario ● Budget arrangements for managing this ● Three authority BCP for Waste	● Consider neighbour council back up ● Hastings are able to provide back up and support so that cheques can be produced ● Customer advice and information to be put on website and telephone systems ● Cheques can still be produced

Risk Scoring Matrix

	Impact				
Likelihood	Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost Certain (5)	**5**	**10**	**15**	**20**	**25**
Likely (4)	**4**	**8**	**12**	**16**	**20**
Possible (3)	**3**	**6**	**9**	**12**	**15**
Unlikely (2)	**2**	**4**	**6**	**8**	**10**
Rare (1)	**1**	**2**	**3**	**4**	**5**

AUDIT AND STANDARDS COMMITTEE

WORK PROGRAMME 2022 – 2023	
DATE OF COMMITTEE	**SUBJECT**
Monday 26 September 2022	**Part A – Standards Reports (none scheduled)** **Part B – Audit Reports** • Internal Audit Report to 30 June 2022 • Statement of Accounts 2021/22 • Grant Thornton – Audit Progress Report and Sector Update • Treasury Management Update – Quarter 2 • Risk Management Update
Monday 5 December 2022	**Part A – Standards Reports** • Code of Conduct Complaints Monitoring and other Standards Matters • Local Government Ombudsman Complaints Monitoring and Annual Review 2021/2022 **Part B – Audit Reports** • Internal Audit Report to 30 September 2022 • Treasury Management Update – Quarter 3 • Outcome of the review and position appraisal of Rother DC Housing Company Ltd
Monday 20 March 2023	**Part A – Standards Reports (none scheduled)** **Part B – Audit Reports** • Grant Thornton – Audit Progress Report and Sector Update • Grant Thornton – External Audit Plan 2022/23 • Internal Audit Report to 31 December 2022 • Internal Audit Plan 2023/24 • Review of Internal Audit 2022/23 • Annual Property Investment Update • Treasury Management Update • Accounting Policies 2022/23 • Risk Management Update

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