

REPORT TITLE	
REVIEW OF STRATEGIC RISK MANAGEMENT ARRANGEMENTS	
REPORT OF	
FINANCIAL ADVISER	
FOR SUBMISSION TO	DATE
AUTHORITY MEETING	27 APRIL 2005
1. SUMMARY OF REPORT	
<p>This report comes to the Authority as the ‘relevant body’ under the Accounts and Audit Regulations 2003 with responsibility for risk management arrangements.</p> <p>The report sets out the current arrangement for dealing with matters of risk management within the Authority, considers recent national initiatives and legislation effecting the provision of risk management and makes a number of suggestions as to how the Authority’s strategic approach to the management of risk needs to be further developed.</p>	
2. RECOMMENDATIONS	
<p>The Authority is requested to:-</p> <ul style="list-style-type: none"> (i) Comment on the proposed Risk Register and suggest the inclusion of other strategic risks. (ii) Agree the Risk Register in the light of (i). (iii) Endorse and support the suggested approach to risk management in the North London Waste Authority as set out in paragraph 6. (iv) Note progress to date and future planned activity to achieve delivery of a risk aware culture within the NLWA and achievement of compliance with the Accounts and Audit Regulations 2003. (v) Note that the Financial Adviser will report back to Members with an annual review each year to assist Members with their assessment of the Authority’s internal control arrangements. 	
<p>Signed by the Financial Adviser:</p> <p style="text-align: center;">Date:</p>	

3. INTRODUCTION

- 3.1 The management of risk is now a high profile and rapidly developing discipline within the public sector. One of the key drivers behind this initiative has been the major move towards the implementation of the 'Corporate Governance' arrangements that have taken place over a number of years prompted by a range of investigative 'committee' reviews including Cadbury, Greenbury, Hampnel, Turnbull and more recently Higgs and Smith.

While largely dealing with private sector arrangements the findings and recommendations of these high level committees have prompted local authorities to review and strengthen their corporate governance arrangements.

- 3.2 There have also been a number of initiatives within the public sector that have both assisted and driven this process including the Nolan Committee recommendations, various Audit Commission papers and recommendations, Chartered Institute of Public Finance & Accountancy (CIPFA)/Society of Local Authority Chief Executive's (SOLACE) publications and the recent legislative requirements of the Accounts and Audit Regulations 2003. These initiatives have all highlighted the need for major change in the manner in which the public sector deals with risk management and its internal control processes.

- 3.3 A general definition of 'Risk Management' is:

'Having in place a corporate and systematic process for assessing and addressing risks in a cost effective way and having the necessary staff resources/skills to identify and monitor the potential for risks to arise'

The diverse nature of the legislative, statutory and service led demands on local authorities generally creates a situation in terms of risk management arrangements that is highly complex with regards to corporate approach and control.

Although the NLWA is a single purpose authority the Authority is nevertheless potentially exposed to wide-ranging corporate and operational risk. It is not intended here to attempt to provide at this stage a comprehensive list of all the types of risk facing a local authority but to highlight a limited number of general classifications that can be illustrated as follows to provide some indication of the wide range of risks faced: -

- i) Economic Risk - Investment decisions, interest rate changes, effect of central government policy changes and legislation;

- ii) Environmental Risk - noise, pollution, health issues;
- iii) Financial Risk - budget problems, failed resource bids, fraud/misrepresentation
- iv) Human Risk - terrorism, sabotage, human error;
- v) Operational Risk - failure in service delivery, recruitment and retention problems, failure in IT provision;
- vi) Reputation - damage to the Authority's reputation;
- vii) Occupational Health And Safety Risk - weak safety measures, failure to implement legislative requirements;
- viii) Security Risk - cash controls, theft, asset control;
- ix) Strategic Risk - impact of policy decisions on achievement of the joint waste strategy, or decisions effecting organisational priorities;
- x) Technological Risk - Obsolescence of equipment, failure of IT systems.

3.4 This report provides an assessment of the current position in the NLWA and makes suggestions as to how we can take the matter forward.

4. **ACCOUNTS AND AUDIT REGULATIONS 2003**

4.1 Currently there are a number of 'drivers' for change in the local government environment:

- (i) Comprehensive Performance Assessment – although not relevant to the NLWA;
- (ii) Audit Commission Report – 'Corporate Governance' (October 2003).

4.2 But perhaps the most significant for the NLWA is the Accounts and Audit Regulations 2003 (the Regulations). The Regulations require the Authority to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk. This requirement is very similar to those of previous regulations, but the inclusion of risk is new. Also new is the requirement for the Authority to review at least annually the effectiveness of its systems of internal control and to include an annual Statement on Internal Control within the Authority's published accounts.

- 4.3 The Regulations require up-to-date proper practices to be followed and these now include the recent guidance on the Statement on Internal Control in Local Government published by the Chartered Institute of Public Finance and Accountancy in April 2004 (the CIPFA Guidance).
- 4.4 The CIPFA Guidance recognised that it would be unreasonable and unrealistic to expect all authorities to be in a position to obtain the necessary assurances required to support a full Statement on Internal Control for the accounting year 2003/04. As a consequence all authorities were allowed to produce an interim statement for 2003/04, showing the extent to which they have been able to follow the guidance and including an action plan to ensure full compliance for 2004/05. The interim Statement on Internal Control as approved and adopted by the NLWA at its meeting on 13 October 2004 is attached at Appendix A.

5. **THE CURENT APPROACH IN NLWA**

- 5.1 Given the single purpose nature of the Authority's responsibilities and its operation through a lead borough arrangement the Authority does not have a formal 'risk management group'. Financial and service risks are considered part of normal day-to-day business of the Authority as evidenced through the close collaborative working arrangement between the Head of Waste Strategy and Contracts and the Finance Officer. Additionally, the Authority's Advisers and the previously identified officers meet regularly to discuss strategic issues including issues of risk management.
- 5.2 Best practice in the field of corporate governance reflected by numerous papers, reports and guidance from a wide variety of institutions, is that if risk management is to be embedded into the culture of an organisation, then it must have the full support and backing of the 'top table'. In the case of the North London Waste Authority this means both the Authority and the Advisers/Head of Waste Strategy and Contracts.

6. **THE WAY FORWARD**

- 6.1 As the Authority has yet to formally endorse an approach to strategic risk management a draft Risk Register is attached at Appendix B. The Register has been prepared in consultation with the Advisers/Head of Waste Strategy and Contracts and identifies a range of potential risks together with an analysis of their likelihood/impact; evidence/assessment of the controls currently in place and an action plan to improve the control of the potential risk. As this is the first formal Risk Register prepared by the Authority, Members are invited to comment on the content of the draft Risk Register and, if considered appropriate, suggest the inclusion of additional items.
- 6.2 Subject to endorsement and support of the suggested revised approach to risk management in the NLWA, and the actions taken/being taken to formally embed risk management within the Authority, an annual report will be presented each year to assist Members with their assessment of the Authority's

internal control arrangements. It is proposed that this report and the assessments contained in the Risk Register should constitute the Authority's initial annual report on risk management and, in so doing, demonstrates the achievement in 2004/05 of compliance with the Accounts and Audit Regulations 2003.

- 6.3 It is not intended to recommend the creation of a specific new post to deal with risk management in the NLWA. Instead it is proposed that the Financial Adviser will be responsible for the preparation of the action plan to deliver this new strategic approach in relation to the management of risk in the Authority. The Financial Adviser (Director of Finance at Camden) will also be able to draw on the support of the risk management arrangements that have been established at Camden.
- 6.4 Key elements to the implementation of the new approach to risk management include:-
- (i) Provide training to Members and officers;
 - (ii) Establish a formal Risk Register;
 - (iii) Develop a risk aware culture;
 - (iv) Members endorse and support the suggested approach to risk management.

7. COMMENTS OF THE LEGAL ADVISER

- 7.1 The Legal Adviser has been consulted in the preparation of this report and has no further comments to add.

Local Government Act 1972 - Section 100 as amended

Documents used in the preparation of this report:-
The Accounts and Audit Regulations 2003

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APPENDIX A

STATEMENT ON INTERNAL CONTROL FOR THE NORTH LONDON WASTE AUTHORITY – 13 OCTOBER 2004

1. Scope of Responsibility

The North London Waste Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The North London Waste Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the North London Waste Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the North London Waste Authority and which includes arrangements for the management of risk.

2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the North London Waste Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The main elements of a system of internal control have been in place throughout the year 2003/4. Work has been undertaken in the year and has been ongoing since 1 April 2004 with a view to reporting to the Authority and to formalise controls and risk management arrangements. This will include an action plan to address any weaknesses and gaps identified particularly in respect of any risks that emerge from the North London Joint Waste Strategy which was recently finalised.

3. The Internal Control Environment

The key elements of the internal control environment in which the Authority functions can be summarised as follows:

- The Authority has a clearly defined set of objectives in terms of service delivery and this is reflected in its contract with LondonWaste Ltd.

- The Authority and its constituent councils have been working in partnership to develop the North London Joint Waste Strategy. This is a major new initiative which will assist the Authority in reviewing its objectives and defining its overall aims. The Authority is in the process of developing a new framework to establish and monitor the implementation of the Strategy.
- Policy and decision-making are managed and controlled within a strong well-established framework. The Authority's standing orders set out in detail how the authority operates, how decisions are made and the procedures to be followed to ensure efficiency, transparency and accountability. Political and management control is exercised through the Authority and the Advisers who work to defined and established processes.
- Compliance with policies, laws and regulations is dealt with through a range of written rules and procedures, which are regularly reviewed and updated. These include Standing Orders relating to the Authority, Standing Orders relating to Committees, Financial Standing Orders, and Contract Standing Orders.
- The Authority is also able to benefit from the rules and procedures set in place by its Lead Boroughs. Officer responsibilities and actions are controlled through Schemes of Officer Delegation.
- The effective and efficient use of resources and the securing of continuous improvement are achieved through a range of review processes but primarily the Joint Waste Strategy, which is also at the centre of the Authority's Best Value review process.
- The financial management of the authority is organised through a wide range of well-established processes and procedures which delivers strong financial control arrangements. The Authority has in place a detailed strategic budget planning process which is supported by comprehensive Financial Standing Orders which have recently been subject to a review. Members receive and consider detailed financial information on a regular basis and this facilitates the political decision making process.
- Other features of the financial control environment include an annual financial survey. The Authority also benefits from the activities of the London Borough of Camden's Internal Audit Division which provides assurances to management that the Council's – and therefore the NLWA's – control systems are adequate, effective and operating as intended and investigates all identified or suspected cases of fraud/irregularity throughout the Council. The work of internal audit is to co-ordinate with that of the Council's – and the Authority's – external auditor.
- Performance management within the authority is considered through a range of review arrangements including external/internal audit reviews,

annual reports and the detailed reporting of national and local performance indicators.

4. Review of Effectiveness

The North London Waste Authority has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development, maintenance and ongoing assurance in respect of the internal control environment covering their individual areas of responsibility. This is also supported by reviews conducted by the external auditors.

As services are provided through the Lead Boroughs of Camden and Haringey the Authority has also benefited from reviews undertaken by those authorities in providing corporate and service-based assurance on the overall system of internal control in operation.

5. Matters for Future Action

Following the review of its system of internal control for the year 2003/4, the North London Waste Authority recognises that it needs to formalise its controls and risk management arrangements. This will be reported to the Authority in the coming months and will include an action plan to address any weaknesses and gaps identified including ensuring that the potential risks arising from the new strategy are addressed.

6. Signed Agreement

We have been advised of the arrangements that are in place to ensure that an effective system of control exists in the Authority and of the intention to formalise its controls and risk management arrangements over the coming months including the development of an action plan to address any weaknesses and gaps identified.

Cllr Ray Dodds
Chair of the NLWA

Moira Gibb
Clerk to the NLWA