

	<p style="text-align: center;">Audit Committee 15 December 2011</p> <p style="text-align: center;">Report from the Director of Finance and Corporate Services</p>
For Information	Wards Affected: ALL
Risk Management Policy	

1. Summary

- 1.1. This report sets out proposals for the development of risk management across the council.

2. Recommendations

- 2.1. The Audit Committee agree the proposed risk management policy and strategy as set out in appendix 1.

3. Detail

Background

- 3.1. The council's risk management strategy was last endorsed by the Audit Committee in December 2008¹. This set out, in a 23 page guidance note, the allocation of responsibility for the management of ten high level corporate risk categories to various corporate groups (i.e. the Strategic Finance Group for finance risks, the Procurement Forum for procurement risks); the assessment of risks and guidance on specific service level risks. The report contained a commitment to provide a follow up report on high level risks following completion of the 2009/10 service planning process. This did not occur.
- 3.2. During 2009 a number of presentations on the new strategy were delivered by the Procurement and Risk Management Team to Departmental Management Teams. Although key risks were included within individual service plans for 2009/10 it is unclear how well these were documented within the council wide risk management database, Acertus. This system was decommissioned in 2010 and although the data was copied to an excel spreadsheet, the data is unusable in its current form.

- 3.3. Some risk information is captured within service planning documents and the Departmental Scorecards, as set out in the Performance Planning Guidance Framework 2011-12². However, recording and assessment is inconsistent across the organisation.
- 3.4. Linking risks to performance documentation ensures that risks are clearly associated with departmental and council objectives, which is a primary requisite of effective risk management. However, there is no uniform system within departments to record any further risk details, such as the inherent (raw) risk score, i.e. the evaluation of the risk prior to any controls being applied and the subsequent residual score.
- 3.5. The Risk Management Group, which attempted to ensure some common understanding of risk management and uniformity of risk scoring has not met for a number of years and it is, currently, unclear how well risk management is understood by the organisation.
- 3.6. Until October 2010 the responsibility for the co-ordination of risk management activity sat within the Procurement and Risk Management Team within Finance and Corporate Resources. The procurement function was transferred to Legal and Democratic Services together with all resources. The responsibility for developing / re-engineering risk management was transferred to the Head of Audit and Investigations. No additional resource was allocated to Audit and Investigations for this purpose, nor is there any spare capacity.
- 3.7. This report sets out a proposed mechanism for identifying and monitoring risks across the organisation. It is mindful of the severe pressures and resource constraints impacting upon managers and, accordingly, recommends a simplified Risk Management Process.

4. Strategy

- 4.1. The council has a risk management strategy, as agreed by the Audit Committee in December 2008. This strategy provides some good basic definitions and sets out some principles of risk ownership, i.e. CMT are responsible for managing the Corporate Hotspots through the Policy Co-ordination Group; Corporate Risk Categories are assigned to corporate groups; and Departmental Management Teams are responsible for their own service based risks. Although the strategy benefits from being relatively short it does not cover some crucial areas such as risks within projects or partnerships. The associated guidance, which is lengthy, sets out 10 cross council or “corporate level” risks and allocates ownership of these to a number of corporate groups (it is unclear how many of these still exist). It is anticipated that all service level risks will fall into one of these corporate level risks.
- 4.2. There is inherent confusion in this system, for example the corporate risk of inappropriate data loss is assigned to the Information Governance Group whilst a specific service manager will be responsible for ensuring data is not saved onto inappropriate media by staff. There is also much duplication of

team and corporate risk, such as inability to recruit and retain staff. It is also debatable as to whether the Corporate Hotspot List is a substitute for a high level risk register, given it does not attempt to evaluate risk or provide control information.

- 4.3. The strategy has, therefore, been redrafted, removing reference to group ownership of risks and setting out a simplified process in which operational risk is identified from the bottom of the organisation upwards with the Corporate Management Team considering the high level risks, any additional strategic or reputational risk and feeding these into a single council wide register. Departmental Directors will be responsible for collating all their service area risks and reporting the most significant through to CMT. CMT will have responsibility for identifying, reviewing, managing and reporting on the council's most significant risks. Whilst the Corporate Hot Spot list can remain for its own purposes, it must not be seen as the main method of managing the organisation's key risks.
- 4.4. There are many risk scoring models available but it is recognised that any method needs to be simple, widely understood with a common understanding of how to evaluate risk. The previous system used a detailed scoring mechanism which could provide an infinite number of different scores using many decimal places. This proved unworkable and resulted in scoring anomalies. Ultimately, the scoring translated into a basic 3x3 non-numeric categorisation, i.e. high, low, medium applied to both likelihood and impact. Whilst simple this can lead to confusion i.e. should a "high low" combination be considered the same as a "low high".
- 4.5. A single numeric value is considered to be easily understood and, therefore, a 6x6 model is being proposed. Likelihood and impact will be ranked on a 1 to 6, integer only scale. This should give sufficient scope to enable the council to differentiate its more significant risks and to identify which controls are most important.
- 4.6. Most risk management models require the organisation to identify its risk appetite. This is the level of risk the organisation is prepared to accept. In a numerically scored model this would be a value, above which a risk requires controlling. The organisation can set different appetites for different risks and determine what level of acceptable risk it allows to be delegated. In fully functioning risk management systems, when the residual risk rises above the appetite level, the risks would be escalated to more senior management. This process is considered, at present, too sophisticated for the authority. It is essential that the basic concepts are fully embedded before risk appetites are set. To compensate, Departmental Directors will be made fully aware of all the risks across their departments when they consolidate the risk registers from each section and will be made responsible for escalating to CMT any risks which are not being sufficiently managed.
- 4.7. Significant risks will need to appear on the service planning scorecards in a revised format to ensure that adequate detail is collected. The recommendation is that the Strategy, Partnerships and Improvement Directorate (SPI) assume responsibility for ensuring that risk management

documentation is completed as part of the performance management framework.

- 4.8. There will be a small element of duplication with the risk logs maintained within the project management documentation associated with the one council projects, and other council wide projects. These risks logs only record the risk as an issue. However, given the fundamental importance of these projects it is likely that some of the risks to those individual projects will be significant enough to appear on the risk registers. Again, only basic information is held on the risk log and it will be a matter for the relevant Departmental Director to ensure that significant project risks are also recorded on relevant departmental registers.

Communication and Training

- 4.9. The Audit and Investigations Team visited all DMT's in the early part of the year to discuss key risks and float the idea of a simplified risk management structure. This seemed to be welcomed by all.
- 4.10. Discussions have been held with the Assistant Director Policy within SPI who has indicated that the team will be able to fulfil the collation function as part of the performance management framework.
- 4.11. Although the Procurement and Risk Management Team attempted to roll out a training programme in 2009/10, the success of this is unknown. Given the risk register has not been updated for some time and the changes in the structure of the council, it is considered appropriate that further training is given to managers, if only to assist them in initial risk identification and scoring. There is no spare capacity within Audit and Investigations or any specific expertise in risk management training. A number of contingency days from the audit plan have already been used to develop the new strategy and to provide training to DMTs.

5. Financial Implications

- 5.1. None

6. Legal Implications

- 6.1. The Accounts and Audit Regulations (England) 2011 section 4(1) require the council to *"ensure that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."*
- 6.2. Further section 5 (1) (4) (i) requires that the Director of Finance and Corporate Services determines accounting control systems which include adequate measures to ensure that risk is appropriately managed.

7. Contact Officer Details

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