



# **GEDLING**

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## **BOROUGH COUNCIL**

**Report to: Audit Sub Committee**

**Subject: Risk Management Strategy – Review & Update**

**Date: 6<sup>th</sup> December 2006**

**Author: Manager of Resource Services**

### **1. PURPOSE OF REPORT**

To provide a review and update of the Council's Risk Management Strategy, and outline proposals for developing the strategy further.

### **2. BACKGROUND**

The Authority has previously developed a Risk Management Strategy, however, in light of the ongoing dynamic nature of the recent legislative and regulatory framework surrounding Corporate Governance, a review of the existing strategy has been undertaken.

The proposed amendments and enhancements to the Risk Management strategy are attached for review and approval.

Following approval and ratification of the revised Risk Management Strategy, associated policies and procedures will be reviewed and updated in line with the revised strategy.

### **3. RECOMMENDATION**

Members of the Audit Sub Committee review and approve the revised Risk Management Strategy.

## **RISK MANAGEMENT STRATEGY**

### **1. PURPOSE**

This Risk Management Strategy forms a key part of the authority's Internal Control and Corporate Governance arrangements. It also stands alongside policies on Health & Safety, Internal Audit, Insurance, Business Continuity Planning and Fraud Prevention.

The strategy considers and builds upon the existing risk management strategy and identifies the authority's underlying approach to Risk Management, including roles and responsibilities and outlines the main reporting procedures.

### **2. WHY MANAGE RISK**

All organisations, whether private or public sector, face risks to their assets and operations. Risk can be defined as the combination of the probability (likelihood) of an event and its consequences (impact).

In all types of organisation, there is the potential for events and consequences to provide both threats (downside risk) and opportunities (upside risk).

Effective risk management is one of the key factors that differentiate a successful organisation from a less successful one. It increases the probability of success and reduces both the probability of failure and the uncertainty of achieving the authority's overall objectives.

The primary objective of the strategy is to develop managements understanding of risks, through identification and evaluation, allowing them to make informed decisions to add maximum sustainable value to all the activities and stakeholders of the authority.

The strategy should not be viewed as a discrete process but as an enabler to existing management processes, being wholly integrated into the culture of the authority.

Whilst it is the overall responsibility of the executive to approve the authority's risk management strategy and promote a culture of risk management, each manager and employee is required to take responsibility for the management of risk.

### **3. OBJECTIVES & METHOLOGY**

As outlined above the fundamental objective of the Risk Management Strategy is to develop managements understanding of risks, through identification and evaluation, allowing them to make informed decisions.

The following key enablers are critical to the achievement of this objective:

- The integration of risk management into the culture of the Authority.
- Management of risk in accordance with best practice.
- The consideration of legal compliance as a minimum standard.
- To anticipate and respond to changing social, environmental, legislative and political requirements.
- Unambiguous allocation of accountability for risk management throughout the Authority.
- Effective performance monitoring of risk management activity.

The Risk Management Strategy builds upon the Authority's existing strategy. The key enhancements include the introduction of a standard approach (common language) to risk terminology, the formalisation of reporting procedures and the introduction of Key Performance Indicators to measure how effectively risks are being managed and the extent to which risk management procedures are embedded across the Authority.

The authority has identified member and officer risk champions, the Finance portfolio holder and Head of Finance respectively.

The Authority's overall approach to Risk Management is summarised in figure one. The purpose of each key element of the process is summarised below.

#### **3.1. Corporate Objectives & Strategic Risks**

The Risk Management Strategy provides the framework for the development of risk management as an integral part of the management process and a key enabler for the delivery of Corporate Objectives.

The key drivers to the effective management of risk is the identification and evaluation of Corporate Objectives and the key risks associated with their effective delivery. This will be achieved through the consideration of risks within the Authority's Business Planning and Performance Management processes.

#### **3.2. Central Risk Database**

The Authority will develop and maintain a central risk database, providing a hierarchy of risks mapped to Corporate Objectives.

The database will provide an holistic summary of risk and control evaluation activity at both strategic and operational levels.

### **3.3. Sources of Assurance**

Key feeds into the database include the initial identification of strategic and operational risks and the ongoing evaluation of the effectiveness of controls.

Controls evaluation will be undertaken on a self-assessment basis by management, via the annual departmental assurance statements, and also independently by Internal Audit, adopting a risk based approach to audit planning and reporting.

The database will also give consideration to assurance provided from other sources including the Audit Commission and specialist internal groups such as the Corporate Health & Safety (CHAS) group.

This will provide a single, holistic source of risk assurance for the Authority.

### **3.4. Reporting Procedures**

The role and purpose of the Audit-Sub Committee will be expanded to include responsibilities for the monitoring and review of the Authority's Risk Management policies and procedures including:

- Receiving quarterly reports with respect to the effectiveness of risk management procedures.
- Changes to Financial Regulations and Procedures.
- Achievement of Business Continuity Plans.
- Notification of Internal Audit recommendations in respect of Risk Management procedures.

The Audit Sub-Committee will be renamed the Audit & Risk Sub-Committee to reflect these additional responsibilities. The existing Risk Management Group will, effectively, be subsumed within the Audit & Risk Sub-Committee.

The Authority will review the need to re-establish the Risk Management Group on an ongoing basis. The Risk Management Group will be reconvened to oversee future fundamental development and revisions to the Risk Management Strategy.

The format of the quarterly Audit & Risk Sub-Committee report is outlined in appendix A – Corporate Risk Scorecard.

The Corporate Risk Scorecard will provide a key feed, along with the annual audit letter and governance report, into the annual Statement of Internal Control (SIC).

This approach provides the authority with an holistic and real time risk management monitoring process which is integrated within the overall Governance reporting process, including the Internal Control, Internal Audit, Health & Safety, Insurance and Business Continuity Planning procedures.

### **3.5. Risk Management Key Performance Indicators**

To enable the Authority to understand how successfully it is managing risks, two Key Performance Indicators have been developed. These are outlined below.

#### **Corporate Risk Scorecard**

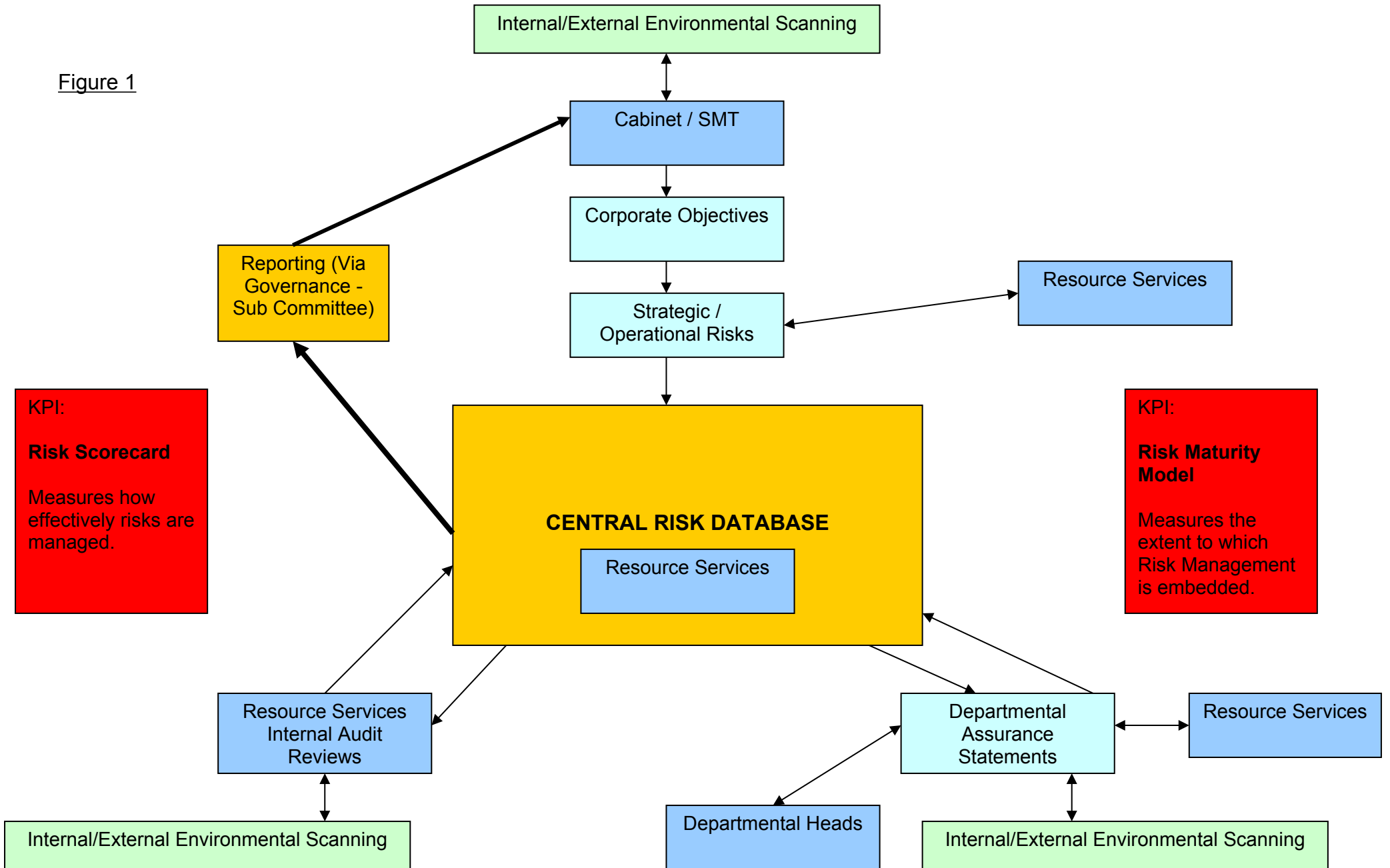
This is outlined in appendix A and provides a snapshot of how effectively the Authority is managing its Corporate Risks. The scorecard provides the opportunity for trend analysis, outlining improvement or deterioration in both the inherent and residual risk scores.

#### **Risk Maturity Model**

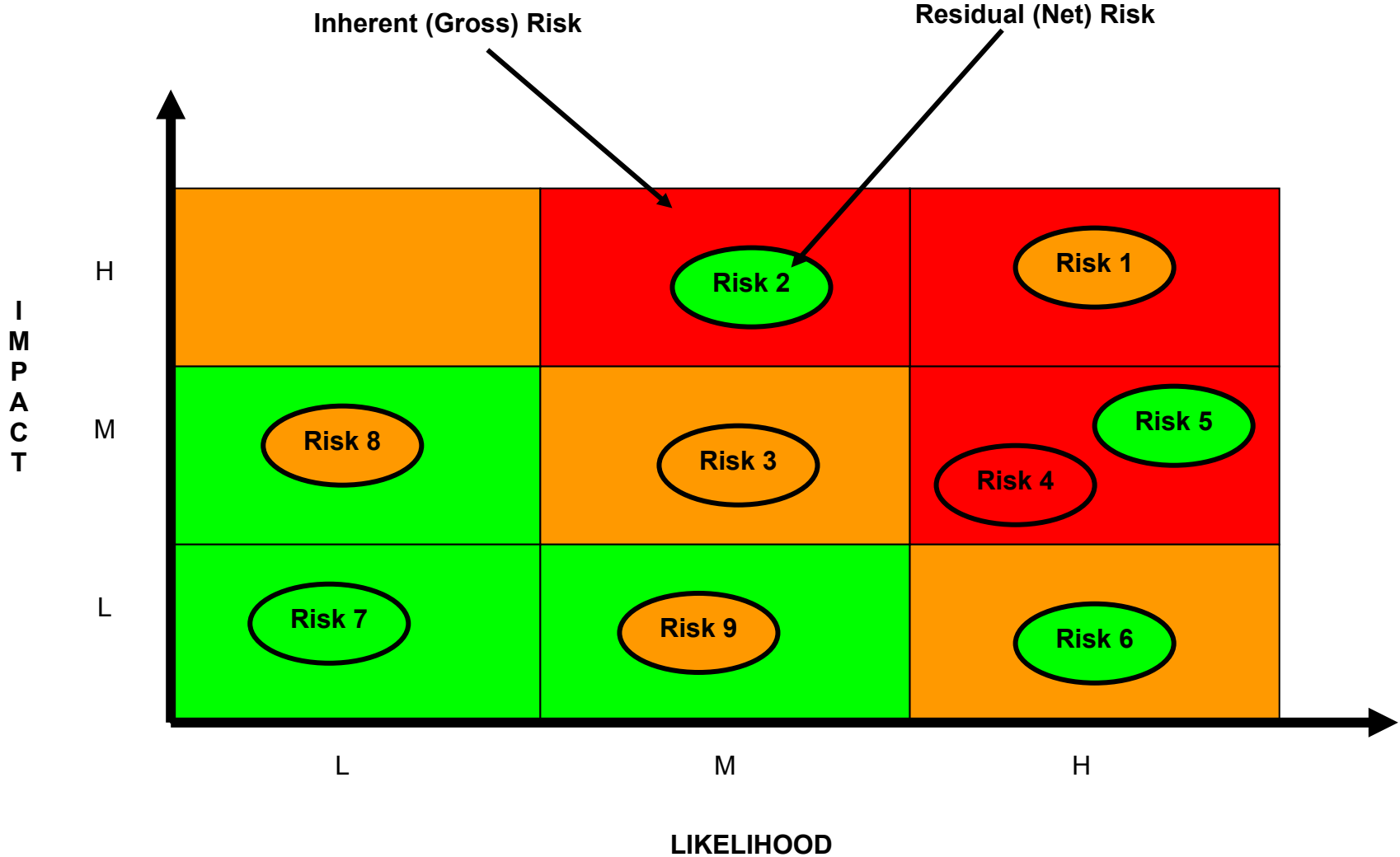
This is outlined in appendix B and provides a measure of the extent to which Risk Management is embedded within the culture and management processes of the Authority.

Key roles and responsibilities are outlined in appendix C.

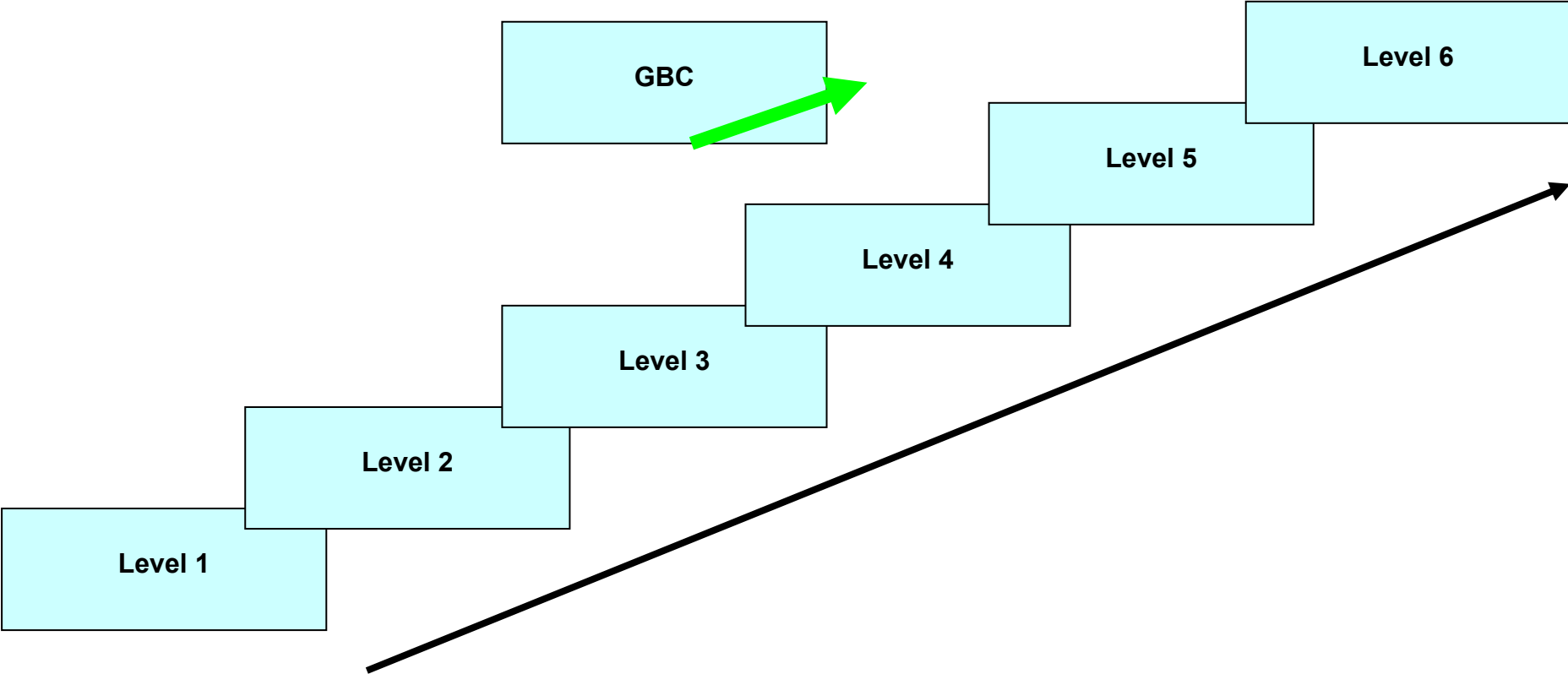
Figure 1



Corporate Risk Scorecard (example)



Risk Management Maturity Model





## **Risk Management Maturity Model Definitions**

### Level 1 – Business Unit Driven

Risk management has not yet been recognised as strategically important by senior management and risk awareness is very low. There is no centrally coordinated support function. If the company has a risk management strategy, it is not deployed effectively or consistently. Individual departments are “on their own” to organise, and implement risk management. The ability to identify and mitigate risks to corporate objectives is generally low.

### Level 2 – Limited Central Planning

At least one department or corporate function has recognised the strategic importance of risk management and has begun efforts to increase executive and company-wide awareness. At least one internal or external risk management professional is available to support the efforts of the departments. The general level of risk awareness is low except for certain senior managers who are trying to make a case for a structured, company-wide risk management process. The ability to identify and mitigate risks to the achievement of corporate objectives, and the state of readiness, may be moderate for participants but remains relatively low across the majority of the authority. Senior management may see the value of a structured risk management process but are unwilling to make it a priority, although they may have a project under way to assess the business case for it.

### Level 3 – Centrally Planned

Departments have instituted a rudimentary risk management process, mandating at least limited compliance to policy, standards and practice. Risk awareness is improving but is still patchy. A central risk management function has been established, which is attempting to deliver standards and support to the departments. The central function is likely to be under resourced. Audit findings are being used to reinforce the case for improvement. Interest in leveraging the work already done is being promoted as a business driver for launching an organisation wide risk management process. Several departments have achieved a significant ability to identify and mitigate risks in their areas. However, the authority as a whole is at best moderately capable of managing corporate risks.

#### Level 4 – Moving Towards Integration

Senior management understands and is fully committed to the strategic importance of an effective risk management process. Risk awareness is increasing across all levels of the authority. An enforceable, practical risk management policy and framework has been adopted. A suitably resourced central function has been created to govern the process and support all departments. Risk management policy, practices and procedures are being standardised across the authority. However, not all emerging risks are being identified proactively. All critical business processes have been identified and continuity plans for their protection have been developed across the authority. Departments are beginning to test their continuity plans for critical processes and routinely updating plans.

#### Level 5 – Baseline Standard

Risk awareness is high across the authority. Risk profiles and audit reports no longer highlight major deficiencies in the risk and control environment or shortcomings in business continuity arrangements. Examples of efficiency and value for money achieved from the risk management process are highlighted in periodic organisational communications. Emerging risks are being identified proactively before they cause significant damage or have the potential to cause such damage. An energetic communications programme exists to sustain the high level of risk awareness that has developed. Departments have completed tests on all elements of their business continuity plans, and their plan updating methods have proven to be effective. The authority is continuously “raising the bar” in terms of the sophistication of its risk management process. It has a high level of preparedness for handling a crisis.

#### Level 6 – Synergistic

All departments have a measurably high degree of risk management process integration and individual competency. Complex risk mitigation strategies are formulated and deployed successfully. Cross-functional coordination has led to a highly integrated approach to risk management across departmental boundaries. Tight integration with the authority’s planning, performance management and change control processes keeps the authority’s risk and control environment at an optimum level together with a high state of preparedness for a crisis, despite radical and rapid change in the business environment. Innovative practices, tools and techniques are piloted and incorporated into the risk management process on a continuous basis.

## APPENDIX C

### Summary of Risk Management Responsibilities

	Development of the Corporate Risk Management Strategy	Agree the Corporate Risk Management Strategy	Provision of Risk Management advice and support	Implementation of the Risk Management Strategy	Review the effectiveness of the strategy
Elected Members / Executive		✓			✓
Corporate Management Team	✓	✓			✓
Risk Champions	✓		✓	✓	✓
Resource Services Manager	✓		✓	✓	✓
Governance Sub-Committee	✓		✓	✓	✓
Risk Management Group (as required)	✓				✓
Departmental Management Teams				✓	✓
Service Managers				✓	✓
Employees				✓	