Audit Committee – 15 January 2018

Risk Management Strategy

Summary of the report

This report presents a proposal for further embedding risk management within the council and seeks to explain how and why the proposal has been formulated so far. It also includes a draft refreshed policy and strategy document.

Recommendations

Audit Committee is recommended to:

1. Consider the proposal and action plan to implement, providing comment and challenge that can be used to refine the approach.

2. Approve the draft strategy, noting that the Chief Finance Officer will amend it to contain any changes arising from recommendation 1 above.

James T. Walsh – Chief Finance Officer

4 January 2017

Resource and Legal Considerations

The statutory requirements are detailed in the governance section below.

Governance and Risk Management

Audit Committee's responsibility for risk management includes the following:

- Reviewing the mechanisms for the assessment and management of risk.
- Giving assurance about the process.
- Ensuring the council meets its statutory requirements, as stipulated within the Accounts and Audit Regulations 2015 (reg 4(1), "the relevant body is responsible for ensuring 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".

Audit Committee is also required to ensure that it receives reports on risk management on a regular basis and takes appropriate action to ensure that strategic

business risks are being actively managed. This report enables Audit Committee to exercise its responsibilities in respect of risk management by reviewing the current CRR; calling in key business risks for review; and seeking assurance that risk management is thoroughly embedded within the organisation.

Walsall Council's system of internal control comprises the policies, procedures and practices, as well as organisational culture that collectively support the Authority's effective operation in the pursuit of its objectives. The risk management, control and governance processes enable the Authority to respond to significant business risks, be these of an operational, financial, compliance or other nature, and are the direct responsibility of the Corporate Management Team.

The Authority needs assurance over the significant business risks set out in the risk management framework. In addition, there are many other stakeholders, both internal and external, requiring assurance on the management of risk and other aspects of the Authority's business - these including Members, regulators etc. There are also many assurance providers. The internal audit function is the third line of defence in the Council's 'three lines of defence approach' to risk and assurance. The first line of defence comprises the Council's core operational services, and the second line comprises the oversight functions such as risk management.

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RISK MANAGEMENT

POLICY STATEMENT & STRATEGY

APPROVED BY:

CORPORATE MANAGEMENT TEAM: 21 DECEMBER 2017

AUDIT COMMITTEE: 15 JANUARY 2018

NEXT REVIEW: SEPTEMBER 2018

RISK MANAGEMENT POLICY

The Strategic priorities of Walsall Council are set out within the Corporate Plan and in delivering against these priorities decisions are taken regarding allocation of increasingly finite resources.   The Council has needed to become more innovative and commercially minded in order to exploit opportunities whilst still operating in an environment where there are high expectations around transparency, integrity and accountability. Value for Money remains at the heart of good governance in local authorities and the Council acknowledges that:

1. Risk Management is a key element of the Council's Governance Framework;
2. Statutory responsibilities exist within the Accounts and Audit Regulations;
3. The council also has specific statutory responsibilities for example to ensure health and safety risks are effectively managed;
4. All Members and Officers have responsibility and a role to play in managing risk; and
5. Effective management of risk will ensure that the organisations objectives, and resulting outcomes, are achieved.

It is further promoted that:

Risk management is not about being 'risk averse' – it is about being 'risk aware'. Risk is ever present and some amount of risk taking is inevitable if the Council is to achieve its objectives. Risk management is about making the most of opportunities and about achieving objectives once those decisions are made. By being 'risk aware' the Council is in a better position to avoid threats and take advantage of opportunities.

The Council will achieve effective risk management through:

- Implementing Strategy and Process that is fit for purpose, compliments and strengthens the other governance processes within the Council, including assurance and performance management processes;
- Ensuring a consistent understanding of what is deemed to be strategic and operational risk, and the application of the organisation's risk appetite and tolerance;
- Equipping managers with the skills required to identify and assess risk, communicate and escalate this appropriately and effectively;
- Acknowledging that increasingly risks are shared across partner organisations, which can increase the complexity of analysis and reporting, and also that assurances regarding the level of risk may need to be sought from third parties as well is internal sources;
- Annually reviewing the effectiveness of risk management including health and safety risk management and reporting results as part of the Annual Governance Statement;
- Reviewing the Council's risk appetite and tolerance as part of the process to set the strategic objectives; and
- Considering on an on-going basis that the Council's approach remains in line with good practice, whilst reviewing and approving the Policy and Strategy formally once a year.

INTRODUCTION

The Council's Corporate Management Team (CMT) recognises the importance of effective identification, evaluation and management of all key strategic and operational risks.

The Council takes seriously its statutory responsibilities for risk management particularly in areas where there is a high original risk such as health and safety.

The Council also acknowledges that risks around projects and partnerships must be effectively captured and communicated within the risk management framework of the organisation to ensure that a holistic approach to risk management is embedded.

The tangible and intangible benefits of risk management are:

- Improved customer service and outcomes - minimal service disruption, increased satisfaction and optimal service delivery
- Improved strategic management - greater ability to deliver against objectives and targets with finite resources;
- Improved operational management - reduction in interruptions to service delivery and/or in managerial time spent dealing with the consequences of a risk event having occurred;
- Improved financial management - informed holistic decision-making and reduction in losses or claims against the council, reduced insurance premiums; and
- More robust assurance that statutory and good practice obligations are met.

This is endorsed by the increased focus on the importance of governance to public sector bodies. The Council also has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts & Audit Regulations 2015:

"The relevant body shall be responsible for ensuring 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 the arrangements for the management of risk."

The Risk Management Strategy (and Policy Statement) provides the foundation on which robust risk management activity, which supports the efficient and effective delivery of services, will be embedded within business process and a contribution to the effectiveness of the governance framework.

More detail to support and guide the organisation in successfully embedding Risk Management can be found within the guidance accompanying this Strategy.

An action plan, covering the planned duration of the Strategy, has also been developed to implement the Strategy and further embed risk management into the governance framework of the organisation.

The definition of risk used within the Council is that **Risk** is the threat or opportunity which an event or action can have which can adversely affect or enhance an organisation's ability to achieve stated objectives and to successfully deliver approved strategies. Threats and opportunities can be from both external and internal sources.

Risk Management is therefore the process by which risks and opportunities are identified, analysed, prioritised, managed and monitored.

FIG 1: Risk Management Cycle

RISK

IDENTIFICATION

REVIEW / MONITOR

THE

RISK

RISK MANAGEMENT

ANALYSIS

CYCLE

RISK

PRIORITISATION
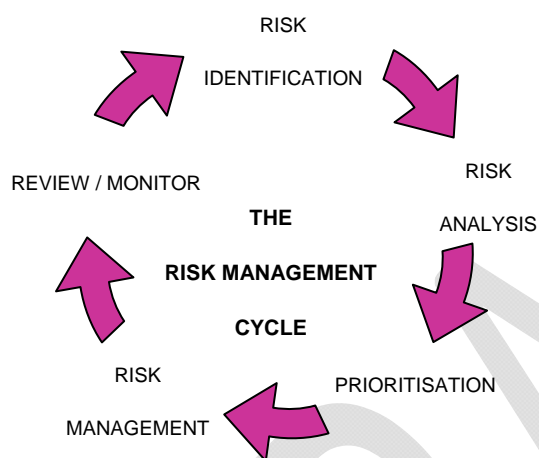
MANAGEMENT

The approved methodology is outlined within the guidance to support management, however the high level approach is outlined in paragraphs below.

The activity to **identify** risk is most effective when aligned to strategic, operational and project planning processes focused on the achievement of objectives.
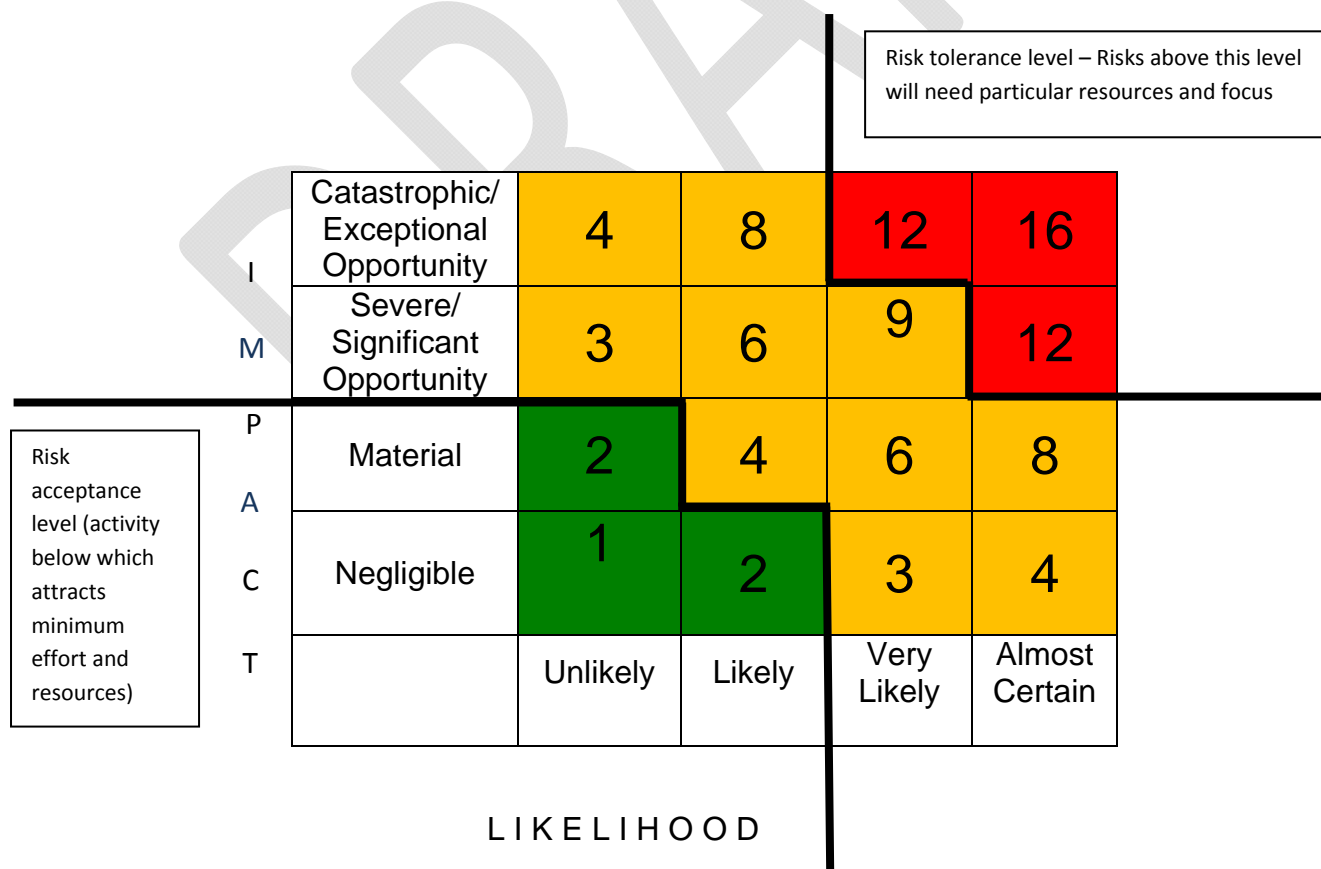
The Council's methodology for risk **evaluation or analysis** is for the **likelihood** of the risk materialising, and the **impact,** should it materialise**,** to be scored using a defined criteria and scored on a four by four grid.

Guidance that supports the implementation of this strategy provides criteria to promote consistency of evaluation of risk across the organisation.

A summary table is included here for information.

Likelihood			Impact		
Score 1-4	% chance	Time Frequency	Score 1-4	Disruption to Services	Budget
1 Unlikely	<10%	Rare occurrence	1 Negligible	Minor disruption to services	<5%
2 Likely	10-50%	Once in 3 years	2 Material	Up to one month	5-10%
3 Very Likely	50-85%	>1 in 3 years	3 Severe	1 – 3 month	10-20%
4 Almost Certain	>85%	Annual or Bi Annual	4 Catastrophic	Over 3 month	20%

Consistency is also increased through the challenge mechanisms that exist within the governance structure which are documented in the delivering the strategy section.

Risk tolerance level – Risks above this level will need particular resources and focus

Risk acceptance level (activity below which attracts minimum effort and resources)

I M P A C T	Catastrophic/ Exceptional Opportunity	4	8	12	16
	Severe/ Significant Opportunity	3	6	9	12
	Material	2	4	6	8
	Negligible	1	2	3	4
		Unlikely	Likely	Very Likely	Almost Certain

L I K E L I H O O D

In assessing a risk there are three ratings to be confirmed from the analysis of the risk:

The **Original Risk** Score – the level of risk before any mitigations have been applied.
The **Current Risk** Score – taking into account the mitigations currently in place and the effectiveness of those implemented mitigations.
The **Target Risk** Score – the level at which the risk will fall within the Council's appetite and be accepted.

Decisions regarding target risk will be driven by the approved **Risk Appetite** - this is the amount of risk that the Council is willing to seek or accept in the pursuit of its objectives.

Risk appetite will vary from person to person and is influenced by the type of risk. Guidance will be provided to management and mechanisms within the process and procedures are designed to challenge and as a result increase consistency of decisions regarding risk across the Council. Annually the effectiveness of these mechanisms is considered and assurances provided to Audit Committee.

The **Risk tolerance** of the organisation is the boundaries of risk taking outside which the Council is not prepared to venture in the pursuit of its long-term objectives. Effective communication regarding risk is essential to ensuring that the risk appetite being applied is ensuring risks are managed within the approved tolerance level.

The risk appetite and tolerance of the organisation will be considered annually as part of the usual planning cycle and changes to procedures and guidance made as required.

The **Prioritisation** of risks will be dependent on the outcome of the analysis stage and the gap between the current and target risk ratings.

When taking decisions regarding the appropriate action to manage a risk consideration will be given to whether it is the likelihood or impact that we seek to reduce.

Risks can be **managed** by:
- Treating – management action / control to bring within the risk appetite or to ensure that the opportunities available are being optimised;
- Transferring – passing to a third party, usually via a contract i.e. insurance – this would bring the activity within the council's appetite and overall tolerance level;
- Tolerating – accepting the current level of risk, because it is within the council's defined appetite to do so and/or the cost of mitigations to reduce it further outweigh benefits to be gained in terms of affecting the likelihood or impact.
- Terminating – ceasing the activity – usually because the risk exceeds the council's appetite or moves the overall level of risk over its tolerance for risk and/or the cost of mitigations to rectify this far exceeds the resources available.

AIMS AND OBJECTIVES

The Council's risk management aims and objectives, for the period of this Strategy, are as follows:

- To further embed robust risk management into the culture of the Council in line with the approved policy, supporting procedures and good practice.

- To ensure that actions taken to maximise opportunities and to minimise the likelihood of risks occurring and/or reducing the impact of consequences should risks occur are in accordance with the Council's defined appetite and tolerance.

- To ensure that the risk management process including effective reporting arrangements to senior management and Members remain fit for purpose, optimising the efficiency of resources input.

How these objectives will be achieved is outlined within the 'Delivering the Strategy' section below.

DELIVERING THE STRATEGY

The diagram below outlines the governance structure with regards to risk management.
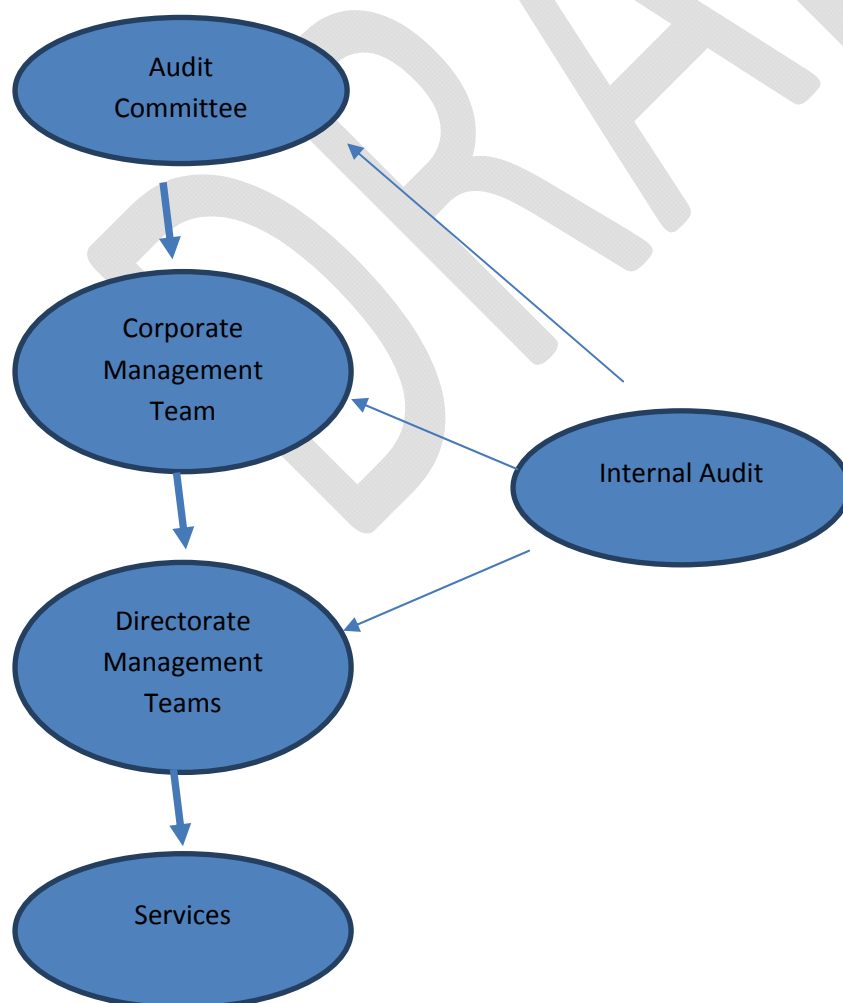
Appendix 1 outlines the roles and responsibilities with regards to risk management in the Council. The effective delivery of the Strategy will be reliant on fulfilment of the respective roles and responsibilities.

An action plan is in place to ensure implementation of the approved policy and Strategy. This can be found at Appendix 2.

A guidance document has been created to support management in applying the requirements of the policy and Strategy into their day to day roles and responsibilities.

Group / Individual	Role / Responsibility
The Council	• Ensure that the financial management of the council is adequate and effective and that the council has a sound system of internal control which facilitates the effective exercise of the council's functions and includes arrangements for the management of risk.
All Members	• Support and promote risk management. • Consider the risks involved in any key decisions made.
Cabinet	• To have regard for the risks faced by the council within the Cabinet decision making process.
Portfolio Holders	• Support the development and have a shared understanding of the risk registers that relate to their portfolio.
Audit committee	• To provide independent assurance of the adequacy of the risk management framework and the associated control environment. • Consider the effectiveness of the council's risk management arrangements. • Seek assurances that action is being taken on risk related issues identified by auditors and inspectors. • Review the effectiveness of key control strategies including risk management. • Endorse the Council's Risk Management Strategy.
Chief Executive and Corporate Management Team	• To ensure that the Strategic Risk Register reflects those organisational risks which may prevent it delivering on its objectives for Walsall residents and service users and manages these in an appropriate and proportionate way. • To determine the council's overall approach to risk management and supporting processes. • Support and promote risk management throughout the council. • To oversee the development / review of the council's Risk Management Strategy / Framework. • To take responsibility for ensuring that risk management is embedded in business processes, including financial planning, performance management and the council's decision making processes.
S151 Officer (Officer Champion for Risk)	• To ensure that the Risk Management Strategy is kept up to date and reflective of best practice and relevant to the organisation. • To provide support and guidance to Corporate Management Team (CMT) members when reports are presented on the Corporate Risk Management Strategy and/or the Strategic Risk register. • Active involvement in and bring influence to bear on all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered and alignment with the organisation's financial strategy. • Be proactive in managing change and risk; be focussed on

Group / Individual	Role / Responsibility
	outcomes; and help to resource the council's plans for change and development. • Applying strong internal controls in all areas of financial management and risk management. • Making recommendations on the treatment of generic and cross-cutting risks and prompting and ensuring a process exists to identify future issues which may follow legislative and other changes. • Supporting effective governance of the council through the development of risk management and reporting framework.
Executive Directors	• Champion and ensure that risk management is implemented in their directorate. • To ensure that the risks which may prevent the directorate/service from delivering its objectives for Walsall residents and service users are identified and manage these in an appropriate and proportionate way. • Identify relevant lead officers / risk owners as appropriate. • To ensure that portfolio holders are briefed on significant risks that fall within their portfolio and actions to address these. • Consider cross cutting, joint working and risks within partnership working. • Escalate risks as appropriate to CMT / Strategic Risk Register.
Risk Champions	• To support the continued development of risk management by embedding risk management in the day to day running of their respective directorate and acting as a point of contact to provide support and information as appropriate.
Internal Audit	• To offer independent, objective assurance and advice on risk management activity. • To undertake an audit of risk management arrangements and make recommendations on actions to be considered. • To provide assurance on the effectiveness of controls, including annual assessment of the council's risk management and internal control mechanisms as part of the Annual Governance Statement.
Mazars (Risk Management)	• Annually review and recommend any changes to the Council's Risk Management Strategy. • Undertake regular maintenance of the Risk Management Strategy and provide appropriate training to officers and members. • Support the Council in embedding risk management in the Council's operations by maintenance and support to the Council's corporate Risk Management Strategy. • Annual risk management report which provides assurance that the system of risk management and identification is suitable and

Group / Individual	Role / Responsibility
	sufficient for the purposes of the Annual Governance Statement. • Provide strategic and directorate risk management support, to assist directorates in embedding risk management into their areas of operation to enable quarterly update of directorate and Strategic Risk Registers. • Quarterly review of the Strategic Risk Register and quarterly reports on the Council's risk management to Audit Committee and CMT.
Operational Risk Management and Insurance Service	• To provide support on operational risk management across the council. • To consider insurance management information reports, and take forward any identified initiatives arising from identifying incidents that can add value to the business and avoid loss control.
All Employees	• To understand the risks that relate to their role and activities and their role in reporting on and managing these. • To report new or emerging risks in a timely manner.

Ref	Implementation Action Plan	Estimated Timing by
1	Facilitated CMT session to inform a refresh of the Strategic Risk Register. *Confirm principles of new approach.* *Timed to feed into the 2018/19 audit plan.*	February 2018
2	Develop procedural documentation to support Management.	February 2018
3	Sessions with DMTs / Project Teams to cascade the top down Strategic Risks for consideration at the Operational/Project level as well as Operational level 'bottom up' risks facing services to be captured and considered. *Communicate the principles of the new approach.*	April 2018
4	Presentation of refreshed Strategic Risk Register to Audit Committee. Audit Committee Member briefing/training session.	June 2018
5	Review of Risk Management for the Head of Internal Audit Opinion. *Any recommendations from the review to be included in future steps of action plan.*	April 2018
6	Complete sessions with service teams to roll out new strategy and support them to embed. Undertake a skills gap analysis and provide training to address. Consideration of training and induction provided to officers and members to ensure no future gaps in skills appear.	June 2018
7	Review the Strategy and Procedural Documentation to ensure they fully reflect developed practices including the refreshed Corporate Plan and Change Programme. *Also consideration of how some other processes will affected by the changes in the risk management framework or how changes in how risk is managed or appetite and tolerance might impact on other business process.*	September 2018
8	Updated Strategy is approved at Committee *Timing and style of future reporting on risk to Committee to be formally agreed.*	December 2018