	AUDIT COMMITTEE **1 FEBRUARY 2005**	**AGENDA ITEM**:

AUDIT COMMITTEE RISK STRATEGY 2005/06

Ward(s):   ALL

Portfolio: Councillor J O'Hare – Deputy Leader

Service: Performance Management – Risk Management

Summary of report:

This report provides an overview of Walsall MBC's risk management process focussing on how it works in practice. It also recommends a workshop at which audit committee members identify, prioritise and manage risks as an integral part of the committee's remit and objectives.

Background Papers:

None.

Recommendations

1. That the contents of the report be noted.

2. That the setting up of a facilitated workshop at which members of the audit committee prioritise and agree risk management action plans to manage the identified risks be agreed.

Signed: …………………………..

Executive Director: Carole Evans

Date: **17.1.05**

Resource and Legal Considerations
Risk management is an integral part of service and corporate planning, so enables resources to be targeted appropriately, projects to be managed effectively and the council's risk exposure to be minimised. Effective risk management can also reduce insurance costs and mitigate legal claims against the council.

Citizen Impact

Effective risk management contributes to minimising risks to service users and residents.

Environment Impact

None relating directly to this report.

Performance Management and Risk Management Issues

Effective risk management at strategic and operational levels is essential for sound and modern corporate governance. The council's risk management service is an integral part of the corporate performance management service to ensure that the approach is soundly embedded within mainstream corporate planning and performance activities.

Equality Implications

None arising directly from this report.

Consultation

Managers and colleagues of all levels across the council are involved in the preparation and monitoring of risk registers and the effective management of identified risks.

Vision 2008

The council is aware that organisations that manage risk most effectively are those where senior managers are actively involved in and take responsibility for the identification and management of risks. Risk management is identified as key to sound governance and to the council's vision of becoming an excellent authority by 2008.

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1. RISK MANAGEMENT PROCESS

1.1 Over the past twelve months several sessions have been held to raise members' awareness of risk management and the process used within Walsall council. EMT also use this process to identify and manage the corporate risks which are reviewed and updated each quarter.

1.2 The set of documents used throughout the organisation to identify and manage risks are attached at **Appendix 1**. These are used to produce the overall corporate risk strategy and at all levels within the organisation to ensure consistency and ease of reporting. An extract from the current corporate risk register is at **Appendix 2**.

1.3 Each of these documents has a specific purpose or role in the risk management process. A brief description of each document is set out below:-

Risk Identification and Assessment (Documents 1, 2, 3, 4)

These are used to form the first and second parts of the risk management process. They identify the risk, the potential consequences and an assessment of the risk, producing a risk score.

Risk Matrix (Document 5)

The risk matrix enables the prioritisation of risks identified and sets a tolerance line (risk appetite) whereby the risks sitting above the line will be managed and controlled. Those below the tolerance level will have been identified as having sufficient controls in place to satisfactorily manage these risks.

Risk Management Action Plans (RMAP) (Document 6)

These are possibly the most important documents within the risk management process. A RMAP should be produced to ensure that once risks have been identified, analysed and prioritised, steps are taken to reduce the exposure – reduce the likelihood or impact or both. It also defines actions and who is responsible for carrying them out and also forms part of the audit trail. It also identifies critical success factors (i.e. what does success look like) together with key performance indicators. The latter are crucial in demonstrating continuous performance and service improvement.

Risk Register (Document 7)

This document lists the currently identified risks. Each risk is numbered, briefly described, rated (impact x likelihood) and prioritised. This is a rolling risk register, and as risks are managed out or become no longer relevant they will be indicated as "risk managed" and will no longer be required to be actively managed or reported. By also comparing current risk scores with the original risk score and targets, it will be possible to determine the success or otherwise of risk management activities, and flag where risks are increasing as circumstances change. It is an extension of the action plans and provides an historic record.

2. AUDIT COMMITTEE RISK STRATEGY – 2005/06

2.1 The Remit of the Audit Committee

The committee's current terms of reference and delegations are:

a) Contributing to the council's governance by ensuring an effective internal control environment is maintained (both through reviewing the Statement of Internal Control and more widely);
b) Reviewing the mechanisms for the assessment and management of risk;
c) Agreeing a work plan for internal audit;
d) Receiving periodic reports on the work of internal audit;
e) Receiving reports on management responses to internal audit reports and recommendations;
f) Considering recommendations and reports from the external auditors;
g) Considering arrangements for and the merits of operating quality assurance and performance management processes;
h) Approving the council's statement of accounts;
i) Calling officers and/or committee chairs to assist the Committee in its work;
j) Considering the exercise of officers' statutory responsibilities and of functions delegated to officers.

2.2 Councillors have a very active role to play in effective risk management. Whilst regular reports should continue to be brought to audit committee, in order to enhance member involvement in risk management it is recommended that a practical workshop is held, at which audit committee members identify, assess and manage the risk to them achieving their objectives as an audit committee and fulfilling their remit.

2.3 The process would be for each audit committee member (prior to the workshop) to consider the risk to the committee achieving its objectives using the attached documents. The workshop would then involve members agreeing the risks identified and as a committee prioritising them on the matrix. The next step would be to assign to each member a risk to be managed and a risk management action plan drawn up. These risk management action plans could then form an agenda item at each audit committee meeting and would demonstrate audit committee actively identifying and managing its risks.

3. IMPACT ON THE ORGANISATION AND VISION

3.1 The work undertaken by the audit committee makes a major contribution to the council's corporate governance arrangements of which risk and internal control forms a significant part. Its remit is wide ranging and the work undertaken in identifying its own risks will provide an assurance that risk management is considered at the highest level in order that the council as a whole can achieve its objectives and therefore its vision.

APPENDIX 1

Documents 1–4   **Risk Identification and Analysis**

Document 5   **Risk Matrix**

Document 6   **Risk Management Action Plan**

Document 7   **Risk Register**

Step 1:Identification

Political

Economic

Social

Techno-logical

Legislative/ Regulatory

Environ-mental

Competitive

Customer/ Citizen

Managerial/ Professional

Financial

Legal

Partnership/ Contractual

Physical

RISK IDENTIFICATION

MONITORING

RISK ANALYSIS

RISK MANAGEMENT

PRIORITISATION

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Zurich Municipal
Management Services

1
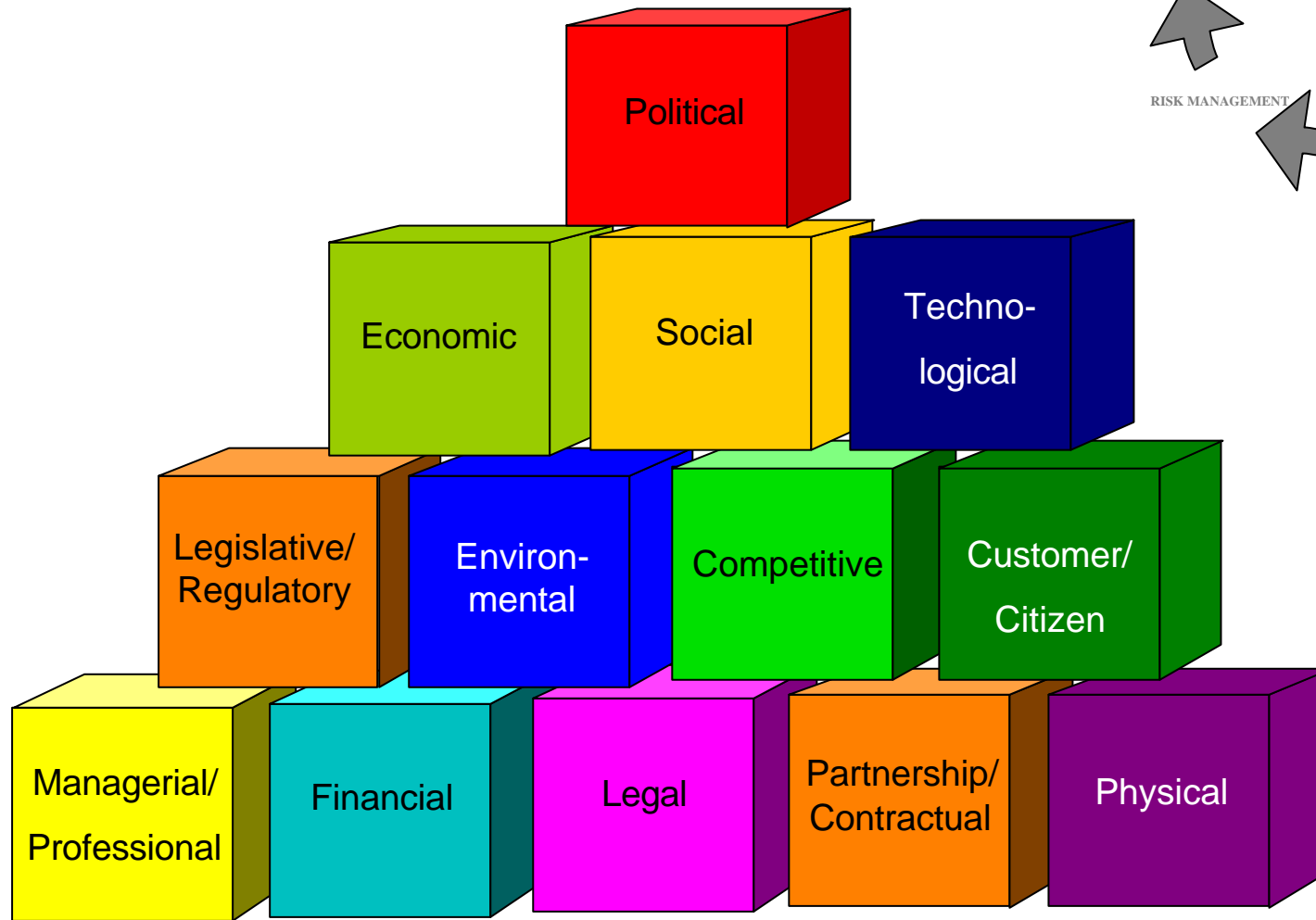
Risk	Definition	Examples
Political	Associated with the failure to deliver either local or central government policy or meet the local administration's manifest commitment	New political arrangements, Political personalities, Political make-up
Economic	Affecting the ability of the council to meet its financial commitments. These include internal budgetary pressures, the failure to purchase adequate insurance cover, external macro level economic changes or consequences proposed investment decisions	Cost of living, changes in interest rates, inflation, poverty indicators
Social	Relating to the effects of changes in demographic, residential or socio-economic trends on the council's ability to meet its objectives	Staff levels from available workforce, ageing population, health statistics
Technological	Associated with the capacity of the Council to deal with the pace/scale of technological change, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures on the council's ability to deliver its objectives	E-Gov. agenda, IT infrastructure, staff/client needs, security standards
Legislative	Associated with current or potential changes in national or European law	Human rights, appliance or non-appliance of TUPE regulations
Environmental	Relating to the environmental consequences of progressing the council's strategic objectives	Land use, recycling, pollution
Professional/ Managerial	Associated with the particular nature of each profession, internal protocols and managerial abilities	Staff restructure, key personalities, internal capacity
Financial	Associated with financial planning and control	Budget overspends, level of council tax, level of reserves
Legal	Related to possible breaches of legislation	Client brings legal challenge
Physical	Related to fire, security, accident prevention and health and safety	Offices in poor state of repair, use of eqpt
Partnership/ Contractual	Associated with failure of contractors and partnership arrangements to deliver services or products to the agreed cost and specification	Contractor fails to deliver, partnership agencies do not have common goals
Competitive	Affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver best value	Fail to win quality accreditation, position in tables
Customer/ Citizen	Associated with failure to meet the current and changing needs and expectations of customers and citizens	Managing expectations, extent of consultation

Step 2: analysis
sample risk scenario

Vulnerability	Trigger	Consequence
The Council has no excess capacity for strategic issues, eg best value reviews and large projects. Resources are already over-stretched on operations and there is heavy reliance on a few key individuals (the 'usual suspects') to take strategic issues forward	Desire exists to take on new initiatives but resources (including key staff) not available for a high profile project	• Strategies and projects not developed or delivered • Council doesn't move forward • Staff frustrated • Staff under pressure leading to stress and absenteeism • Key staff leave • Day-to-day jobs don't get done • Failure to deliver objectives • Council criticised • Adverse publicity

3

TYPE: SERVICE   DIRECTORATE   CORPORATE   TEAM   PROJECT   PLAN

Risk Assessment

Summary of Risk: _____

Date of Assessment: _____

			IDENTIFYING THE RISK			

Ref	Risk (ie: Threat to the organisation)	Consequence	Assessment of Risk		
			I (S) 1 - 4	L (P) 1 - 6	PR IxL

Rating Scores: <u>Likelihood</u>   Very High = 6   High = 5   Significant = 4   Low = 3   Very Low = 2   Almost impossible = 1
                     <u>Impact</u>   Catastrophic = 4   Critical = 3   Marginal = 2   Negligible = 1

S = Severity   P = Probability

STRATEGIC RISK PROFILE
Organisation Name: Council
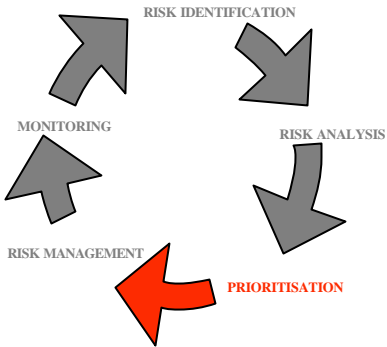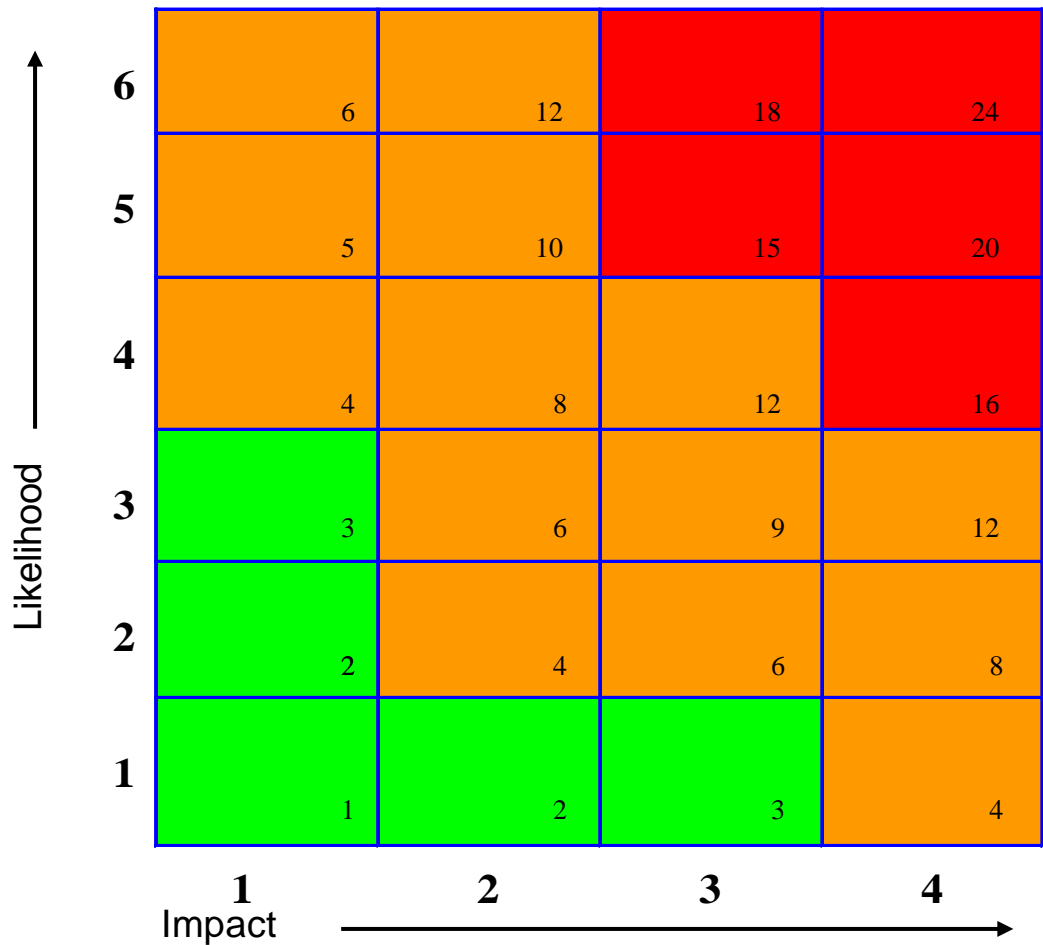
RISK IDENTIFICATION

MONITORING

RISK ANALYSIS

RISK MANAGEMENT

PRIORITISATION

Likelihood

6	6	12	18	24
5	5	10	15	20
4	4	8	12	16
3	3	6	9	12
2	2	4	6	8
1	1	2	3	4
	1	2	3	4

Impact

Likelihood: 6 = very high; 5 = high;
4 = significant; 3 = low; 2 = very low;
1 = almost impossible

Impact: 4 = catastrophic; 3 = critical;
2 = marginal; 1 = negligible

5

Management Action Plan (MAP)

Risk Group:	Date plan produced:

Likelihood					
6					
5					
4					
3					
2					
1					
	1	2	3	4	
		Impact			

Owned by:

Risk Number	Current Risk Score	Target Risk Score	Description

Action/controls already in place	Adequacy of action/control to address risk	Required management action/control	Responsibility for action ED GM		Critical success factors & KPIs	Review frequency	Key dates

APPENDIX 2

Extract from Corporate Risk Register

Risks 1a and 1b

Strategic Risk Assessment

Summary of Risk: Failure to implement effective ICT (transforming service delivery) strategy

Date of Assessment: August 2004

			Assessment of Risk		
IDENTIFYING THE RISK					
Ref	**Risk**	**Consequence**	**Assessment of Risk**		
	(ie: Threat to the organisation)		**I (S) 1 - 4**	**L (P) 1 - 6**	**PR IxL**
1a	Failure to implement adequate procurement controls.	• Project abandoned. • Serious effect on ICT strategy. • Reputational risk. • Significant cost implications).	3 *(3)*	1 *(3)*	3 *(9)*
1b	Failure to implement effective ICT (service delivery) strategy.	• Failure to implement e-government agenda. • Failure to modernise. • Lost opportunities for investment. • Restricted customer access. • Poor ICT facilities. • Reputational risk. • Goals and targets will not be met if the ICT does not improve. • Extension of ICT contracts. • Financial consequences.	3 *(3)*	1 *(3)*	3 *(9)*

Rating Scores: **Likelihood**   **Very High = 6   High = 5   Significant = 4   Low = 3   Very Low = 2   Almost impossible = 1**
                              Impact   **Catastrophic = 4   Critical = 3   Marginal = 2   Negligible = 1**
S = Severity   P = Probability

Management Action Plan (MAP)

Risk Group: Executive Management Team	Date plan produced: August 2004

Owned by: Jamie Morris

	6				
Likelihood	5				
	4				
	3				
	2				
	1				
		1	2	3	4
			Impact		

Risk Number	Current Risk Score	Target Risk Score	Description
1a			Failure to implement adequate procurement controls.

Action/controls already in place	Adequacy of action/control to address risk	Required management action/control	Responsibility for action ED / GM	Critical success factors & KPIs	Review frequency	Key dates
• Best Value approach taken. • Independent review at process undertaken. • Putting the Citizen First procurement Project in place. • Significant funding is contained within the budget to drive forward a range of ICT projects throughout the council. • Oracle financials has been implemented. • Strengthened Legal function – permanent appointments made. • The e-government team in place		• Disaster recovery and contingency plan for existing mainframe systems being developed and has been audited. • Contingency plans need to be developed for some Service Area ICT systems. • Plans to deliver e-govt priority outcomes. • ICT strategy .	JM DJ JM DJ			

Management Action Plan (MAP)

Risk Group: Executive Management Team	Date plan produced: August 2004

Likelihood

	6				
	5				
	4				
	3				
	2				
	1				
		1	2	3	4
		Impact			

Owned by: Jamie Morris

Risk Number	Current Risk Score	Target Risk Score	Description
1b			Failure to implement effective ICT (service delivery) strategy.

Action/controls already in place	Adequacy of action/control to address risk	Required management action/control	Responsibility for action ED GM	Critical success factors & KPIs	Review frequency	Key dates
• Best Value approach taken. • Independent review at process undertaken. • Putting the Citizen First procurement Project in place. • Significant funding is contained within the budget to drive forward a range of ICT projects throughout the council. • Oracle financials has been implemented. • Strengthened Legal function – permanent appointments made. • The e-government team in place		• Disaster recovery and contingency plan for existing mainframe systems being developed and has been audited. • Contingency plans need to be developed for some Service Area ICT systems. • Plans to deliver e-govt priority outcomes. • ICT strategy .				

CORPORATE RISK MATRIX

POSITION AS AT OCTOBER/NOVEMBER 2004

		1	2	3	4
Likelihood over 12 months	**6**	orange	orange	red	red
	5	orange	orange	red	red
	4	orange	orange	orange	red
	3	green	orange	**1a, 1b**	orange
	2	green	orange	orange	orange
	1	green	green	green	orange

Impact on corporate objectives

Likelihood: 6 = very high,   5 = high;   4 = significant;   3 = low;   2 = very low;   1 = almost impossible

Impact: 4 = catastrophic;   3 = critical;   2 = marginal;   1 = negligible

Rolling Year's Trend

	October/November 2004	
	No. of Risks	**%**
Red	0	0
Amber	20	65%
Green	11	35%
TOTAL	**31**	
Risks Managed	**9**	

CORPORATE RISK MATRIX

POSITION AS AT OCTOBER/NOVEMBER 2004

	6	Orange	Orange	Red	Red
Likelihood over 12 months	5	Orange	Orange	Red	Red
	4	Orange	Orange	Orange	Red
	3	Green	Orange	1a, 1b	Orange
	2	Green	Orange	Orange	Orange
	1	Green	Green	Green	Orange
		1	2	3	4

Impact on corporate objectives

Likelihood: 6 = very high,   5 = high;   4 = significant;   3 = low;   2 = very low;   1 = almost impossible

Impact: 4 = catastrophic;   3 = critical;   2 = marginal;   1 = negligible

Rolling Year's Trend

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TOTAL	**31**	
Risks Managed	**9**	

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