PERTH AND KINROSS COUNCIL

AUDIT COMMITTEE

26 June 2019

Corporate Risk Management – Progress Report 2018-19

Report by Head of Legal and Governance Services
(Report No. 19/196 REVISED)

PURPOSE OF REPORT

The purpose of this report is to:-
  (i)   inform the Committee of progress made in respect of implementing imrovements in relation to risk management
  (ii) advise the Committee of the current key strategic risks facing the organisation;
  (iii) provide assurance as to the effectiveness of the Council's Risk Management Framework (RMF)

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1.   BACKGROUND

1.1   Following an internal audit report in relation to the risk management function within the Council, significant work was done to review the exisiting risk management infratructure and to develop a new and comprehensive Risk Management Framework (RMF) for the Council. The work was led by the Head of Legal & Governance Services supported by a core group of officers skilled in performance and risk management (the PPR Group)

1.2   The RMF was developed based on best practice industry standards including the International Standard in Risk Management ISO: 31000 and the Office of Governance & Commerce (OGC) Management of Risk Guidance (MoR) and the Association of Local Authority Risk Managers, (ALARM).

1.3   In 2017 the Strategic Policy & Resources Committee approved the new approach to risk management and the core foundation documents (Report 17/63 refers) namely:-

  - **Risk Management Policy** – which sets out key risk management objectives and principles
  - **Risk Management Srategy** – which sets out our approach in terms of culture,context, roles, responsibilities and assurance
  - **Risk Appetite Statement** – which describes the level of risk that the Council is prepared to accept in pursuit of its objectives

1.4   Within the Annual Governance Statement presented to the Audit Committee in June 2018 as part of the draft final accounts, the need to embed the new risk management framework was recognised as an ongoing area for improvement. The Chief internal Auditor also gave the following opinion :

"Whilst limited reliance can be placed on the corporate risk management arrangements in place throughout 2017/18, the ongoing implementation and embedding of the corporate risk management strategy should enable reasonable reliance for 2018/19."

1.5　In the course of 2018/19 therefore, an extensive programme of work was undertaken by the PPR Group led by the Head of Legal & Governance Services to roll out, implement and further refine the new RMF.

1.6　This report details the outputs and outcomes of that programme of work to date.

2　CONTEXT

2.1　Risk management is a crucial aspect of internal control and as such, is fundamental to good governance.

2.2　Many organisations, across all sectors, make the mistake of treating risk management as a compliance driven, stand-alone function; perceived as "centrally" owned and somewhat detached from day to day operations. This approach undermines the ability of these organisations to derive the most value from the risk management processes.

2.3　When risk management is integrated into other key business processes it not only helps mitgate threats and ensure compliance; it also enables us to identify and exploit opprtunities which may deliver greater value and benefit to our communities.

2.4　Our risk management vision is to be a risk intelligent Council where risk management enables us to be innovative and enterprising, to deliver more effcient and effective services, to achieve best value and to continuously improve.

2.5　In redesigning the risk management framework there were a number of aims:-

> ➢　to maximise the value of the risk management activity
> ➢　to align risk management to the achievement of our strategic and operational objectives
> ➢　to create an appropriate environment which encourages positive risk taking
> ➢　to dimiss the preconception that risk management was a distinct "stand alone" function and make risk management part of the "day job"
> ➢　to integrate risk management into our key business processes

2.6　Once the foundation documents (Risk Management Policy, Strategy and Appetite Statement) were developed and approved, significant work was then undertaken to develop a practical process guide and a programme of training .

2.7   The Risk Management Process Guide explains each step of the risk management process in detail and provides tools, techniques advice and guidance to help manage risk effectively and in a consistent manner across the organisation.

2.8   The Council has also made an investment in training a small cohort of risk practitioners, with the PPR Group comprising representatives from all services and a member of the Executive OfficerTteam now certified as Management of Risk (MoR) Practitioners.

2.9   These certified risk pracitioners provide detailed advice, guidance and support to service management teams, senior management teams and elected members ensuring that as an organisation we are taking a consistent and coherent approach to risk management. With a member of the senior management team also a certified practitioner, this ensures a consistent approach to risk management at both strategic and operational levels across the whole organisation.

3   MAIN ISSUES

3.1   In the course of 2018/19 the PPR group together with the Head of Legal and Governance Services has undertaken a programme of work across all services to embed the RMF. Activities to date have included:-

- a series of risk management workshops with Service Senior Management Teams (SMT) to identify service risks (strategic and operational) and potential corporate risks
- presentations and workshops with Corporate Management Group (CMG)
- presentation to Executive Officer Team (EOT)
- learning lunches
- wholescale review of the Council's strategic risks

3.2   The risk management workshops have been designed to support the organisation to identify, assess and manage risk effectively and systematically.

3.3   Once risks are identified and assessed, it is important to ensure that the risks are being managed in the right way at the right level. The RMF sets out clear guidelines for the ownership, management , monitoring and escalation of risk.

3.4   The RMF categorises risks as:

  ➢ Operational
  ➢ Programme/project
  ➢ Strategic

3.5   Operational and service specific strategic risks are contained within service risk registers and subject to escalation procedures (set out in 3.7.below) are managed and monitored at team or SMT level.

3.6   Programme and project risks are contained within programme/project risk registers and subject ot escalation procedures are managaed and monitored at the respective programme/project boards.

3.7   Any risk identified within any category which either:-

- relates to the achievement of a shared objective across services
- impacts upon the ability of another service to deliver objectives;
- requires input or support from another service to mitigate or manage the risk;
- is so significant in terms of impact (e.g. financial impact/ reputation/ health and wellbeing etc)
- undermines a wider strategic objective ; or
- requires input or action from outwith the Council (e.g community planning partners)

will be escalated to the Corporate Risk Register and shall be managed, monitored and reported in accordance with the Risk Management Strategy.

3.8   The Corporate Management Group are responsible for the monitoring and management of the corporate risks with exception reporting and escalation to the Executive Officer Team .

3.9   Following on from the various workshop sessions and taking into account the self assessment evidence gathered as part of the assurance process for the Annual Governance Statement, a full review of the Council's strategic risks has now been completed .

3.10   It should be noted however that risks are seldom static and the risk register is a live document which requires to be regularly monitored and reviewed.

3.11   The current Corporate Risk Register for 2019-20 is attached at Appendix 1.

3.12   These risks have been scored (1-5) on the basis of Probablilty/Likelihood and Impact. A description of the various score levels is set on in the tables below.

Table 1

IMPACT SCALE		
Impact	**Classification**	**Score**
Critical	Risks which could have a potentially disastrous effect on the Council without immediate comprehensive action to reduce the level of risk.	5
Major	Risks which have a serious impact, and detrimental effect on the achievement of objectives. Action plans should be developed to reduce the level of residual risk, and reviewed periodically.	4

Moderate	Risks which can be reduced within a reasonable timescale, in a cost effective manner. Any mitigating actions must be monitored and recorded.	3
Minor	Risks where any action to further reduce the level of risk would be inefficient.	2
Insignificant	Risks may occur only in exceptional circumstances but has no interdependencies with other risks or plans.	1

Table 2

PROBABILITY SCALE			
Probability	**Criteria**	**Likelihood**	**Score**
Very High	>75%	Almost Certain	5
High	51% - 75%	Probable	4
Medium	26% - 50%	Possible	3
Low	6% - 25%	Remote	2
Very Low	0% - 5%	Very Remote	1

3.14   You will note from the Coprorate Risk Register that there are two scores for each identified :

> - The **inherent risk** score being the assessed score BEFORE any control measures are in place
> - The **residual risk** score is the assessed score based on probability/likelihood and impact AFTER control measures have been put in place.

3.15   The residual risk score will determine the risk priority which in turn, determines the monitoring and reporting regime

Priority 1 16 -25	Risk remains extreme even after all identified controls and treatments have been applied. There are significant risks, which may have a serious impact on the Council and the achievement of its objectives if not managed. Immediate management action needs to be taken to reduce the level of net risk.
Priority 2 10 - 15	There are significant risks, which may have a serious impact on the Council or Service and the achievement of its objectives if not managed. Immediate management action needs to be taken to reduce the level of net risk.

Priority 3 6 - 9	Risk is manageable after controls have been applied. Although usually accepted, these risks may require some additional mitigating to reduce likelihood if this can be done cost effectively. Reassess to ensure conditions remain the same and existing actions are operating effectively.
Priority 4 1 - 5	Appropriate controls keep the risk low / negligible. These risks are being effectively managed and any further action to reduce the risk would be inefficient in terms of time and resources. Ensure conditions remain the same and existing actions are operating effectively.

3.16 Presently there are 17 strategic risks identified and assessed based on the Council's direct functions. The Council's current strategic risk profile based on residual risk score is illustrated on the Risk Scoring Grid ("heatmap") below.
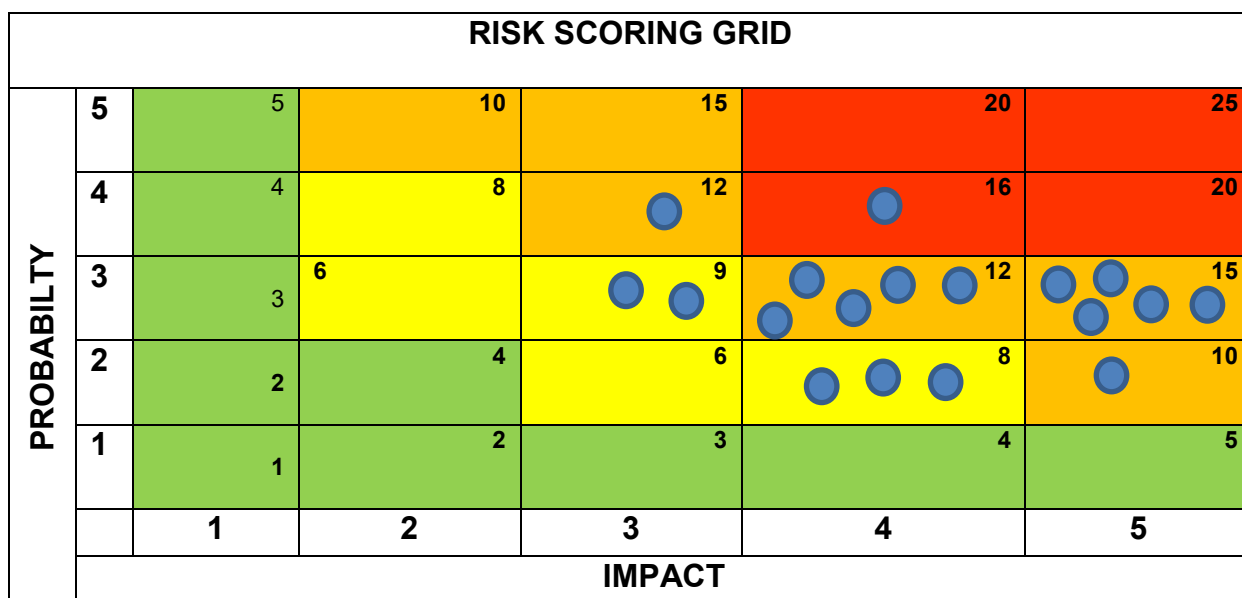
3.17 In terms of risk monitoring, risk is a standing item on the meeting agendas for Senior Management Team, the Corporate Management Group and the Executive Officer Team and the RMF sets out clear criteria for escalation and intervention.

3.18 As part of the Annual Governance Statement for 2018-19 the Chief Internal Auditor has considered the risk management function within the Council and has assessed the effectiveness of that function as part of the system of internal control and stated;-

"In the Chief Internal Auditor's opinion, reasonable reliance can be placed on the Council's risk management and governance arrangements, and systems of internal control for 2018/19"

4 PROPOSALS

4.1 As stated above the strategic risks relate to core business of the Council. In the course of 2019-20 the following programme of risk management activity is planned;-

(i) Assessment of risks relating to the Health & Social Care Partnership and the Council's role as:-
  - Statutory Partner
  - Provider of commissioned services
(ii) Assessment of risks relating to Arm's Length External Organisations
(iii) Review of risks in light of finding from the Council's Best Value Audit once published
(iv) Development session with Audit Committee
(v) Development Session with all elected members
(vi) Review of the Council's Risk Appetite Statement
(vii) Further refine the RMF as part of the wider governance review and CIPFA Governance Mark of Excellence accreditation process

5 RECOMMENDATIONS

5.1 It is recommended that the Committee considers the content of the report and provides comment and constructive challenge as appropriate and in particular acknowledges the ;-
  (i) progress made to date as regards embedding the risk management strategy
  (ii) notes the current key strategic risks identified through the risk management process
  (iii) notes the assessment as to the effectiveness of the current RMF

Author(s)

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Approved

Name	Designation	Date
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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	N/A
Corporate Plan	N/A
Resource Implications	
Financial	N/A
Workforce	N/A
Asset Management (land, property, IST)	N/A
Assessments	
Equality Impact Assessment	N/A
Strategic Environmental Assessment	N/A
Sustainability (community, economic, environmental)	N/A
Legal and Governance	N/A
Risk	N/A
Consultation	
Internal	YES
External	
Communication	
Communications Plan	

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Consultation

Internal

In preparing the Corporate Risk Register the folloing have been consulted:

- ➢ Executve Officer Team
- ➢ Corporate Management Group
- ➢ Policy & Governance Group
- ➢ Chief Internal Auditor
- ➢ Planning Policy & Risk Group
- ➢ ECS Senior Managament Team
- ➢ H&E Senior Management Team
- ➢ CDS Senior Management Team

Appendices

- ➢ Appendix 1 Corporate Risk Register