



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
25 OCTOBER 2006**

ITEM 8

Report of the Head of Audit and
Risk Management

RISK MANAGEMENT – PROGRESS REPORT AND FUTURE DEVELOPMENTS

RECOMMENDATIONS

- 1.1 To note the progress report in Appendix 2.
- 1.2 To review the future developments proposed in the report and comment accordingly.
- 1.3 To request a report to the December meeting of this Committee to update members on the progress being made within the Council on Business Continuity.

SUPPORTING INFORMATION

- 2.1 The Council's risk management processes have developed over time in part as a response to the publication of the CIPFA/SOLACE framework on Corporate Governance, which required the Council to establish and maintain a systematic strategy, framework and processes for managing risk, and more recently the Comprehensive Performance Assessment (CPA) examination of risk management, as a key discipline that all local authorities should be carrying out.
- 2.2 The progress report attached as Appendix 2 details how the Council is moving towards:
 - Developing risk management and raising its profile across the Council.
 - Ensuring that risk management is not just another imposed initiative by making risk management part of normal business (same also for performance management) and therefore incorporated within all decision making processes.
 - Integrating risk management into the culture of the Council.
 - Ensuring that all risks are managed in accordance with best practice.
 - Creating effective processes that will allow assurance statements to be made annually.
- 2.3 The challenge however is to implement this comprehensive risk management process without significantly increasing workloads. This should be achieved by the integration of risk management into existing processes and reviews rather than as a separate process. The further developments suggested in the report attached at Appendix 2 will contribute to this.

- 2.4 The CPA Use of Resources Key Lines of Enquiry specifically asks whether the Council has assessed the risks inherent in its corporate and service plans and looks for evidence of a robust risk management strategy that is used in planning and delivering services. The future developments that are outlined in the report will contribute to this. The key areas are to review and amend the risk management processes to meet best practice and to further develop the linkages between the Council's risk management and business planning cycles.
- 2.5 A Risk Management Development Plan is being developed and this will be brought to the December Committee meeting as an element of the revised Risk Management Strategy.

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Background papers:

List of appendices:

Appendix 1 – Implications

Appendix 2 – Risk Management Progress Report

IMPLICATIONS

Financial

1. None directly arising.

Legal

2. None directly arising.

Personnel

3. None directly arising.

Equalities impact

4. None directly arising.

Corporate objectives and priorities for change

5. The functions of the Committee have been established to support delivery of corporate objectives by enhancing scrutiny of various aspects of the Council's controls and governance arrangements.

RISK MANAGEMENT - PROGRESS REPORT & FUTURE DEVELOPMENTS**1. Introduction**

The current Risk Management Strategy is an amalgamation of a number of documents that were approved by the Cabinet on the 30 July 2002. The Council has also developed an Assurance Framework in support of the Statement on Internal Control.

Managers confront and manage risks daily. However, as the risk management framework and process continues to develop, until it is fully embedded, the Council may not always receive the assurance that risks are being managed effectively.

The CPA process has introduced new Key Lines of Enquiry (KLOE) for the way the Council manages its risks, and the revision of the Risk Management Strategy will provide a framework to ensure the Council has a process designed to fully achieve the expected levels of risk management.

2. Progress to Date

Progress towards fully embedding risk management has been made over the last year. Generally, this has been concentrated in the top two tiers of the Council and in relation to specific projects and work streams:

- Corporate and directorate risk registers have been developed that highlight strategic, operational, financial and reputation risk areas along with action plans.
- An Assurance Framework is in place to support the Statement on Internal Control, including assurance statements which covers the management of risk, completed by the Corporate Directors.

More specifically, the following has been achieved:

- The top corporate risks have been identified; the corporate risk register was reviewed by COG and approved by Cabinet.
- All principal risks to the achievement of departmental objectives have been identified. Each department has a departmental risk register which is reviewed at least annually by its DMT. Within the Council there are 2 main ways in which departmental risk registers are produced. The first is where the assessment of risk is based on the feedback from service managers and Assistant Directors. The second is where each division in the department has its own risk register and the departmental risk register consists of the amber and red risks identified in the divisional registers. Each risk is assigned a risk owner who is responsible for managing that risk. A departmental risk appetite has been set, and the key risks identified are monitored closely and mitigating actions put into place. The success of this is shown by the “downgrading” of many risks at the annual review stage. The process also enables new risks to be identified, evaluated and added to the risk register.

- Risk management is an integral part of the Council's Assurance Framework. This has fed into the processes for producing the Statement on Internal Control and is a key element of the Corporate Governance Framework.
- Operational risk registers are in place in some areas to underpin directorate service plans. Risks are identified in the departmental business plan.
- Major procurement and capital projects are risk assessed.
- Key projects are being risk assessed and managed with accompanying risk logs. The Project Management Manual details all steps/processes that need to be followed. The Manual provides guidance on how to identify and manage project risks. Main information is entered into a risk log. The risk owner is identified, risks are monitored and the risk log reviewed and, where necessary, updated at project team meetings.
- The Business Continuity Strategy and Operational Plan were completed in December 2005. There has been on going development of the Plan and supporting strategies. The Plan will be reviewed in November 2006 and will take account of the restructuring of departments. The Business Continuity Strategy is on the Council's website.
- The Council, jointly with the County Council, has produced a Community Risk Register, as required by the Civil Contingencies Act 2004.
- A Flu Pandemic Framework has been prepared and will be included in the Business Continuity Plan. A workshop for senior managers was held in July 2006 and arising from this an Action Plan has been prepared to increase the Council's resilience.

3. The Challenges to Date

Despite the progress to date, a number of issues have been identified and these issues need to be addressed before risk management can be developed to a stage where it is a standard and integral part of the way the Council manages its activities to achieve its objectives:

- Perhaps the main problem to date is some confusion over what constitutes a risk, and how to differentiate this from the consequences of the risk being actually discharged, or merely stating a risk as the absence of control or failure to achieve an objective (the revised Strategy provides additional guidance on this).
- There is still much to do in communicating the need for ownership at the lowest possible level for risk management.
- It is difficult to demonstrate at this stage that the risk registers produced have been very effective in changing attitude to risk or even in action planning. To date, risk management is process driven rather than focussing on outcomes.
- There is scope for improvement in using existing risk management techniques and procedures.
- The interpretations of the measures of likelihood and impact have been inconsistent.
- Original guidelines were contained in the Risk and Insurance handbook. These have been interpreted differently between departments.

- To continue to ensure members and staff are appropriately equipped with the skills to fulfil their risk management accountabilities and further integrate risk management with strategic, financial and performance management.

When risk management has been fully embedded, the Council should benefit from improved strategic management with a more systematic approach to addressing legislative, regulatory or competitive demands including delivering best value and responding to CPA. There should also be improved operational and financial management which will see a reduction in management time associated with fire fighting risks as they materialise and staff becoming empowered to take responsibility for managing risks thereby reducing the likelihood of interruptions to service delivery.

4 Future Developments Identified

Internal audit will continue to take a lead role in promoting the continued development of risk management throughout the Council. The revised Risk Management Strategy will contain a Project Plan for future areas of development. The key areas are:

- Integration of the risk management processes with the Council's policy planning framework, creating links between risk registers and directorate / service plans; this could then be extended to the Council's Performance Management Framework.
- Establish a framework for members and officers to assess and review the Council's "appetite" for risk management. The management of risk is a continuous process and exposure to "acceptable" levels of risk needs to be continually reviewed.
- Review current best practice and identify styles and procedures for risk management which are effective and cost efficient.
- Ensure all Council guidance on risk management is consistent and co-ordinated.
- Develop partnership risk registers with the Council's key partners – this may not be a simple task as partner's appetite for risk may be at variance with the Council's.
- Generally widen the availability of risk management guidance to all staff and members.
- More targeted awareness training to be provided to members and staff.

5 Training

Training provided so far has covered strategic risk workshops for senior managers leading to the production of corporate and directorate risk registers. This was held in 2003/4. Members were given a half day risk management awareness training in 2004 by Zurich Municipal. Members of the Audit and Accounts Committee have received a short briefing on risk management in December 2005.

Further training is required:

- Risk awareness for members (initially Cabinet Members, then all members).

- Roll - out of risk workshops from senior managers down to all staff (to enable the production of service and operational risk registers throughout the Council).

Discussions with external providers of risk management training have been taking place to evaluate the most effective means for delivering this training (it could either be done by in-house staff, external providers or a combination of both) with a view to establishing a training programme for 2006.

In respect of Business Continuity, a training and exercise programme was developed for internal staff. The initial training commenced in February 2006 and ongoing training is planned for all staff with a response role.

6 Internal and External Audit

Internal audit will play a key role in challenging risk management structures and processes, including risk identification and evaluation. They will also provide assurance to members and officers on the effectiveness of systems and controls in operation.

External audit, currently PwC, will assess the risk management process as part of its overall review of core processes and report accordingly. It now evaluates the extent to which the risk management process underpins the Council's Statement of Internal Control.