PART A

Report to: Audit Committee

Date of Meeting: 9th January 2007

Report of: Audit Manager

Title: Risk Management Arrangements - Zurich Municipal Healthcheck

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1.   **SUMMARY**

Zurich Municipal, the Council's insurers, was requested to carry out an
independent review of the Council's risk management arrangements. The final
report is attached.

2.   **RECOMMENDATIONS**

2.1   As the report is to be discussed in detail at the next meeting of the Risk
Management Group, it is recommended that Committee note its contents for now
and agree to consider the Risk Management Group's action plan to address the
report's recommendations at its next meeting. Progress in implementing the plan
will be reported to future meetings.

2.2   Committee should consider the nomination of a Member as risk management
champion.

Contact Officer:

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Report approved by Janice Maule – Director of Finance

3.0   DETAILED PROPOSAL

3.1   Arrangements for managing strategic and operational risks were "formalised" in
2004 with the establishment of the Risk Management Group, the Framework for
Managing Risk and a Risk Management Strategy. Since then, work has progressed
on implementing processes across the Council.

3.2   Considerable progress has been made in this respect and it was considered
appropriate that an independent review should be carried out to determine what
further steps should be taken to take the process forward and embed risk
management across all levels of the Council. As a result, Zurich Municipal, the
Council's insurers, was asked to carry out a review of current arrangements. This
review was carried out in October 2006 and the final report was received in
November.

3.3   A copy of that report is attached to this report. Whilst it makes twenty one
recommendations it does conclude that positive progress is being made and many of
the recommendations are minor adjustments to current practice. They are designed
to improve documentation and processes to reflect recognised best practice and
make risk management an accepted part of normal business practice.

3.4   The report will be discussed at the next meeting of the Risk Management Group
when an action plan will be prepared in response to the recommendations made. It
is proposed to present that plan to the next meeting of this Committee and to make
regular progress reports thereafter.

3.5   One issue Committee is asked to consider now however is the nomination of a
Member to act as risk management champion to ensure ownership, sponsorship and
commitment to risk management at the highest level in the Council. See
Recommendation 18 of ZM's report.

4.   IMPLICATIONS

4.1   Financial
The Director of Finance reports that there are no immediate financial implications
arising from this report.

4.2   Legal Issues (Monitoring Officer)

The Head of Legal and Democratic Services reports that there are no specific legal issues in the report.

4.3   Staffing

There are no implications in this report.

4.4   Accommodation

There are no implications in this report.

4.5   Equal Opportunities

There are no implications in this report.

4.6   Community Safety

There are no implications in this report.

4.7   Sustainability

There are no implications in this report.

4.8   Potential Risks

Failure to effectively manage risks across the Council may have an impact on the achievement of operational and strategic objectives.

The absence of fully embedded risk management processes could adversely affect the Use of Resources score as risk management is one of the key assessment criteria in the 'Internal Control' section.

Background papers:

There were no background papers used in the preparation of this report:

File reference: None

ZURICH MUNICIPAL

Private and Confidential

Strategic Risk Management Healthcheck

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Risk Management Consultants

Date prepared: **November 2006**

NQA
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Contents

Introduction

Zurich Municipal Risk Management has been commissioned by the Watford Borough Council to undertake an independent review of the Authority's approach to strategic and operational risk management. Corporate governance, inspection and regulation criteria demand that robust and demonstrable risk management and internal control mechanisms are embedded at all levels of the organisation.

The concept of Corporate Governance has become increasingly important in the public sector, and is defined in the CIPFA/SOLACE publication, 'Corporate Governance in Local Government' as "….the system by which local authorities direct and control their functions and relate to their communities". On the specific subject of Risk Management and Internal Control, it states that " an authority needs to establish and maintain a systematic strategy, framework and processes for managing risk".

The Audit Commission framework for CPA – The Harder Test, places greater emphasis on the use of resources, which despite focusing on financial management will also link to the strategic management of the authority. It looks at how financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. Within this Use of Resources judgement, risk features explicitly as part of the criteria in 'financial reporting' and 'financial management', and 'Internal Control' is defined as 'How well does the council's internal control environment enable it to manage its significant business risks?' Within this, the Key Line of Enquiry 4.1 is "The council manages its significant business risks".

It is against best practice, our extensive experience and CPA inspection requirements that the external scrutiny of the processes employed by the Authority in developing and managing its risk management strategy is reviewed, evaluating the extent and effectiveness of the framework and methodology being employed.

This review has focused around a 'Process Audit'

- Comparing the risk management process and documentation against standards, requirements and the CPA frameworks, to identify potential gaps or areas of improvement. This also includes how Risk Management is being embedded within the day to day and corporate decision making of the Authority so that it is most effectively used, and its benefits can be best derived across the whole authority.

In addition to a desktop review of documentation provided by the Authority, interviews were conducted with on 11th October 2006 with Mike Cooper, Risk & Insurance Manager, Janice Maule, Director of Finance, Tony Mills, Deputy Head of Human Resources, Chris Pagdin, Head of Planning & Development, Jonathan Williams, Deputy Property Manager & Alison Stainsby, Head of Leisure & Community Services

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Process audit

This report is structured primarily around the stages of the Risk Management Cycle (see below), with each stage of the cycle examined separately, along with a number of other relevant key areas of focus around:

- Documentation,
- Training,
- Member involvement
- Integration with other Council Processes.

RM Documentation

Thorough and robust risk management documentation is important to the overall success of risk management in an organisation. The purpose of a risk management strategy / framework is to set out the aims and objectives of the initiative, the desired methodology that will deliver the objectives, the anticipated outcomes and measures of success. The reader should be informed of what will happen and when and of relevant roles and responsibilities, and all of this should be messaged in a brief and concise way.

It is clear from the interview and document reviews that the Council has definitely made clear improvements in risk management. There is, however, a need to ensure the risk management documentation accurately reflects the current state of the Authority, and the process to be used moving forward, thus ensuring the positive steps taken to date are fully reflected.

A number of changes and tweaks to the existing documentation were discussed during the interviews, with the sole aim of maximising the benefit gained from the document as a tool to further embed RM within the Authority.

Recommendation 1
The existing Risk Management documentation needs to be updated to reflect the number of positive steps which the Council has taken in risk management, and also to better articulate some key areas around roles / responsibilities and links to other key Council processes. This new version should then be adopted by members moving forward.

In particular, areas to consider are:

- The document currently titled 'Risk Management Strategy' is actually a Risk Management policy statement, and perhaps should be titled as such. This document contains a number of aims and objectives around risk management, which should be achievable and also monitored and evidenced as to the success of achievement.

- The Risk Management framework document is the basis for what we would normally term a 'Risk Management Strategy', however it should be rewritten and structured, perhaps containing the following as key areas:
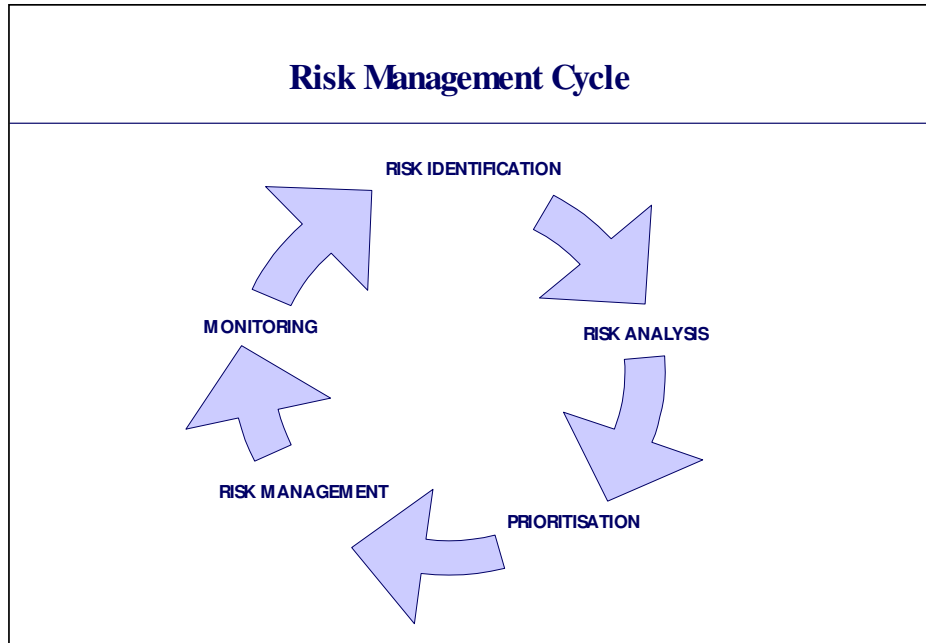
  - Introduction to risk management in general and within Watford BC

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- Key Roles and Responsibilities – e.g. Elected Members; Lead Member for RM / Responsible member committee; CMT, Director of Finance; Heads of Service, Risk Champions, Risk & Insurance manager, Council staff
- Overview of RM at Watford BC – how it links and integrates with planning processes, performance management
- 'How to' guide, which could perhaps be structured around the risk management cycle, including examples for each part– see below for comments on each area.
- There is also benefit to be gained from perhaps including an example risk register and action plan template as appendices

Include dates on documents and registers to show regular review, updating, and audit trail

Recommendation 2
- Experience has shown that the Risk Management Strategy can be significantly strengthened by the use alongside it of a simple 2-page laminate highlighting the key elements of the Process and the roles / responsibilities and reporting lines. This serves as a practical tool to reinforce key parts of the RM process.

Risk Management Cycle

RISK IDENTIFICATION

MONITORING

RISK ANALYSIS

RISK MANAGEMENT

PRIORITISATION

Risk Identification

The first stage of the risk management process is the identification of those key risks which could prevent the Council or service from achieving it's objectives. It is vital that this stage is effective to ensure that any risk management activity undertaken is focused on the key areas.

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This stage informs the information that features within the 'Risk Title/description' and 'Consequence' fields of the Risk Register and the 'Schedule of Risks' within service plans. It is positive that the Framework document refers to requiring "the identification and consideration of risks that could impede the achievement of the Objectives". There should however be clear guidance as to what type of risk areas should be considered against the objectives for inclusion at this stage, and to what scale.

Recommendation 3
It is recommended that risk prompts be used when considering risks to the achievement of key objectives, such as the risk categories included in Appendix 2. This will help to ensure that the focus of identification is on 'strategic' or 'business' risks and also that a wide breadth of risk is considered.

Recommendation 4
There is also a need for risk identification, particularly as part of a planning process to involve the key people at the relevant level, e.g. the relevant management team. This is because they will be best placed to identify the key risks, and will also be more likely to own and actively manage the key risks if they have been actively involved in identifying them, rather than just being presented with the risks as perceived by another.

Risk Analysis
Once the key risks have been identified, this stage of the risk management cycle allows for the 'sizing' of risk through deeper understanding of the risk and its consequences. The risk register form asks for a risk title / description of the risk and it's consequences, and time has clearly been spent capturing and defining the risks. However, there is a concern that the wording of many risks is very brief and would benefit from further clarification which would assist in achieving a common understanding of the risk, its priority to the Council and the actions required to address it.

Recommendation 5
It is positive that risks are being split into risk description / consequences rather than just one risk field covering both. It is the root cause of the risk that should be identified and articulated within the risk field, as this will ensure the management and mitigation action can be focused on dealing with the real risk issue. There are some examples though, of where the articulated risk may perhaps be a consequence or not the key issue, which may benefit from further challenge to ensure the key underlying risk is identified.

Prioritisation
The prioritising of risks enables an understanding to be gained as to the relative priority to be assigned to the risks. The risks identified need to be assessed for their likelihood and impact and in so doing must be compared to the appropriate objectives e.g. corporate objectives for the corporate risk profile and departmental objectives for the departmental risk profile. The challenge for each risk is how much impact could it have on the ability to reach the objective. This allows the risks to be set in perspective against each other, and ensures focus is placed on managing those more important risks.
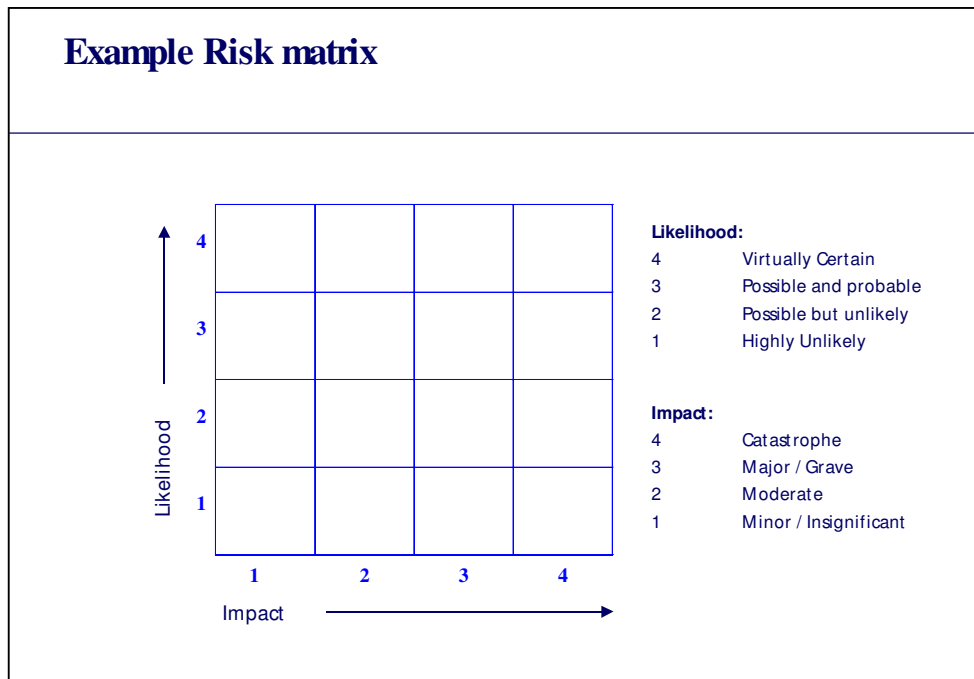
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Recommendation 6

Currently the risk register template enables risks to be prioritised three times, the first being the 'raw' or 'abstract' risk, i.e. with no controls in place, the second being the current status and the third being the target score, after controls. We would question the need for the assessment of risks assuming no controls, as this is a hypothetical situation and not something which specifically relates currently. We would recommend that risks be rated with all current actions in mind, as this is an accurate indication of the risks as they currently stand. This should continue to be accompanied by a 'target risk score' as it is this that defines the rating at which the risk would be seen to be effectively managed. These risks should also be considered across a consistent agreed timeframe, perhaps 3 years corporately and annually within service departments. To ensure consistency is maintained, we would also recommend the risk guidance in the project management toolkit also be amended to remove the 'raw' or 'abstract' assessment.

Recommendation 7

We would recommend the use of a risk matrix when prioritising risks against objectives, particularly in a group environment, and then accompanying each risk register with the relevant matrix which clearly shows the position of all the risks identified in terms of likelihood and impact. This would:

- allow each risk within in a department / corporately to be evaluated individually and placed on a matrix
- underpin and provide more detail behind the overall risk scores.
- ensure that a person could, at a glance have an understanding of the spread of risks within an area.

Based on the categories of likelihood and impact currently used, the Council could adopt a matrix such as this:

Example Risk matrix

Likelihood:
4   Virtually Certain
3   Possible and probable
2   Possible but unlikely
1   Highly Unlikely

Impact:
4   Catastrophe
3   Major / Grave
2   Moderate
1   Minor / Insignificant

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Currently risks are on registers in numerical order, while sorting risk registers in priority rather than numerical order, with the highest scoring first, can help to ensure the focus is kept on those more important risks, as they are most readily accessible.

Risk Management / Action Planning
Developing action plans containing control procedures is an essential element of any risk management process, the actual controlling of such risks being addressed through these plans. Most risks are capable of management, either by managing down the likelihood of their occurrence or the impact should they arise, or perhaps both. The adoption of a robust process for action planning demonstrates a mature and comprehensive approach to risk assessment and management and ensures that it is a living process and not a one off exercise. This part of the risk management process is arguably the most important and it is essential that it is easy to understand and implement. It is also vital that this can be readily demonstrated as occurring.

Recommendation 9
Currently risk registers contain areas to record both current and future actions, and mostly on the examples we have seen, these are consistently completed. There is a need, however for the action planning part of the RM process to be more strongly developed.

Risk registers do include details of planned actions to address risks, with overall responsibility assigned, however the actions do not include information about by whom and by when, and there is no indication of whether these were ever implemented. In addition, there are currently gaps in the risk register where actions and ownership have not been recorded, again pointing to an inconsistency in approach.

We would recommend the adoption of a more formal management action planning process, incorporating a straightforward action plan for each key risk, which should fit in amongst the Council's current action and improvement plans.

A robust action plan details the actions which need to be undertaken, identifies the resources required to deliver the actions, assigns responsibility for those actions and allows the actions to be effectively monitored. We also recommend the inclusion of the following:
- An indication of the adequacy of current actions
- What success will look like i.e. establish critical success factors
- Key performance indicators that need to be met
- Key dates and deadlines
- Names of the individuals who will carry out the specific actions

An example action plan template that we use is included in Appendix 3.

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Monitoring

If risk management is to be embedded within the Council, it needs to be firmly linked to other key council processes, and not seen as an add-on or something separate. One of the key parts of this is that it needs to be recognised and used as a key part of the planning process on an ongoing basis. There is a 'schedule of risks' section which is required to be completed as part of service planning, which is positive, however the format used here is not consistent with the current risk register format.

Recommendation 10

There is a need to ensure that, as with all risk management activity within the Council, the risk management element of service planning is consistent with and reflects the risk management strategy and registers, particularly in terms of the format and terminology used. This consistency of approach across all relevant areas will serve to strengthen the approach and further aid embedding risk management.

Recommendation 11

Guidance states that "service plans will be updated on a quarterly basis to reflect the continuing management of risks". This is something which we would very much recommend, however there is a lack of evidence as to whether this is occurring on an ongoing basis. Where this is in place, it should be documented regularly, and should form a key part of evidencing ongoing risk management.

Along with this, the high scoring, major priority risks, and their relevant action plans, should feature as a standing item on relevant management team minutes / agenda for regular review and monitoring

Recommendation 12

The suggestion is that from those risks identified within service risk registers, it is those high scoring risks (9+) should be included in service plans. This is positive, as it should ensure the risks focused on as part of service planning are the key issues rather than all risks. The only aspect of this is that people / groups have different natural perceptions of risks, and some may be more risk averse than others, and hence have more or less within the 9+ range. It may be worth suggesting those risks that score 9+ or the top 4 or 5 scoring risks, to ensure the main concerns are captured and managed.

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Risk Management Group

The Risk Management Group meets regularly to ensure risk management is operating effectively across the authority. This group has Terms of Reference to which it operates, however a number of the points included here apply more to the role of a risk champion or risk advocate within a service area rather than to a corporate group.

Recommendation 13

There would be merit in splitting the individual and group roles and better focusing here on the group roles, perhaps accompanied with a consistent agenda containing a number of standing items to be discussed. It is also beneficial to ensure consistency of attendees as much as possible.

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Integration with other Council processes

Recommendation 14
The review of the risk management strategy includes more robust roles and responsibilities for a number of levels within the Council, including the recognition of a role for the Risk Champions as the main facilitators and advocates of risk management in their department / service. These roles and responsibilities should be recognised and considered for inclusion both in job descriptions and performance appraisals for relevant individuals.

Recommendation 15
Consideration should be given to the integration of Business Continuity Management into work processes both at a strategic and departmental level. A strategic and departmental view should exist within the authority as to which services are of priority and key functions that make up a service.

There should be awareness as to the risks that threaten these key services and wherever possible with robust mitigation action plans implemented to influence the likelihood and impact of the event occurring. There should also be clear links between business continuity management and risk management at relevant levels within the authority.

Recommendation 16

The Council has a number of major projects and partnerships, which should have a robust management approach applied to them, including risk management. There needs to be clear, evidenced links between the strategic risk register and major projects and partnerships, as much of the activity of the Authority is through these, and obviously a significant risk to a major initiative could have a major impact on the achievement of corporate objectives.

Recommendation 17
A consistent approach to risk management in partnership working should be developed. This should be consistent with the approach taken corporately, with recognition of the different perspectives required e.g. both from the Council perspective and also from the perspective of the partnership. This may take place as part of a wider governance approach to partnership working.

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Member Involvement

CPA requirements identify member involvement in the process as a key element in effective risk management. The Level 2 criteria for the Use of Resources judgement requires that "Reports to support strategic policy decisions and project initiation documents, include a risk assessment". All committee reports at Watford BC do contain a risk element and the monitoring officer regularly checks for non completion of this part. There are concerns however that while the section will be completed, the content may not be understood or acted upon.

Ownership and commitment from senior levels is vital in ensuring risk management is effectively embedded within the Council, indeed reference is made in CPA level 4 for "A senior officer and member to jointly champion and take responsibility for embedding risk management throughout the council". The Council has recognised the need for a member lead on risk management and is currently in the process of identifying this person.

Particular reference is made to member training with the Level 3 criteria requiring that "The members with specific responsibility for risk management have received risk management awareness training" and Level 4 criteria that "All members have received risk management awareness training".

Recommendation 18

The identification of a lead member on risk management is key in ensuring ownership and sponsorship at significant level. The Council needs to identify an individual to take on this key role and in order to formalise this role we recommend it be identified under the roles and responsibilities section of the Strategy.

Recommendation 19

There is need to ensure that all members have an understanding and awareness of the risk management process and their role within this. This will also help members to develop their skills in taking account of risk within the decision making process. Training should be focused initially on those members who will play an active role moving forward, i.e. firstly the Lead Member (when identified) and Audit Committee. Further training should be considered for other members, and risk management should feature as part of member induction moving forward.

Recommendation 20

The risk section within committee reports needs to be consistently completed and to contain robust and relevant information. This is an area which should be covered as part of training for both officers and members, both in terms of what is expected to feature here and how to best articulate the information.

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Training

Some training in risk management has previously been undertaken, The undertaking of a dedicated programme of awareness and training in risk management principles for both members and staff heightens individual awareness and understanding both of the risk management process and of the risks the Council may be exposed to.

Recommendation 21

The Council needs to evaluate risk management training needs for risk champions and other key managers. This is particularly important in ensuring the review of the risk management process / strategy and the revised roles and responsibilities are clearly understood. This will ensure a consistent understanding and approach is taken moving forward. Training needs and the evaluation of training undertaken should be regularly reviewed and a risk management element should also be considered as part of the management development training programme.

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Conclusion

Overall the Council should take credit for its efforts to date, particularly in terms of gaining ownership and buy-in at a number of levels. However, effective Risk Management requires long-term commitment and application and while those measures taken to date are positive and are to be commended, there is a need to further support the development and implementation of a complete risk management process.

Many of the recommended actions are around redrafting the risk management documentation and process to ensure it accurately reflects both the current progress within the authority, and recognised areas of best practice. There are also key aspects around linking risk management with other key processes within the Council and making it a consistent part of normal business, applied at all levels, rather than perhaps being perceived as an add-on or something extra.

Much of this report relates to taking it forward from here, embedding risk management, improving risk management further throughout the organisation and crucially, being able to demonstrate this.

In summary, the Council is making positive progress, there is a need now to link much of the work together and to ensure a consistent approach is taken across the Council and that this can be robustly evidenced and demonstrated.

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Appendix 1 – Recommendations

Number	Recommendation
1	Updating and redrafting risk management documentation
2	Using a 2-page laminate to highlight the key aspects of the RM process
3	Risk prompts to be used during risk identification
4	Risk identification to involve a number of key relevant people
5	Ensure the root cause of risks is identified and articulated
6	Consider risks with current controls in place, and also with future controls in place, removing 'raw' or 'abstract' assessment
7	Using a risk matrix as a key element of the RM process
8	Sorting risks in priority rather the numerical order on registers
9	Adopting a more robust process of action planning of key risks
10	Need for consistency across all RM activity within the Council, particularly that in service planning
11	Ensure there is regular review and management of risk as part of service planning
12	Consider including the top 4 –5 risks from service registers in service plans, including those scoring 9+
13	Better define terms of reference of RM group
14	Recognising roles and responsibilities within job descriptions / performance appraisals where appropriate
15	Business Continuity Management
16	Clear links between strategic risk register and major projects / partnerships
17	Develop consistent approach to RM in partnerships
18	Identification of a lead member for Risk Management
19	RM training for elected members
20	Consistent completion and detail of risk section within committee reports
21	RM training for risk champions and other key officers

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Appendix 2 – Risk Categories

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

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Appendix 3 – Example Action Plan Template

Example of a Management Action Plan (MAP)

Risk Group:

Risk Number	Current Risk Score	Target Risk Score	Description
[no.]	[matrix position]	[improved position]	[short name]

Likelihood: A, B, C, D, E, F — Impact: IV, III, II, I

Action/controls already in place	Adequacy of action/control to address risk	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates
[actions/controls already being done that relate to this risk/cluster]	[how effective are the actions/controls already in place?]	[new actions/controls required to manage the risk down to its target score]	[the person responsible for this action plan being carried out]	[what will success look like? How will performance indicators have improved]	[frequency of reviewing this action plan]	[Milestones/ deadlines]