Agenda item No.

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HERTFORDSHIRE COUNTY COUNCIL

AUDIT COMMITTEE
THURSDAY 5 JUNE 2003 AT 10.00AM

RISK MANAGEMENT - UPDATE REPORT

Report of the Head of Risk Management

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1. Introduction

The Committee, at their meeting on 12 December 2002, requested an update report on the Key Risk Management process being operated within the Council.

This report provides further information on:

- the risk management process that has been used this year to identify and manage the council's key risks
- examples of the highest priority risks
- an assessment of the benefits of the process
- further work to continue to embed the process within existing corporate and departmental planning arrangements.

2. Summary of the Key Risk Management Process

The Key Risk Management Process is aimed at identifying, assessing, prioritising and mitigating (or controlling) the significant risks that could impact on the delivery of the County Council's objectives. A process has been in place over the past three years and has been refined over that period.

The Finance Board, comprising the Chief Financial Officer, departmental Assistant Directors (Resources) and chaired by the Chief Internal Auditor, is responsible for producing the Council's risk register (i.e. list of key risks and how they are managed). The Head of Risk Management provides the framework and ensures that there is a periodic formal monitoring by the Board on progress in mitigating the key risks.

For this year the Finance Board completed the risk register in early 2003. Each member of the Board provided the information to populate the risk register, in consultation with their Chief Officer and departmental management team colleagues.

The key steps in the process were to:

- Identify the primary business objectives for their service
- Identify the things that could deflect them from meeting these objectives (the risks)
- Assess (likelihood and impact) and then prioritise the risks using a traffic light system (red – the highest priority, amber and green)
- Consider what was already being done to control the highest risks (Red/Amber) and then indicate what other actions were planned for this year.
- Allocate responsibility for these tasks and arrange for monitoring by the Finance Board and departmental management teams

In addition, following a recommendation from this Committee to the Cabinet in December 2002, the Cabinet agreed:

- That Chief Officers involve their respective Executive Members in the risk identification and management process.

- That an annual report on the outcome of the risk management process should be presented to the Cabinet in December as part of the overall Budget process.

3. Outputs from the Process

The risk register currently contains a total of 94 risks (23 red, 56 amber and 15 green). Each risk was assessed and prioritised as red, amber or green.

The red risks were predominantly financial in nature e.g. the risk of unpredicted overspends and/or failure to collect income, or the risk of a trading loss to Shire Catering. However, some examples of other red risks identified were:

- Inappropriate legal advice provided to departments when dealing with vulnerable people
- Difficulties in recruiting various classes of staff e.g. teachers, social workers
- Failure of a key highways contractor.

Although assessed as red risks, officers have ensured that they have appropriate control measures in place to minimise the chance of the risk occurring.

The risk register is a dynamic database of the council's key risks.

4. Benefits of the Process

The Key Risk Management process has a number of benefits to the County Council. Externally the council needs to be seen to comply with best practice in terms of corporate governance (CIPFA/SOLACE Code of Corporate Governance). Risk management is one of the ways that a local authority (and other organisations) can demonstrate that it is a well-managed and effective organisation. The Code requires local authorities to publish an annual assurance statement (in the annual accounts) including reference to how it identifies, assesses and manages the significant risks to which it is exposed.

In addition the Audit Commission both through its annual discussions with the County Council on the annual audit programme as well as through the Comprehensive Performance assessment (CPA), places significant emphasis on the effectiveness of the risk management arrangements in place. If the Council's arrangements were considered less than effective it could well lead to an adverse CPA rating for risk management, and to additional audits.

Internally the process is seen as a helpful way of drawing together in one document (and for the first time) the potential obstacles to delivering on service objectives across the organisation. It is a way of ensuring that there are no costly surprises and resources are used more effectively. It is a key management tool for senior managers.

5. Embedding the Process

As mentioned earlier the current process has developed over the previous three years. It is intended to continue this refining process by investigating how it might be able to be included in existing service development and planning arrangements. Discussions are taking place with a number of national risk management consultancies to establish if this is a viable way forward.

The Committee in December agreed that they will in future receive an annual report on risk management. This will be timed to help inform consideration of the annual external and internal audit plans, as well as the Committee's own work programme.

Background material used by the author to compile the report

HCC Key Risk Management process

HCC Key Risk register