Agenda item no:

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HERTFORDSHIRE COUNTY COUNCIL

AUDIT COMMITTEE
THURSDAY 4 MARCH 2004 at 10 a.m.

THE COUNCIL'S RISK MANAGEMENT PROCESS

Report of the Finance Director

Author: Paul Dudley (Tel: 01992 555532)

1 Introduction

The Committee, at their meeting in June 2003, requested that the Head of Risk Management provide an annual report on the process deployed to identify, assess, prioritise and mitigate the key risks that could effect the overall achievement of service objectives.

This report provides:

- The reasons why the key risk management process is in place
- An outline of the process and includes a copy of the Risk Register
- An assessment of the benefits and some potential changes to the process

2. The importance of the Key Risk Management Process

The management of risk is a process where an organisation identifies its risks (at various levels) to service delivery and how it assess, prioritises and treats (mitigates) those risks.

There are a range of reasons why the management of risk is important to the County Council. They can broadly be broken into two categories – external and internal, and these are summarised below:

External:

- Broadly seen as "best practice" in the public sector in helping to achieve its objectives by using a risk management approach.
- Risk management is recognised as important element of good corporate governance based upon the CIPFA/SOLACE Corporate Governance publication (2001). In accordance with the Code of Corporate Governance the County Council publishes a statement in its Annual Accounts about the risk management processes in place.

- The audits undertaken by the Audit Commission are partly determined on how well a local authority manages its risks. Therefore the better the organisation manages its key risks the fewer inspections take place (or less frequently).

- Risk management is a feature of the Comprehensive Performance Assessment and has contributed the current "excellent" rating.

- The Accounts and Audit Regulations 2003 require local authorities to assure themselves that they have a sound system of internal control and that these controls are key in mitigating risks to the achievement of the organisation's principal objectives. These regulations will reinforce and raise the status of this corporate governance statement in the Annual Accounts. (See above). CIPFA are currently consulting on the means by which this will be done by the authority.

Internal

- Recognised by Cabinet and senior management that this is a helpful way of drawing together, in one document the potential obstacles to delivering on service objectives across the organisation. It also identifies the relative importance of these obstacles and assigns responsibilities for reducing the likelihood/impact if they do occur.

- It is a helpful monitoring tool for Cabinet and senior management.

- It also helps meet the various external requirements as mentioned above.

It is also worth mentioning that following the improvements made to the Key Risk Management process for 2003, particularly the inclusion of the member process, the council has been reassessed by the Audit Commission as "adequate" (level 3). This assessment was taken into account during the Comprehensive Performance assessment. The assessment is based on a 4 point scale with 4 being the highest and known as " Better than adequate".

3. The Councils Key Risk Management Process

The Key Risk process was managed by the Finance Board and for the first time included consultation with Executive members and the Cabinet.

Assistant Directors (Finance Board members) were requested to co-ordinate the process within their departments. Guidance notes (see appendix 1) were issued to ensure that consistency of approach and of the assessment of risk.

The process

- Identify the primary business objectives for the services

- 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

This process was undertaken twice during the year to take into account any potential risks identified during the budget process.

There was also consultation with Executive members (for the first time) during the process with the relevant Chief Officer. In addition there is now a requirement for an annual report on the management of risk to Cabinet to coincide with the annual budget report. A report was submitted to Cabinet in December 2003.

The output from this exercise resulted in the production of a risk register (see appendix 2) that contained 117 Risks (23 Red, 68 Amber and 26 Green). Each risk was assessed and prioritised using the risk matrix. It should be noted that whilst this exercise focussed on the risks affecting the delivery of departmental objectives, some risks were identified (more than once) as impacting upon the whole organisation, for example Project SHARP (red risk).

The Council's definition of risk, for this process is, "the chance of something happening that will impact upon the organisation's objectives". <u>*It is important to understand that where risks have been identified by Chief Officers, it does not mean that they **will** happen rather that some risks are more important to manage depending upon how likely they are to happen and the consequences if they did.*</u> The process helps to highlight the action being taken by Chief Officers to mitigate these risks.

4. Assessment of the Process

The Key Risk Management process achieved its objective in terms of providing an authority wide risk register that contained a prioritised list of risks, actions to mitigate those risks and identified accountable officers. It also provided opportunities for Executive members and Cabinet to be included in the process. This contributed to the maintenance of the “excellent” rating under Comprehensive Performance Assessment.

The Risk Register now provides a tool for senior management and cabinet to review how well these risks are being managed through the year.

Overall the process worked well. This was the first year that included a member process, consultation with Executive Members with Chief officers and some changes to the risk management guidance notes used to assess risks. Inevitably there were some things that could be improved upon and the process will take a little time to bed in.

There have been a number of suggestions for fine tuning the process and these include:

- Improve the scrutiny of risks that are included in the “red” category to ensure that these are of a strategic nature.

- Earlier discussion of cross service risks (such as Project Sharp) to ensure consensus. (This was done but at a later stage).

- Starting the process at an earlier stage and ensure that it is, as last year, included in the budget process.

The Finance Board has agreed to formally review the process in early 2004/5 where suggestions for improvements will be made and adjustments then made.

Internal Audit will be will be undertaking the bulk of the work identified in the Accounts and Audit Regulations 2003 in April which will include a detailed review of the current system. A report of the findings of this assurance work will be presented to the Audit Committee at its meeting in June 2004.

5. Summary

The Key Risk Management process has achieved its objective for this year and has seen an improvement in the Audit Commission’s assessment on how well the County Council manages its key risks.

A review of the process will be undertaken by Internal Audit in April with the findings being made known to the Audit Committee.

Background information used in this report

The Council's Risk register 2003
Draft Guidance on Internal Control and Risk Management in Principal Local Authorities and Other Relevant Bodies to Support Compliance with the accounts and Audit Regulations.
Accounts and Audit Regulations 2003