Risk Management Strategy incorporating Risk & Assurance Protocol Guidance

2014-15

Risk Management & Insurance
Directorate of Corporate Resources

Dudley Metropolitan Borough Council

Introduction

The Risk Management Strategy within Dudley MBC will follow recognised principles encompassing the Risk Assurance Protocol process, namely:

- Risk identification and analysis should be undertaken at the earliest opportunity in the business processes
- Emphasis is placed upon assigning risk ownership and mitigating actions
- A central, corporate risk register should be used by all directorates for recording and updating risks
- Mitigating actions should be regularly reviewed and tested for efficiency and effectiveness
- Project risks should be managed in accordance with best practice e.g. PRINCE2 (Projects in Controlled Environments)

The corporate risk register is the JCAD Risk system.

The Risk Assurance Protocol (R.A.P.) is required to be signed by each Director every quarter, to give assurance that all the risks and mitigating actions for his/her directorate have been reviewed and monitored. Audit Services assess compliance with the RAP when undertaking risk management audits.

Primary responsibility for risk management sits with each director. The Quarterly Performance Monitoring process seeks to report the most important ("corporate") risks to Corporate Board and to elected members, via the *Quarterly Performance Management Report*. Audit & Standards Committee will also receive regular risk reports and is expected to provide scrutiny of risks and importantly their associated controls.

Practical Guidance

The purpose of this guidance is to assist with the identification, scoring, review and management of risks. Revisions have been made to the guidance to reflect experience of working with the R.A.P. and to take account of issues raised by Corporate Board, Risk Champions and Audit Services in relation to:

- Moderation of risks – to ensure that a complete range of risks are managed at an appropriate level and that risks are ranked consistently.
- Corporate risks – definition of the criteria to ensure that the most important risks (and only those) are reported to Corporate Board and elected members.
- Partnership risks – ensuring that risks explicitly relating to the Council's exposure from partnership working are properly reflected.

A sample R.A.P. is attached as an Appendix. The sections in this guidance are structured around the questions in the R.A.P.

Have risks been clearly identified and adequately described?

Firstly, what is a risk? The corporate definition is

"Uncertainty of outcome, whether positive opportunity or negative threat"

Priority risk considerations therefore are:

- New legislation/developments etc.
- Volatile/transient e.g. extreme weather/political change
- Historical evidence e.g. past problems
- Persistent but serious Audit breaches
- Prosecutions
- Early warning indicators
- Wider intelligence

The following would **not ordinarily** be included within the risk register:

- Routine operations running well with no evidence to the contrary.
- Areas giving little or no historical evidence of volatility.
- Not merely due to a 'general lack of resources'.

Risk identification is concerned with identifying the events that can impact on the business objectives. It may be helpful to think in terms of the following phrases and to maintain focus around Dudley M.B.C. and its responsibilities in the first instance

EVENT	→	**CONSEQUENCE**	→	**IMPACT**
There is a risk that / of….		leads to…		results in…

A risk simply expressed as "failure to complete project x or achieve objective y" is unlikely to be a meaningful risk and is unlikely to help when it comes to the design of mitigating actions. Therefore all risks should be articulated in a way that makes them understandable to the layperson and **not** written in jargon or acronyms.

In order to ensure the completeness of risks, it **may** be helpful to consider the following categories (not all of these may be relevant or they may not throw up significant risks in every area of the Council's business and some risks will fall into more than one category):

- Competitive
- Financial
- Partnership/Contractual
- Physical
- Professional
- Social
- Environmental
- Legal
- Service Delivery
- Political
- Reputational
- Technological

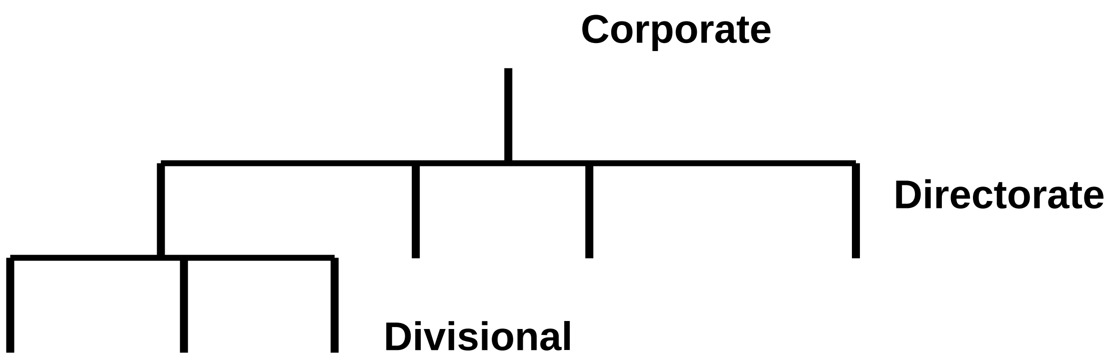
Risk identification should be repeated regularly to ensure that new risks arising are identified and brought into the risk profile as appropriate, for example:

- An adverse event (or a “near miss” event occurring either within Dudley MBC or another organisation).
- Something new e.g. a project, partnership, or very different service and/or new funding stream.
- As a result of ongoing management review, e.g. budget pressures, unexpected demand for service, etc.
- From changes in legislation.

Risks should be recorded on the JCAD system. Training and support in the use of this system is available from the Risk Management and Insurance Team.

Risk Register Levels

For manageable reporting and risk tolerance standards JCAD Risk has been structured in the following way:



Corporate - risks at this level will be **owned by Corporate Board or Directors** and should be:

- Primarily strategic, relating to key objectives or functions. Usually spanning several business planning years and several or all directorates - e.g. future funding scenario, demographics, pay structures, asset utilisation/disposal and high-level business continuity/emergency planning. It is expected that Directors/Board will identify this level of risks and will formally review them at least 3 times per annum. Audit & Standards Committee will also receive details of corporate risks 3 times per annum and on a rolling basis will scrutinise particular corporate risks of its choosing. This may entail directors and other senior officers attending this committee to provide members with advice and guidance on how particular risks are being managed.

Directorate - risks at this level are to be owned by the senior management within directorates and should include:

- Probably fundamental to one or several key objectives of individual directorates. Expectation that Directors/Assistants would own and report to Board at his/her discretion - e.g. Waste disposal, Children in Care, Transforming Social Care

Divisional - risks at this level should be:

- Mainly key operational, unique to a division but would encompass most important or escalated risks from team levels where appropriate. Escalated to directorate level at the discretion of DMT/DMG's.

Entry of risks below this level on JCAD is discretionary.

Are the risks still valid?

Existing risks should be reviewed to ensure all aspects of the risk and its management are still valid. In this regard, risk owners should remain cognizant of risk volatility, new or revised controls and the need for accurate ratings with regard to impact and likelihood. In other words the transient and volatile nature of risks must be acknowledged and managed accordingly.

New Risks -

It is vital to consider gaps in risk registers i.e. are there any new areas of risks that are not considered. In this regard, management processes must ensure mechanisms are in place to facilitate this, e.g. at management meetings or business planning sessions. A separate mini guide is available on how to carry out a review on JCAD and the importance of the diary/letters tab.

Obsolete Risks -

Risks should not be deleted from the JCAD system. However, where a risk ceases to be relevant it should be given the status "withdrawn" in the system. The diary facility in JCAD should be used to record the reason for withdrawal of the risk. Should a risk be 'withdrawn' for a period in excess of 12 months then it will be deleted from JCAD by the Risk Management section as part of the system housekeeping.

Risk ownership and monitoring -

In determining risk ownership, there is a balance to be struck:

- Ownership of a large number of risks at too high a level may be ineffective.
- Ownership at too low a level would lead to the proliferation of risks and confuse the reporting to senior levels.

A risk owner should be an officer with authority to review and enforce the processes to manage the risk in question. It is possible that someone other than the owner of the risk itself may own mitigating actions; however overall responsibility remains with the risk owner.

Risk ownership should be recorded in the JCAD system. This supports good risk management because:

- System reminders make the risk owner aware of his/her role.
- Reminders ensure that reviews are carried out.
- Changes in staff are less likely to be overlooked, as failure to carry out reviews will be highlighted to the Risk Management and Insurance Team.

Are the review dates still valid?

Review dates for risks and their associated mitigating actions should reflect the status of the risk. See guidance on the status of risk below. The JCAD system will then send automatic reminders to review risk.

The R.A.P. is signed quarterly, while some minor risks may be reviewed less frequently than this. The R.A.P. may legitimately be signed if reviews have been carried out at the relevant review dates.

Have all mitigating actions been identified and are they operating as intended? Is the assessment of each mitigating action in reducing the likelihood and/or impact still correct?

Having ensured that the relevant risks have been identified, the main focus of risk management should be on the implementation of relevant mitigating actions and compliance with mitigating actions. Ownership of mitigating actions should be guided by the same considerations as are set out for risk ownership – i.e. officers with authority to review and enforce.

In many cases it will be possible to cite an entire business process as a mitigating action. For example, the FMMR process is a mitigating action against the risk that the Council does not manage within its available resources. Health and safety reviews are a mitigating action against the risk of physical or psychological harm to employees and the public. In these cases it is not necessary to record all the details of the process in JCAD.

Costs and logistics of implementing mitigating actions should be in perspective. If risk measures are particularly complex then a formal cost benefit analysis will need to be undertaken i.e. controls measures should remain commensurate with the risk.

The higher the current assessment of a risk (see below), the more active consideration there should be of additional mitigating actions to reduce the risk.

Reminders to review mitigating actions are issued by JCAD. Officers reviewing mitigating actions should undertake sample ("spot check") testing to ensure that processes have operated in practice during the relevant period. The diary facility in JCAD should be used to record brief details of this testing.

Is the CURRENT assessment of the risk still valid?

The current assessment of risk is a **net** combination of impact and probability (likelihood).

Criteria for assessing impact (as insignificant, minor, moderate, significant or major) are set out below:

	IMPACT DESCRIPTIONS				
	1 Insignificant	2 Minor	3 Moderate	4 Significant	5 Major
Service, Partnership & Project Delivery	Minor errors in systems and processes handled within normal daily routine.	Short-term disruption and action required. Managed by intervention from Head of Service/ Block Leader or Project Manager.	Noticeable disruption affecting customers. Intervention and management by local management team.	Disruption of core activities. Key targets missed, some services compromised. Intervention by DMT or Project Board or Block Leaders Group required	Loss of core activities. Strategic aims compromised. Intervention by Cabinet/, etc.
Financial	Not exceeding £10k losses or negative variance against annual revenue budget or capital budget	£11-50k losses or negative variance against annual revenue budget or capital budget	£50k to £250k losses or negative variance against annual revenue budget or capital budget	Between £250K to £750k losses or negative variance against annual revenue budget or capital budget	Greater than £750k losses or negative variance against annual revenue budget or capital budget
Reputation	Event or decision not in the public domain that has little impact outside of DMBC	Event or decision in the public domain that receives minimal or no negative coverage by local media	Event or decision in the public domain that receives some negative coverage by local media and/or pressure groups	Event or decision in the public domain that receives significant negative coverage by national media and/or pressure groups	Event or decision in the public domain that receives extensive negative coverage by national media and/or pressure groups

Impact descriptions above should be taken, where appropriate, to include the risk of lost opportunity. For example, there may be the risk of missing an opportunity to make significant financial gains or achieve extensive positive media coverage.

Probability should be assessed into one of five bands ranging from Rare (<10%) to Almost Certain (>90%).

The JCAD system calculates a current rating, based on a combination of impact and probability, as follows:

PROBABILITY (Over next 12 months)							
	Almost Certain >90%	5	Minor (5)	Moderate (10)	Significant (15)	Major (20)	Major (25)
	Likely 50%-90%	4	Minor (4)	Moderate (8)	Significant (12)	Major (16)	Major (20)
	Moderate 30%-50%	3	Insignificant (3)	Minor (6)	Moderate (9)	Significant (12)	Significant (15)
	Unlikely 10%-30%	2	Insignificant (2)	Minor (4)	Minor (6)	Moderate (8)	Moderate (10)
	Rare < 10%	1	Insignificant (1)	Insignificant (2)	Insignificant (3)	Minor (4)	Minor (5)
			1 Insignificant	2 Minor	3 Moderate	4 Significant	5 Major

Dependant upon the score of the risk, the following reporting and review standards are **recommended**

RISK COLOUR	RISK SCORE	REPORTING LEVEL	RECOMMENDED REVIEW PERIOD
RED	**MAJOR** (score of 16-25)	Directorate & Corporate Board via the Quarterly Corporate Performance Report but only if also deemed a 'corporate' risk	At least quarterly
ORANGE	**SIGNIFICANT** (score 12-15)	Directorate	At least quarterly
YELLOW	**MODERATE** (score 8-10)	Directorate	At least six monthly
BRIGHT GREEN	**MINOR** (score 4-6)	Division	At least annually
DARK GREEN	**INSIGNIFICANT** (score 1-3)	Risk Owner	At least annually

Nothing in the above should prevent risks being from time to time reported to a higher level or reviewed more frequently if required should they become volatile.

Moderation / Management

As with any system of criteria, the impact and probability criteria set out above are open to interpretation. Risk Champions and relevant DMG/DMT's and/or directorate Risk Groups should, as a matter of course, have a role in moderating those interpretations and using their discretion.

It is not possible to define the types of risks that should appear as major risks – to do so would prevent each risk from being considered on its own merits. However, if the process is operating as intended, the risks that are considered by Corporate Board and Members should be those that are not capable of being contained at directorate level and will become known as *Corporate Risks*. As a matter of course, these risks will be published in the Quarterly Corporate Performance Report.

The Risk Management process should include the following:

Risk identification – by all employees

Employees should highlight risks to their line manager, e.g. through supervision, team meetings and/or planning processes. Risks are included in team/service plans, along with mitigating actions and referred to immediate line managers. It may not be necessary to enter risks on the risk register at this point. This should be something that managers and respective teams should establish and at which level they should be entered on the risk register. At this level, risks are likely to be at team level so entry on the risk register is optional but risks should be managed regardless.

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Risks communicated and entered onto JCAD (Risk Register)

Following validation by line managers / heads of service, risks are entered onto JCAD. The Risk Owner must ensure that valid controls have also been entered and review periods aligned with the risk score as outlined above.

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Risks reviewed (Service Level Teams (S.L.T's), Departmental Management Teams (D.M.T.'s) / Directorate risk groups)
S.L.T. members review and identify new risks at Quarterly Performance and/or Risk Management meetings. This provides a challenge process in order to review and monitor volatile and major risks as well as assisting with the quarterly assurance protocol process.

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Escalation of risks to corporate level.
It should be borne in mind that any risks which are primarily strategic relate to key objectives or functions and span several business planning years and/or several or all directorates may need to be brought to the attention of Directors for possible escalation to 'corporate' level. There is formal opportunity to bring these risks to Corporate Board 3 times per annum but in intervening periods, Directors should raise awareness at any time they consider appropriate.

Partnerships

Whilst partnership working continues to be an important part of the Council's operations, experience indicates that partnerships rarely give rise to risks in isolation. Accordingly there is no longer a requirement to make a risk register entry uniquely associated with a partnership. Accordingly risks associated with a particular partnership should be considered by the lead team/ division/directorate and entered on the JCAD system and monitored accordingly.

Should information arise that suggests a partnership does give rise to explicit risks that cannot be more appropriately accounted for elsewhere in the risk register, then a unique area can easily be created within the risk register structure and monitored accordingly..

Director's sign off

Director sign off should be based on an escalation of assurances from heads of service up to Assistant Directors and, in turn, to Directors themselves to enable sign off to take place. This may be a quarterly or more frequent DMT item.

Risk Management and Insurance Team can support this process with reports from JCAD to show where reviews have or have not been completed on time, where risks have been amended, etc. The RAP will need to be completed by each Directorate

Performance/Risk Management Assurance Protocol – 2014/15

Directorate: .... **Quarter:………………………..**

	Review criteria	Y	N
1	Have any objectives for your Directorate changed, e.g. new services or projects? (*This should include any risks that you consider should be escalated via the Director to be reported on at Corporate level).		
2	Have risks been clearly identified and adequately described?		
3	Are the risk owners still valid? *(E.g. the most appropriate / still in post?)*		
4	Are the risks still valid? *(E.g. still current or have they now past?)*		
5	Are review dates still valid? *(dependant on risk status in accordance with the separate guidance notes)*		
6	Have all mitigating actions been identified and are they operating as intended?		
7	Is the assessment of each mitigating action in reducing the likelihood and/or impact still correct?		
8	Is the **CURRENT risk rating** of the risk still valid? i.e. in accordance with the standard impact/probability guidance		
9	Have there been any significant worsening of risks since last review * (note 2)		

Additional information/notes:

1/ The Assurance Protocol will need to be completed by the relevant Director liaising with the Risk Champion to determine the arrangements are place to ensure compliance.
2/ Where significant worsening of risk/s has occurred, directors will also consider additional, formal reports to appropriate committee/s.

*** Please state any risks which you consider should be escalated via the Director to be reported on at Corporate level**:

List of significant partnerships and projects assumed included in the above:

Significant partnership/project	Lead Officer

Director…………………………………………………………………………………………… **Date**……………………….