GWYNEDD COUNCIL

COMMITTEE	**AUDIT COMMITTEE**
DATE	**1 DECEMBER 2015**
TITLE	**RISK MANAGEMENT ARRANGEMENTS**
PURPOSE OF REPORT	**TO UPDATE THE AUDIT COMMITTEE ON THE COUNCIL'S RISK MANAGEMENT ARRANGEMENTS**
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ACTION	**RECEIVE AN OVERVIEW ON THE EXISTING RISK MANAGEMENT ARRANGEMENTS AND RECEIVE AN UPDATE ON FURTHER DEVELOPMENTS**

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1. INTRODUCTION – WHAT DOES THE AUDIT COMMITTEE NEED TO DO?

1.1 In order fulfil its duties as "those charged with governance", it is necessary for the Audit Committee to:

- **Ensure that it is clear about what is meant by "risk management" in this context.**
- **Be clear in its role within the risk management system, by receiving clarification and questioning as necessary.**
- **Take an overview of the current risk management arrangements within the Council, including the procedure for updating risk registers, and ensuring implementation where necessary.**
- **Decide if the proposals for reporting arrangements would allow the Committee to fulfil its statutory role for reviewing and assessing the Authority's arrangements for risk management, internal control and corporate governance.**

2. WHAT IS MEANT BY "RISK MANAGEMENT"?

2.1 In this context, the definition of risk is ***an event that affects the ability to achieve a purpose or objective***. Risk is not in itself a bad thing – problems arise when surprises happen, and things go wrong because they had not been foreseen when they could have been.

2.2 Risk management is the process of identifying risks, assessing the results and deciding on the best way to respond to them and/or deal with them. A robust risk management regime is a fundamental principle in any governance framework, and failure to demonstrate that risk management arrangements are in place weakens the ability of the Council to demonstrate the resilience of its governance arrangements within the assurance framework.

2.3 Risk management does not mean a failure to innovate, or being afraid to take be enterprising. Without venturing and taking meaningful risks the Council cannot develop and respond to challenges. What risk management does is support members and officers to do this by assisting them to predict what can happen, and use this to take appropriate steps to manage performance and ensure success.

2.4 Creating comprehensive risk registers are not a symptom of a system which is risk averse, because in order to be risk averse the organisation must know which risks exist, and then to put strict management arrangements in place to try to ensure that no risk is being realised.

2.5 The arrangements described in this report relates to the Council's overall business risks. It should also be noted that the Council considers certain types of risks and has put in place specific arrangements to deal with them. These types of risks include:

- Health and Safety Risks
- Safeguarding Children and Adults Risks
- Information Risks
- Emergency Planning and Service Continuity Risks.

2.6 The above all fit into the broader picture of the more general business risks.

The role of the Risk and Insurance Unit

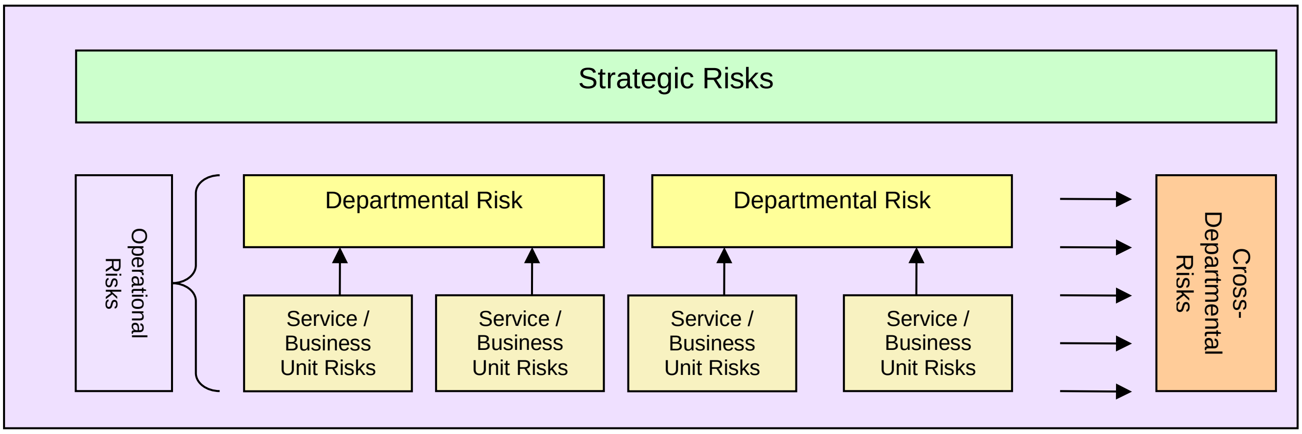
2.7 Neither the Risk Co-ordination and Insurance Manager nor the Senior Manager Revenues and Risk have a responsibility for managing other people's risks. That is the responsibility of officers within the business unit, service or department. Despite this, the Risk and Insurance Unit encourages all departments to take advantage of their service that offers:

- A focal point for the sharing of good practice
- Providing advice, guidance and assistance in developing risk management registers
- Providing training to managers or units (supported by the Learning and Development Service)
- Assist heads and managers in ensuring that risks are given due attention by the business units for which they are responsible.

2.8 The Senior Manager Revenues and Risk will be responsible for regular reporting to the Audit Committee on the corporate risk management arrangements.

3. THE COUNCIL'S ARRANGEMENTS FOR IDENTIFYING, RECORDING AND PRIORITISING RISKS

3.1 The diagram below provides a simple overview of the groups of risks which the Council faces:



Service / Unit Risks

3.2 It is expected that relatively small, day-to-day risks, are identified and dealt with within the business unit by the staff and the manager.

3.3 Managers and staff are responsible not only for the identification of the risks but also for implementing remedial action to address deficiencies in processes and controls.

Departmental Risks

3.4 If any of the service / unit risks require diverting resources within the Department, if the results of their occurrence would be sufficiently serious to affect the reputation of the Department or its ability to operate, or may affect the ability of the Head of Department to fulfil their statutory role (where applicable), the matter should be referred to the attention of the Senior Manager and/or the Head of Department. The departmental management team will then consider if the matter is serious enough to be considered a **Departmental Risk** and included on the **Departmental Risk Register**. The departmental management team can also introduce risks to the Departmental Risk Register that have not been referred up by a unit or service. The departmental management team decides which officer is "owner" of the risk who should take the lead in putting mitigation arrangements (i.e. internal controls) in place, and noting this on the departmental risk register.

3.5 "Stepping on the balcony" offers an opportunity for the Head to observe patterns in the wider environment and patterns over the horizon. This process of observation offers an opportunity for the Head to identify some risks which might not be obvious to other officers of the Department, and therefore made a constructive and crucial contribution to the process.

Cross-Departmental Risks

3.6 There will be some risks that are common to all departments, and need cross-departmental attention to deal with them. If so, the **Cross-departmental Risks** are included in the **Corporate Risk Register**. This risk register also includes matters that are operationally relevant to only one department, but failure to deal with them would have far-reaching impact on all departments (e.g. causing a serious loss in resources).

3.7 The Management Group (i.e. the Chief Executive, Corporate Directors and Heads of Department) will receive a copy of the Corporate Risk Register every 6 months (around May and November) so that the group can consider whether the cross-departmental risks contained therein remain relevant, if there are risks that need to be added, and if the relative priority given to the individual risks remains appropriate.

Strategic Risks

3.8 In addition to cross-departmental risks, the Corporate Risk Register also includes **Strategic Risks**, which are long-term issues that influence policy. These are risks that have arisen on the basis of assessments by the elected members of the Council's direction for dealing with long-term social issues, or issues that have been identified by the Governance Arrangements Assessment Group as being governance issues that need very high priority.

3.9 Actions to address the strategic risks appear as projects in the Council's strategic plan, and the Delivery Panels play a key role in keeping an overview on the progress being made on these projects and, therefore, dealing with the strategic risks.

Risk Scoring

3.10 In order to score risk, consideration is given to two factors:

- The impact if the risk were realised
- The likelihood that the risk will be realised.

3.11 In accordance with common practice, when a risk has been identified it will be scored three times:

- The size of the risk without any mitigation arrangements (i.e. internal controls) in place
- The size of the risk based of the mitigation arrangements that are in place at present
- The size of the risk if further mitigation arrangements are introduced.

3.12 In order to keep the system as simple as possible, a colour system is used to show the relative size of risks, namely

- Red – Very High Risks
- Orange – High Risks
- Yellow– Medium Risks
- Green – Low Risks

3.13 By using the colour system, the attention given to the risks can be prioritised, in order to make effective and efficient use of the Council’s resources. For example, it is possible to see if the Council uses too much energy on mitigating relatively small risks, while failing to give adequate priority to major risks.

4. ROLES, RESPONSIBILITIES AND FUNCTIONS

4.1 The Council's arrangements fit the "Three Lines of Defence" model. The picture below clarifies how risk management, audit etc. fit into the model:

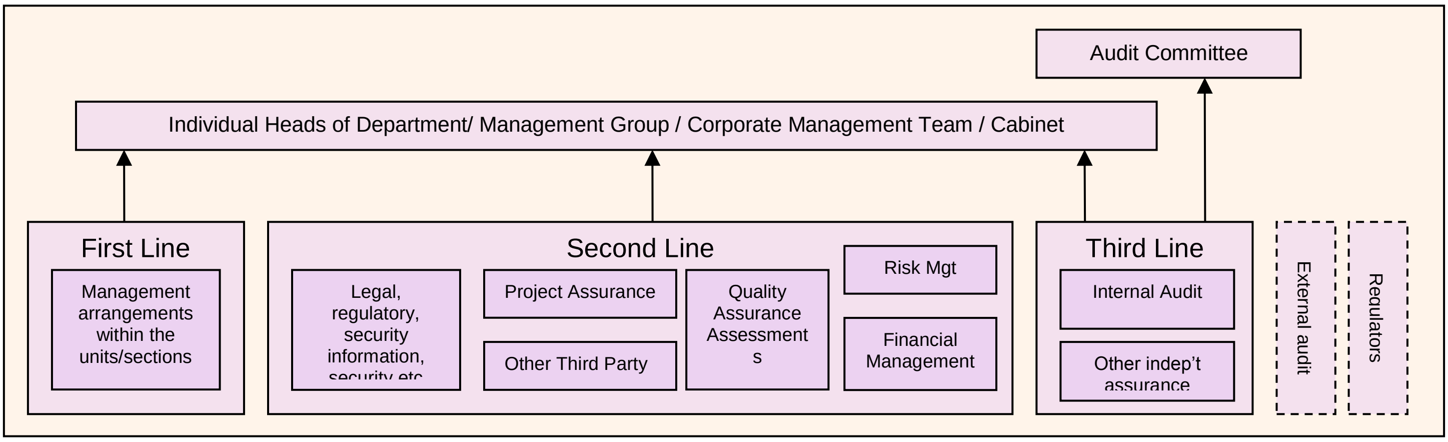


Chart 1: How the "Three Lines" Model works in practice in Gwynedd Council

4.2 The Three Lines model distinguishes between 3 lines or groups, which all have a part to play in effective risk management arrangements:

- The first line, which are the **Functions that own and manage the risks** – day-to-day management within business units
- The second line, namely the **Functions that keep an overview on risks** – corporate functions which provides an overview from the perspective of controls and compliance (e.g. Legal, Accounting, Information Management, Health and Safety, Emergency Planning and Business Continuity, Performance Managers)
- The third line, which are the **Functions which offer independent assurance** – the internal audit function, or another independent assurance

4.3 External auditors or regulators are not considered part of the "three lines". Chief Officers, the Cabinet nor the Audit Committee are part either, as it is they who receive assurances from the "three lines".

5. THE ROLE OF THE AUDIT COMMITTEE

5.1 The Local Government (Wales) Measure 2011 states that a local authority must appoint an Audit Committee, and among the things that it is expected to do is to review and assess the risk management, internal control and corporate governance arrangements of the authority (part 81 (1) (c)).

5.2 In one sense, the Committee has done so since its inception in 1999 because it considers reports from Internal Audit and external auditors, and challenges the Council's services on the adequacy of their internal controls. The work of the Committee in assessing the governance arrangements of the authority, challenging the financial strategy and holding departments to account for their financial management also contributes to the this work.

5.3 However, the Committee has not, to date, received regular reports that provide an overview of the Council's formal arrangements for keeping registers of the risks that it faces.

5.4 In order to perform its expected role within the governance system, paying attention to the Council's risk arrangements enables the Audit Committee to raise the profile of risk management as a necessary management tool within the authority as a whole. As the statutory guidance from the local government measure 2011 notes, by reviewing the risk management arrangements on a regular basis, the Audit Committee will further strengthen its significant role within the Authority's corporate governance structure.

5.5 As noted above, it is the responsibility of risk "owners" to ensure that arrangements are in place to mitigate the risks as necessary. The role of the Committee is to take an overview, in order to obtain assurances that appropriate arrangements are in place across the organisation to assess, analyse, monitor and manage risks.

5.6 If the Risk and Insurance Unit are concerned that there are risks that are not being mitigated adequately, then they will discuss the matter with the owners of the risks; they will not report immediately to the Audit Committee. It is only in exceptional cases that it is expected that the Committee's attention will need to be drawn to individual risks where there are concerned that failure within the relevant department to take them seriously and introduce appropriate internal controls.

5.7 Internal audit will also continue their work of reviewing the risk management and internal controls of business units, reporting to the Committee on the results of this work.

5.8 It is not the responsibility of the Audit Committee to deal with the individual risks that appear on the risk registers, but instead to receive assurances that adequate arrangements are in place to ensure that somebody does. That is, for each risk, the name of an executive member or an officer has been identified as its "owner”. This individual is responsible for:

- keeping the risk under review
- considering if there are changes in the impact if the risk were realised, or in the probability of the risk being realised
- put actions in place, if necessary, in order to mitigate the risk
- review the mitigation arrangements that are in place, in order to determine if some of them are excessive.

5.9 For each type of risk listed in Part 3, there are arrangements in place to ensure that the owners act as expected. These are the groups of risk that the Council will be identified, and how we deal with the risks within these groups:

Type of Risk	**Record of the risk**	**Ownership**	**Ensuring Action**
Service / Unit Risks	Unit Risk Register	Managers and Staff	Managers
Departmental Risks	Departmental Risk Register	Specific officer, usually a member of the departmental management team	Head of Department
Cross-Departmental Risks	Corporate Risk Register	Specific officers	Management Group
Strategic Risks	Corporate Risk Register	Specific Cabinet Member	Delivery Panels

5.10 Reports on Risk Management to the Audit Committee in the future will summarise the work that has been done in these areas during the previous period.

6. FURTHER DEVELOPMENTS

6.1 In accordance with the Implementing Ffordd Gwynedd project, a task group of officers, including the Senior Manager Revenues and Risk, will consider the risk management arrangements in the next few months to ensure they remain appropriate within the new culture which the Council wants to foster.

6.2 In particular, we will consider how the current regime, described in this report, will link with the exercise of identifying barriers to achieving units' purpose and putting the people of Gwynedd at the centre of everything we do.

6.3 We will report to the Audit Committee when this work has been achieved.

7. RECOMMENDATION

7.1 The Audit Committee is requested to:

- **Ensure that it is clear about what is meant by "risk management" in this context.**
- **Be clear in its role within the risk management system, by receiving clarification and questioning as necessary.**
- **Take an overview of the current risk management arrangements within the Council, including the procedure of updating risk registers, and ensuring implementation where necessary.**
- **Decide if the proposals for reporting arrangements would allow the Committee to fulfil its statutory role for reviewing and assessing the Authority's arrangements for risk management, internal control and corporate governance.**