

MID KENT AUDIT

Risk Management Update

Audit Committee

March 2018



Introduction

Effective risk management is a vital part of the Council's governance, and contributes greatly to the successful delivery of services and the key priorities. The Council has always recognised and supported the need to have effective risk management processes, and so, in early 2015 sought to update and refresh procedures and guidance.

As part of this work, we (Mid Kent Audit) took lead responsibility to co-ordinate the update across the council to embed revised risk management processes. Our role includes reporting regular updates to Officers and Members, through the Strategic Management Team (SMT), Informal Cabinet and the Audit Committee, providing workshops and training, and helping to ensure risks are being effectively managed.

Having valuable and up to date risk information enables both Executive and oversight functions to happen effectively. Executive management has the role to review the substance of individual risks to ensure that risk issues are appropriately monitored and addressed. As those charged with governance, the Audit Committee seeks assurance that the Council operates effective risk management.

Purpose

In March last year we reported our first risk report to the Audit Committee. This report builds on our previous update and seeks to provide Members with an overview of the Council's risk management arrangements, thus enabling the committee to fulfil the responsibilities as set out in the Terms of Reference:

“To monitor the effective development and operation of risk management and corporate governance in the Council”

This report should be used to provide assurance to Members that the Council has effective risk management, and that risks identified through that process are managed, and monitored appropriately.

Risk Management Process

The [risk management framework](#) is a guide that sets out how the Council identifies, manages and monitors risks.

In summary, the risk management process for the Council can be broken down into the following key components (see also Appendix II):



All risks are recoded on the comprehensive risk register, and it is this register that is used to generate risk information across the Council.

We generally identify risks at two levels, at an operational level and at a corporate level:

Corporate level risks are more strategic in nature; the management of these risks is co-ordinated and overseen by SMT quarterly, Informal Cabinet twice a year, and annually by the Audit Committee. By definition, these risks inherently carry a higher impact level as they affect multiple services. They are the risks that could prevent the Council from achieving its ambitions and objectives.

The corporate level risks were last updated and reviewed in November 2017 and will be reviewed and updated again in March/April 2018.

Operational risks are principally identified as part of the service planning cycle each year. Throughout the year these risks are reviewed, updated and reported to SMT quarterly. Operational level risks are more directly linked with our day to day operation of services. However, operational risks can nonetheless have potential for significant impact.

Operational risks were updated in February 2018, and will continue to be updated between March and April 2018 as service plans are created.

Operational Risk Profile

All Council services maintain a risk register. These individual risk registers collectively form the comprehensive risk register, and it is this complete register that is used to compile the risk update reports on a regular basis.

Using the register we are able to gain an understanding of how many risks we have across the Council and how they are weighted and scored. This enables us to see the overall risk exposure and profile for the Council. The current risk profile of the Council is set out below; using this table it is possible to see the movement of risks over the course of the last 12 months:

Inherent Risk Rating	February 2017	September 2017	February 2018
BLACK	4	1	1
RED	17	10	3
AMBER	59	47	56
GREEN	25	17	20
BLUE	4	3	3
TOTAL	109	78	83

Overall we have seen a reduction in the number of risks, most of which have been moved off the register because they have been fully managed (i.e. they are no longer an uncertainty), or no longer present a risk due to the passage of time. What this also shows, is that the risk process is fluid and a living process. Risks are being identified and managed and updated regularly.

Risks are assessed on **impact** and **likelihood** (definitions attached in appendix III). We have kept the definitions the same so that new risks are assessed consistently, and movement of risks can be tracked.

Figure 1: Inherent risks – operational risks

Likelihood	5					
	4		2			1
	3	1	8	22	3	
	2	2	13	12	9	1
	1		1	5	1	2
		1	2	3	4	5
		Impact				

The matrix shows all of the inherent risks, meaning these are the risks as they **currently** stand, before further actions and mitigations have been taken.

Operational risks are the responsibility of the services to manage, and so are part of the remit of our Managers and Heads of Service. However, in accordance with the framework, risks are reviewed based on overall score. What that means is that:

RED rated risks are updated monthly or quarterly (depending on overall score) and so are monitored more frequently.

AMBER risks are looked at 6 monthly by the service.

GREEN and **BLUE** risks, which are much lower level, are updated annually as part of the service planning process.

The service planning process for 18/19 is currently underway, and this is the time of the year when all risk registers will be updated and if necessary, new risks added, and older risks (that no longer present a risk) are removed.

Corporate Risk Profile

The corporate level risks are identified using a strategic workshop, attended by SMT and Heads of Service. The risks identified at this level are aligned to the corporate plan (2015-2018) and are then kept under review. Each of the risks has been allocated an 'owner' as someone who is a senior manager and best placed to coordinate a response to the risk, and to oversee and monitor it.

The matrix below shows the headings of each risk, and the placement of the risk in terms of overall score on the risk matrix:

Figure 1: Inherent risks – corporate risks

Likelihood	5					
	4			k	b, d, m, n	
	3		h	e, j	a, f	c
	2		l	g	l	
	1					
		1	2	3	4	5
		Impact				

Ref.	Risk Heading
a	STC Delivery
b	Transport Infrastructure
c	Local Plan
d	Homelessness
e	Skills gap
f	Funding Restrictions
g	Income Generation
h	Emergency Plan
i	Recruitment & Retention
j	Business Transformation
k	External partners
l	Partnerships (internal)
m	Cyber Security Incident
n	GDPR

Risk tolerance

Risk tolerance is the level of risk that the Council is willing to accept before seeking to take action to address or manage the risk to a 'safer' level. The tolerance for the Council is illustrated in the matrix as the **RED** and **BLACK** areas. This means that the Council seeks to manage risks of this level downwards, or if this is not possible, to monitor the risk more closely.

As illustrated above there are currently 8 risks that sit in the **red** area of the matrix. These are:

- STC Delivery
- Transport Infrastructure
- Local Plan
- Homelessness
- Funding Restrictions
- External partners
- Cyber Security Incident
- GDPR

These risks will continue to be monitored and reviewed and as action is taken the score will be updated to reflect any change to risk likelihood or impact.

Corporate Level Risks

The table below provides more information on each of the corporate level risks for the Council. As a high level summary the extract below shows the risk, the impact and likelihood, and the key impact area for each risk.

The full register includes further details on the current controls and planned controls for each risk. Risk actions are identified to help manage any high level risks, and then re-assessed to show any reduction in the risk score (this is known as the mitigated rating):

Ref.	Risk (full description)	Risk Owner	Inherent rating			Key Impact	Mitigated rating		
			I	L	Σ		I	L	Σ
a	STC Delivery STC scheme is not delivered to time, resulting in adverse reputational damage to the Council	Emma Wiggins	4	3	12	Failure to deliver Council priorities and uncontrolled financial loss	4	2	8
b	Transport Infrastructure Infrastructure programmes don't align to the local plan review and fail to make a robust case for public funding and / or to support development proposals	James Freeman & Charlotte Hudson	4	4	16	Uncontrolled financial loss – linked to business rate growth	4	2	8
c	Local Plan Council is unable to meet challenging local plan review timescales for adoption by April 2022	James Freeman	5	3	15	Failure to deliver Council priorities and uncontrolled financial loss	4	2	8
d	Homelessness National increases in homelessness and changes to legislation (Homelessness Reduction Act) create additional workload and increased cost burden for the Council	Roxanne Sheppard	4	4	16	Failure to deliver statutory service and uncontrolled financial loss	3	4	12
e	Skills gap Employers in the Borough are unable to recruit or retain sufficient skilled workforce necessary to grow their businesses	Charlotte Hudson	3	3	9	No major impact identified – this risk sits within the risk appetite	3	3	9
f	Funding Restrictions We are unable to match the delivery of Council activities to reduced funding on an ongoing basis	Nick Vickers	4	3	12	Failure to deliver Council priorities and uncontrolled financial loss	3	3	9

Ref.	Risk (full description)	Risk Owner	Inherent rating			Key Impact	Mitigated rating		
			I	L	Σ		I	L	Σ
g	Income Generation Income generation programmes and initiatives do not cover the loss of Government grant for the Council	Nick Vickers	3	2	6	<i>No major impact identified – this risk sits within the risk appetite</i>	3	2	6
h	Emergency Plan Lack of clarity over access to shared service officers' in the event of a multi-area emergency, means that the Council could have insufficient resources to respond.	Della Fackrell	2	3	6	<i>No major impact identified – this risk sits within the risk appetite</i>	2	2	4
i	Recruitment & Retention We are unable to recruit and/or retain staff with the right skillsets we need to deliver our priorities	Bal Sander	2	2	4	<i>No major impact identified – this risk sits within the risk appetite</i>	2	2	4
j	Business Transformation Transformation programme does not identify viable options to achieve the anticipated efficiencies / savings / priorities of the Council	Mark Radford	3	3	9	<i>No major impact identified – this risk sits within the risk appetite</i>	3	2	6
k	External partners Decisions made by our partners impact negatively on the interests of Swale and its residents	Charlotte Hudson	3	4	12	<i>Failure to deliver Council priorities</i>	4	3	12
l	Partnerships (internal) Breakdown in one or more partnership relationships, resulting in failure to deliver objectives	David Clifford	4	2	8	<i>No major impact identified – this risk sits within the risk appetite</i>	4	2	8
m	Cyber Security Incident The Council becomes victim of a sophisticated cyber-attack that it is unable to defend against	Chris Woodward	4	4	16	<i>Failure to deliver Council priorities and damage to Council reputation and uncontrolled financial loss</i>	4	3	12
n	General Data Protection Regulations (GDPR) Non-compliance with GDPR could result in significant monetary fines and damage to Council reputation	Information Governance Group	4	4	16	<i>Failure to comply with regulations damage to Council reputation and uncontrolled financial loss</i>	4	3	12

Next Steps

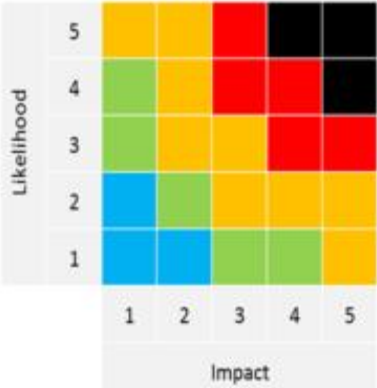
Risk management is a continuous process, and to be valuable it must be updated and maintained. Moving forward into 2018/19, the following areas will be our focus in order to further strengthen the risk management process and develop a positive risk culture across the Council:

1. **To undertake the first full review of the framework:** The framework has been operating for nearly 3 years, and so it is about the right time to review and where necessary update the framework to ensure that it remain fit for purpose;
2. **Develop a training programme:** We (Mid Kent Audit) have continued to facilitate workshops, and deliver risk sessions as and when requested. However, developing the overall knowledge and expertise for risk management across the Council requires a wider approach. We will be looking to develop a training session for managers and officers on the principles of risk management, and to tailor that with the framework and procedures;
3. **Launch project risk management guidance:** This is already in progress and a draft will be coming to SMT in the near future, but this will aim to standardise project risk management, and ensure that project failure risks are appropriately monitored and reported;
4. **Enhance risk information and insights:** We will be undertaking a review of key controls and also drawing together thematic information on key risk areas – this will mean we can provide a richer level of risk information and start to identify similarities / root cause issues across the Council;

We are also currently evaluating tenders for a new audit management system. A couple of the solutions we have been reviewing have enterprise risk management tools built into the software. This could potentially enable us to be smarter and more efficient with how we maintain the risk register and how we generate risk information.

There has been substantial progress over the last 2 years in how the Council manages risk. This wouldn't have been possible without the great deal of positive engagement and support from Senior Officers and Managers in the Council. So, we'd like to take this opportunity to thank officers for their continued work and support.

Swale Risk Management Process: One Page Summary

Step 1 – Identify Risks	Step 2 – Evaluate Risks	Step 3 – Treat Risks	Step 4 – Review Risks
<p>Best done in groups, by those responsible for delivering objectives, at all levels</p> <p>RISK is the chance of something happening that will impact on objectives</p> <p>Consider both THREATS and OPPORTUNITIES</p> <p>When to consider:</p> <ul style="list-style-type: none"> Setting business aims and objectives Service planning Target setting Partnerships & projects Options appraisals <p>Think both what could go wrong and what more could we achieve?</p>	<p>Combination of the impact and likelihood of an event and its consequences (the inherent risk)</p>  <p>Black – Top risk, immediate action and reporting to directors Red – High risk, immediate action Amber – Medium risk, review current controls Green – Low risk, limited action, include in plans Blue – Minimal risk, no action but review</p>	<p>Concentrate on top risks, 10 to 12 in number</p> <ul style="list-style-type: none"> Can we reduce likelihood? Can we reduce impact? <p>Risk Response – 4 Ts</p> <ul style="list-style-type: none"> Treat (i.e. apply controls) Tolerate (i.e. accept risk) Transfer (i.e. insurance) Terminate (i.e. stop activity) <p>After your risk response; where does it score now? (the mitigated risk)</p> <p>Devise contingencies and action plans for 'Red' and 'Black' risks – seek to reduce mitigated risk back to 'Amber' or below</p>	<p>Risk Registers</p> <ul style="list-style-type: none"> Contain all identified risks, Management Action Plans for top risks Prepare and monitor as regular agenda item Indicate risk response and risk owner <p>Council risk monitoring</p> <ul style="list-style-type: none"> Risk registers passed to internal audit Action led periodic review to ensure registers kept current <p>Council's Top Risks</p> <ul style="list-style-type: none"> Top ten mitigated risks and all inherent 'Black' & Corporate risks monitored as regular item at SMT Six monthly monitoring at Audit Committee and Cabinet Annual monitoring of process at Audit Committee

Impact & Likelihood Scales

RISK IMPACT

Level	Service risk	Reputation Risk	H&S	Legal Risk	Financial Risk	En'tment Risk
Catas-trophic (5)	Ongoing failure to provide an adequate service	Perceived as failing authority requiring intervention	Responsible for death	Litigation almost certain and difficult to defend. Breaches of law	Uncontrollable financial loss or overspend over £1.5m	Permanent, major environmental or public health damage
Major (4)	Failure to deliver Council priorities Poor service. Disrupted 5 days+	Significant adverse national publicity	Fails to prevent death, causes extensive perm injuries or LT sick	punishable by imprisonment or significant fines	Financial loss or overspend greater than £100k	Long term major public health or environmental incident (1yr+)
Moderate (3)	Unsatisfactory performance Service disrupted/ stopped 3-5 days	Adverse national publicity or significant adverse local publicity	Fails to prevent extensive, permanent injuries or LT sickness	Litigation expected, but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1yr)
Minor (2)	Marginal reduction in performance Service disrupted/ stopped 1-2 days	Minor adverse local publicity	Medical treatment required, potential long term injury or sickness	Complaint likely, litigation possible Breaches of regs or standards	Financial loss or overspend greater than £20k	Short term public health or environmental incident (weeks)
Minimal (1)	No significant service impact Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries	Unlikely to cause complaint Breaches of local procedures	Financial loss or overspend under £20k	Environmental incident with no lasting detrimental effect

RISK LIKELIHOOD

Type	Probability	Detail description
Almost certain (5)	90%+	Without action is likely to occur; frequent similar occurrences in local government/Council history
Probable (4)	60%-90%	Strong possibility; similar occurrences known often in local government/Council history
Possible (3)	40%-60%	Might occur; similar occurrences experienced in local government/Council history
Unlikely (2)	10%-40%	Not expected; rare but not unheard of occurrence in local government/Council history
Rare (1)	0%-10%	Very unlikely to occur; no recent similar instances in local government/Council history