

## SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

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**REPORT TO:** Corporate Governance Committee 23 December 2009  
**AUTHOR/S:** Executive Director (Corporate Services) / Finance Project Officer

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### INTERIM REVIEW OF RISK MANAGEMENT STRATEGY

#### Purpose

1. The purpose of this report is for Corporate Governance Committee to consider and approve an interim review of the Council's risk management strategy and process.

#### Background

2. The Council's risk management strategy was first adopted in January 2004 and updated in September 2007 to reflect the authority's then new political arrangements and management structure and the responsibilities of the Corporate Governance Committee regarding risk management, and in the light of experience of its operation.
3. The strategy was again updated in September 2008, to take into account the Use of Resources Key Line of Enquiry (KLOE) regarding risk management, the Cipfa Better Governance Forum's "Risk Management Guidance for Elected/Board Members" and recommendations from an internal audit review of risk maturity.
4. This current review was deferred from September 2009 so that any recommendations from internal audit's risk maturity update could be taken into account. This is an interim report; the final report will be presented in March 2010.
5. Associated with this, Senior Management Team (SMT) intend to sponsor a separate review of the process for identifying important corporate projects and ensuring that proper project and risk management procedures are in place for each one, including effective and consistent management reporting at key stages.

#### Considerations

##### *Risk management executive and governance roles*

6. The proper allocation of executive and governance roles is essential to the effective exercise of risk management; this has therefore been revisited in the interim review.
7. When the risk management strategy was reviewed in September 2007, Cabinet and Corporate Governance Committee agreed that responsibility for risk management should rest with the latter; this was confirmed in September 2008. However, risk management best practice is that the executive and governance roles should be carried out separately. It is therefore recommended that these roles be reallocated between the Executive and Corporate Governance Committee, as follows:
  - (a) agreement and ownership of the strategic risks facing the Council - the executive role - to the Executive, led by the Policy and Performance Portfolio Holder as the appropriate portfolio holder;
  - (b) approval of the risk management strategy; advice and assurance regarding the adequacy and effectiveness of risk management - the governance role - to Corporate Governance Committee;

8. Risk management best practice also includes the reporting of the risk management strategy and strategic risk register once a year to Council.
9. The Executive Director (Corporate Services) has discussed these proposed changes with the Leader of the Council, who is comfortable with the revised roles. Corporate Governance Committee is asked to note that it is likely the Leader will assign the Executive responsibility to the Policy & Performance Portfolio Holder.
10. Corporate Governance Committee will retain its key role of ensuring that the Council's risk management strategy and processes are adequate and effective.
11. The changes would result in the following procedural framework:

	<u>EMT</u>	<u>Executive</u>	<u>Corporate Governance Committee</u>	<u>Council</u>
(a) review of the Council's risk management strategy	annually, as now [February]	annually [March]		
(b) review of the adequacy and effectiveness of the Council's risk management strategy and processes, taking recommendations resulting from (a) above into account	annually, as now [February]		annually, as now [March]	
(c) review and update of the Council's strategic risk register	quarterly, as now [May, August, November, February]	quarterly (previously Corporate Governance Committee)		
(d) reporting of the risk management strategy and strategic risk register				annually [April]

*Risk management process*

12. Any further changes required to the risk management strategy or process resulting from the review of risk management best practice will be included in the final report in March 2010; however, some interim changes to the risk management process are proposed in the paragraphs that follow.
13. The Council has used a 4 x 6 prioritisation matrix (Impact v Likelihood) since January 2004. Discussions with peer authorities across Cambridgeshire indicate that most others use a 5 x 5 matrix. As authorities are working in partnership through Cambridgeshire Together, the Local Area Agreement (LAA), and more recently

towards Making Cambridgeshire Count, it is considered appropriate to reconfigure the Council's matrix to 5 x 5, mirroring the majority of its peer authorities.

14. The Council has also used an alpha-numeric method to score Impact and Likelihood of risks. However, most peer authorities use a double-numeric method (where, in a 5 x 5 matrix, the highest score for both Impact and Likelihood is 5). It is again considered appropriate to change the Council's method of scoring risks to mirror the majority of its peer authorities. This will also enable a Total risk score to be calculated, by multiplying the Impact score by the Likelihood score, which was a "merits attention" recommendation from the internal audit risk maturity update. A proposed revised prioritisation matrix, including a suggested risk tolerance line, is attached as **Appendix A**. A double-numeric score will also facilitate the setting up of risk register scores within the Council's performance management system, CorVu.
15. The criteria against which to assess Impact and Likelihood of risks would need to be realigned to the revised prioritisation matrix. Proposed updated criteria are attached as **Appendices B and C**. The opportunity has been taken to incorporate guidelines on environmental and management impacts (gleaned from a peer authority).
16. The Council currently uses two documents to manage its risks: a risk register and an action plan. It is suggested that consideration of risks would be helped by bringing information together so that it can be viewed on one document. A proposed revised risk register format is attached as **Appendix D**, incorporating:
  - (a) from the previous action plan:
    - (i) actions/controls in place;
    - (ii) review frequency;
    - (iii) required actions/controls,
  - (b) from a peer authority's format:
    - (i) control measures in place (as (a) (i) above);
    - (ii) total risk score;
    - (iii) review frequency (as (a) (ii) above);
    - (iv) additional control measures (as (a) (iii) above);
    - (v) additional cost resources required;
    - (vi) adjusted risk score.
17. The three remaining fields from the current action plan will be adapted and/or enhanced in the proposed revised format:
  - (a) target score (i.e. the score below the line to which it is proposed to manage risks currently above the line):
    - (i) the "adjusted risk score" fields will indicate this;
    - (ii) this will be applied to all risks, not just those above the line, thereby enhancing this aspect of the risk management process;
    - (iii) the "additional control measures" will be aimed at reducing the impact and/or likelihood of the risk occurring, as appropriate to the risk concerned, to below the line where possible;
  - (b) adequacy (of actions/controls in place) to address risk – if no "additional control measures" are recorded for a particular risk, this will imply that those in place are considered adequate for the risk concerned;
  - (c) key dates – the "review frequency" and "timeline for progress" fields will be used to record key dates.
18. The opportunity has also been taken to include some text fields to guide officers in completing the risk register; these will be developed further for the final report.

19. Recording control measures in place will satisfy a “significant” internal audit risk maturity recommendation that mitigating controls be recorded for all risks identified. However, actions/controls in place are currently recorded only for risks above the line, so these would be migrated initially to the new format. Recording control measures in place for risks below the line will take time, especially for risk registers comprising a significant number of risks, and will therefore be undertaken gradually.
20. The internal audit risk maturity update recommended that sources of assurance should be recorded (regarding mitigating controls), in order to verify the effectiveness of the controls and prioritise further assurances. As stated in paragraph 17. (b), if no additional control measures are recorded, this would indicate that the control measures in place are judged to be adequate, thus going some way to meet the internal audit “significant” recommendation.

#### *Other internal audit risk maturity recommendations*

21. Internal audit’s risk maturity update resulted in one more “significant” recommendation, regarding assessing risks on both an inherent and a residual basis, which has not been accepted. This was considered when the Council first implemented its risk management strategy in January 2004 and discounted at that time as not adding any value to the Council in the management of risks and possibly causing confusion. The Executive Director (Corporate Services) has concurred with that view, having made his own assessment.
22. Four more internal audit “merits attention” recommendations have already been addressed and did not require changes to the risk management strategy or process. Five remaining “merits attention” recommendations will be addressed in the final review of the risk management strategy and process in February/March 2010.

#### *Strategic risk register*

23. The changes proposed in paragraphs 6 to 11 mean that the Policy & Performance Portfolio Holder will review the strategic risk register at his next meeting (January 2010); however, a copy is attached for information at **Appendix E**.

### **Options**

#### *Executive and governance roles*

24. Corporate Governance Committee could approve reallocating executive and governance roles regarding risk management between the Executive and Corporate Governance Committee respectively, in line with paragraph 7. (***This is the recommended option.***) Alternatively, the Committee could suggest that Member responsibility for risk management remain with Corporate Governance Committee, or be allocated another way (to be identified).
25. Corporate Governance Committee could approve adopting the procedural framework following from the reallocation of roles, as suggested in paragraph 11. (***This is the recommended option.***) Alternatively, the Committee could suggest another procedural framework to meet the executive and governance roles.

#### *Risk management process*

26. Corporate Governance Committee could recommend that recording, assessing, prioritising and reporting of risks be changed in line with paragraphs 12 to 16 and

Appendices A to D. (***This is the recommended option.***) Alternatively, the Committee could suggest other improvements or enhancements to the risk management process and formats.

### Implications

27. Financial, Legal, Staffing	There are no immediate financial, legal or staffing implications resulting from this report.
Risk Management	The updated strategy will ensure the authority has an effective risk management process, reflecting the authority's political arrangements and management structure and the Council's Aims, and providing appropriate ownership and assurance.
Equal Opportunities	The Council's risk management strategy and process has no inherent equal opportunities implications.

### Consultations

28. Members of Executive Management Team (EMT) were consulted on the draft proposals. This interim report was circulated to EMT for comment prior to being considered by SMT at its meeting on 9 December 2009.
29. This interim review has taken into account some aspects of risk management best practice and some of the recommendations from the internal audit risk maturity update; the remaining recommendations, together with other risk management best practice, will be taken into account in the final report in March 2010.

### Effect on Strategic Aims

30.	<b>Commitment to being a listening council, providing first class services accessible to all.</b>
	The proposals in this report contribute to the Council's corporate governance responsibilities; they also ensure that strategic risks involved in the delivery of the Council's services and meeting the Council's Aims are identified and managed.
	<b>Commitment to ensuring that South Cambridgeshire continues to be a safe and healthy place for all.</b>
	<b>Commitment to making South Cambridgeshire a place in which residents can feel proud to live.</b>
	<b>Commitment to assisting provision for local jobs for all.</b>
	<b>Commitment to providing a voice for rural life.</b>

### Conclusions/Summary

31. The Council's risk management strategy was comprehensively revised in September 2007 and further updated in September 2008. This interim report proposes amendments to ensure effective ownership and governance of risk management and improvements to the risk management process.

### Recommendations

32. Corporate Governance Committee is requested to:

- (a) approve the reallocation of Member executive and governance roles regarding risk management between the Executive and Corporate Governance Committee, in line with paragraph 7 of this report;
- (b) approve the adoption of a procedural framework following from the reallocation of roles, as suggested in paragraph 11 of this report;
- (c) approve the changes in recording, assessing, prioritising and reporting of risks, in line with paragraphs 12 to 16 of this report and Appendices A to D;
- (d) note that it is likely the Leader will assign the Executive responsibility to the Policy & Performance Portfolio Holder.

**Background Papers:** the following background papers were used in the preparation of this report:

RSM Bentley Jennison Risk Maturity Update  
LAA Risk Management Group meeting notes  
Peer authorities' risk registers

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