

AUDIT COMMITTEE
2 March 2016

Subject Heading:	oneSource Risk Management Policy and Strategy
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Policy context:	For the Committee to consider the oneSource Risk Management Policy and Strategy
Financial summary:	N/A

The subject matter of this report deals with the following Council Objectives

Havering will be clean and its environment will be cared for	[x]
People will be safe, in their homes and in the community	[x]
Residents will be proud to live in Havering	[x]

SUMMARY

This report provides the Audit Committee with a proposed risk management policy and strategy. The oneSource audit team delivers an integrated service to both Havering and Newham and the policy and strategy will be applicable to both councils. The policy and strategy is attached to this report (Appendix 1).

RECOMMENDATIONS

1. To consider the risk management policy and strategy.
2. To raise any issues of concern and ask specific questions of officers where required.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications or risks arising directly from this report. There are financial implications where risks are not managed in an efficient and effective manner. A review of the risk management policy and strategy is essential to ensure that the council's approach to risk management is up to date, is consistent with practice and is subject to examination by the Audit Committee. The responsibility for risk management is shared across all services of the council and individual Directors and Heads of Service deploy the level of resources required to manage risks in their area. It is part of business as usual and integral to roles, particularly management within the organisation.

Legal implications and risks:

There are no apparent risks in noting the content of this report. Failure to effectively manage risk could result in legal consequences.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report. Equality and social inclusion are key factors to consider within the council's objectives and, therefore, requirements are embedded within the governance framework. Failure to manage risk in this area would have implications.

BACKGROUND PAPERS

N/A.



Risk Management Policy and Strategy 2016-2019

Introduction

March 2016

Definition

“Risk Management is the process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of their success in achieving its objectives and reducing the likelihood of failure.”

Institute of Risk Management

Purpose of the strategy

To set out how oneSource will assist partner councils in ensuring that they are risk aware and have appropriate risk management arrangements in place. This will help to strengthen the ability of the councils to achieve their objectives/outcomes.

Risk management also has a vital role in an organisation’s delivery of robust corporate governance and public trust.

The aim of this policy and strategy is to raise risk awareness across the councils, confirm that the risk appetite is considered and defined and that roles and responsibilities are clear in regard to risk.

This will ultimately help embed risk awareness into the DNA of the partner councils and ensure transparent decisions are taken that deliver outcomes that improve peoples’ lives.

Background

As councils respond to increasing pressures on their resources, they will need to depend on innovation and transformation to realise their outcomes. This will require them to adopt a new, pragmatic and streamlined approach to maintaining adequate risk management arrangements that is focused on empowering managers and staff.

Policy statement

Risk management is the identification, assessment, and prioritisation of risks, followed by the coordinated and economical application of resources to minimise, monitor and control the likelihood and/or impact of unfortunate events or to maximise the realisation of opportunities.

In order to make formal arrangements for risk management, oneSource has created a framework, as set out in this document, to ensure that risk management is carried out efficiently, effectively and coherently. However, ownership and accountability for risk management rests with every officer.

The approach is based on best practice industry standards including the International Organisation for Standardisation's ISO 31000:2009 Risk management – Principles and guidelines.

All services work to actively anticipate and manage their risks, including opportunities and threats, and take steps to mitigate threats in line with the council's risk appetite. The risks are then collated and compared so that each council has a whole organisation view of the risks it faces.

The effective management of risks enables a council to:

- Increase the probability of achieving its objectives
- Improve the identification of opportunities and threats
- Improve governance, confidence and trust
- Establish a reliable basis for planning and decision making
- Improve council resilience.

At an operational level council officers are responsible for the management of risks that are linked to their role. Directors and Heads of Service are responsible for overall risk management within their own service area.

An assurance focus that draws upon the 'triangulation' of various intelligence streams helps to identify significant/ political/ corporate risks. These risks are monitored by each council's Governance and Assurance Board (or similar forum) and, if necessary, are referred to the Corporate Leadership/Management Team.

The councils will no longer have a dedicated risk management team. It is, therefore, crucial that each and every officer within each council is risk aware and understands the risk management principles. These should be embedded in all their activities, including managing people, services, projects and programmes.

The oneSource risk management policy and strategy, and its underlying objectives, is intrinsic to good governance and is fully supported by the leaders of each council. They set the tone for risk awareness and good decision making at the top of the council and they act as ambassadors and role models for the rest of the organisation.

Risk management strategy

Our approach

This document is one part of the overall risk framework, which also includes:

- The Risk Management Methodology
- Risk Management Tools and Guidance to support the Methodology
- Each council's Governance and Assurance Board (or appropriate forum)
- The Programme Management Office (where this exists).

Leaders of the organisation, including officers and Members, are responsible for identifying and mitigating the strategic and business critical risks. Responsibility for operational risks lies with services, where managers manage and monitor their risks, and escalate them where necessary.

Risks and their related controls are managed through each council's risk register. They should be considered regularly and the register updated, as necessary. Where a service has identified a significant risk that needs escalation, the reporting route is to the Governance and Assurance Board (or similar). The Board considers and decides whether further escalation to the Corporate Leadership/Management Team is needed.

The Governance and Assurance Board is made up of the statutory officers and other key post holders, including:

- Head of Internal Audit (chair)
- S151 Officer
- Monitoring Officer
- Head of Paid Service.

Others will be asked to provide assurance to the Board, as required.

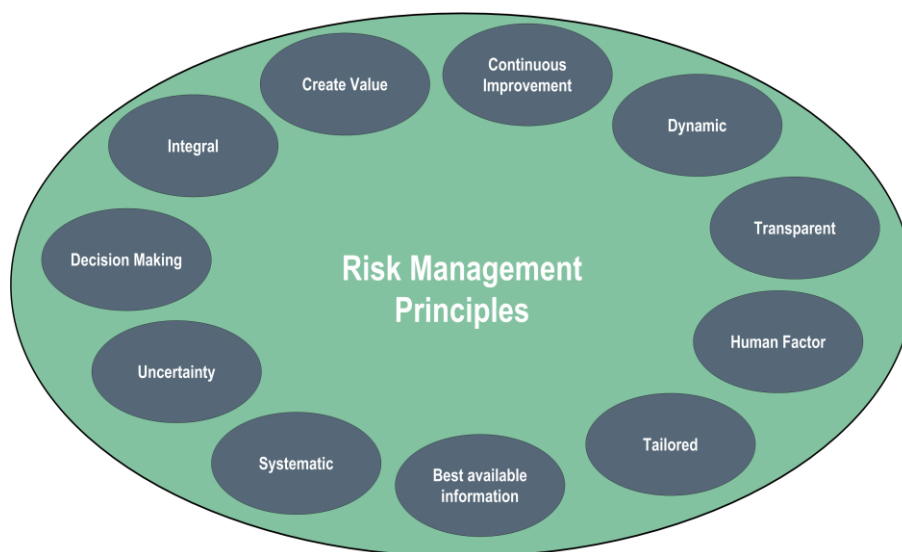
The Governance and Assurance Board (or similar forum) will project manage the completion of the Annual Governance Statement that is signed by the Leader or Mayor, and Chief Executive. The Statement is approved by the Audit Board/Committee and accompanies the statement of accounts, each year.

Risk management principles

The ISO has defined specific core principles in regards to risk management. It should

- Create value
- Be an integral part of the organisation
- Contribute into the overall decision making process
- Explicitly address uncertainty
- Be systematic and structured
- Be based on the best available information
- Be tailored to the organisation
- Take into account human factors
- Be transparent and all-inclusive
- Be dynamic and adaptable to change
- Be continuously monitored and improved upon

Adapted from ISO's risk management principals



Risk management appetite

The amount of risk that an organisation is willing to accept is described as its risk management appetite. Different organisations have different levels of risk appetite and it may also vary across the organisation itself. Services focused on safeguarding have a different risk appetite from other services. The organisation's culture at the top also influences how much risk officers are prepared to take.

An organisation cannot be completely risk averse, otherwise it will miss out on potential opportunities. However, an organisation also has a base line level of risk appetite, below which it will not accept, which could include:

- Actions, or failure to take action, that could result in harm to an employee or a customer
- Acts that could lead to breaches of law or regulations

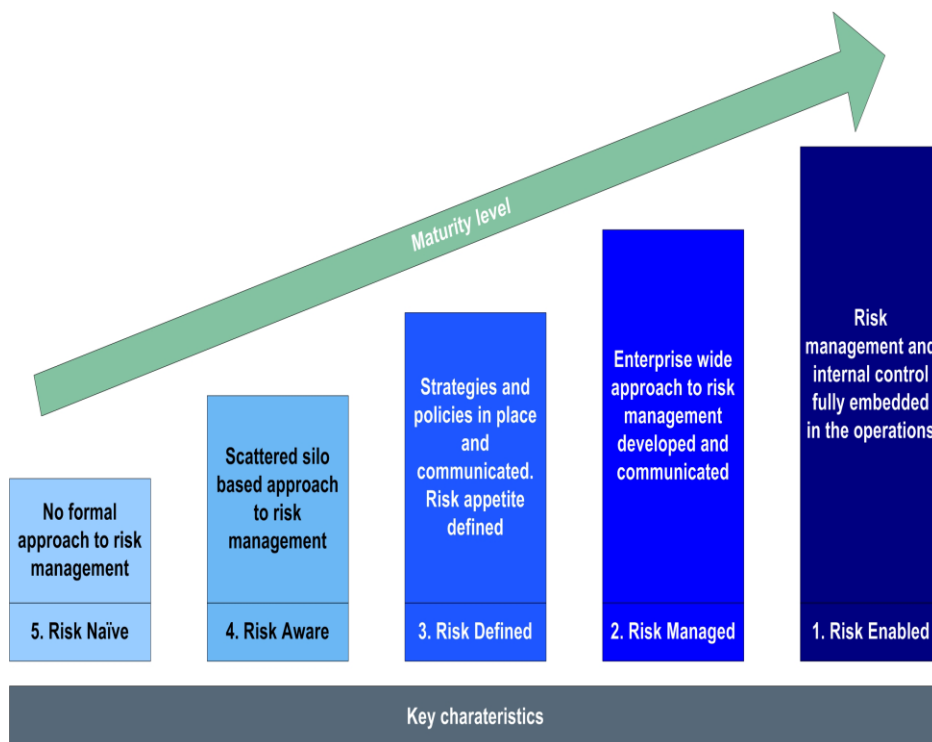
- Anything that could damage the future operations of the council and/or its reputation.

The tone at the top, the organisation’s strategy and the local environment all influence risk appetite. oneSource’s role is to assist each of the councils to articulate their risk appetite, which should then be communicated to the rest of the council. This forms part of the twice yearly review of strategic risks, facilitated by the Head of Internal Audit (or as frequently required by each partner).

Risk appetite can be seen solely from a negative point of view, with an organisation seeking to reduce, remove or transfer risk. This approach may prevent an organisation from pursuing a risky course of action with the potential for significant benefits. Risk management equally applies to potential opportunities, as well as managing ongoing activities.

Risk maturity

All councils are on a risk management journey. Risk maturity refers to where the organisation is on that journey and how well established risk management is as a discipline across the organisation. There are five stages of risk maturity:



Councils may also have services at different stages of risk maturity.

Risk management levels

All levels of the council must adopt risk management principles. These levels are defined as:

Service/Unit level: Line managers undertake their day to day management activities, to provide reasonable assurance that their operational risks are identified, considered, managed and monitored. These should be recorded in the council’s risk register.

Programme/Project Level: The identification of risks from the initial business case to managing those risks though the project’s lifetime, ensuring that the project’s objectives are met. The risks should be

recorded by each project/programme manager in accordance with their council's project management methodology.

Heads of Service/Directors: Their role is to ensure that their services are complying with the risk management strategy and to escalate risks to the Governance and Assurance Board (or other similar forum), where the risks can no longer be contained at their level.

Governance and Assurance Board (or similar forum): The Board is made up of the statutory officers and other key post holders and meets regularly. The Board is responsible for monitoring strategic/corporate risks and escalates these to the Corporate Leadership/Management Team, where necessary.

Corporate Leadership/Management Team: The highest level of risk is managed at this level. The Corporate Risk Register is reviewed twice yearly by the management team.

Risk escalation

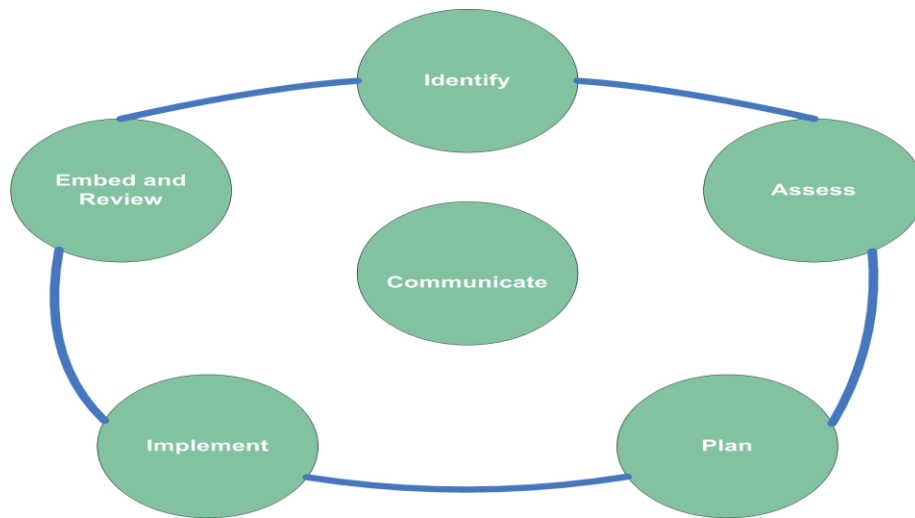
When a risk cannot be contained at its defined risk management level, it must be escalated to a more senior level via the agreed procedure.

Before deciding to escalate the risk, the risk owner should consult with their line manager about moving the risk. If the risk impacts on other services, the risk owner should also consult with them.

If Heads of Service/Directors consider that the risk is sufficiently serious and that it should be escalated, the first port of call should be the Governance and Assurance Board (or similar forum). Members of the Board will consider and decide what should be referred upwards to the Corporate Leadership/Management Team and the Chief Executive.

Risk management process

The risk management process is a series of ordered steps, which are cyclical:



Throughout this process communication is key. In fact, it may be necessary to revisit steps depending on the outcome of each stage.

The risk management process starts by identifying which activity, objective, outcome and project you want to assess. Risks that could threaten successful delivery should be documented completely, including factors that could impact on whether the risk will materialise. Once identified, the risks need to be assessed in terms of their potential impact and probability, with scores assigned accordingly. oneSource has adopted a 4x4 risk matrix to be used when scoring risks. Further information about this process is in the next section.

Following risk identification, officers have to decide on how best to respond to the risk and if controls can be created to address it. This can be referred to the four T's.

Tolerate means the risk is known and accepted by the organisation. In such instances the senior management team should formally sign off that this course of action has been taken.

Transfer means the risk is passed to a third party, for example to an insurer or an outsourcer to manage, although this does not eliminate the risk.

Terminate means the process, activity etc. is stopped and, hence, the risk is no longer relevant.

Treat means to introduce controls to reduce the likelihood of the threat materialising.

The risk should be monitored continually throughout the life of the activity/objective/outcome/project.

The management of risk is woven through the annual planning process and governance arrangements, and as such, there is a requirement for all officers to consider the risks surrounding their area of work, and adopt a formal approach to risk management when they consider there to be significant risks present. Some of the areas or processes which may contain significant risks include;

- Key decision making reports
- Corporate and Divisional planning processes
- Commissioning planning
- Programme and project management
- Commissioning, procurement and contract management processes
- Partnership working arrangements
- Change management processes
- Externalisation of services.

Risk profile

Carrying out an assessment of the council's risk profile is different from carrying out a risk assessment. They are two different risk management tools, each with a different objective, different implications and different levels of information for management. The development of a risk profile is usually reasonably high level, while a risk and/or control assessment is far more detailed, usually within individual processes performed within services. Secondly, the output is intended for different purposes – a risk profiling exercise is aimed at identifying high level areas of greater or undesirable exposure, which require management attention, while a risk and/or control assessment is trying to assess how great the potential frequency/ probability/severity of a risk is and how effective controls against such risks are deemed to be.

In effect, the twice yearly review of strategic risks is an assessment of each council's risk profile.

Types of risk

Strategic risk: These are the high priority risks associated with the operations of the council e.g. adapting the way the council delivers services in the current economic environment.

Financial risk: These are the risks associated with the reductions in central government funding or failing to maximise other sources of income.

Operational risk: These are the risks associated with the operational and administrative procedures of the council.

Compliance risk (legal risk): These are risks associated with the need to comply with the rules and regulations of the government and the EU.

Reputational risk: Bringing the council's reputation into disrepute.

Other risks: This could include failure to prepare for natural disasters (e.g. floods).

Risk matrix

The risk matrix is used to score each risk, taking into account the probability of the risk materialising and the potential impact it could have, resulting in a risk rating for each risk. This enables the organisation to gain an understanding of its risk exposure and how to prioritise the control measures that should be applied to manage/reduce/prevent the risk from materialising. By collating all the risks and their scores, it also helps the organisation to gain an understanding of its overall risk exposure. oneSource uses the risk matrix below.

Further guidance on how to evaluate likelihood and impact is included in Appendix 1.

	Remote	Unlikely	Likely	Very Likely
Impact	Major	4 (Low Risk)	8 (Medium risk)	16
	Serious	3	6	12
	Significant	2	4	8
	Minor	1	2	4

Likelihood

Guidance, education and training

A formal approach to risk management involves undertaking a risk assessment or detailing risks in a report. The approach to risk management should be proportionate to the level of risk present. A suite of supporting guidance is available, which includes:

- How to complete a risk assessment
- Managing risks in programmes/projects
- Managing risks in key decision making reports
- Managing risks in service planning
- Managing risks in contracts
- Managing risks in partnerships
- Managing risks in procurement

These will be made available on the oneSource intranet pages shortly.

The risk management policy and strategy and the guidance documents are reviewed regularly to ensure that they continue to meet the partner councils’ needs and to reflect changes in risk management best practice.

Further consideration of what risk management training will be provided to officers and Members is required. This will be on the risk management development plan for 2016-17.

Risk register application

Each partner council will have their own standalone risk register for recording their risks, although there may be commonalities in the IT application used.

The risk register is a vital tool to enable officers to manage their risks. The risk register should be considered a live tool, allowing officers to update the register as and when a new risk is identified, the risk exposure changes or the risk no longer exists.

The risk register application is administered by the Internal Audit Team, however, it does not own the risks within the database. They are owned by the services.

Roles, responsibilities and accountabilities

All Members, officers and partner organisations have a role in managing risk successfully, however, this will only be achieved if this is led from the top. For that reason, Member and Senior Officer Sponsors for risk management have been/will be appointed.

In addition, the risk management policy and strategy has been endorsed by Audit Board/Committee and senior officers within each council.

The table below sets out who is responsible for risk and their respective responsibilities.

Group/Stakeholder	Responsibilities
Mayor/Leader	<ul style="list-style-type: none"> • Holding the Corporate Leadership/Management Team to account for ensuring the effectiveness of the council's risk management arrangements.
Council (Newham)	<ul style="list-style-type: none"> • Approving or adopting the risk management policy, insofar as it is not delegated by council, under the officer's scheme of delegation. • Members act as ambassadors for their portfolio and the attached risks.
Cabinet (Havering)	<ul style="list-style-type: none"> • Collectively responsible for agreeing the risk management policy • Members act as ambassadors for their portfolio and the attached risks.
Risk Management Sponsors	<ul style="list-style-type: none"> • Leads by example, by promoting the council's risk management arrangements.
Audit Board/Audit Committee	<ul style="list-style-type: none"> • Review the effectiveness of risk management arrangements • Provide challenge on risk management arrangements and progress • Approves the annual governance statement.
Corporate Leadership/Management Team	<ul style="list-style-type: none"> • Overall accountability for risk management, including ensuring that the corporate risk register is a live and up to date record of the current risk exposure • Sets the organisation's risk appetite • Set the tone for risk management, promote the benefits of effective risk management and lead by example in

Group/Stakeholder	Responsibilities
	embedding the risk management framework <ul style="list-style-type: none"> • Establish a control environment and culture where risk can be effectively assessed and managed • Regularly discuss and review the strategic risk register and associated risk reports.
Governance and Assurance Board (or similar forum)	<ul style="list-style-type: none"> • Consider and challenge the council's management of risk, to provide assurance that a strong control framework and good governance arrangements are in place • Ensure that any significant emerging governance issues, identified through governance reporting, are escalated in accordance with the risk management framework.
Corporate Programme Board (or similar forum) <i>(In Newham, the Corporate Leadership Team sits as the Corporate Programme Board, once a month)</i>	<ul style="list-style-type: none"> • Ensure risk is appropriately considered in the business cases submitted to the Corporate Programme Board for approval • Ensure risk is appropriately monitored throughout the life of the programmes and projects. • Consider escalation of significant risks to the Governance and Assurance Board.
Procurement Board (where established)	<ul style="list-style-type: none"> • Ensure risk is appropriately considered in the pre-procurement reports submitted for challenge and approval • Ensure risk is appropriately considered during the procurement checkpoint governance process • Escalate significant risks to the Governance and Assurance Board.
Programme Management Office (where established)	<ul style="list-style-type: none"> • Ensure risks are regularly reviewed and updated through the project lifecycle • Ensure any emerging risks identified through project monitoring are escalated to the Corporate Programme Board, in accordance with the agreed governance framework • Consider escalation to the Governance and Assurance Board, where necessary • In the absence of this office, discrete project and programme boards to escalate any significant risks to the Governance and Assurance Board.
Section 151 Officer	<ul style="list-style-type: none"> • Under the officer's scheme of delegation, making amendments to the risk management policy and strategy in consultation with Audit Board (Newham) • Overall accountability for the effective delivery of the organisation's risk management arrangements • Ensure risk management features as part of the organisation's proper administration to protect the authority from financial and reputational risk.
Director of Legal and Governance and Monitoring Officer	<ul style="list-style-type: none"> • Overall responsibility for providing advice on legal and governance risks.

Group/Stakeholder	Responsibilities
Directorate management teams	<ul style="list-style-type: none"> • To be risk aware and outcome focused • Ensure adherence with the risk management strategy and framework • Champion the benefits of effective risk management • Ensure that risks in the supply chain/contracts are identified and managed. • Take ownership for risks within their directorate and ensure risk registers are regularly discussed, reviewed, updated and escalated as appropriate • To raise significant risks with the Head of Internal Audit or Monitoring Officer • Appointing a risk champion to drive forward the risk management framework within their function.
Service Managers	<ul style="list-style-type: none"> • Manage risks effectively in their service area, in accordance with the risk management framework • Where necessary escalate risks to Heads of Service/Directorate Management Teams • Ensure their staff have appropriate understanding of risk management • Champion the benefits of risk management across their service and communicate the corporate approach to managing risk.
Officers	<ul style="list-style-type: none"> • Manage risk as part of their job and report risks to their managers • Develop understanding of risk management in the council • Maintain awareness of risks, their impact, costs and feed these through the adopted risk management process.
Internal Audit	<ul style="list-style-type: none"> • Ensure the risk management policy and strategy is reviewed and updated regularly • Submit the risk management policy and strategy to Audit Board/Committee for approval at least yearly • Update and report the council's corporate risks to the Corporate Leadership/Management Team and Audit Board/Committee twice a year • In accordance with the Public Sector Internal Audit Standards 2012, the Head of Internal Audit ensures that a risk-based audit plan is delivered.
oneSource management team	<ul style="list-style-type: none"> • Maintain a oneSource strategic risk register and service registers • Provide assurance to the Governance and Assurance Board (or similar forum) that the oneSource risks and controls are regularly reviewed and updated.
Other partners/shared services/ alternative delivery units	<ul style="list-style-type: none"> • Partners are required through their memorandum of understanding (or equivalent) to adopt a risk management policy – to be determined on a case by case basis

Group/Stakeholder	Responsibilities
External Audit	<ul style="list-style-type: none"><li data-bbox="735 286 1505 353">• Raise any concerns through statutory reports to Audit Board/Committee.<li data-bbox="735 371 1505 439">• Unfettered right of access to Head of Internal Audit and Chair of the Audit Board/Committee.

Risk governance framework

The risk governance framework sets out the forums and groups where risk management activities are considered and reported. The reporting arrangements cover all levels within each partner council and all its activities. Please note that some partner councils will not have all of these forums/groups.



Control Environment

Risk management is a key element of delivering robust corporate governance within an organisation.

One of the main principles in the UK Corporate Governance Code from the Financial Reporting Council (2014) is:

“The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.”

One of the code provisions goes on to say:

“The board should monitor the company’s risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls.”

This strategy sets out the arrangements for facilitating compliance with the Code. Primarily, this is addressed in the Roles and Responsibilities and the Risk Governance Framework sections.

The Audit Board/Committee is the forum through which the council can challenge its arrangements to monitor and challenge risk management.

Internal Audit is responsible for auditing each council's risk management arrangements. An audit will take place in 2016/17, following the launch of the new policy and strategy.

Quality Assurance and Review Procedures

In response to the reductions in council funding, all councils are reviewing their approach to delivering services. The way that risk management is delivered has also had to change as a result, hence, this revised Risk Management Policy and Strategy.

It is likely that the Policy and Strategy will have to adapt further in the future, once the impact of changes in council funding are fully realised.

Internal Audit will continue to learn from developments in the risk management arena through attending risk management seminars and the like. Learning will be reflected in future revisions of the Policy and Strategy.

Risks - Criteria for negative impacts

Factor	Score	Effect on service	Reputation	People	Financial & Resources	Legal and Statutory Compliance	Effect on project objectives/ scheduled deadlines
Major	4	<p>Complete breakdown in service delivery.</p> <p>Failure of a strategic partnership or significant alternative delivery model.</p>	Intense political and national media scrutiny.	<p>Life threatening or multiple serious injuries or prolonged workplace stress.</p> <p>Severe impact on morale and service performance.</p>	<p>Significant financial loss of over £0.5m or >51% of budget.</p> <p>Total loss of a critical building.</p>	Possible criminal or high profile civil action against the council, members or officers.	<p>Time: Project benefits are not realised.</p> <p>Cost: Punitive costs that require financial re-planning and service cuts elsewhere, or project is no longer sustainable.</p> <p>Quality: Product/service not fit for purpose.</p>
Serious	3	<p>Complete loss of an important service for a short period.</p> <p>Disruption to service delivery in one or more Directorates for more than one month.</p> <p>Failure of an operational partnership or alternative delivery model.</p>	<p>Unfavourable external media coverage.</p> <p>Noticeable impact on local public opinion.</p>	<p>Serious injuries or stressful experience resulting in many workdays lost. Major impact on morale and performance of a significant number of staff.</p>	<p>High financial loss of £201-500k or 21-50% of budget.</p> <p>Extensive damage to critical building.</p>	Scrutiny required by external agencies e.g. OFSTED.	<p>Time: Significant delays in project implementation and benefits realisation.</p> <p>Cost: >10% of project spend/ scope.</p> <p>Quality: Potential for reduced quality of end product/service.</p>

Factor	Score	Effect on service	Reputation	People	Financial & Resources	Legal and Statutory Compliance	Effect on project objectives/ scheduled deadlines
Significant	2	<p>Substantial effect to an important service area for a short period.</p> <p>Disruption to service delivery from one or more directorates or alternative delivery models for up to one month.</p>	Probable limited, unfavourable media coverage.	<p>Injuries or stress requiring some medical treatment; potentially some workdays lost.</p> <p>Potential impact on team morale and performance.</p>	Financial loss of £51-200k or 11-20% of budget.	Scrutiny required by internal committees or internal audit.	<p>Time: Minor delays with some uncertainties; potential to cause more major impacts.</p> <p>Cost: < 10% of project spend/ scope.</p> <p>Quality: Notable change to project specification, handled within the change control process.</p>
Minor	1	Brief disruption of important service area with a small impact on customer service.	Contained within the council.	Minor injuries or stress, with no workdays lost or minimal medical treatment. No impact on staff morale.	Financial loss of < £50k or 1-10% of budget.	Internal review.	<p>Time: Negligible delays.</p> <p>Cost: < 5% of project spend/ scope.</p> <p>Quality: Minor deviations from project specification; does not affect final benefits.</p>

Criteria for likelihood/probability

Factor	Likelihood Score	Indicators
Very Likely	4	<ul style="list-style-type: none">• Regular occurrences, frequently encountered• Risk is current and likely to happen in next 12 months• 90-100% chance of occurrence.
Likely	3	<ul style="list-style-type: none">• Likely to happen at some point in the next 1-2 years.• Circumstances occasionally encountered.• 50-89% chance of occurrence.
Unlikely	2	<ul style="list-style-type: none">• Has happened in the past.• Reasonable possibility it will happen within the next 3 years.• 11-49% chance of occurrence.
Remote	1	<ul style="list-style-type: none">• Has happened rarely/never before.• 0-10% chance of occurrence.