worth the risk

improving risk management in local government
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MANAGEMENT PAPER • WORTH THE RISK

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Introduction

Why has this paper been written?

1. Risk is one of life’s certainties, and how successfully organisations deal with it can have a major impact on the achievement of their key business goals. Despite this, relatively little is formally done to evaluate and manage risk. This paper aims to raise awareness about the need to address key strategic business risks and to provide good practical guidance for councils to manage such risks in a more effective and formalised way.

2. The paper has been written at a time when more formal systems of risk management are being established across all parts of the private and public sectors. However, risk management developments in local government have been dependent on initiatives taken by individual authorities rather than as a sector-wide response, and so the sector is in danger of falling behind best practices. The paper is intended to help local government bodies in England and Wales to improve the way in which they identify, evaluate and manage significant risks. It will also help local government members and officers to assess whether their current risk management activities are satisfactory and are developing in line with the best value initiative.

For whom has this paper been written?

3. This guidance is aimed at elected members and officers of local government bodies in England and Wales, all of which are subject to the best value regime. The guidance will also be of interest to a wider group of stakeholders including, for example, the Department of Transport, Local Government and the Regions (DTLR, formerly DETR), the National Assembly for Wales (NAW), the Local Government Association (LGA) and the Welsh Local Government Association (WLGA).

Structure of the paper

4. The paper starts by providing some background on what is meant by risk management, and the inter-relationship between risk management, internal control and governance processes generally. It then looks at the elements of a good risk management system, and examines why risk management is currently of crucial importance for local government. The paper then highlights the benefits arising from good risk management.

5. This is followed by a look at risk management in local government, including a review of progress to date. The paper argues that councils need to respond now to demands for more formalised risk management systems covering all types of risk, and considers some of the risks currently facing councils.

6. The final two sections are of direct relevance to members and officers respectively. These sections clarify their roles and provide practical guidance on implementation and key aspects of the suggested risk management process.

How should the paper be used?

7. The guidance is designed to be used as a reference source rather than to provide answers to specific questions or to offer advice on specific issues. It is a practical guide and is not intended to be prescriptive in terms of methodology or structures. Throughout the paper, real examples of good practice help to put risk management into context. The combination of practicality and theory provides a number of suggestions that can realistically be implemented in any council to
promote good risk management, thereby increasing confidence that risk is being managed in an effective manner.

8. The paper is intended to complement and not replace existing guidance to local authorities including, for example, Chance or Choice (Ref. 1), the risk management guidance for local authority chief executives issued by the Society of Local Authority Chief Executives (SOLACE) and Zurich Municipal.

It also recognises other initiatives and publications being developed while this paper was being prepared. These include Corporate Governance in Local Government: A Keystone for Community Governance: The Framework (Ref. 2), prepared by the Chartered Institute of Public Finance and Accountancy (CIPFA) and SOLACE, and forthcoming British Standards Institute guidance.

Research behind the paper

9. An extensive literature review has been undertaken to identify current thinking and initiatives within the public and private sectors both in the UK and elsewhere (see Bibliography). The paper was developed by drawing on existing best practice guidance, supported by case study examples from a number of site visits and with input from an advisory group (see Appendix 3) whose assistance is gratefully acknowledged. Responsibility for this paper, however, rests solely with the Audit Commission.
1. An introduction to risk management and its benefits

What is risk management?
10. Risk is the threat that an event or action will adversely affect an organisation's ability to achieve its objectives and to successfully execute its strategies. Risk management is the process by which risks are identified, evaluated and controlled. It is a key element of the framework of governance together with community focus, structures and processes, standards of conduct and service delivery arrangements.

How does risk management fit into the wider aspects of governance?
11. Much has been said and written about governance and internal control in recent years, but before discussing how they inter-relate with risk management it is worth considering what is meant by these terms. Good working definitions of governance and internal control are detailed [BOX A].

12. An authority’s system of internal control is part of its risk management process and has a key role to play in the management of significant risks to the fulfilment of its business objectives. It also contributes to the safeguarding of public funds and an authority’s assets, and the promotion of best value. Internal control facilitates the effectiveness and efficiency of operations, helps to ensure the reliability of internal and external reporting, and assists compliance with laws and regulations. Each authority should seek to maintain a sound system of internal control.

13. The principal aim of any internal control system is to manage the risks that are significant to the achievement of a council’s objectives. This paper describes the adoption of a risk management approach to establishing and maintaining a system of internal control and a review of its effectiveness. The main driver for such an approach should not be compliance with an externally imposed requirement, for example, to state publicly that the organisation is achieving appropriate levels of governance. Rather, it should be that it makes sound business sense for councils to manage risk effectively and to embed internal control and risk awareness into the processes they use to pursue their objectives and into the behaviour of their staff.

BOX A

Definitions of governance and internal control

**Governance**: the system by which local authorities direct and control their functions and relate to their communities. In other words, the way in which organisations manage their business, determine strategy and objectives and go about achieving those objectives. The fundamental principles are openness, integrity and accountability.

**Internal control**: those elements of an organisation (including resources, systems, processes, culture, structure and tasks) that, taken together, support people in the achievement of business objectives. Internal financial control systems form part of the wider system of internal controls.

*Source: Audit Commission*
14. Effective financial controls, including the systems to maintain proper accounting records, are an important element of internal control. They help to ensure that the authority is not exposed to avoidable financial risk and that financial information used within the authority and for external publication is reliable. They also contribute to the safeguarding of assets, including the prevention and detection of fraud.

15. The risk management approach to internal control plays a significant part in securing good governance structures. Identifying and dealing appropriately with the key strategic risks facing an authority enables it to identify the key actions it must take to deliver its main goals.

16. It is against this backdrop that the key features of good risk management can be summarised [BOX B].

**Why is risk management so important?**

17. In recent years there have been a number of high-profile incidents that have increased demands for better risk management processes. The result has been a number of governance and risk management developments in the private sector, summarised in Appendix 1, which culminated in the report of the Turnbull Committee Report Internal Control: Guidance for Directors on the Combined Code (Ref. 3). Such incidents are not confined to the private sector – there have been a number in the public sector and, more specifically, in local government, such as child abuse cases and failing schools.

18. There are also many other forces driving the need for the public sector to improve their
business performance by achieving their strategic aims [EXHIBIT 1].

19. In order for any organisation to cope with these ever-increasing demands, the key business objectives need to be identified, along with the key risks to achieving those objectives. Effective risk management is then needed to enable the organisation to deliver its objectives in the light of those risks.

How has the public sector responded?

20. It would be incorrect to say that the only response to calls for better risk management has been in the private sector. Indeed, much useful pioneering work has already been undertaken in parts of the public sector [EXHIBIT 2 and BOX C, overleaf]. These initiatives demonstrate the progress being made in some areas, and the increased pressure on public sector organisations generally for better governance, including risk management and control.

EXHIBIT 1

Pressures for improved risk management in the public sector

New pressures are acting as drivers for good risk management.

Source: Audit Commission
The benefits of good risk management

21. Good risk management supports the achievement of objectives and has a vital role to play in ensuring that a council is well run. The benefits vary depending on the way in which risk management is planned and implemented. A minimalist approach is likely to deliver limited benefits and could take the form of a bureaucratic tick-box exercise merely for the sake of compliance. Conversely, a comprehensive, wholehearted but misguided approach that is aimed too broadly could waste valuable time and resources, and result in risk overload. The inevitable failure to deal with all of the risks identified by such an approach is likely to result in disillusionment with the risk management process itself. The key for the organisation is to identify the strategic risks while also

EXHIBIT 2
The public sector response to risk management

Much useful pioneering work has been undertaken in the public sector.

Source: Audit Commission
taking the operational risks that need to be dealt with on a day-to-day basis into account. Each organisation must decide what benefits it would like as a result of its risk management programme and plan its approach accordingly. The operational benefits of a systematic and consistent approach to risk management are considerable, however [EXHIBIT 3, overleaf].
The following examples from the health sector demonstrate some of the benefits arising from the introduction of controls assurance [CASE STUDY 1 and BOX D, overleaf].

What about local government?

Councils are also well placed to benefit from the better management of risk given the pace of change under the modernising agenda and the range of existing and new risks that they face due to their diverse and complex responsibilities. However, progress to date in introducing formal risk management systems has been patchy and lacking overall focus. There is, nevertheless, a sound base on which to build, and many councils will already have some of the key elements of risk management in place, as the next section shows.

EXHIBIT 3

The benefits of a systematic approach to risk management

A proper focus on risk management can help to bring considerable benefits.

- Increased focus on what needs to be done (and not done) to meet objectives
- More satisfied citizens
- Better management of change programmes
- Supports innovation
- Fewer complaints
- Controlled insurance costs
- Competitive advantage
- Better quality service
- Enhanced ability to justify actions taken
- Delivering best value
- Protection of reputation
- Getting things right first time

Source: Audit Commission
CASE STUDY 1

Kingston Hospital NHS Trust

In accordance with guidance issued in the sector, Kingston Hospital NHS Trust launched its controls assurance programme in January 2000, performing baseline assessments against agreed standards and developing a risk and control framework for on-going reporting.

Controls assurance was positioned centrally as part of the risk management agenda under the auspices of the Chief Executive's department. The key selling messages were that the process would:

• improve the quality of patient care;
• target resources to the real issues;
• help employees to do their jobs better; and
• provide added protection from an employee perspective.

A process of consultation in the initial stages, involving staff at various levels of the organisation, the identification of champions for each standard and strong central support resulted in local ownership and buy-in.

The benefits have included:

• a more positive attitude towards risk;
• a shift in emphasis whereby staff are now more responsive to incidents rather than claims – since the introduction of controls assurance there has been an increase in the number of reported incidents;
• far greater emphasis on prevention rather than detection;
• 50 per cent more complaint responses have been formally responded to within 20 days;
• greater awareness of the real operational problems; and
• new policies and procedures have been written and others have been revised.

In January 2001, the hospital was externally assessed against the controls assurance risk management standard and scored 89 per cent. This compared with a score of 28 per cent at the baseline assessment, and demonstrated the tremendous amount of work that had been carried out in one year to establish a more robust risk management framework.

Source: Audit Commission
BOX D

NHS survey on the benefits of controls assurance

Following the introduction of controls assurance, 460 respondents to a recent survey summarised the benefits as follows:

- More effective resource targeting 83%
- Compliance with laws and regulations 74%
- Helps chief executive to discharge his/her duties 74%
- Fewer sudden shocks/unwelcome surprises 61%
- Underpins clinical governance 59%
- Reduction in management time firefighting 56%
- Reduction in adverse incidents 54%
- Greater likelihood of achieving objectives 53%
- Reduction in claims 47%

Source: Department of Health, Controls Assurance Team
2. Risk management in local government

Progress to date

24. Local authorities have a great deal of autonomy in the way that they assess and manage risk, and in how they account to stakeholders for how they have done so. Aspects of the modernising agenda have raised the profile of the probity and propriety aspects of governance, although, as yet, there is no formal requirement for an assurance statement on risk and control such as those in other sectors. Nevertheless, councils have become increasingly conscious of the need for effective risk management and internal control, as well as the need to recognise a wider range of risks. Some councils have made good progress in improving their approach to risk management [CASE STUDIES 2 to 4].

25. Case Studies 2 to 4 demonstrate the progress being made by local government but these examples are not typical, as initiatives to date have tended to focus primarily on insurance related, health and safety or property protection issues. There is little evidence within councils of the widespread use of an holistic risk management approach covering all types of risk.

Why should all councils respond?

26. The general drivers for better risk management were illustrated in the previous chapter, but those specific to local government are described below. Risk management is central to coping with these changes and initiatives. Given the level and pace of change, there is now a real need for all councils to implement effective risk management systems. Councils that avoid risk are unlikely to be good performers. What is required is flair, innovation and the ability to take informed risks and to manage them.

CASE STUDY 2

Liverpool City Council

Liverpool City Council has been taking steps to improve its performance using a risk management approach. The main areas of concern identified were:
- an excessive number of committees and member groups;
- a failure to produce effective corporate plans;
- poor communications, especially with the workforce;
- poor-quality and high-cost services;
- disengagement from local people;
- weak or non-existent corporate and strategic management as a result of chronic departmentalism; and
- hostility and mutual distrust between councillors and senior officers.

Recognising that better risk management could potentially address all of these areas, the Council produced a strategic risk framework of 42 risks. These were prioritised and the number cut down to include only higher priority risks. Appropriate control strategies were developed to address these specific risks. More use is now to be made of risk assessments and resources are to be re-deployed.

The management team has recognised that it needs to make strategic decisions on areas that are subject to best value review and, consequently, that risk management is more important than ever.

Source: Audit Commission
CASE STUDY 3

Brighton and Hove City Council

Brighton and Hove City Council has approved a risk management strategy and has been pro-active in implementing initiatives taken in other sectors. Risk management consultants were employed to work with the Strategic Management Board (SMB) to set the process in motion.

A range of strategic and operational risks were identified. These were then prioritised by the SMB, with the help of facilitators, according to the likelihood of risk occurrence and impact. The SMB is currently grouping these risks and planning control strategies and resource allocation to address those identified as being the highest priority.

Departmental management teams will now go through the same process as part of the embedding process. This will be followed by awareness sessions for senior managers, which will then be cascaded throughout the organisation.

Tangible benefits have resulted:
- risks to the achievement of objectives and performance targets have been clearly identified;
- clear management actions have been taken to control these risks;
- clear roles and responsibilities for managing risks have been assigned;
- the empowerment of individuals has occurred throughout the organisation as a result of identifying the risks that they manage in their jobs;
- improved co-ordination of risk management activity throughout the organisation;
- reduced duplication between departments in managing overlapping risks while also ensuring gaps are identified and managed;
- the provision of opportunities for shared learning on risk management across the Council;
- a framework has been put in place for allocating resources to identified priority risk areas; and
- reinforcement of the importance of effective risk management as part of the everyday work of Council employees. Risk considerations are now to be incorporated into planning, best value reviews and project management.

Source: Audit Commission

effectively. Effective risk managers will, for example, be able to deliver:
- an appropriate balance between risk and control;
- more effective decision making;
- better use of limited resources; and
- greater innovation.

What are the big issues?

27. A number of major initiatives are facing local government at present which makes good risk management critically important. In particular, the Local Government Act 1999 (Ref. 6) and the Local Government Act 2000 (Ref. 7) both have major implications for the way in which business is conducted.

The emergence of new political structures

28. Local authority powers are being increasingly exercised by cabinets of elected members, and there is the possibility of locally elected mayors in the future. The number of leading members who will be responsible for making major decisions decreases under the cabinet model, and it will become far more important for backbench councillors to scrutinise the policies and actions of the cabinet. Such a significant level of change will itself
bring new risks which, without proper management, could result in a loss of control, officers making decisions without proper authority and, perhaps, even a political and managerial vacuum which could lead to a lack of scrutiny.

Best value

29. The introduction of a statutory duty of best value is designed to bring about continuous improvement in the delivery of local authority services. Local authorities are required to publish annual best value performance plans that report on past and current performance, and identify forward plans, priorities and targets for improvement. Furthermore, they are required to review all of their functions over a five-year cycle. In order to accomplish this, councils will have to ask themselves fundamental questions in relation to the 4Cs – challenge, compare, consult and compete – about the underlying objectives and priorities of their work and about their performance in relation to other organisations in the public, private and voluntary sectors.

CASE STUDY 4

East Sussex County Council

The Council acknowledges the need to keep risk management processes and systems under regular review. Significant factors have recently emerged which have led to a revision of the Council’s risk management strategy. These include:

- recent developments on corporate governance and risk management;
- best value, with its emphasis on continuous improvement and change management;
- increasing emphasis on partnerships and other relationships with external bodies; and
- a desire to build on the good practice developed during a Y2K compliance project, by commissioning a follow-up project for improved business continuity planning.

The Council is to implement a more effective and consistent framework for risk assessment starting with a project to establish a practical business continuity framework. Any service manager will be able to use this to:

- identify key functions and processes for services provided by their team;
- evaluate the likelihood and impact of risks that could affect service delivery;
- devise risk reduction measures;
- produce and maintain business continuity plans; and
- implement and rehearse the plans.

To implement this framework, a series of briefings for senior managers and nominated business continuity officers is planned. They will, in turn, arrange training for service managers within departments using facilitated workshops.

The Council has recognised the importance of the ongoing monitoring and reporting of risk and proposes to:

- link the process of business continuity planning directly to the annual cycle of business or service planning;
- establish monitoring mechanisms; and
- establish arrangements for reporting to the Chief Officers’ Management Team and the Cabinet as appropriate.

Source: Audit Commission
30. The requirements of best value mean that risk management is now more important than ever. They present a unique opportunity for organisations to reassess their objectives and the threats to achieving those objectives. Organisations can build risk management procedures into the way that they operate as part of a quality revolution to demonstrate real improvements in value. Without good risk management processes, authorities are unlikely to achieve competitive advantage and excellent performance in the best value regime.

**e-Government**

31. The Government’s published information strategy challenges all public sector organisations to innovate following the four guiding principles of building services around citizens’ choices, making government and its services more accessible, social inclusion and using information better. In the private sector, increasing focus is being directed to the identification and management of e-risks. Indeed, it is becoming increasingly clear that to do nothing in the e-business area is one of the biggest risks. This is particularly relevant to the public sector given the Government’s targets for the provision of services electronically.

**Partnership working**

32. Councils are entering into increasing numbers of partnerships with organisations from the public, private and voluntary sectors. Some of these organisations may not have the same sensitivities to the risks that a council may see as important. Part of the process of setting up partnerships is to ensure that all relevant risks are identified and shared, and that relevant control mechanisms are built into the management arrangements of the partnership. In particular, community planning, crime prevention, caring for those with mental health problems, regeneration schemes and Private Finance Initiative/Public Private Partnership projects are all examples where good partnership working is essential.

**The need to innovate**

33. Under the modernising government action plan there is much encouragement to innovate. In central government this is an aspect of risk management that is being reinforced by the Cabinet Office Innovation Unit and by the National Audit Office (NAO). The encouragement to innovate is equally relevant to local government. Proper risk analysis can facilitate the process of innovation and increase the likelihood of such innovation being successful.

**The range of risks likely to affect local authorities**

34. In the context of recent governance developments, consideration should be given to all categories of risk. The broad range of risks and challenges faced by councils are summarised in BOX E.
RISK MANAGEMENT IN LOCAL GOVERNMENT

Strategic
Risks that need to be taken into account in judgements about the medium- to long-term goals and objectives of the council. These may be:

- **Political**: those associated with a failure to deliver either local or central government policy, or to meet the local administration’s manifesto commitments;
- **Economic**: those affecting the ability of the council to meet its financial commitments. These include internal budgetary pressures, the failure to purchase adequate insurance to cover external macro-level economic changes, or the consequences of proposed investment decisions;
- **Social**: those relating to the effects of changes in demographic, residential or socio-economic trends on the council’s ability to deliver its objectives;
- **Technological**: those associated with the capacity of the council to deal with the pace/scale of technological change, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures on the council’s ability to deliver its objectives;
- **Legislative**: those associated with current or potential changes in national or European law (for example, TUPE regulations);
- **Environmental**: those relating to the environmental consequences of progressing the council’s strategic objectives (for example, in terms of energy efficiency, pollution, recycling, landfill requirements, emissions, etc);
- **Competitive**: those affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver best value; or
- **Customer/Citizen**: those associated with the failure to meet the current and changing needs and expectations of customers and citizens.

Managing strategic risks is a core responsibility for senior managers in close liaison with elected members. Strategic risk assessments should be undertaken as part of the community, corporate and service planning process, and as a key element of service reviews. Strategic risk assessment draws on techniques such as group assessment, brainstorming and SWOT or PESTLE analyses.

Operational
Risks that managers and staff will encounter in the daily course of their work. These may be:

- **Professional**: those associated with the particular nature of each profession (for example, social work service concerns over children at risk; housing service concerns as to the welfare of tenants);
- **Financial**: those associated with financial planning and control and the adequacy of insurance cover;
- **Legal**: those related to possible breaches of legislation;
- **Physical**: those related to fire, security, accident prevention and health and safety (for example, hazards/risks associated with buildings, vehicles, plant and equipment, etc);
- **Contractual**: those associated with the failure of contractors to deliver services or products to the agreed cost and specification;
- **Technological**: those relating to a reliance on operational equipment (for example, IT systems or equipment and machinery); or
- **Environmental**: those relating to pollution, noise or the energy efficiency of ongoing service operations.

The categories are neither prescriptive nor exhaustive. However, they should provide a framework for identifying and categorising a broad range of risks facing each service. Each category cannot be considered in isolation. For example, changes in the TUPE legislation would affect...
Categories of risk

judgements about the risks associated with the competitiveness of a service. The loss of a contract as a result of a lack of in-house competitiveness may have greater political, economic and social consequences for the council if TUPE did not apply. Similarly, the physical risks associated with the security of a school can have professional consequences for teachers fulfilling their day-to-day duties and financial consequences for the council as a whole. As a result, managers must consider the risks associated with each of the sub-categories and their inter-relationships if a full risk assessment is to be carried out.

Source: Shorten the Odds (Ref. 8)
3. The role of members

Responsibilities

35. Elected members are responsible for governing the delivery of services to the local community. Failure to deliver services efficiently and high-level incidents and scandals often result in the public questioning the competence of those in charge. It often transpires that such failures and scandals could have been avoided if proper governance procedures had been operating effectively. Such questions can impact on the public perception of individual members or the council as a whole. Members have a responsibility to understand the strategic risks that their council faces, and to decide how these risks should be managed. They should not seek to avoid or delegate this overall responsibility as it is key to their stewardship responsibilities. Members should:

- **seek implementation** of a strategic risk management process as soon as is practical, as it is of critical importance now;
- **correctly position risk management** as a strategic and operational tool that can help officers and members to meet the new and existing challenges and demands facing them, rather than as a mere compliance exercise;
- **promote the desired mindset and attitude** that is essential for successful implementation and robust, ongoing risk management processes;
- **view the process as a significant change management exercise**, there is no ‘quick-fix’ solution and the right level of resources will need to be committed to implementation and training over the medium term;
- **take a top-down approach**, focusing on issues of corporate significance rather than a ‘bottom-up’ exercise which would be too large for members themselves to manage – although members should require officers to summarise the main messages emerging from the operational level, and from best value and risk self-assessment workshops, for example; and
- **aim for continual improvement** on a longer-term basis.

Key tasks for members

36. Members need to determine within existing and new leadership structures how they will plan and monitor the council’s risk management arrangements. They should:

- decide on the structure through which risk management will be led and monitored;
- consider appointing a particular group or committee, such as an audit committee, to oversee risk management and to provide a focus for the process;
- agree an implementation strategy;
- approve the council’s policy on risk (including the degree to which the council is willing to accept risk);
- agree the list of most significant risks;
- receive reports on risk management and internal control – officers should report at least annually, with possibly interim reporting on a quarterly basis;
• commission and review an annual assessment of effectiveness; and
• approve the public disclosure of the outcome of this annual assessment, including publishing it in an appropriate manner.

37. Members must support and monitor both the initial implementation and the ongoing risk management processes. This includes:
• embracing risk management in a positive way to:
  – drive service and organisational improvement;
  – assist in the achievement of council objectives;
  – ensure that sensible management decisions are taken;
  – minimise the likelihood of things going wrong and their potential impact; and
  – provide a framework to meet new challenges; and
• promoting the right management culture on an ongoing basis. Most problems that materialise are likely to be people-based and arise through lack of proper application of management processes rather than through weaknesses in systems.

Exactly how members approach these tasks from an organisational perspective is a matter for them to decide in the context of their own governance arrangements.

Developing an implementation strategy

38. Members will need to approve a strategy that covers all aspects of implementation, and includes a number of key features [BOX F].

39. Implementing a risk management strategy poses a number of challenges as described below.

Committing the right level of resources

40. There is no ‘quick-fix’ solution that results in ongoing, risk management systems. Members must commit sufficient resources to risk management both from an implementation perspective and to ensure that systems are sustainable. Nominated risk champions should be appointed with sufficient authority to bring about change, and their roles and responsibilities should be clearly defined within the strategy.

Building on existing processes

41. It is unlikely that councils will need to start from scratch, as many features of risk management will already be in place in most cases. Risk management implementation should, therefore, adapt, improve and codify existing processes. New systems should be introduced only where necessary. Rolling out a separate ‘risk management’ initiative should be avoided, particularly where a major change initiative is already underway, be it a national one such as best value, or a local one such as improving staff performance through annual appraisal based on personal objectives. Incorporating the principles of effective risk management into existing planning and management processes is likely to be the most efficient implementation approach.

42. To ensure that risk management delivers value it needs to be integrated into day-to-day management practice and to involve a degree of formality and consistency. This provides senior management with a ‘window’ on the entire organisation so that they can appreciate clearly the significant risks and how they are
being managed. Achieving this in practical terms involves:
- an analysis of how risks are currently identified and by whom;
- reviewing how decisions are made on what risks to take and which exposures need to be controlled; and
- deciding how and what risk data need to be reported to senior management and when.

43. One simple example of an improvement in day-to-day practice would be the inclusion in reports to committee of an explicit section on the risks associated with a decision and the steps to be taken to manage those risks.

Getting the process right

44. A well-established but flexible process for good risk management needs to be put in place to address the rapid changes with which local authorities are being asked to cope in the period ahead. However, risk management cannot, and should not, be ‘sold’ for its own sake. It should be linked to the top concerns and priorities of members and senior management, and should be positioned as a framework to help meet the council’s objectives and improvement targets and to deliver best value.

45. There may well be resistance to the process. Senior management is likely to challenge, for example, whether there will be a sufficiently independent-minded assessment of the risks identified by their
employees; whether enough attention will be directed to the fraud risks or the risks around service delivery to the public; whether the extra resources needed to manage risks are warranted; and whether sufficient recognition is being given to what is being done already. Bruising experiences along the way and a high level of intellectual debate are to be expected.

Adopting a ‘top-down’ rather than ‘bottom-up’ approach

46. Members should be concerned with ‘significant’ risks – that is, those that could potentially have an effect on a council’s ability to achieve its objectives. Implementation of the high-level risk management strategy should, therefore, be on a ‘top-down’ basis, focusing on matters of key strategic and operational importance.

47. The ‘top-down’ approach will help to avoid the problem of risk overload that can result from a ‘bottom-up’ approach, where more detailed operational risks are identified. The results of this more detailed analysis, typically associated with risk self-assessment workshops, can be used to inform the wider top-down corporate risk analysis but should not dominate it. It can also help to ensure that proper systems of control are in place to manage risks that are not considered significant for the purpose of regular reporting to members. However, for the organisation as a whole, it is the high-level risks that really matter.

Formulating risk policy

48. Members will need to formally establish their attitudes to risk – namely the degree to which they are willing to accept it – at an early stage in the process, and have this documented within an overall policy statement on risk management. This is important because risk management is fundamentally about supporting employees within organisations in making informed decisions about risk taking and the degree of control required.

49. A council’s approach to risk sets the overall parameters within which operational managers should consider the acceptability of each risk. It also helps to determine the trigger points for reporting incidents and for escalation procedures.

50. If the approach to risk is not established and communicated effectively at the start of the process, it is likely that different managers will gauge potentially significant risk areas on an inconsistent basis. This can lead to either acceptable risks being ‘over controlled’, or worse, to unacceptable risks being taken and not being reported.

Regular monitoring and reporting

51. Members must satisfy themselves that the risk management system is functioning effectively and in a manner that they have approved. Members need to ask themselves a series of questions [BOX G].

52. The two elements of effective monitoring are:
   1. An ongoing review process.
   2. An annual assessment.

Ongoing review process

53. An ongoing review process is itself split into two parts, the results of both of which act as inputs to the annual assessment.

   1. Regular risk reports
      Those members given a direct role in monitoring or scrutinising risk
management and internal control within the council (for example, the audit committee) should receive regular reports that assess any significant risks, and the internal control system’s ability to manage them effectively. The reports should also identify any significant control failings or weaknesses, their potential or real impact, and the corrective actions being taken. These reports will enable members to understand and challenge:

- the significant risks, and how they were identified, evaluated and managed;
- whether the reports indicate any new significant risks;
- whether risks previously identified as being significant remain so;
- the effectiveness of the internal control system in managing the significant risks and whether changes need to be made to control systems;
- whether any current or possible future failures or weaknesses exist in the system of internal control and the promptness of corrective actions in response to their identification;
- whether control strategies need to be changed;
- whether the findings require a more extensive monitoring process;
- whether the risk management policy document needs to be updated;
- how quickly the council can respond to any changes that are identified; and
- the existing communication network and whether it is effective, or if changes are needed.

The reports should be made to relevant members on a regular basis (at least annually, with possibly interim reporting) to ensure that members have an up-to-date picture of the council’s current control situation. It is effectively a process of continuous assessment that needs to ensure that all significant aspects of the council’s business have been addressed. The results of these risk reports and the related reviews that have taken place during the year are the first source of information for the annual assessment.

**BOX G**

Questions that members should ask

- Is the external environment regularly monitored?
- Is risk and control monitored on an ongoing basis?
- Is risk embedded within regular reporting routines?
- How are risks in the council being reported?
- How often are risks being reported?
- Who is responsible for reporting risks?
- Are early warning mechanisms focused on risk?

*Source: Audit Commission*
2. Monitoring
In addition to regular risk reports, risk implications should be considered as a matter of routine within other reports that the council's internal control framework generates. The risk assessment element of the ongoing review process is an important source of information for the annual assessment.

The annual assessment
54. The annual assessment should consider issues dealt with in reports reviewed during the year, together with any additional information necessary to ensure that members have taken account of all significant aspects of internal control for the year under review and up to the date of approval of the annual accounts. The annual assessment should, in particular, consider:

- the changes since the last annual assessment in the nature and extent of significant risks, and the council's ability to respond to changes in its business and the external environment;
- the scope and quality of management's ongoing monitoring of risks and of the system of internal control, and, where applicable, the work of its internal audit function and other providers of assurance;
- the extent and frequency of the communication of the monitoring results to the council (or council committee(s)) which enables it to build up a cumulative assessment of the state of control in the council and the effectiveness of risk management;
- the incidence of significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the council's financial performance or position; and
- the effectiveness of the council's public reporting processes.

55. Should the council become aware at any time of a significant failing or weakness in internal control, it should determine how the failing or weakness arose and re-assess the effectiveness of management's ongoing processes for designing, operating and monitoring the system of internal control.

Reporting on risk management and internal control
56. As a direct result of the annual assessment, councils should publish a statement, attached to the annual statement of accounts, summarising the main processes that have been in place for risk management and internal control, and the findings of the annual review of their effectiveness. This statement should be approved by both members and officers and may be reproduced or expanded in other published council material such as the best value performance plan. The statement should be designed to give assurance to the local community and other stakeholders on the risk management processes in place and to disclose where action is being taken to further improve those processes.

57. The CIPFA/SOLACE paper Corporate Governance in Local Government: A Keystone for Community Governance (Ref. 2), provides an example statement of assurance for local government that specifically refers to risk management.
4. What senior officers can do to implement better risk management

Introduction

58. The role of senior officers is to implement the risk management policy agreed by members. This section seeks to help officers to meet their responsibilities and directs them towards a high-level, risk management approach to establishing a sound system of internal control, covering all types of risk. Drawing on current best practice it is suggested that councils should focus on opportunities as well as seeking to deal with potential threats.

59. This section is not intended to be prescriptive in terms of the methodology or implementation approach adopted. It does, however, offer practical guidance to senior officers on implementation, drawing on lessons learnt elsewhere in both the private and public sectors. Chapter 5 sets out pitfalls to be aware of, while Appendix 2 includes an implementation checklist.

Who should lead the implementation?

60. It is important that the chief executive is the clear figurehead for implementing the risk management process by making a clear and public personal commitment to making it work. However, it is unlikely that the chief executive will have the time to lead in practice, and as part of the planning process, the person best placed to lead the risk management implementation and improvement process should be identified and appointed to carry out this task. Other people throughout the organisation should also be tasked with taking clear responsibility for appropriate aspects of risk management in their area of responsibility.

Internal audit’s role

61. Internal audit has a vital role to play in challenging established risk management processes, challenging risk identification and evaluation, and more fundamentally, in providing assurance to officers and members on the effectiveness of controls. This important role should, however, be separated from the activity of establishing and operating risk management processes and control structures. This should remain the responsibility of line management.

What could the process look like?

62. Risk management should be viewed as an ongoing process with the focus on continual improvement. Councils should consider following a number of key steps, taken from Implementing Turnbull: A Boardroom Briefing (Ref 9), published by the Institute of Chartered Accountants in England and Wales, for putting risk management into effect [EXHIBIT 4, overleaf].

63. When implementing more formalised risk management systems councils should take account of the following:

- **Be pragmatic**: Authorities should recognise that the process is not intended to eliminate risk and that not all identified risks can be managed all of the time. Furthermore, risks will still exist that have not been identified. What is important is that the culture is one of continuous learning, with risk management processes being adapted based on lessons learned.

- **Do not make the processes over complex**: In particular, councils should avoid risk overload. The
risks that are identified should make common sense and should be linked to senior management’s top concerns. Risks should be prioritised and the focus should be on those that are significant in the context of the council’s objectives.

- Ensure that the process to be followed fits in with their individual circumstances and

**EXHIBIT 4**

**Key steps to putting risk management into effect**

Councils should consider following a number of key steps to implement risk management.

1. **Identify risk**
2. **Identify key internal and external changes and agree clear corporate objectives**
3. **Determine which risks are significant**
4. **Agree control strategies and risk management policy**
5. **Agree accountability**
6. **Consultation and greater risk awareness**
7. **Changes in behaviour and focus on the fundamentals of good risk management and internal control**
8. **Sources of assurance**
9. **Monitoring of significant aspects of internal control**
10. **Early warning mechanisms**
11. **Succinct reporting**
12. **Review risk and control regularly and prior to year-end reporting**
13. **Take steps to improve**

**Source:** Implementing Turnbull: A Boardroom Briefing (Ref. 9)
Keeping things simple
64. Risk management procedures should be kept as simple and straightforward as possible. Local authorities are, of course, governed by wide-ranging statutes that may require particular control procedures, and specific grants from bodies such as central government may require specific conditions to be met. However, beyond such considerations, there is no business sense in maintaining procedures in areas where costs outweigh the benefits to the council [EXHIBIT 5, overleaf].

Identifying risks
65. Risk management and internal control are firmly linked with the ability of the council to fulfil clear corporate objectives, objectives that are examined on an ongoing basis through the rigours of the best value review process, and in particular, the challenge and consultation aspects. Risk management can be used to reinforce what senior management and the council are seeking to achieve. By embracing risk management in this way councils will focus on opportunities for the council as well as on dealing with possible threats. If risk management is to be effective there must be a clear link between objectives and risks. It is, therefore, essential that risk management is embedded in the planning processes.

Linking risks to objectives
66. Whatever techniques are employed to identify risks, the risks must relate back to the objectives of government, the local authority and the function or specific project in question. If the objectives are not already explicit, they will need to be made so. It is important to think about the types of risk that may be identified and to organise them into broad categories. This will help to ensure that issues are not overlooked and will aid in the documentation of the process. Examples of typical risk categories were illustrated in Box E.

67. Risks can be identified in a number of ways, for example, by considering:
- critical success factors in the context of objectives;
- the services that the council provides;
- the business process risks;
- how people might behave in different situations;
- the quality of the management team;
- the changing internal and external environment; and
- the reactions of the public, the local community or relevant service users.

68. Useful questions to ask include the following:
- What are the major opportunities for the council?
- How is change affecting the risks faced and the risks that the council has chosen to take? (areas subject to change are often the biggest areas of risk).
- What are the ‘killer risks’ from which the organisation would be unable to recover?
- What damaging press headlines need to be avoided?
- What problems have happened in the past at the authority or elsewhere?
- What are the types of fraud and business probity issues to which the council could be particularly susceptible?
- What are the major regulatory and legal risks to which the council is exposed?
- What risks arise from the business processes?
EXHIBIT 5

Risk management procedures should be kept simple and straightforward

Authorities should avoid unnecessary complexity and cost in their risk management procedures.

Source: Audit Commission
69. In particular, senior officers need to carefully analyse and address the risks associated with major change programmes. In some parts of the public sector, given the scale and pace of change, change programme risks need to be given as much attention as ongoing risks. Senior officers must also consider strategic risks as these are becoming increasingly important. Risk management makes sense when making strategic decisions not only at the time but also in hindsight, to justify or explain the decisions taken.

**Prioritising the risks**

70. A problem encountered often in both public and private sector risk management already alluded to in this paper is the identification of too many risks. Local authorities are no exception. The identification of too many risks is unwieldy, impractical and frightening even if the risk assessments seem to be comprehensive and thorough. It could result in the risks being poorly assessed and may lead to disillusionment with the process. Best practice suggests that the number of risks must be kept to a manageable level. Officers and members will need to consider formally which risks are significant.

Experience from other sectors shows that even in the biggest authority there are unlikely to be more than 30 significant risks, in the context of the council as a whole, and that any more than 30 may cause risk overload.

71. The following diagram for risk prioritisation is widely used. Officers need first to undertake an initial prioritisation which is an assessment of the likelihood and impact assuming that the controls are weak or non-existent [EXHIBIT 6, overleaf].

72. In order for the scales to be understood by everyone taking part in the assessment, they need to be made meaningful. This will require some thought, and is best done after the risks have been identified. All types of potential impact need to be considered when making the initial prioritisation including, most importantly, the potential impact on the achievement of the council’s objectives. Rating likelihood tends to be more straightforward – for example, likelihood may be never, once a year, four times a year, once a month, all the time. Whatever scales are used, it is important that they are relevant to the organisation, easily understood and provide a common formula for those taking part in the process to undertake the initial prioritisation effectively.

**Assessing exposure and establishing appropriate control strategies**

73. Having identified and prioritised the significant risks in gross terms, it is helpful to determine for each significant risk:
- whether the members wish to accept the risk;
- the control strategy, namely the measures needed to avoid or mitigate the gross risk (that is the level of risk before the application of control processes);
- who is accountable for managing the risk and maintaining and monitoring the controls;
- the residual risk, (that is, the risk remaining after the application of the control processes); and
- early warning mechanisms.
Taking each of these points in turn we can see the following:

- Each risk should be considered in the context of the council’s objectives. Members should decide whether the identified risks exceed the benefits that will be obtained by achieving the objectives – that is, is it worthwhile to continue with a particular objective if the risks outweigh the reward? If the decision is to carry on, members must decide how to respond to the risk by adopting specific control strategies.

- Control strategies include:
  - accepting or tolerating the risk;
  - transferring the risk (for example, by passing it on to another party by changing contractual terms);
  - elimination of the risk;
  - planning to deal with service interruption without disturbing business continuity to a material extent;
  - control (by building control into the operational process, additional quality control, involving the best people in managing it);
  - sharing the risk with another party;

**EXHIBIT 6**

**Risk prioritisation**

An assessment should be undertaken of the impact and likelihood of risks occurring.

<table>
<thead>
<tr>
<th>IMPACT</th>
<th>LIKELIHOOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catastrophic disturbance</td>
<td>Very likely</td>
</tr>
<tr>
<td>Minor disturbance</td>
<td>Very unlikely</td>
</tr>
<tr>
<td>High impact, Low likelihood</td>
<td>A</td>
</tr>
<tr>
<td>High impact, High likelihood</td>
<td>B</td>
</tr>
<tr>
<td>Low impact, Low likelihood</td>
<td>C</td>
</tr>
<tr>
<td>Low impact, High likelihood</td>
<td>D</td>
</tr>
</tbody>
</table>

Key:
A – immediate action is needed
B – consider action and have a contingency plan
C – consider action
D – keep under periodic review

_Source: Audit Commission_
– insuring against some or all of the risk to mitigate financial impact; and
– avoiding the risk in other ways;

• Delegation of responsibility for managing risk in totality should not be allocated to a single individual. Ideally, it will be spread across those responsible for managing different business activities. Risks cannot be effectively managed unless they are owned. A written record should be maintained of who is responsible for managing each key risk, and the allocation of responsibilities should be kept under review as both the risks and the people in the council will frequently change. Responsibility should be assigned for correcting control weaknesses and for general action plans so that progress can be effectively monitored.

• Consideration should be given to determining the level of risk remaining after the application of the control strategy. A key point to note is that it is not possible to eliminate risk entirely. Risk management policies need to be aligned with the council’s objectives. Some risks will result from the pursuit of objectives, and other risks may simply be unaffordable to control. For example, the risk of snow-blocked roads twice every five years is unlikely to justify expenditure on permanently owned snowploughs. Officers need to know their own risk profile and how to manage it. Where there are risks, they must be identified and they need to be well thought through.

• Early warning mechanisms are reporting processes that enable the council and senior management to be alerted before a problem becomes a disaster, and at a stage when action can be taken to mitigate or overcome the situation. The idea behind ‘key risk indicators’ as a form of early warning mechanism is to give early indication of potential problems so that corrective action can be taken promptly. Broad staff awareness of these key risk indicators and genuine encouragement of discussion and the disclosure of potential problems are paramount to ensuring risk prevention or prompt reporting of risk incidents to the right people within the council. The creation of a culture of openness and the early warning of problems will stand organisations in good stead, regardless of the other risk management processes in place.

Levels of consultation

Involve a wide range of stakeholders

75. Throughout the risk management process it is essential to gain the input of a wide range of stakeholders including, for example:

• employees at all levels, including trade union representatives;
• other departments with whom there is a strong interface;
• other internal experts; and
• external stakeholders.

76. It will also be useful to read what is being said about the council in the media. Other people’s perceptions are vitally important because the council’s reputation is at stake.
Actively involve only those employees who can influence significant risk

77. In an ideal world it would be good to involve ‘all employees’ in the risk management process, but, in practice, this often delivers little extra value for a very significant level of resource input. Councils should only actively involve relevant employees, which means those who are directly responsible for, or who can influence the management of, a ‘significant’ risk. However, merely making changes at the management level is not enough. In order to make the risk management system embedded and ongoing, it is essential that employees understand their role in the process and can see why they should be concerned with risk. Operational staff have direct contact with the public and so can have a huge impact on the external reputation of an organisation.

78. All employees need to be aware of the importance of risk management and the role that they can play in promoting better risk management within the council. This distinction should be reflected in training programmes and the approach that is adopted. Examples of practical issues to consider include the following:

- **Changes to practice and systems**: Councils should actively involve all those that the proposed changes affect and the extent of involvement will vary for each risk. For example, health and safety changes may require widespread consultation, whereas the risk of changes to the overall funding mechanisms may be managed by only one or two people. It is important to keep the focus on significance and to ensure the correct balance between time invested and value achieved.

- **Awareness of objectives, responsibilities, key risks and how individuals’ actions can affect the council**: This awareness needs to be achieved on a widespread basis throughout the council’s operations and may include specially targeted publications, videos and other staff communications.

Listen carefully to what the stakeholders say

79. It is not enough to identify what the risks are. It is important to prioritise them and to determine what the root causes are. Senior officers need to listen carefully to operational staff and to study the environment within which they are having to work. Frequently, this is the area where the public interfaces with the council and where the reputational consequences of the quality of risk management are won or lost. A good example of listening to stakeholders is benefit fraud. From a departmental perspective this may be viewed as a financial risk but it is also a publicity/stakeholder risk since the public ask why fraudulent claims are not being rejected and why scarce resources are being misapplied.

Communication throughout the process

80. Effective communication is critical to the implementation and the ongoing success of risk management. This requires consultation on the reasons driving the change, the benefits that will result and the interventions that will facilitate the change. The objective must be to provide timely, accurate and straightforward communication in order that all...
stakeholders understand the implications of the change.

Addressing change management issues

81. Risk management implementation will require good understanding and anticipation of the human resource and cultural issues to identify ways to break down the barriers. There are several key steps that senior officers should take to reduce resistance to change and to increase the effectiveness of the process:

• **provide a clear explanation of why**, and over what period of time, risk management is being implemented;

• **identify change champions**, as to be successful the change must have a driving force;

• **communicate**, as it is critical that people are fully informed about how they will be affected by the change and what the overall strategy and objectives are; and

• **create visible successes**, as early successes show that positive returns are attainable and this helps to generate and maintain momentum for the change process.

82. There are a number of potential hurdles to be overcome:

• **misconception of change**: if change is viewed as an event then it will be just that, a single event and not a process;

• **tunnel vision**: focus must be on the desired changed state, with careful attention to each of the required steps to reach it;

• **inappropriate goals**: milestones must be set that will create early success and a sense of progress. These should be meaningful and realistic;

• **forgetting the ’people issues’**: providing assurance to staff on the effect of change on existing human resource processes, for example, reward systems, is important but can be forgotten in the desire to deliver change efficiently; and

• **underestimating the level of resources needed**: it is critical that appropriate resources are provided to enable the change to take place.
5. Pitfalls to be aware of and conclusions

83. Based on the experiences of risk management across the sectors, there are a number of important lessons to be learned by those seeking to strengthen their existing risk management arrangements. The most common pitfalls can be summarised [BOX H].

Conclusions

84. Every organisation faces risks and threats to its success. Local government faces a particularly wide-ranging set of risks because of the diverse range of its activities and the extensive changes taking place under the Government’s modernisation agenda. The need for effective risk management in local government has probably never been greater as public expectations increase and tolerance of failure by public service organisations reduces by the day.

85. This management paper has been prepared to serve as a practical guide to local authority members and officers as they grapple with the need to manage risk ever more effectively, but with limited resources. The paper has been designed to help with the implementation and monitoring of risk management throughout the organisation, and has set out the pitfalls to avoid as well as good practice guidance. No councillor or senior officer wants to be taken to task by the local or national press for failing to address identified risks satisfactorily. Application of the guidance in this paper should help to avoid the possibility of this happening.

BOX H

Pitfalls to avoid

- Lack of member involvement.
- No clearly-defined risk management policy.
- Lack of planning and buy-in – no clear implementation strategy.
- Failure to identify clear objectives.
- Viewing risk management as a compliance exercise.
- Failure to consider risk in the broadest context.
- Establishing risk management as a separate initiative.
- Failure to link risks with corporate objectives.
- Risk management systems that are too complex.
- Failure to prioritise and focus only on significant risks.
- Lack of clearly identified roles and responsibilities.
- Inadequate focus on control strategies and risk exposure.
- Inappropriate or no risk champions identified.
- Lack of consultation throughout the process.
- ‘Bottom-up’ rather than ‘top-down’ approach.
- Lack of regular monitoring and reporting.
- Poor communication.
- Not addressing the change management issues from a human resource and cultural perspective.
- Inadequate resourcing and training.

Source: Audit Commission
Appendix 1

Private sector developments in governance and risk management

Why is there a need for better governance and risk management?
Over the years there have been a number of major incidents in the private sector that have given rise to adverse publicity and adverse financial effects for companies. These have driven the need for change in the governance arena and formed the backdrop to the Cadbury Report (Ref. 10) on governance and subsequent reports. In addition, recent initiatives have been necessary to:

- reduce the likelihood of poor performance;
- improve transparency, disclosure and accountability; and
- address problems that have their roots at the top of the organisation.

Summary of initiatives
There have been significant advances in governance and risk management practices throughout the private sector in recent years. The publication of the Cadbury Report in 1992 (Ref. 10) firmly established corporate governance on the agenda of UK companies. The Cadbury Report was restricted to those aspects of corporate governance specifically related to financial reporting and accountability, namely the control and reporting functions of PLC boards, and the role of auditors. The Cadbury Report led to an increased focus on risk management and control by recommending that directors should make a statement in the report and accounts on the effectiveness of their system of internal control and that auditors should report thereon. This recommendation was taken up by the Rutteman Committee which developed a framework for reporting on internal financial control.

Since then, the governance debate has been moved on by Greenbury (1995) (Ref. 11), who looked at wider aspects of corporate governance and the Hampel Committee (Ref. 12), which recommended in January 1998 that the original Cadbury recommendation for a public statement on the effectiveness of the entire system of internal control be re-affirmed. Subsequently, the Turnbull Committee was charged with putting such a framework for reporting on the broader aspects of control into place to meet the London Stock Exchange's requirements for companies who were, or who sought to be, listed on the Exchange. These requirements are set out in the Combined Code of the Committee on Corporate Governance (Ref. 13).

These initiatives are not only UK-focused. Other countries have been establishing risk and control guidelines in parallel. For example, the Australian and New Zealand standard on risk and control underpins much of the current guidance issued by the NHS Executive for implementation in the health sector.

The Turnbull guidance
‘Turnbull’ (Ref. 3) refers to the guidance for directors on the Combined Code and Internal Control (Ref. 13) produced by a working party, chaired by Nigel Turnbull, which provides a framework for reporting on the broader aspects of control. Although the guidance was not intended originally for the public sector, many in the sector are seeing that it is of considerable relevance to them as a source of what can be done to bring about improvement.
The guidance was developed in response to pressure within and on the corporate sector to report on the review of effectiveness of not only internal financial control but also the wider aspects of control. There was also a general feeling that there was a need to go beyond the mere annual box-ticking approach which was frequently associated with statements of internal financial control within the corporate sector.

The Turnbull working party was particularly keen to move away from risk management and control as an exercise purely for the sake of compliance. An opportunity was seen, therefore, to link risk management and control to the achievement of the organisation’s objectives. The working party also positioned risk management and control as something that does not overlay, but is integral to, operational activities and which does not need to create bureaucracy, added costs and delay.

**Key elements of the Turnbull recommendations**

The Turnbull recommendations (Ref. 3) are tough and include the following:

- A need for directors to be publicly accountable for internal control, which helps to ensure the quality and reliability of internal and external reporting and facilitates the effectiveness and efficiency of operations, helping to ensure compliance with laws and regulations.

- A requirement for directors not only to perform an annual assessment of internal control, but also to consider reports relating to risk and internal control regularly during the year.

- Specific reference that the system of internal control should:
  - be embedded in the operations of the company and form part of its culture;
  - be capable of responding quickly to evolving risks to the business arising from factors within the company and changes in the business environment; and
  - include procedures for reporting immediately to appropriate levels of management any significant control failings or weaknesses that are identified along with details of corrective action being undertaken.

- Guidance about the respective roles of the board, management and employees. The guidance states that reviewing the effectiveness of internal control is an essential part of the board’s responsibilities, and that the board will need to form its own view on the effectiveness after due and careful enquiry based on the information and assurances provided to it. It also states that management is accountable to the board for monitoring control and for providing assurance that it has done so.

- Guidance on what is expected from reports to the board and on the matters to be considered regularly during the year.
Under Turnbull (Ref. 3), listed companies are required, for accounting periods on or after 23 December 1999, to make disclosures regarding the maintenance of a sound system of internal control, although transitional disclosure options were available in the first year. The key Turnbull disclosures are as follows:

- Acknowledgement by the board of its responsibility for internal control.
- That there is an on-going process for identifying, evaluating and managing the organisation’s significant risks, and that it is regularly reviewed and accords with the guidance.
- A summary of the process that the organisation has applied in reviewing the effectiveness of the system of internal control.
- The process that the organisation has applied to deal with the material internal control aspects of any significant problems that have arisen in the annual report and accounts.
## Appendix 2

### Implementation checklist

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes/No</th>
<th>Priority/Lead Person</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MEMBERS</strong></td>
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</tr>
<tr>
<td>1. Is there sufficient member involvement in, and support for, risk management?</td>
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<tr>
<td>2. Has the structure by which members plan and monitor risk management been agreed?</td>
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<tr>
<td>3. Have members approved a risk management policy?</td>
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<tr>
<td>4. Has a strategy been approved by members, summarising the key elements of implementation?</td>
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<tr>
<td>5. Has the commitment of senior management been secured?</td>
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<tr>
<td>6. Have sufficient resources been deployed?</td>
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<tr>
<td>7. Have members agreed a list of the most significant risks?</td>
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<td></td>
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<tr>
<td>8. Do members regularly receive reports on risk management and:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• is risk embedded within regular reporting routines?</td>
<td></td>
<td></td>
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<tr>
<td>• has responsibility been assigned for reporting risks?</td>
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<td>9. Are there ongoing monitoring procedures for risk and control?</td>
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<tr>
<td>10. Have procedures been agreed for the annual assessment of effectiveness? Does the annual assessment consider:</td>
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<tr>
<td>• the changes since the last annual assessment in the nature and extent of significant risks?</td>
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<tr>
<td>• the scope and quality of management's ongoing monitoring of risks and of the system of internal control?</td>
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<tr>
<td>• the extent and frequency of the communication of the results of the monitoring to the council?</td>
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<tr>
<td>• the incidence of significant control failings or weaknesses identified at any time during the period and the extent to which they could have impacted on the council's financial performance or condition?</td>
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<tr>
<td>• the effectiveness of the council's public reporting process?</td>
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<td>11. Has an approval process been agreed for public disclosures on effectiveness?</td>
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<tr>
<td>12. Have roles and responsibilities been clearly identified?</td>
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</tbody>
</table>
### APPENDIX 2

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes/No</th>
<th>Priority/Lead Person</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OFFICERS/IMPLEMENTATION</strong></td>
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<tr>
<td>13. Have the officers who will serve as risk assessment champions been identified and briefed?</td>
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<tr>
<td>14. Has the role of internal audit in the process been defined?</td>
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<td>15. Is the proposed system reasonably simple?</td>
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<tr>
<td>16. Does the process fit with your authority’s circumstances and culture?</td>
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<td>17. Is the process ‘top-down’ rather than ‘bottom-up’?</td>
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<tr>
<td>18. Are officers focusing on performance improvement rather than on compliance?</td>
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<tr>
<td>19. Does the formalised risk management system build on existing processes rather than on introducing new ones?</td>
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<tr>
<td><strong>RISK IDENTIFICATION</strong></td>
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<tr>
<td>20. Has proper emphasis been given to the identification of objectives?</td>
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<tr>
<td>21. Has a clear link been made between objectives and risks?</td>
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<tr>
<td>22. Has an attempt been made to consider risk in the broadest context giving consideration to factors such as:</td>
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<tr>
<td>- the services that the council provides?</td>
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<tr>
<td>- partnerships?</td>
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<tr>
<td>- the business process risks?</td>
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<td>- how people might behave in different situations?</td>
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<td>- the quality of the management team?</td>
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<tr>
<td>- the changing external environment?</td>
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<td></td>
</tr>
<tr>
<td>- the changing internal environment?</td>
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<tr>
<td>- likely reactions of the public, the local community or relevant service users?</td>
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<tr>
<td><strong>ASSESSING THE SIGNIFICANCE OF RISKS</strong></td>
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<tr>
<td>23. Has an attempt been made to prioritise risks according to impact and likelihood?</td>
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<tr>
<td>24. During the risk identification process has an attempt been made to make the likelihood and impact scales comprehensible to all users?</td>
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<tr>
<td>25. Are lower-priority risks regularly reviewed?</td>
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<tr>
<td>Question</td>
<td>Yes/No</td>
<td>Priority/Lead Person</td>
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<tr>
<td>-------------------------------------------------------------------------</td>
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<tr>
<td><strong>RISK EXPOSURE/CONTROL STRATEGIES</strong></td>
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<tr>
<td>26. Do officers know the risk profile and how to manage it?</td>
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<tr>
<td>27. Has consideration been given to whether:</td>
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<tr>
<td>• control strategies are appropriate?</td>
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<td>• early warning mechanisms are adequate?</td>
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<tr>
<td>• those responsible for managing the risk and maintaining and monitoring the controls have been identified?</td>
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<tr>
<td>• the council should accept/tolerate the level of exposure?</td>
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<td>28. Is there a written record of who is responsible for correcting control weaknesses?</td>
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<tr>
<td><strong>CONSULTATION</strong></td>
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<td>29. Have the views of the following stakeholders been taken into consideration:</td>
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<tr>
<td>• employees at all levels including trade union representatives?</td>
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<td>• other departments with whom there is a strong interface?</td>
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<td>• other internal experts?</td>
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<td>• external audit?</td>
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<tr>
<td><strong>COMMUNICATION</strong></td>
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<tr>
<td>30. Have all employees been made aware of the importance of risk management and their role in promoting better risk management?</td>
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<tr>
<td>31. Has an attempt been made to actively involve all of those affected by the proposed changes?</td>
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<td>32. Has the chief executive publicly committed to the process?</td>
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<tr>
<td><strong>CHANGE MANAGEMENT</strong></td>
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<tr>
<td>33. Has an attempt been made to explain why and over what period of time the change is being made?</td>
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<tr>
<td>34. Have people been fully informed about how they will be affected by the change?</td>
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<tr>
<td>35. Has the change process been planned so that early successes are visible?</td>
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<td>36. Has an attempt been made to set meaningful and realistic milestones?</td>
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<tr>
<td>37. Has an attempt been made to present the change as an ongoing process rather than as a single event?</td>
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<tr>
<td>38. Has consideration been given to the management of inter-relationships (for example, dependent human resources processes)?</td>
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</tbody>
</table>
Appendix 3

Members of the advisory group

This paper has been prepared by the Audit Commission with contributions from and special thanks to:

Richard Flatman at Deloitte & Touche, the principal author of this paper.

Members of the advisory group

- Martin Scicluna, Deloitte & Touche – Chairman
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- Keith Beaumont, Local Government Association
- Peter Bounds, Audit Commission
- Sheila Boyce, ALARM
- Nigel Johnson, Deloitte & Touche
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- Liz Taylor, Marsh (previously ALARM)
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- East Sussex County Council
- Eric Northcote and James Howell (Deloitte & Touche)
- Liverpool City Council
- Tony Crawley, Audit Commission
- Richard Cummins, Wycombe District Council
- Stuart Emslie, NHS Executive
- Ian Fifield, Chartered Institute of Public Finance and Accountancy
- Richard Footitt, Department of Transport, Local Government and the Regions


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7. Local Government Act 2000


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Canadian Institute of Chartered Accountants (1995) *Guidance on Control (CoCo)*.


*Health Circulars*


The Audit Commission has produced a number of studies covering related issues. The following may be of interest to readers of this paper:

**Protecting the Public Purse**  
*Ensuring Probity in Local Government – Update 2000*  
The latest findings of the Commission’s annual survey of fraud and corruption in local government highlights the key risk areas, new trends and increasing areas of risk. In particular, this year’s survey examined councils’ progress in response to the DSS’ Verification Framework and the fresh challenges created by legislation like the Local Government Act 2000. The publication also includes a checklist of good practice measures councils should adopt.  


**An Inside Job?**  
*Internal Audit & Best Value*  
This management paper sets out the expected and potential roles of internal audit in best value. It provides guidance on audit in relation to best value. The paper includes a checklist to assess whether organisations have considered the options for providing assurance for authorities’ best value frameworks. It provides examples of current work by internal audit using case studies on how they might contribute to their authorities’ approach to best value. It also aims to enable authorities to assess how they use internal audit to obtain assurance.  


**A Perfect Match**  
*Report of the 1998 National Fraud Initiative*  
The National Fraud Initiative is a computerised data matching exercise to detect, primarily, housing benefit fraud perpetrated upon local councils. It involved matching data supplied by over 400 local councils as well as a number of police and fire authorities. *A Perfect Match* looks at the types and values of frauds detected and other benefits derived from the NFI 1998 and at what more needs to be done to enable councils to get the maximum benefit from participating in future data matching exercises.  


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Managing risk is a difficult task. Local authorities must manage the significant risks that could hamper the delivery of the diverse range of services that the public looks to them to provide. To do this successfully, local authorities must identify and cope with the risks that threaten the achievement of their key strategic aims, and recognise that the process is not a one-off exercise, but an ongoing task.

This paper aims to raise awareness about the need for local authorities to identify and address their key strategic business risks as a vital element of good corporate governance. It outlines the benefits of getting the processes right, and provides practical advice on how to manage those risks in a more effective and formal way while avoiding risk overload, or being too prescriptive about structures or methodology. It sets out the key tasks for members and chief officers, and challenges local authorities to keep pace with the advances made by other sectors, such as the NHS and central government, in recognising the importance of effective risk management. The paper is essential reading for anyone charged with governance responsibilities in local authorities.