

MID KENT AUDIT

**Annual Risk Management
Report**

Audit Committee

March 2020



Introduction

Effective risk management is a vital part of the Council's governance, and contributes greatly to the successful delivery of services and key priorities. Risk processes are how the Council identifies, quantifies and manages the risks it faces as it seeks to achieve its objectives.

The purpose of this report is to provide assurance to Members that the Council has in place effective risk management arrangements, and that risks identified through this process are managed, and monitored appropriately. This enables the Audit Committee to fulfil the responsibilities as set out in the Terms of Reference:

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

Roles & Responsibilities

We (Mid Kent Audit) have lead responsibility for supporting risk management processes across the Council. Our role includes regular reporting to Officers and Members, through the Senior Management Team (SMT), Informal Cabinet and the Audit Committee. We also provide workshops and training, and facilitate the effective management of risks.

Having valuable and up to date risk information enables both Executive and oversight functions to happen effectively. Informal Cabinet has overall responsibility for risk management and will review the substance of individual risks to ensure that risk issues are appropriately monitored and addressed.

As those charged with governance and oversight the Audit Committee should seek assurance that the Council is operating an effective risk management process.

Risk Management Process

The **risk management framework** is the guide that sets out how the Council identifies, manages and monitors risks. The reviewed and updated framework was approved by SMT early in 2019. In summary, the risk management process for the Council can be broken down into the following key components, and a 1 page summary of the process is included in Appendix III:



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

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

Corporate level risks are more strategic in nature. They are the risks that could prevent the Council from achieving its ambitions and objectives.

Operational risks are principally identified as part of the service planning cycle each year. They are directly linked with the day to day operation of services. However, operational risks can nonetheless have potential for significant impact.

There is a direct link between these two levels of risks. This is because where an individual or group of operational risks start to have a significant impact on delivery of strategic objectives consideration is given to escalating the risk to a corporate level.

Risks are assessed on **impact** and **likelihood** (definitions attached in Appendix II). The same definitions and scales are used for all risk assessments in order to achieve consistency in approach, and allow for comparisons over the period.

- **Impact:** This is a consideration of how severely the Council would be affected if the risk was to materialise.
- **Likelihood:** This is a consideration of how likely it is that the risk will occur. In other words, the probability that it will materialise.

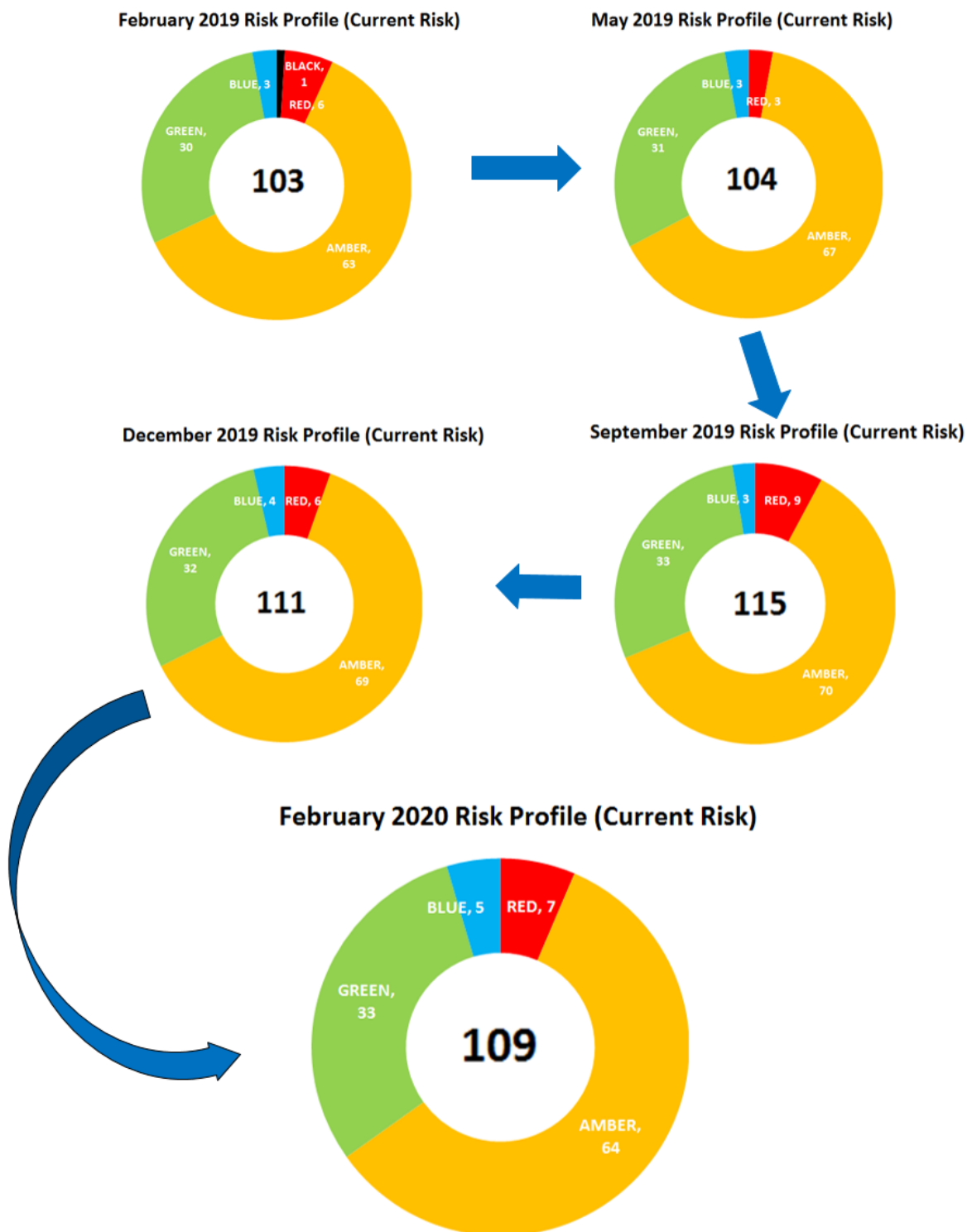
In order to understand the scale of risks the following guidance is available to risk owners when assessing their risks:

	Risk Rating	Guidance to Risk Owners
20-25	<p>Risks at this level sit above the tolerance of the Council and are of such magnitude that they form the Council's biggest risks.</p> <p>The Council is not willing to take risks at this level and action should be taken immediately to treat, transfer or terminate the risk.</p>	<p>Identify the actions and controls necessary to manage the risk down to an acceptable level. Report the risk to the Audit Team and Senior Manager.</p> <p>If necessary, steps will be taken to collectively review the risk and identify any other possible mitigation (such as additional controls).</p>
12-16	<p>These risks are within the upper limit of risk appetite. While these risks can be tolerated, controls should be identified to bring the risk down to a more manageable level where possible.</p> <p>Alternatively consideration can be given to transferring or terminating the risk.</p>	<p>Identify controls to treat the risk impact / likelihood and seek to bring the risk down to a more acceptable level.</p> <p>If unsure about ways to manage the risk, consult with the Internal Audit team.</p>
5-10	<p>These risks sit on the borders of the Council's risk appetite and so while they don't pose an immediate threat, they are still risks that should remain under review. If the impact or likelihood increases then risk owners should seek to manage the increase.</p>	<p>Keep these risks on the radar and update as and when changes are made, or if controls are implemented.</p> <p>Movement in risks should be monitored, for instance featuring as part of a standing management meeting agenda.</p>
3-4	<p>These are low level risks that could impede or hinder achievement of objectives. Due to the relative low level it is unlikely that additional controls will be identified to respond to the risk.</p>	<p>Keep these risks on your register and formally review at least once a year to make sure that the impact and likelihood continues to pose a low level.</p>
1-2	<p>Minor level risks with little consequence but not to be overlooked completely. They are enough of a risk to have been assessed through the process, but unlikely to prevent the achievement of objectives.</p>	<p>No actions required but keep the risk on your risk register and review annually as part of the service planning process.</p>

Risk Profile

The diagrams below illustrate how the risk profile of the Council (i.e. the actual number of risks on the register and their RAG rating) has changed throughout the year. This is made up of the Council's operational risks, and based on the **current** risk, i.e. the risk impact and likelihood considering any existing controls in place to manage the risk, but before any further planned controls are introduced.

The change in the overall risk profile of the Council demonstrates how action is taken to manage risks, to ensure the completeness of the risk register and to capture emerging risks.

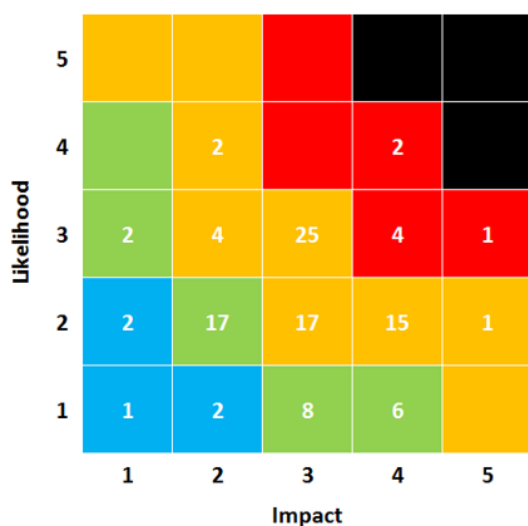


Operational risk registers are in place for each service (including relevant shared services) and, as demonstrated above, are regularly reviewed and updated. **Red** and above risks are reviewed quarterly and **Amber** risks six-monthly. All other risks are reviewed and updated as needed or at least annually. The last update was completed in February 2020 and a full review will be undertaken by May 2020.

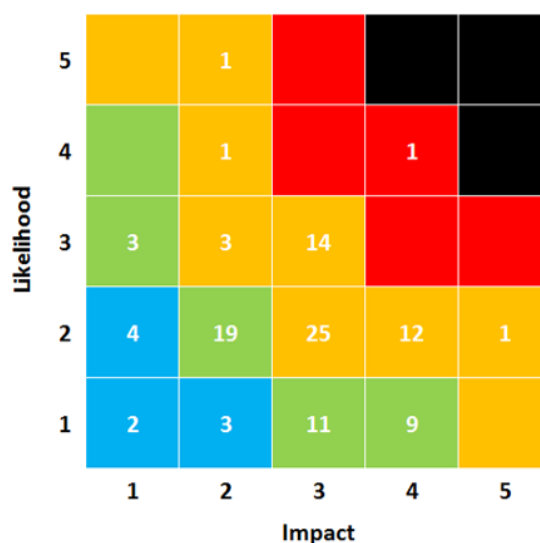
Inherent **Red** and above risks are monitored by SMT and reported to Informal Cabinet alongside the Corporate risks. Reports were taken to SMT in May 2019 and December 2019, and Informal Cabinet in April 2019.

The following risk matrices show the operational risk profile for the Council as at February 2020 (the **current** risk) and what the profile will look like if all planned controls are introduced (the **mitigated** risk) – i.e. what our risk profile could look like in the future.

February 2020 Risk Profile (Current Risk)



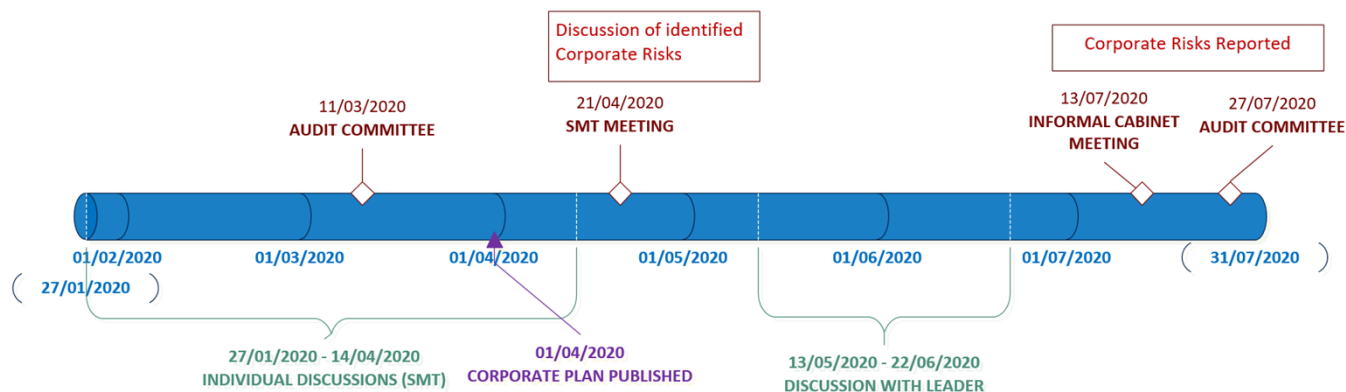
February 2020 Risk Profile (Mitigated Risk)



Corporate Risks

To be effective the Council’s corporate risks should reflect its priorities and ambitions. The development of new corporate priorities therefore provided an opportune time to identify emerging corporate risks, and to this end a workshop was held with SMT in August 2019. Following the publication of the consultation for the priorities a paper was taken to SMT, in January 2020, describing the outcomes of the workshop and how the corporate risks will be developed.

Work is now underway with SMT to build the corporate risk register and the following diagram outlines the timeline for this work:



To support Members in understanding the Council’s risk management processes, and interpreting reported information, a training session will be run in June 2020 – further details will be circulated nearer the time.

Next Steps

Risk management is a continuous process, and we will continue to build on and improve the arrangements to further strengthen the risk management process and develop a positive risk culture across the Council. In particular work is underway to obtain a risk management system to replace the current spreadsheet process. This will give us greater functionality in updating and reporting on risks and free up time to further develop other aspects of risk.

We have continued to receive a positive level of engagement and support from Senior Officers and Managers in the Council which has enabled the risk management process to develop and embed. So, we’d like to take this opportunity to thank officers for their continued work and support.

Definitions for Impact and Likelihood

Risks are assessed for impact and likelihood. So that we achieve a consistent level of understanding when assessing risks, the following definitions were agreed and have been used to inform the assessment of risks on the comprehensive risk register.

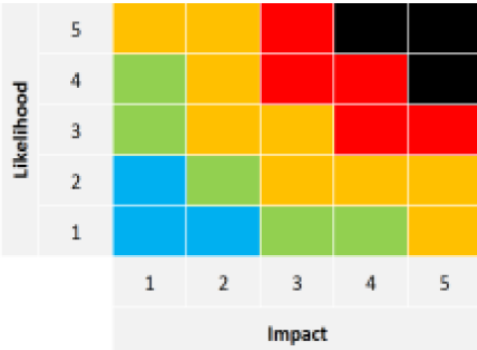
RISK IMPACT

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

RISK LIKELIHOOD

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

One Page Process Summary

Step 1 – Identify Risks	Step 2 – Evaluate Risks	Step 3 – Risk Response	Step 4 – Monitor & Review
<p>Best done in groups, by those responsible for delivery objectives.</p> <p>RISK is a <i>potential future</i> event that, if it materialises, has an <i>effect</i> on the achievement of our objectives.</p> <p>Consider both threats and opportunities.</p> <p>When to consider:</p> <ul style="list-style-type: none"> • Setting business aims and objectives • Service planning • Target setting • Partnerships & projects • Options appraisal <p>Establish the risk owner.</p> <p>Document in the risk register.</p>	<p>Combination of the impact and likelihood of an event (the CURRENT RISK).</p> <p>Impact score is the highest from the different categories.</p> <p>Establish your key existing controls and whether they are managing the impact and/or likelihood of the risk.</p> <p>Scores can be depicted in the risk matrix:</p> 	<p>Black – Above our tolerance, immediate action and reporting to directors.</p> <p>Red – Outer limit of our appetite, immediate action.</p> <p>Amber – Medium risk, review existing controls.</p> <p>Green – Low risk, limited action, include in plans.</p> <p>Blue – Minimal risk, no action but annual review.</p> <p>Risk Response – 4Ts</p> <ul style="list-style-type: none"> • Treat (i.e. apply controls) • Tolerate (i.e. accept risk) • Transfer (e.g. insurance / partnership) • Terminate (i.e. stop activity) <p>After your response; where does the risk score now? (the MITIGATED RISK)</p>	<p>Completed risk registers returned to Mid Kent Audit.</p> <ul style="list-style-type: none"> • Senior Management Team monthly monitoring of black risks. Quarterly reporting of all high level (black and red) risks. • 6-monthly monitoring at Informal Cabinet. • Annual monitoring of process by Audit Committee. <p>Mid Kent Audit facilitate the review and update of risk actions (as per your risk register) during the year for and high-level (red / black) risks.</p>