Midlothian

~~Corporate Management Team~~
~~16 July 2012~~
~~Item:~~

Appendix 1

Corporate Risk Register
Report by Gerald Tait, Risk and Audit Manager

1. Introduction

This report invites a further review by CMT of the Council's Corporate Risk Register which is attached. This includes:-

- Risk Barometer (appendix A);
- The Corporate Risk Register (appendix B); and
- Risk Scoring Methodology (appendix C).

2. Background

Key Matters

(a) Explanation of three attachments

Risk Barometer – this shows the twelve approved corporate risks, the variables of likelihood and impact and the current risk scores.

Corporate Risk Register – this report shows the twelve risks, the possible threats under each risk title, the original risk score (which was the starting-point for risk scoring), the current risk score and the target risk score and a target risk date. Also shown are the established internal controls and extra actions to augment the internal controls which have over the past year been approved by CMT.

Risk Scoring Methodology – this describes the two risk scoring variables of likelihood and impact. Likelihood is the simplest to interpret while the impact matrix is more complex. It attempts to describe the severity of various scenarios against six major impacts – Financial Loss, Reputation Damage, Harm to Employees or Citizens, Disruption to Services, Harm to the environment and Missed Opportunities.

(b) Transparency

At the last presentation of the risk register, CMT instructed that further transparency be introduced to the risk assessment. CMT will see that original, current and target risk scores are shown with dates for the achievement of target risk scores. The latter represents a level of tolerance (risk appetite).

Senior managers have made predictions when the target risk score will reach low risk status and as an example, for the 'People' risk, the risk target score is expected to reach low risk by 31 March 2014. To achieve all the target risks scores across the twelve risks, it is expected that the combination of established internal controls and the extra actions will have the desired effect. However, extra actions may arise as time passes, which impact on these target dates.

There is currently a problem with the scoring of risks, which is not impeding risk assessment and can be fixed. CMT will see that risks are scored using a 3 x 5 scoring system (3 likelihood scenarios and 5 impact scenarios). This is a legacy from the previous Magique software which insisted on a 3 x 5 scoring system. Covalent prefers a 5 x 5 scoring system and when viewing the risk scores it is difficult to establish how scores like 12, 13, 17 and 23 (as examples) are scored.

Contact with the covalent supplier has provided assurance that we can gradually convert to a 5 x 5 scoring system, and therefore enhanced transparency. Meantime, there is assurance that should management wish to score a risk low, medium or high, the 3 x 5 system succeeds in allocating the risk into one of these categories, but it does not showing clearly the calculation behind the scenes.

(c) Current Risk Scores

Each senior official updating specific risks has generally been cautious in scoring current risk. This reflects the period of change the Council is passing through. Therefore most risks are left for the time being in the medium category, awaiting the completion of established internal controls and extra actions.

However, CMT will notice that 8 of the twelve original risk scores started out with high risk scores and they have been successfully reduced to medium risk scores.

(d) Target Risk Scores

Senior officials have listed indicative dates when the target risk (and acceptable risk tolerance level) will be achieved. It is important that CMT thoroughly scrutinises these dates.

(e) Extra Actions

CMT will note the success in identifying, and progressing, some 68 extra actions, referred to in the attached as ‘Linked Actions’. This is a great strength of the Corporate Risk Register, that these extra actions are making a difference. There are only of handful of these actions off target and suitable explanations are shown in the risk register.

Extra actions are a combination of ‘essentials’ (will make a big difference) and ‘add-ons’ (will make some difference, acting as a bonus) and should have the effect of driving risk further down towards low risk scores and achievement of the risk appetite. Extra risk actions can be added at any given time and CMT may wish to add to the list at today’s meeting.

It is worth noting that extra risk actions could have appeared without the existence of a Corporate Risk Register. However, the significant benefit of the register enveloping the extra actions allows for proper organisation and reporting of them.

(f) Internal Audits of Internal Controls and Extra Actions

It is important that internal controls and extra actions are effective in controlling risk. The Internal Audit Plan contains time to review internal controls and extra actions and provide assurance.

(g) ‘Critical-Friend Review’

The Council’s insurer has completed a review of the current Corporate Risk Register and concluded that it:-

- contains risks that are normally found in large-scale organisations; and
- is understandable and relevant

(h) Benchmarking

In the interests of best value, South Lanarkshire, East and West Lothian and Renfrewshire Councils have agreed to benchmark their Corporate Risk Registers with us. There will inevitably be a sharing of ideas.

(i) Meaning of ‘Corporate’ Risk

The twelve risks approved by CMT appear to be risks typical to a large organisation, private or public sector. ‘Welfare Reform’ could be included under ‘Legal and Regulatory Compliance’. However, because of its magnitude it has been separated. Likewise, other risks could be merged but it is considered best to maintain the present profile.

3. Report Implications

3.1 Resource

There may be resource implications arising from this report, should CMT wish to reallocate funds between risk exposures.

3.2 Risk

The Corporate Risk Register is a crucial means to demonstrate effective control of risk that affects all parts of the Council. The twelve risks listed appear to be typical of any public and private sector organisation. Maintenance of the Corporate Risk Register complies with the Council’s Risk Management Policy and Control Programme, which in turn complies with best value legislation.

3.3 Policy

Strategy – this report addresses directly the council’s policy to have a robust management of risk approach and effective governance.

Consultation – consultation has taken place with several managers in charge of these risk exposures, within Risk and Audit services, within the Risk Management Group and with the Head of Finance and Human Resources (s95 officer). It is planned that the risk register will be presented to the August Audit Committee.

Equalities – there are no equalities issues arising from this report

Sustainability – effective management of corporate risks helps to ensure the sustainability of the Council and its services.

4. Recommendations

The Corporate Management Team is recommended to:-

1. Note the positive progress with extra risk actions;
2. Recommend any further, extra risk actions;
3. Note the enhanced transparency introduced to the risk register;
4. Note the current risk exposure;
5. Scrutinise the target score dates;
6. Note that the risk register will be presented to the August Audit Committee;
7. Note the impending internal audits of internal controls and extra actions; and
8. Note that a further report will be presented to CMT in September/October.

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