

A revised approach to risk management within Lancashire County Council

1. The county council has recognised the need to reconsider the way in which it manages risk and demonstrates its risk management processes.
2. A revised approach to risk management is set out below and the Management Team has:
 - Considered and endorsed the principles underpinning the council's approach to risk management set out below.
 - Agreed to ensure that all service managers continue to consider risk and mitigating controls throughout their service's design and operation.
 - Considered the schedule of the council's key issues arising over the period 1 July to 30 September 2011 identified from the matters discussed by management teams across the council over that period and assessed this against their own understanding of the council's risks, to test the adequacy of this revised approach in capturing the council's key risks. (This schedule is attached as appendix B).
 - Considered the schedule of the council's underlying risks developed from the risk register as at 27 June 2011 and from individual directors' discussions with the Internal Audit Service in developing the last two annual audit plans. It has determined that this could, over time, capture the areas of greatest underlying risk to the council. (This schedule is attached as appendix C).
 - Considered and endorsed the proposal to generate a risk register annually, as a combination of current risks and underlying on-going risks, for consideration by the Audit Committee under its terms of reference ('to advise the Council on the adequacy of the Authority's strategic processes for risk, control and governance').
3. Having accepted this approach, Management Team has also agreed to:
 - Continue periodically to lead discussions of risk within directorate management teams, and consider too whether there are additional issues that should be addressed to manage the directorates' and the council's risks.
 - Periodically endorse the risk management guidance available to managers across the council, which will be reviewed and updated (by the head of internal audit), to ensure that good risk management practice continues across the county council.
 - Include a more formal and regular plan of training on risk management within a programme of practical training for managers across the council.
 - Re-consider whether all the risks that apply across the whole of the council (for example those relating to employment law and practice) are adequately owned and managed.
4. A schedule of the council's underlying risks derived directly from the corporate risk register considered by the Audit Committee on 27 June

2011 is also attached as appendix D. This schedule includes the scores assigned at that time for information and to illustrate the outcomes of the council's former approach.

The council's proposed approach to risk management

5. The council already manages its risks well in practice. It has not in the past always documented risks in the ways demanded by the external regulator, but action being taken by management teams across the council amounts to an effective ongoing process of risk identification, assessment and management.
6. Managers should therefore continue to be encouraged and supported to consider the potential threats and opportunities involved in any new service developments and improvements, and on-going performance monitoring. Documentation of risks, related controls and mitigating action plans should be considered where this is helpful and appropriate and, where this is the case risk registers should be prepared. This is likely to be appropriate for specific service development projects, when project risk registers should be monitored closely by the lead project manager and sponsor. Individual directorates should also consider risk specifically as business plans are prepared and monitored.
7. Management Team will obtain assurance annually that risks are being adequately identified, assessed and managed by an annual snapshot of the issues being addressed by management across the council, from which an annual risk register will be prepared by the Internal Audit Service. Using this, Management Team will be able to assess whether in its view the council's key risks are being adequately addressed, and it will be able to take action where necessary.
8. The Audit Committee has also expressed a concern periodically to review a statement of the council's key risks, and it is proposed that in future this be provided to the Committee at its meeting in March each year in a form similar to the schedule attached.
9. Assurance over specific risk areas will continue to be provided by the Internal Audit Service through the annual internal audit plan, which will be prepared following discussions with management teams and senior managers across the council, including executive directors and Management Team. The annual internal audit plan is also approved, but not directed, by the Audit Committee.
10. Internal audit work is designed to provide assurance over the management not only of changing risks, but also of those which may be significant but relatively constant whilst services remain stable. Such risks may not therefore be identified through a snapshot of management discussions but will be highlighted through directors' discussions with the Internal Audit Service's and the resulting annual audit plan.

Principles underpinning the proposed approach

11. Management Team has considered and endorsed the practical principles and understanding that underpin the council's proposed risk management arrangements.

- The county council generally manages risk effectively within the course of its normal operations through its management structure and governance arrangements.
 - Managers have a good understanding of their services and service developments, and are able adequately to identify the risks involved.
 - Managers understand the limits that the organisation places on the action that can be taken by any individual officer. There is a general awareness of what management action is appropriate and where further consultation and approval is required with colleagues and more senior managers. The organisation therefore recognises its risk appetite in relation to the decisions it takes.
 - There is a good level of understanding of what risks it is acceptable to take during the normal course of work and the organisation recognises its risk appetite in relation to its ongoing activities.
 - Managers' workloads should not be increased through unnecessary bureaucracy, in particular by preparing documentation solely to demonstrate (rather than support or enhance) effective management.
 - The cost (in terms of the time involved) relative to the benefit gained by defining every possible risk in detail and assigning impact and likelihood scores to each risk associated with every planned or current activity is deemed too great to be generally worthwhile. However where there are known concentrations of risk, such as in new service developments, managers understand that they should document, monitor and manage these risks using the council's scoring framework.
 - The county council aims to operate good governance arrangements and holds itself accountable through its annual governance statement, which refers to governance, risk management and internal control.
 - The Audit Committee holds the county council to account for the adequacy of its risk management arrangements. It seeks assurance over these arrangements from the council's head of internal audit and requires a periodic statement of the most significant risks facing the county council.
 - The Internal Audit Service works with individual directors and executive directors to consider the council's assurance needs, and makes its own assessment of the internal audit work required to provide this assurance. Priority is given to providing assurance over the controls which reduce the greatest inherent risks to the greatest degree.
12. It is therefore considered unnecessary and an inappropriate use of resources to attempt to document and individually score each risk arising across the whole of the council's business. Instead, an assessment of the risk management arrangements made in practice is set out below.

Practical risk management within the county council

13. The table below sets out each of the main categories of risk within the county council, the management control applied, and the evidence demonstrating this control in operation.

Management control	Evidence of management
<i>Emerging issues affecting the council and its services</i>	
Management Team, with cascade down to directorate and service teams as appropriate and as the issues develop.	<ul style="list-style-type: none"> • Corporate strategy or equivalent • Management Team agendas and papers • Directorate management team agendas and papers
<i>New projects and service developments</i>	
Directorate management teams, with cascade down to service teams as the issues develop, and up to Management Team for information.	<ul style="list-style-type: none"> • Corporate strategy or equivalent • Directorate strategy/ business plans • Directorate management team agendas and papers • Project risk registers • Management Team agendas and papers
<i>Current issues or developments within the council's existing services</i>	
Service management teams, with cascade up to directorate management teams and intervention by Management Team as appropriate.	<ul style="list-style-type: none"> • Directorate management team agendas and papers • Project board agendas and papers as appropriate • Management Team agendas and papers
<i>Monitoring of performance measures</i>	
Performance Working Group Executive, with coordination across to directorate management teams and up to Management Team and Cabinet Committee on Performance Improvement as appropriate.	<ul style="list-style-type: none"> • Performance Working Group Executive agendas and papers • Directorate management team agendas and papers
<i>On-going provision of the council's services: underlying risks</i>	
Service teams, with cascade up to directorate management teams as appropriate.	<ul style="list-style-type: none"> • Directorate management team agendas and papers • Corporate documentation of specific risk areas • Internal Audit Service risk and control evaluations with supporting audit work

The results of an initial test of this approach

14. A review of documentation supporting first, second and third tier management team meetings, as well as cross-service management meetings and the work of the Performance Working Group Executive, for the period 1 July to 30 September 2011 provides an indication of the nature of the issues being managed under each of these categories of risk.
15. The many detailed specific risks associated with each of these issues have not been separately assessed and scored, but the issues are reasonably clear. Management Team has considered these and confirmed that they represent the greatest risks for the council at this time.
16. The risks arising from the continuing provision of stable services are unlikely to be identified by an assessment of the issues discussed by management teams since, by their nature, these risks are understood to have been adequately addressed by adequately designed and effectively operated controls. They are unlikely to prompt further discussion within management teams. It is only as these controls are reassessed and revised that these will normally come to management teams' attention, but the more significant of these risks and controls will form part of the Internal Audit Service's annual work programme.
17. The number and range of the issues raised by this document review begin to indicate the scale of the task if the risks relating to each emerging issue, new project or service development, existing service and performance measure are to be individually analysed, scored and documented as such. The approach outlined above, based on the principles set out in paragraph 11 above, appears to be a pragmatic solution to the council's need to understand and manage its risks most effectively.