

worth the risk

improving risk management in local government

Why does risk management matter?

1. Risk is one of life's certainties for local authorities. It is the threat that an event or action will adversely affect an organisation's ability to achieve its objectives and to execute its strategies successfully. Good risk management is necessary in all organisations, and in local government it is important for delivering public services effectively and ensuring that a council is well run.
2. Successful risk management can make a council more flexible and responsive to new pressures and external demands. It allows an authority to be better able to deliver services and to meet the needs and expectations of its community in what is a fast changing and dynamic environment. Real benefits can result from effective risk analysis and management [EXHIBIT 1, overleaf].

Why now more than at any other time?

3. It is unlikely that councils will need to start from scratch as many features of risk management will already be in place. But there may be a need to adapt, improve and codify existing processes. The importance of looking afresh at risk comes in the wake of a more demanding society, bold initiatives and more challenge when things go wrong. It also arises because of the significant changes taking place as a result of the Government's modernising agenda, including, for example, creating new leadership structures within councils. Local authorities currently face pressures that potentially give rise to a range of new and complex risks and which suggest that risk management is more important now than at any other time [EXHIBIT 2, overleaf].

4. The introduction of the statutory duty of best value reinforces the need for good risk management. Best value is designed to bring about change and continuous improvement in local authorities. A council that avoids risk is unlikely to be a good performer. What is required is flair, innovation and the ability to take informed risks and to manage them effectively to optimise business results. Without good risk management processes, authorities are unlikely to achieve excellent performance in the best value regime. Effective risk managers will be able to deliver:

- an appropriate balance between risk and control;
- more effective decision making;
- better use of limited resources; and
- greater innovation.

EXHIBIT 1

The benefits of good risk management

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



Source: Audit Commission

5. There are already examples in local government where good corporate governance processes exist and effective risk identification and management takes place. The existing specific roles for financial and statutory monitoring are important aspects of the current arrangements, but risk management requires a much broader view. As new leadership structures are implemented, authorities need to build robust arrangements for effective risk management within both executive and scrutiny roles.

Who has responsibility for risk management?

6. Members are ultimately responsible for risk management because risks threaten the achievement of policy objectives. As a minimum, members should:
- exercise leadership;
 - adopt an implementation strategy; and
 - support and monitor risk management processes.

Leadership

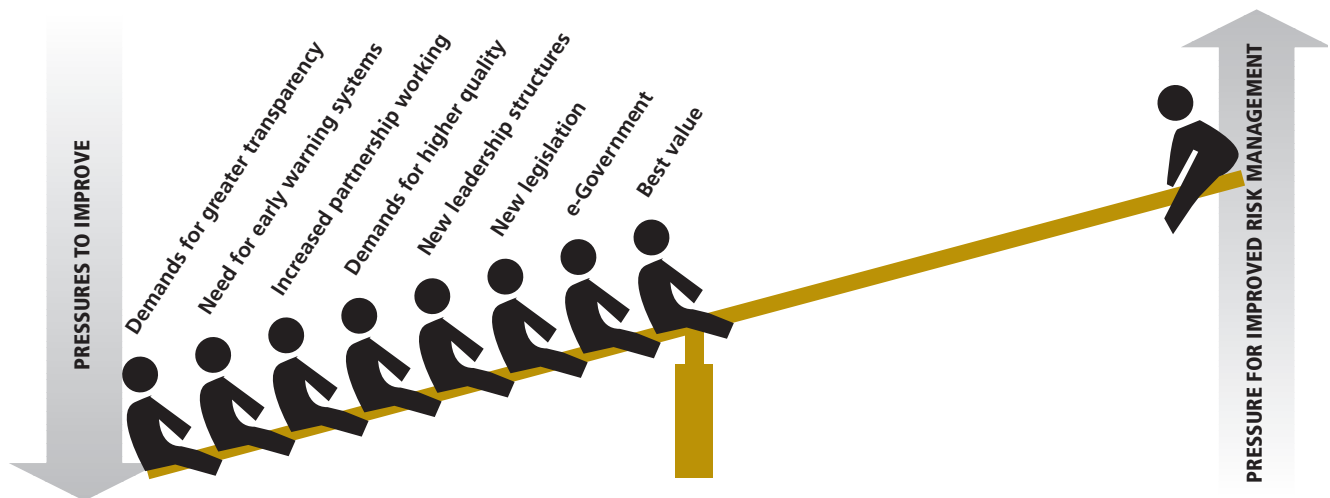
7. Elected members need to take the lead in order to set the right tone initially. They must ensure that risk awareness and management are part of the culture of the authority in order to help to achieve the council's objectives. Members should:

- **not delay implementation** as risk management is of critical importance now;
- **agree on the member and officer structures** for planning and monitoring risk management across the authority;
- **correctly position risk management** – it should be embedded in existing processes and presented as an operational tool to help members and officers to meet the new challenges and demands facing them, rather

EXHIBIT 2

The need for improved risk management

New pressures are acting as drivers for good risk management



Source: Audit Commission

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 risk management as an ongoing process rather than as a one-off event** – 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;
- **ensure that a top-down approach is adopted**, ensuring that members focus on issues of corporate significance, drawing on, rather than being dominated by, the bottom-up risk analysis that focuses on more detailed operational risks; and
- **aim for continual improvement** on a longer-term basis.

Adopting an implementation strategy

8. Members need to approve and adopt a strategy explaining how risk management will be implemented throughout the council, including, for example:

- the key tasks to be undertaken;
- the respective roles of members, senior officers and other officers;
- the identification of nominated risk champions;
- responsibilities and reporting lines;

- the process for identifying critical success factors and significant risks, and linking these with agreed strategic objectives;
- a timetable for implementation; and
- the allocation of resources.



Supporting and monitoring risk management

9. Members should support and monitor both the initial implementation and the ongoing risk management processes. They should:

- embrace risk management in a positive way to:
 - drive service and organisational improvement;
 - promote the achievement of council objectives;
 - ensure that management decisions are taken with relevant risks acknowledged; and
 - minimise the likelihood of things going wrong and their potential impact, and provide a framework to meet the new challenges;
- promote the right management culture on an ongoing basis – most threats that an organisation typically faces are people-based, and they arise through a failure to apply management processes rather than through weaknesses in systems;
- receive formal reports at least annually on the management of risk; and

- approve, with leading officers, a statement to be published annually on the risk management processes in place and their ongoing effectiveness. This statement will be a public assurance statement and should be evidence-based. Where improvements are needed, or risks remain without the appropriate controls, then these should be disclosed to the public, together with a summary of how they will be addressed in the future. In this way, the public and other stakeholders will be able to see clearly where the council has reached on its risk management agenda.

What officers can do

10. The chief executive should be the figurehead for the risk management process, and should appoint the most appropriate person to lead the risk management implementation and improvement process. Other people throughout the organisation should also be tasked with taking clear responsibility for appropriate aspects of risk management in their area of responsibility. In addition, internal audit has a vital role to play in reviewing the 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. These should remain the responsibility of line management.

11. When implementing more formalised risk management systems, officers should take account of the following:

- **Be pragmatic:** recognise that the process is not intended to eliminate risk and that not all identified risks can be addressed immediately. Furthermore, risks will still exist that have not been identified. What is important is a culture of continuous learning, with risk management processes being adapted according to lessons learned.
- **Do not make the processes overly complex:** in particular, there is an important need to avoid risk overload. The risks that are identified should make common sense and should be linked to members' top priorities and concerns. The focus should be on those risks that are significant in the context of the council's objectives and reputation.
- **Ensure that the process to be followed fits in with local circumstances and culture:** officers need to decide on practices that are appropriate to their circumstances.

About this management paper

12. The management paper has been prepared as a practical guide for use by elected members and officers. It includes advice on how to establish new, or improve existing, risk management structures and processes. The paper highlights the pitfalls to be aware of and includes an implementation checklist to help to support the development of effective risk management.

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 If you want to know more, the full management paper, **Worth the Risk: Improving Risk Management in Local Government**, looks at these issues in more detail and includes background information, case studies and specific guidance.

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 Audit Commission, **Worth the Risk: Improving Risk Management in Local Government** (management paper)

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