

Annual report on Risk Management

2019/2020



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Executive Summary

Background

It has always been important for organisations to identify and manage their risks. This view has been reinforced by public sector legislation i.e. Accounts and Audit Regulations 2015 and National Standards i.e. ISO31000:2018 Risk Management Principles and Guidance, which explicitly references to authorities' risk management arrangements.

Risk management is the systematic identification, analysis and economic control of opportunities and risks that challenge the assets, reputation and objectives of an organisation.

It enables the council to effectively manage strategic decision making, service planning and delivery to safeguard the well-being of its stakeholders and increases the likelihood of achieving its outcomes.

Effective risk management is an essential element of good management and a sound internal control system, risk management being a key contributor to good governance and the Annual Governance Statement (AGS).

Risk management principles for the council are contained within the Constitution and are further defined within the council's Risk Management Policy Statement and Strategy 2020-2023. This includes roles, responsibilities and accountabilities for risk management across the council, which include (but are not exclusive to):

- Cabinet
- Audit and Governance Committee
- Corporate Directors
- Heads of Service (including the S151 Officer)
- Service Managers

As part of the defined risk management approach, Audit Risk Assurance (ARA) supports the implementation of effective risk management arrangements across the authority.

Key Outcomes in 2019/2020

The below diagram confirms the key outcomes against the 2019/2020 Risk Management Action Plan. See [Appendix 3](#) for the full Plan detail.

Key Outcomes in 2019/2020



RISK MANAGEMENT TRAINING/BRIEFINGS

Audit Risk Assurance (ARA) has continued to provide risk management training sessions, workshops and presentations. In particular:

- Risk Management forms part of the corporate e-Induction for all new staff and is included within the HR and employee handbook;
- Risk awareness training, in conjunction with the Council's insurer (Zurich Municipal) for Members, SMT and GMT;
- Annual Governance Statement briefings to Members of the Audit and Governance Committee and Senior Management Team incorporating governance/risk assurance mapping processes.



PROJECT SUPPORT 2019/2020

ARA has continued to provide support to the Council's major projects, e.g. Gloucester Rail Station and Kings Square. Specific support is provided to projects that are strategic, high risk and/or complex.



ISO31000 (2018) ASSESSMENT

During 2019/2020, the risk management arrangements of the council were assessed against ISO31000 (2018 revised version).

The assessment established that the Council's risk management arrangements are appropriate to the expectations of the standard.



SERVICE PLANS & RISK REGISTERS

Specific advice, guidance and support provided for all service managers with completion of service plans and service risk registers.



ARA SHARED SERVICE

Since June 2015 Gloucester City Council, Stroud District Council and Gloucestershire County Council (as host authority) entered into a shared service collaboration agreement to provide an Internal Audit, Counter Fraud and Risk Management Service (i.e. Audit Risk Assurance (ARA)).

ARA also continues to provide an Internal Audit and Counter Fraud service to clients under contractual arrangements.

ARA supports partners in embedding the principles of good risk management into their day to day business practices and decision making processes.



ALARM

ARA has continued to contribute to and attend the ALARM Annual Conference and South West ALARM regional sessions. The membership includes district councils.



REVIEW AND REFRESH OF THE RISK MANAGEMENT POLICY STATEMENT & STRATEGY

To ensure that the Policy Statement & Strategy remains fit for purpose, it is reviewed every three years. A revised version for 2020/2023 was agreed by SMT in December 2019, recommended for approval by the Audit & Governance Committee in January 2020 and approved by Cabinet in February 2020. This was communicated to all staff and Members via NetConsent in March 2020.



RISK MATURITY MODEL

A Risk Maturity Model has been introduced in 2019/2020. Within the Annual Governance Statement, service managers and members of the Senior Management Team (SMT) have been requested to provide an assessment on the risk maturity level (based on the model) for their service area.

Frameworks

Details of the risk management framework are included in the Risk Management Policy Statement and Strategy 2020/2023 (available on the Council intranet, GlosNet).

In summary, key responsibilities are as follows:

- **Lead Committee for Risk Management** – The Audit and Governance Committee.
- **Senior Management responsibilities** – During 2019/2020 the Senior Management Team (SMT) continued to take ownership of Strategic Risk Management with each of the strategic risks being owned by a SMT member. Half-yearly strategic risk management reports are provided to the Audit and Governance Committee to enable them to gain assurance that the Council's strategic risks are being effectively managed. The Head of Policy and Resources was the SMT lead overseeing the risk management activities during 2019/2020.
- **Lead Member responsible for Risk Management** – Chair of the Audit and Governance Committee (this will be reviewed and may change after the May 2020 elections).
- **Operational Risk Management** – The strategy requires that all staff have a role to play in managing risk, with risk management principles embedded into all key business processes, including financial / performance / programme / contract and project management arrangements. Championship of risk is undertaken by SMT, working alongside ARA and helping to embed risk management into the council's culture.
- In addition, ARA works closely with other key specialist areas of risk such as Health and Safety, Human Resources etc.

Risk Management and links to Good Governance and the Annual Governance Statement

The Council acknowledges its responsibility for ensuring that there is effective governance within the Council and as such has developed a Code of Corporate Governance that defines the principles and practices that underpin the governance arrangements operating within the Council.

The Code is consistent with the seven core principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) guidance "Delivering Good Governance in Local Government Framework – 2016 Edition". One of the seven core principles of good governance states:

"Managing risks and performance through robust internal control and strong public financial management."

In order to gauge the effectiveness of the risk management arrangements operating within the Council, an assurance framework is in operation, which underpins the statements made within the Annual Governance Statement. The process requires all Corporate Directors and Heads of Service to provide high level examples of compliance against these seven principles including the core principle above, via an assurance statement, to demonstrate that risk management is being effectively applied within their service areas. The Heads of Service Composite Assurance Statements are also reviewed, challenged and countersigned by the relevant Corporate Director and Managing Director.

In addition, the Three Lines of Defence assurance model was introduced during 2016/2017 and was revised in 2019/2020. The model helps Members and senior management to understand where risk assurances are being obtained from, the level of reliance they place on that assurance and identify potential gaps in assurance, enabling the application of relevant risk mitigation measures and/or controls accordingly.

What is the Three Lines of Defence Assurance Model?

Assurance can come from many sources within the council. The Three Lines of Defence is a concept for helping to identify and understand the different sources of assurance. Defining these sources into three categories as below, helps the council understand how each contributes to the overall level of assurance and how best they can be integrated and supported:

The 'Three Lines of Defence' assurance model distinguishes among three groups (or lines) involved in effective risk management:

- The first line Functions that own and manage risks.
- The second line Functions that oversee risks and ensures compliance.
- The third line Functions that provide independent assurance.

Please see [Appendix 1](#) below which summarises the risk assurance framework, which is based on the revised Three Lines of Defence model.

Strategic Risk Register

The Council's Risk Management Policy Statement and Strategy requires compilation and formal review of a strategic risk register to identify and assess risks associated with the achievement of the Council's priorities and objectives within the Council Plan. This includes both strategic risks and emerging strategic risks.

For 2019/2020, the strategic risk register has been formally reviewed by SMT with risk owners at SMT level. Versions of the strategic risk register have been tracked to ensure an audit trail of changes and risk direction of travel.

During 2019/2020, two strategic risk areas were highlighted by the Senior Risk Management Advisor (SRMA) for SMT consideration:

- The impact to the Council's business with climate change; and
- The impact, on the Council, of the UK's exit from the European Union (EU), including future funding.

SMT decision was that both were emerging risk areas, to be continually monitored within year. Based on this position, the risks were not included on the strategic risk register in 2019/2020.

Throughout 2019/2020, at each quarter's reporting of the strategic risk register to SMT, risks which have a current risk score of High (Light Red) and Very High (Dark Red) have been highlighted by the SRMA for consideration, and reduced where appropriate or earmarked for further monitoring and review.

At the first quarter reporting of the strategic risk register to SMT, a strategic risk benchmarking exercise was undertaken against six neighbouring and similar local authorities and presented to SMT by the SRMA.

The main aim of this analysis of the categories or types of risk recorded within the strategic risk registers was to evaluate whether the Council had considered and captured all key types of risks associated with delivering the council's objectives and in line with similar local authorities.

From scrutiny of the information and discussion by the SMT, it was concluded that the strategic risks identified and assessed by Gloucester City Council were in line with expectation of the Council's areas of business and other similar authorities.

A summary of the Council's end-of-year 2019/2020 strategic risk register (dated 25th February 2020) was presented to SMT at their meeting on 25th February 2020, to be reported, as a separate agenda item, to the Audit and Governance Committee on 9th March 2020.

Risk Management links to Internal Audit

Whilst the responsibility for identifying and managing risks belongs to management, one of the key roles of Internal Audit is to provide independent assurance that those risks have been properly managed. In order to achieve this, Internal Audit within Gloucester City Council positions its work in the context of the Council's own risk management framework. This approach is known as Risk Based Internal Auditing (RBIA). Further detail of how these two service areas have further enhanced these links to enable more effective contributions to the corporate governance framework can be found within the paragraphs below.

Opinion on Risk

The Public Sector Internal Audit Standards (PSIAS) 2017 requires Internal Audit to provide an independent opinion on the adequacy and effectiveness of the risk management processes which management have put in place within the area under review, and that a sound framework of controls is in place to sufficiently mitigate those risks.

These opinions feed into the Chief Internal Auditor's annual opinion on the overall adequacy and effectiveness of the council's control environment comprising risk management, control and governance, which supports the Annual Governance Statement. Therefore, on each internal audit report, an opinion is provided as to the adequacy of the controls operating within the area under review (which supports the requirements of the Accounts and Audit Regulations 2015).

However, in order to further embed risk management and identify and implement innovative practice, the risk management team within ARA continues to work alongside the Chief Internal Auditor where it was agreed that each internal audit report would, in addition to providing an opinion on control, also provide an opinion as to the effectiveness of the risk management arrangements operating within the area under review.

Therefore, a statement continues to be provided on the levels of assurance (Substantial, Satisfactory, Limited) within these two areas.

Limited Assurance Risk Opinions

Where limited assurance risk opinions are given on audits deemed to be of strategic importance, these are reported to the Audit and Governance Committee. The monitoring of the implementation of the recommendations is owned by the relevant manager. These opinions also help to inform the work priorities of ARA.

The March 2020 Internal Audit Activity Progress Report to Audit and Governance Committee confirmed there was one audit where a limited assurance opinion was given on risk for 2019/20 to that point in time, this related to:

- Gloucestershire Building Control Partnership, reported to Audit and Governance Committee, 20th January 2020.

Where a limited assurance opinion is given, the Shared Service Senior Risk Management Advisor is provided with the Internal Audit report(s) to enable the prioritisation of risk management support. This has been actioned for the above internal audit report.

Risk Management and links to Insurance

During 2019/2020 the Council's insurers, Zurich Municipal, have provided risk management awareness sessions jointly with the ARA Senior Risk Management Advisor for SMT, Gloucester Management Team (GMT) and all Members, including a specific session for members of the Audit and Governance Committee.

Future developments in 2020/2021

ARA will continue to input into the review of the strategic risk profile and the maintenance of the Council's Risk Management Policy Statement and Strategy, support SMT with ensuring that the Strategic Risk Register continues to reflect the Council's current risk profile and will implement various strategies designed to deliver a continuation of the outcomes detailed in this, and previous reports. In the context of this, a number of future developments are planned for 2020/2021, the key actions are outlined below:

➤ Risk Management Action Plan

For 2020/2021 ARA has produced and implemented a dynamic Risk Management Action Plan [Appendix 2](#), taking the learning from other sources of our risk assurance framework i.e. the Three Lines of Defence model. The plan will ensure resources continue to be targeted at the high risk areas of the Council, drawing on results of the 2019/2020 Risk Maturity Assessment, ISO 31000 Assessment (International Standards in Risk Management), review of the assurance framework and the action plan emerging from the review of the effectiveness of the Audit and Governance Committee.

➤ Risk Management Training

During 2020/2021, the risk management training programme will continue to be assessed to ensure the training programme reflects the requirements of the Council. The review will aim to include risk management training at all levels of the Council.

Risk awareness training will continue to be offered to Members and Officers as required and is included within the Members Induction Programme, following the May 2020 elections.

➤ Online Risk Management Guidance and Support

For 2020/2021, a Risk Management page will be implemented on the Council's intranet, GlosNet. This will include the Risk Management Policy Statement and Strategy 2020-2023, risk management information, contact details for additional help and a comprehensive Toolkit (including a 'Getting Started' guide).

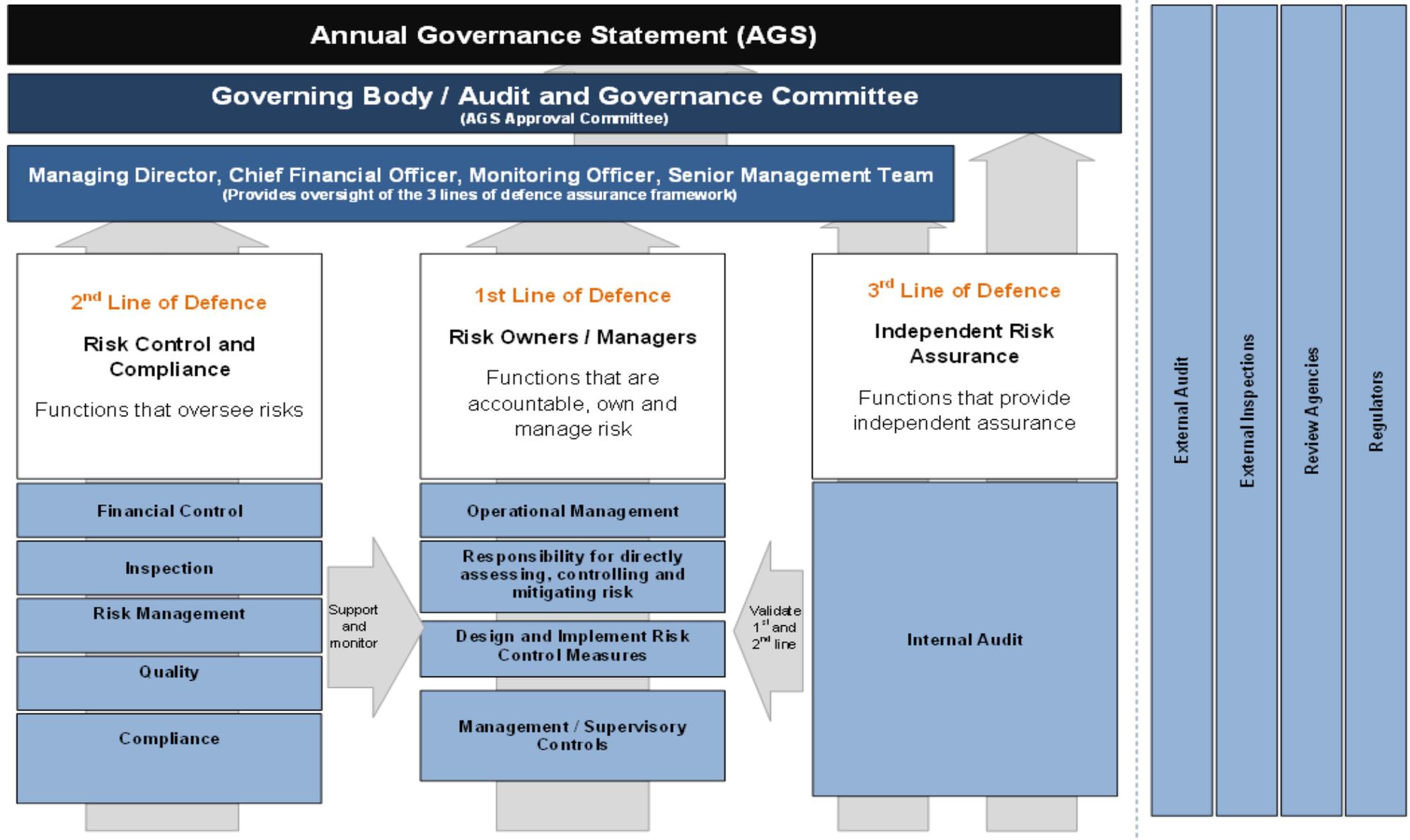
➤ **Communications Plan**

A Members/Officers communications plan will be developed and implemented to reaffirm the Council's aims and objectives and promote the importance of continuing to embed risk management principles and practices into day to day activities and decision making processes.

Conclusion

On the basis of the information set out in this report, it can be concluded that arrangements for managing risk within the Council are reasonable.

Appendix 1 – Three Lines of Defence Model: Governance, Risk & Control Assurance Framework



The Three Lines of Defence (Assurance Model)

The Three Lines of Defence Assurance Model distinguishes among three groups (or lines) involved in effective risk management:

- Functions that own and manage risks.
- Functions that oversee risks.
- Functions that provide independent assurance.

The first line

As the first line of defence / assurance, operational management has ownership, responsibility and accountability for directly identifying, assessing, controlling and mitigating risks.

The second line

The second line of defence / assurance consists of activities covered by several components of internal governance (compliance, risk management, IT, HR, finance and other control functions). This line monitors and facilitates the implementation of effective risk management practices by operational management, including monitoring the adequacy and effectiveness of internal control, accuracy and completeness of reporting, compliance with laws and regulations, and timely remediation of deficiencies.

Management establishes these functions to ensure the first line of defence / assurance is properly designed, in place, and operating as intended. Each of these functions has some degree of independence from the first line, but they are by nature management functions. As management functions, they may intervene directly in modifying and developing the internal control and risk systems. Therefore, the second line of defence / assurance serves a vital purpose but cannot offer truly independent analyses to governing bodies regarding risk management and internal controls.

The third line

Internal audit form the Council's third line of defence / assurance. An independent internal audit function will, through a risk based approach to its work, provide assurance to the Council's Audit and Governance Committee and senior management. This high level of independence is not available in the second line. Internal Audit assurance will cover how effectively the Council assesses and manages its risks and will include assurance on the effectiveness of the first and second lines.

External auditors, regulators, and other external bodies

In addition to the internal governance arrangements, external auditors, regulators, and other external bodies reside outside the Council's structure, but they can have an important role in the Council's overall governance and control structure. This is particularly the case in regulated industries, such as financial services or insurance.

Regulators sometimes set requirements intended to strengthen the controls in a council and on other occasions perform an independent and objective function to assess the whole or some part of the first, second, or third lines of defence / assurance with regard to those requirements.

When coordinated effectively, external auditors, regulators, and other groups outside the Council can be considered as additional lines of assurance, providing assurance to the Council's shareholders, including the governing body and senior management. Given the specific scope and objectives of their missions, however, the risk information gathered is generally less extensive than the scope addressed by a Council's internal three lines of defence/assurance.

Appendix 2 – Risk Management Action Plan 2020/2021

Area	Action	Deadline/Target
Strategic Risk Register	<p>Facilitation and support of Strategic Risk Register review and update by Senior Management Team (SMT). Formal quarterly updates to occur at SMT.</p> <p>Twice-yearly reporting of the Strategic Risk Register to Audit and Governance Committee.</p>	<p>Ongoing within 2020/2021.</p> <p>July 2020 and March 2021 Committee meetings.</p>
Annual Risk Management Report	Draft the 2020/2021 Annual report to Audit and Governance Committee.	March 2021 Committee.
Risk management guidance and support available to staff and Members	<p>Launch of Risk Management page and the Risk Management Toolkit on GlosNet.</p> <p>Maintenance of the Risk Management page on the council's intranet, which includes (but not be exclusive to) the Risk Management Policy Statement and Strategy 2020-2023 and Risk Management Toolkit.</p>	<p>April 2020.</p> <p>Ongoing within 2020/2021.</p>
Risk management support on Council's significant projects	Offer and provision of risk management advice, support and guidance e.g. Together Gloucester, Gloucester Transport Hub, Climate Change Forum, etc.	Ongoing within 2020/2021.
Risk management training and awareness sessions programme for new Members	To deliver training for newly-elected Members (as at May 2020) in line with Members Induction Programme timeline.	July 2020.
Service Risk Registers	Continued provision of guidance and support to service leads to ensure service risk registers are documented for all Council service areas and are updated accordingly. Working also with the Policy and Governance Team.	Ongoing within 2020/2021.

Area	Action	Deadline/Target
Service Plans	Continued provision of guidance and support to service leads to ensure service plans are documented for all Council service areas and are updated accordingly. Working also with the Policy and Governance Team.	Ongoing within 2020/2021.
Risk Management responsibilities – the 2 nd Line of Defence	<p>ARA risk management work will be based on the 3 Lines of Defence risk assurance model, which includes the key objectives (detailed below) on what risk management roles and responsibilities are:</p> <ul style="list-style-type: none"> • Supporting management policies, defining roles and responsibilities, and setting goals for implementation. • Providing risk management frameworks. • Identifying known and emerging issues. • Identifying shifts in the organisation’s implicit risk appetite. • Assisting management in developing processes and controls to manage risks and issues. • Providing guidance and training on risk management processes. • Facilitating and monitoring implementation of effective risk management practices by operational management. • Alerting operational management to emerging issues and changing regulatory and risk scenarios. • Monitoring the adequacy and effectiveness of internal control, accuracy and completeness of reporting, compliance with laws and regulations, and timely remediation of deficiencies. <p>Tasks and targets will be allocated beneath each objective, thus ensuring we are operating in line with this model.</p>	Ongoing within 2020/2021.

Appendix 3 – Risk Management Action Plan 2019/2020

Area	Action	Position as at March 2020
Strategic Risk Register	Facilitation and support of Strategic Risk Register review and update by Senior Management Team (SMT). Formal quarterly updates to occur at SMT. Bi annual reporting of the Strategic Risk Register to Audit and Governance Committee.	Delivered. Presented at July 2019 and March 2020 Committee meetings.
Annual Risk Management Report	Draft the Annual report to Audit and Governance Committee.	Delivered. March 2020 Committee.
Risk Management Self Assessments	Completion of risk management self assessments against the latest regulatory requirements, best practice guidance, principles and standards. Outcomes/actions to be fed into the updated Risk Management Policy Statement and Strategy and Risk Management Toolkit.	Delivered. Outcomes reported within Committee reporting.
Risk Management Policy Statement and Strategy	Review and update of the document, considering regulatory requirements, best practice principles, guidance and standards. Final version to be presented to Audit and Governance Committee for approval.	Delivered. Presented to January 2020 Committee. Presented to February 2020 Cabinet.
Risk management guidance and support available to staff and Members	Creation of a Risk Management page on the Council's intranet, to include (but not be exclusive to) the up to date Risk Management Policy Statement and Strategy and Risk Management Toolkit.	In progress, target date April 2020. Included in the 2020/2021 Plan.
Risk management support on Council's significant projects	Offer and provision of risk management advice, support and guidance e.g. Together Gloucester, Gloucester Transport Hub, Climate Change Forum, etc.	Delivered and continuing into 2020/2021.
Risk management training and awareness sessions programme	Linking with the Council's insurers, Zurich Municipal, to deliver training for: Members; SMT; Gloucester Management Team and Service Managers.	Completed within 2019/2020.

Area	Action	Position as at March 2020
Service Risk Registers	<p>Provision of guidance and support to service leads to ensure service risk registers are documented for all Council service areas and are updated accordingly.</p> <p>Exercise to be undertaken to confirm that all services have documented up to date service risk registers.</p>	<p>Completed within 2019/2020. Also included in 2020/21 Plan.</p> <p>Completed February 2020.</p>
Risk Maturity Model	<p>To ascertain the level of risk maturity within the Council to include a risk maturity self assessment within the Annual Governance Statement assurance statement process. This will enable more focused risk management support to service areas as required.</p>	<p>Included within the 2019/2020 assurance statements.</p>

Area	Action	Position as at March 2020
<p>Risk Management responsibilities – the 2nd Line of Defence</p>	<p>ARA risk management work will be based on the 3 Lines of Defence risk assurance model, which includes the key objectives (detailed below) on what risk management roles and responsibilities are:</p> <ul style="list-style-type: none"> • Supporting management policies, defining roles and responsibilities, and setting goals for implementation. • Providing risk management frameworks. • Identifying known and emerging issues. • Identifying shifts in the organisation’s implicit risk appetite. • Assisting management in developing processes and controls to manage risks and issues. • Providing guidance and training on risk management processes. • Facilitating and monitoring implementation of effective risk management practices by operational management. • Alerting operational management to emerging issues and changing regulatory and risk scenarios. • Monitoring the adequacy and effectiveness of internal control, accuracy and completeness of reporting, compliance with laws and regulations, and timely remediation of deficiencies. <p>Tasks and targets will be allocated beneath each objective, thus ensuring we are operating in line with this model.</p>	<p>Ongoing within 2019/20. Also included in 2020/21 Plan.</p>