Annual report on
Risk Management

2020/21

Gloucester
City Council

Contents

Executive Summary

Background

It is important for organisations to identify and manage their risks. This view is been reinforced by public sector legislation such as the Accounts and Audit Regulations 2015 and National Standards including ISO31000:2018 Risk Management Principles and Guidance, which explicitly references 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 Council.

Key Outcomes in 2020/21

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 Human Resources (HR) and employee handbook;
- Annual Governance Statement briefings to Members of the Audit and Governance Committee and Senior Management Team incorporating governance/risk assurance mapping processes; and
- 121 Risk Management training and/or support on request (e.g. where post turnover/transition has occurred and/or when a refresh has been requested).

Project Support

ARA has continued to provide support to the Council's major projects. Specific support is provided to projects that are strategic, high risk and/or complex.

Service Plans & Risk Registers

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

Risk Maturity Model

A Risk Maturity Model has been introduced within the Annual Governance Statement, service managers and members of the Senior Management Team (SMT) have provided an assessment on the risk maturity level (based on the model) for their service area.

Online Risk Management Guidance and Support

A Risk Management page has been implemented on the Council's intranet, GlosNet. This includes 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).

See **Appendix 3** for the full 2020/21 Plan detail.

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 2020/21 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 2020/21.
- **Lead Member responsible for Risk Management** – Chair of the Audit and Governance Committee.
- **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 and Human Resources.

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

The Council acknowledges its responsibility for ensuring that there is effective governance 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.

How well is risk managed in the Council and what is the Council's Risk Maturity Level?

What is Risk Maturity?

A risk maturity assessment allows the Council to understand how well risk management is embedded into day to day business practices and processes and how effective the arrangements are in helping to inform decisions.

During 2020/21 the Council introduced a risk maturity assessment which enabled each Service Area to reflect on their service during 2019/20 and consider their level of risk maturity starting at the earliest stage and lowest risk maturity level, Developing (Level 1), and progressing to the most advanced, risk maturity level, Dynamic and Empowering (Level 5).

Below is the criteria used to enable the assessment.

Risk Maturity Level	Level 1 Developing (Risk Naïve)	Level 2 Progressing (Risk Aware)	Level 3 Operational (Risk Defined)	Level 4 Embedded & Engaged (Risk Managed)	Level 5 Dynamic & Empowering (Risk Enabled)
	No formal approach to risk management.	Consulting and planning to implement risk management.	Early Stages of implementation.	Established risk management with planned extension/development.	Fully established and effective risk culture at all levels.

The questions for consideration when determining appropriate levels of Risk Maturity were as follows:

➢ Do leadership and senior management support and promote risk management?

➢ Are there clear strategies and policies for risk?

➢ Are people equipped and supported to manage risk well?

➢ Are there effective arrangements for managing risk with those we work collaboratively with?

➢ Does the organisation have effective risk management processes to support the business?

➢ Are risks managed well, and does the organisation have assurance that risk management is delivering successful outcomes and supporting considered risk taking?

➢ Does risk management contribute to achieving outcomes?

The outcomes of the Gloucester City Council Annual Governance Statement 2019/20 assessment per service area and overarching council assessment are provided below, this assessment was not undertaken by ARA. The overall council assessment is Level 4 out of 5: Risk Managed – Established risk management with planned extension / development.
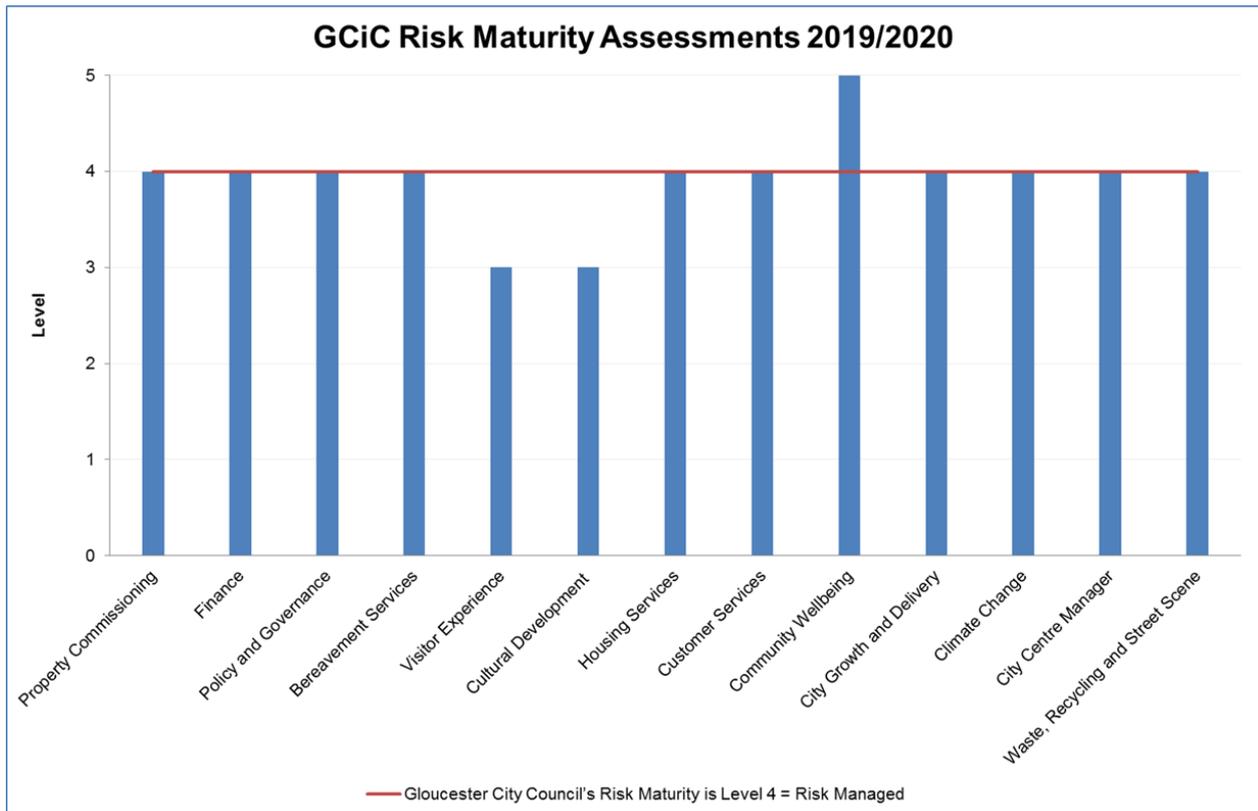
In addition, the Three Lines of Defence assurance model helps Members and senior management to understand where risk assurances are being obtained from, the level of reliance they place on that assurance and identify potential gaps in assurance, enabling the application of relevant risk mitigation measures 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.

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 by ARA.

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.

Analysis of the residual risk ratings recorded on the Strategic Risk Register over the last three years (please see below) demonstrates that more commitment is given to reducing the key risks facing the Council.

7.7%	0.0%	0.0%
30.8%	30.8%	30.8%
53.8%	61.5%	53.8%
7.7%	7.7%	15.4%
2017/18	**2018/19**	**2019/20**

■Low ■Medium ■High ■Very High
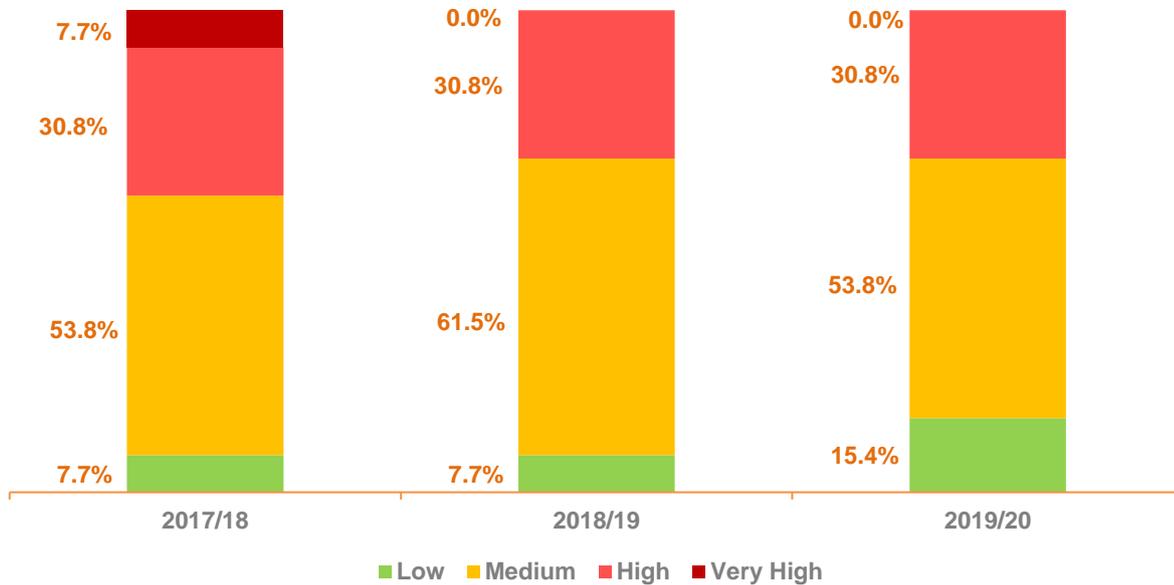
A summary of the Council's end-of-year 2020/21 strategic risk register will be presented to SMT at their meeting in June 2021, to be reported, as a separate agenda item, to the Audit and Governance Committee on 19th July 2021.

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 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 Head of ARA'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 lead within ARA continues to work alongside the Head of ARA 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.

Where a limited risk assurance opinion is given, Risk Management is provided with the Internal Audit report(s) to enable the prioritisation of risk management support.

Risk Assurance

* as at 28th January 2021

| | Substantial | Satisfactory | Limited |
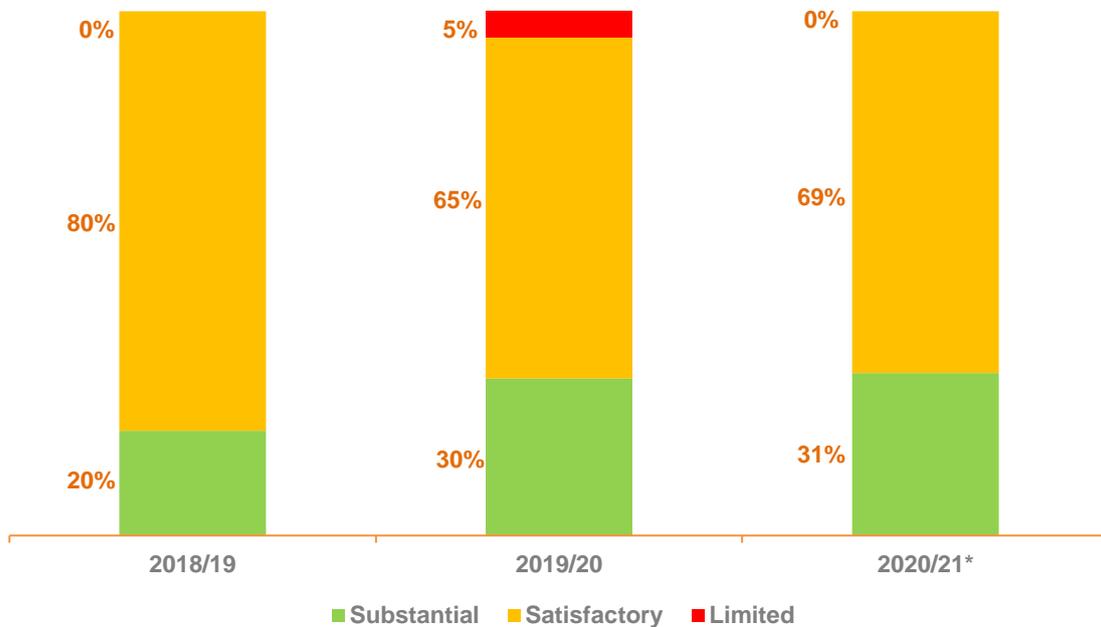
During 2020/21 to the point of Risk Management Annual Report (March 2021 Audit and Governance Committee), 100% of the audited areas rated the effectiveness of risk management arrangements as substantial (31%) or satisfactory (69%) with 0% obtaining a limited assurance opinion. This evidences that risk management continues to be further embedded into the Council's business activities.

Support was offered to the service relating to the limited assurance on risk within 2019/20 through an independent officer within ARA (i.e. not Internal Audit). The Internal Audit follow up on this area has been completed and is due to be reported to Audit & Governance Committee on 8th March 2021.

Future developments in 2021/22

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. ARA will also 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 2021/22 and the key actions are outlined below:

Risk Management Action Plan

For 2021/22 ARA has produced and plans to deliver a dynamic Risk Management Action Plan **Appendix 2**, taking the learning from other sources of the Council's 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 2020/21 Risk Maturity Assessment, review of the assurance framework and the action plan emerging from the review of the effectiveness of the Audit and Governance Committee.

Online Risk Management Guidance and Support

Continued development of the Risk Management pages held on the Council's intranet, GlosNet. This includes 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.
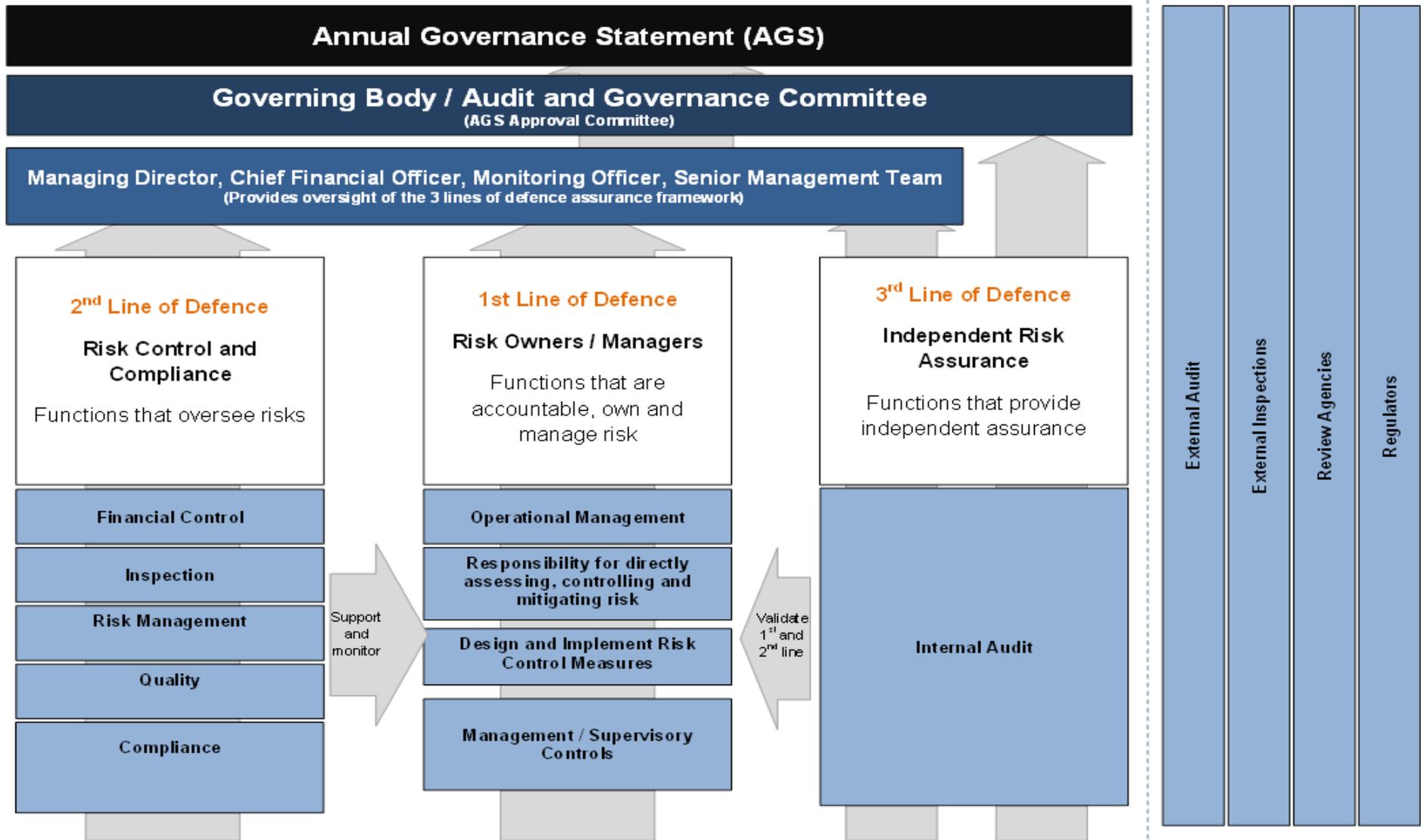
Corporate Review of Risk Management

In 2021-22, ARA will undertake a corporate review of the Council's risk management framework to ensure that this complies to best practice.

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

Annual Governance Statement (AGS)

Governing Body / Audit and Governance Committee
(AGS Approval Committee)

Managing Director, Chief Financial Officer, Monitoring Officer, Senior Management Team
(Provides oversight of the 3 lines of defence assurance framework)

2nd Line of Defence

Risk Control and Compliance

Functions that oversee risks

- Financial Control
- Inspection
- Risk Management
- Quality
- Compliance

Support and monitor

1st Line of Defence

Risk Owners / Managers

Functions that are accountable, own and manage risk

- Operational Management
- Responsibility for directly assessing, controlling and mitigating risk
- Design and Implement Risk Control Measures
- Management / Supervisory Controls

Validate 1st and 2nd line

3rd Line of Defence

Independent Risk Assurance

Functions that provide independent assurance

Internal Audit

External Audit

External Inspections

Review Agencies

Regulators

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 2021/22

Area	Action	Deadline/Target
Strategic Risk Register	Facilitation and support of quarterly Strategic Risk Register review and ensure alignment with strategic objectives with updates by the Senior Management Team. Twice-yearly reporting of the Strategic Risk Register to Audit and Governance Committee.	Ongoing within 2021/22. July 2021 and March 2022 Committee meetings.
Annual Risk Management Report	2021/22 Annual report to Audit and Governance Committee.	March 2022 Committee.
Risk management guidance and support available to staff and Members	Maintenance of the Risk Management pages on GlosNet, which includes the Risk Management Policy Statement and Strategy 2020-2023 and Risk Management Toolkit.	Ongoing within 2021/22.
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. Ensuring effective communication to all staff with service changes provided by ARA.	To be drafted by March 2021 and then delivered on an ongoing basis in 2021/22.
Risk management support on Council's significant projects	Provision of risk management advice, support and guidance i.e. climate change, economic and redevelopment	Ongoing within 2021/22.
Strategic Risk Benchmarking	To review the Council's Strategic Risks with other local authorities and highlighted any key and emerging risks for SMT to consider.	July 2021 and ongoing.

Area	Action	Deadline/Target
Review of Council's key policies	Review key documentation with regard to Risk Management to ensure the Council continues to meet requirements for example, Council Constitution and Financial Regulations. Also review the Three lines of defence model following changes introduced by the Institute of Internal Auditors in June 2020.	March 2022.
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 2021/22.
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 2021/22.
Risk Maturity Model Assessment	Using the risk maturity self assessment within the Annual Governance Statement assurance process to focus risk management support where needed.	Ongoing within 2021/22.

Area	Action	Deadline/Target
Risk Management responsibilities – the 2nd Line of Defence	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: • 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.	Ongoing within 2021/22.
External review of the Council's risk management framework	The external review will enable an independent party to consider and review the current risk management framework in place at Gloucester City Council against regulatory guidance. This will include benchmarking against good/best practice guidance and examples. The outcomes would be reported to both Senior Management Team and Audit and Governance Committee, to enable consideration and agreement of future required actions. These would then be taken forward into the Risk Management Action Plan 2022/23.	March 2022.

Appendix 3 – Completed Risk Management Action Plan 2020/21

Area	Action	Position as at March 2021
Strategic Risk Register	Facilitation and support of Strategic Risk Register review and update by the Senior Management Team. Formal quarterly updates to occur at SMT. Bi annual reporting of the Strategic Risk Register to Audit and Governance Committee.	Delivered.
Annual Risk Management Report	Annual report to Audit and Governance Committee.	Delivered.
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.
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.	Delivered.
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.
Service Risk Registers	Provision of guidance and support to service leads to ensure service risk registers are documented for all Council service areas and are updated accordingly. Exercise to be undertaken to confirm that all services have documented up to date service risk registers.	Delivered.

Area	Action	Position as at March 2021
Risk Maturity Model	Introduction of the risk maturity self assessment within the Council's Annual Governance Statement assurance process. Enabling more focused risk management support to service areas as required.	Delivered.
Risk Management responsibilities – the 2nd Line of Defence	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: • 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.	Delivered.