



**RISK MANAGEMENT ANNUAL
REPORT - 2021/22**

CONTENTS

SECTION	PAGE
1 Background	2
2 Frameworks	2
- Risk Management and links to Good Governance and the Annual Governance Statement (AGS)	3
- How well is risk managed in the Council and what is the Council's Risk Maturity Level?	3
- What is the Three Lines of Defence Model?	5
- Strategic Risk Register	5
3 Risk Management links to Internal Audit	6
- Risk Based Internal Audit Planning	6
- Opinion on Risk	7
- Limited Assurance Risk Opinions	7
4 Independent Review of Risk Management	8
5 Future Developments in 2022/23	9
6 Conclusion	9
Attachment A – Three Lines of Defence Model: Governance, Risk and Control Assurance Framework	10
Attachment B – Risk Management Action Plan 2022/23	13

1. Background

- 1.1 It is important for councils to identify and manage their risks. This view is reinforced by public sector legislation, such as the Accounts and Audit Regulations 2015. National Standards, including ISO31000:2018 Risk Management Principles and Guidance, also explicitly reference council risk management arrangements.
- 1.2 Risk management is the systematic identification, analysis and economic control of opportunities and risks that challenge the assets, reputation and objectives of an organisation.
- 1.3 It enables Gloucester City Council (the Council) to effectively manage strategic decision making, service planning and delivery to safeguard the well-being of its stakeholders. The likelihood of achieving outcomes is also increased.
- 1.4 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).
- 1.5 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):
 - i. Cabinet;
 - ii. Audit and Governance Committee;
 - iii. Corporate Directors;
 - iv. Heads of Service; and
 - v. Service Managers.
- 1.6 As part of the defined risk management approach, Audit Risk Assurance (ARA) supports the implementation and facilitation of effective risk management arrangements across the Council.

2. Frameworks

- 2.1 Details of the risk management framework are included in the Risk Management Policy Statement and Strategy 2020-2023, available on the Council intranet (GlosNet).
- 2.2 In summary, key responsibilities are as follows:
 - i. Lead Committee for risk management – the Audit and Governance Committee.
 - ii. Lead Member responsible for risk management – Chair of the Audit and Governance Committee.

- iii. Senior Management responsibilities – during 2021/22 the Senior Management Team (SMT) continued to take ownership of strategic risk management with each of the strategic risks being owned by a member of SMT. 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 Director of Policy and Resources was the SMT lead overseeing the risk management activities during 2021/22.
- iv. 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. This includes financial, performance, programme, contract and project management arrangements. Championship of risk management is undertaken by SMT, working alongside ARA and helping to embed risk management into the Council’s culture.
- v. 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 (AGS)

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

2.4 The Code is consistent with the 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 – 2016”. One of the seven core principles of good governance states:

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

2.5 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 AGS. The process requires all Corporate Directors and Heads of Service to provide high level examples of compliance against the seven core principles via an Assurance Statement. This includes the risk principle above, to demonstrate that risk management is being effectively applied within each service area. 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?

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

2.7 For 2021/22, the Council has completed a risk maturity assessment which enabled each Service Area to reflect on their service and consider their respective level of risk maturity.

2.8 The risk maturity assessment ranges from the earliest stage and lowest risk maturity level, Developing (Level 1), and progresses 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) No formal approach to risk management.	Level 2 Progressing (Risk Aware) Consulting and planning to implement risk management.	Level 3 Operational (Risk Defined) Early Stages of implementation.	Level 4 Embedded & Engaged (Risk Managed) Established risk management with planned extension/development.	Level 5 Dynamic & Empowering (Risk Enabled) Fully established and effective risk culture at all levels.
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2.9 The questions for consideration when determining appropriate levels of Risk Maturity were as follows:

- i. Do leadership and senior management support and promote risk management?
- ii. Are there clear strategies and policies for risk?
- iii. Are people equipped and supported to manage risk well?
- iv. Are there effective arrangements for managing risk with those we work collaboratively with?
- v. Does the organisation have effective risk management processes to support the business?
- vi. Are risks managed well, and does the organisation have assurance that risk management is delivering successful outcomes and supporting considered risk taking?
- vii. Does risk management contribute to achieving outcomes?

2.10 The Gloucester City Council AGS 2021/22 assessment outcome confirmed the Council is Level 3 out of 5: Risk Defined.

2.11 In addition, the Three Lines of Defence assurance model helps Members and senior management to:

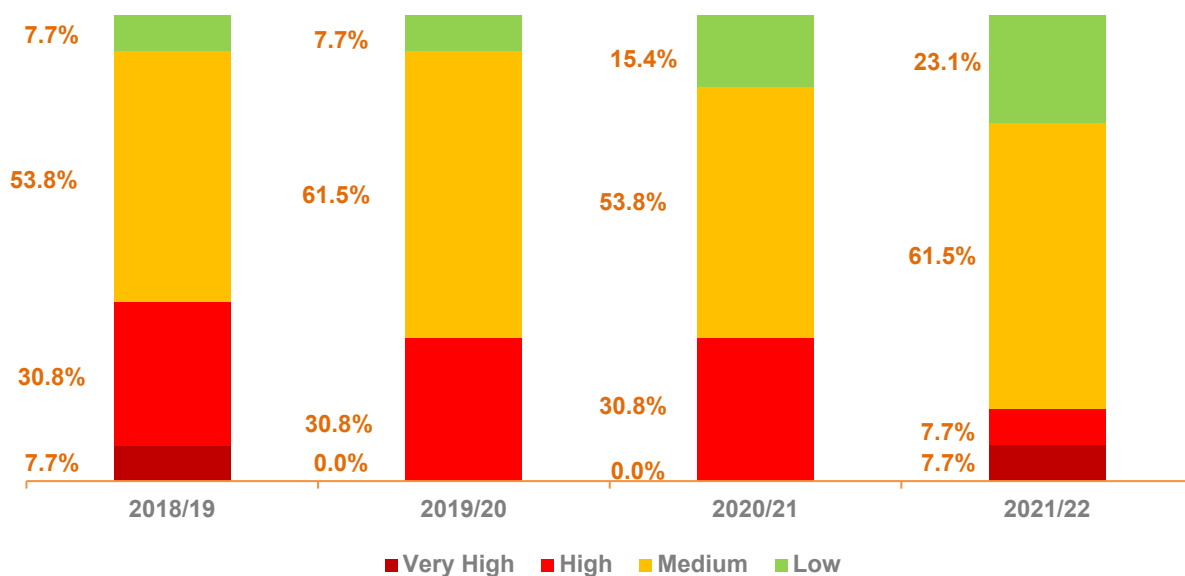
- i. Understand where risk assurances are being obtained from;
- ii. The level of reliance they place on that assurance; and
- iii. Identify potential gaps in assurance, enabling the application of relevant risk mitigation measures and/or controls accordingly.

What is the Three Lines of Defence Model?

- 2.12 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.
- 2.13 The 'Three Lines of Defence' assurance model distinguishes three groups (or lines) involved in effective risk management:
- i. The first line Functions that own and manage risks;
 - ii. The second line Functions that oversee risks and ensures compliance; and
 - iii. The third line Functions that provide independent assurance.
- 2.14 Please see **Attachment A** below which summarises the Council's risk assurance framework. A framework that is based on the revised Three Lines of Defence model.

Strategic Risk Register

- 2.15 The Council's Risk Management Policy Statement and Strategy 2020-2023 requires compilation and formal review of a strategic risk register. The purpose is 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.
- 2.16 At the first quarter reporting of the strategic risk register to SMT, a strategic risk benchmarking exercise was undertaken against six neighbouring and similar councils. This focussed on risk categories and types.
- 2.17 The main aim of this analysis was to evaluate whether the Council had considered and captured all key relevant risks associated with delivering the Council's objectives. Benchmarking the areas with similar councils.
- 2.18 The information was scrutinised and discussed by 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.
- 2.19 Analysis of the strategic risk register residual risk ratings recorded over the last four years (see below) demonstrates the commitment of the Council to manage and reduce key risks.



2.20 A summary of the Council’s end-of-year 2021/22 strategic risk register is provided at **Appendix B**.

3. Risk Management links to Internal Audit

3.1 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.

Risk Based Internal Audit Planning

3.2 All Councils must make proper provision for Internal Audit in line with the Accounts and Audit Regulations 2015. The Regulations provide that a relevant Council ‘must undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’. Completion of annual Internal Audit activity based on the risk profile of the Council also supports the Section 151 Officer’s duty to ensure the proper administration of the Council’s financial affairs.

3.3 The guidance accompanying the Regulations recognises the Public Sector Internal Audit Standards 2017 (PSIAS 2017) as representing ‘proper Internal Audit practices’. The Standards define the way in which the Internal Audit service should be established and undertake its operations. These Standards require the Head of ARA to produce an Annual Risk Based Internal Audit Plan to determine the priorities of Internal Audit activity.

3.4 ARA develop the Internal Audit Plan in consultation with senior management and Audit and Governance Committee. The Plan is drafted to ensure the proposed activity is consistent with the Council’s priorities and objectives. This takes into account the risk management framework, risk appetite levels set by management and Internal Audit’s own judgement of risks.

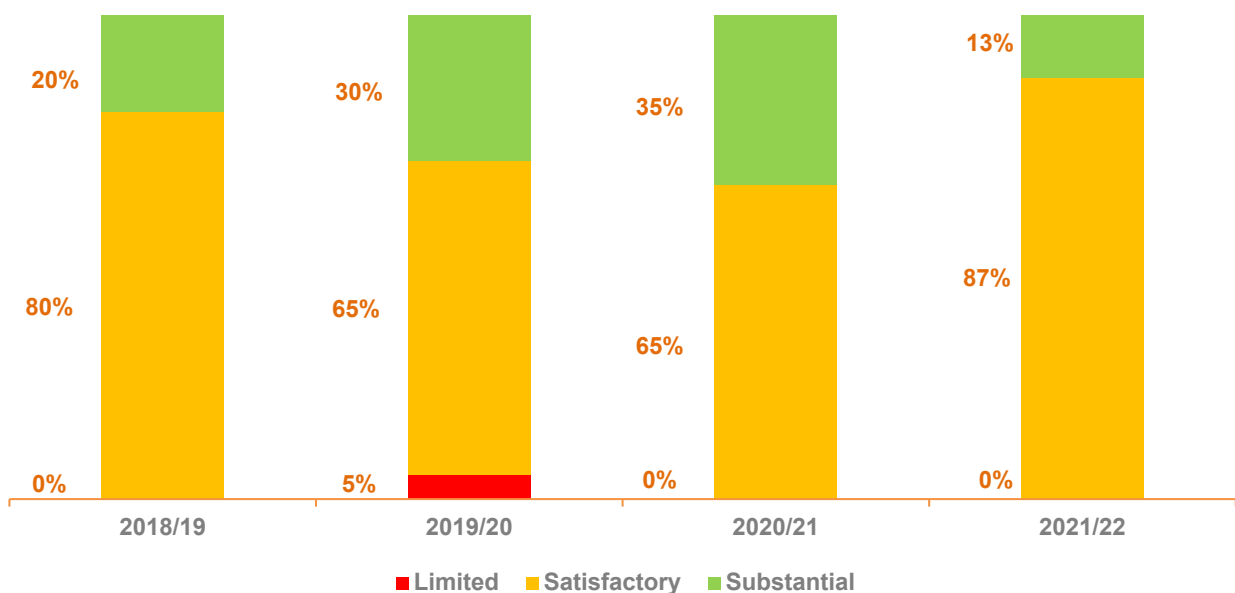
- 3.5 For the 2022/23 Internal Audit Plan, ARA enhanced the methodology to analyse and document risks. The new process is analytically driven and improves the ability to measure and compare risks more accurately. This enables Internal Audit work to be better aligned to the risks of the Council.
- 3.6 The 2022/23 Internal Audit Plan was agreed by Audit and Governance Committee on 7th March 2022.

Opinion on Risk

- 3.7 The PSIAS 2017 require 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.
- 3.8 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. This in turn supports the AGS.
- 3.9 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). In order to further embed risk management and identify and implement innovative practice, each Internal Audit report also provides an opinion on the effectiveness of the risk management arrangements operating within the area under review.
- 3.10 For 2021/22, a statement continued to be provided on the levels of assurance (Substantial, Satisfactory, Limited) within these two areas. The assurance opinion approach will then change from 2022/23 onwards, as part of ARA's ongoing development of Internal Audit processes and reporting.

Limited Assurance Risk Opinions

- 3.11 Limited assurance risk opinions are reported to the Audit and Governance Committee. Implementation of the recommendations is owned by the relevant manager. The risk opinions also help to inform the work priorities of ARA, as limited assurance outcomes will be considered for Internal Audit follow up to ensure that recommendations have been actioned.
- 3.12 Where a limited risk assurance opinion is given, the ARA risk management specialist is provided with the Internal Audit report(s) to enable the prioritisation of risk management support.
- 3.13 The below table reflects the assurance risk opinions on Internal Audit activity between 2018/19 and 2021/22.



3.14 During 2021/22 to the point of Risk Management Annual Report (July 2022 Audit and Governance Committee), 0% of the audited areas rated the effectiveness of risk management arrangements as a limited assurance opinion. This evidences that risk management continues to be further embedded into the Council’s business activities.

4. Independent Review of Risk Management 2021/22

- 4.1 With the agreement of both SMT and the Committee, ARA commissioned an independent review of the Council’s risk management process within 2021/22.
- 4.2 The goal was to assess the Council’s position against regulation and good practice, to identify improvement opportunities and enable the Council to further embed risk management within key business processes.
- 4.3 The main work was completed in quarters 3 and 4 of 2021/22. This included assessment of Council documentation; circulation of a risk management questionnaire to senior managers and Members and evaluation of the results; and sample testing of the risk management system and processes in place.
- 4.4 The independent review concluded that in the assessors view, Gloucester City Council are at a level 3 on the risk maturity scale. Improvement opportunities were also identified in the following areas:
 - i. Review and update of the Risk Management Policy Statement and Strategy, with a focus on evidencing that key principles are being undertaken and applied in practice by all stakeholders;
 - ii. Application of the Risk Management Toolkit guidance, including evidencing that the defined processes are being actioned;
 - iii. Assessment and update of the risk and risk management information received by Committee, including development of a risk assurance map to enable Members to have a visual presentation of the assurance framework for the whole Council;

- iv. Review and refresh of the Council's risk registers to ensure they accurately capture the Council's risks – this includes ensuring a golden thread to SMART (Specific, Measurable, Achievable, Realistic, and Timely) objectives and assessment of risk appetite (both corporately and per risk);
- v. Conduct a risk management survey of officers, to improve the understanding of risk management support needs and identify any needed future risk management actions;
- vi. Update to the ongoing risk management training offer to both officers and Members; and
- vii. Establish a wider network of Risk Management Champions.

4.5 The above opportunities have been captured within the **Attachment B** Risk Management Action Plan 2022/23.

4.6 ARA and TIAA (the review lead) would like to thank both SMT and Committee for their support and engagement in delivering the independent review of risk management.

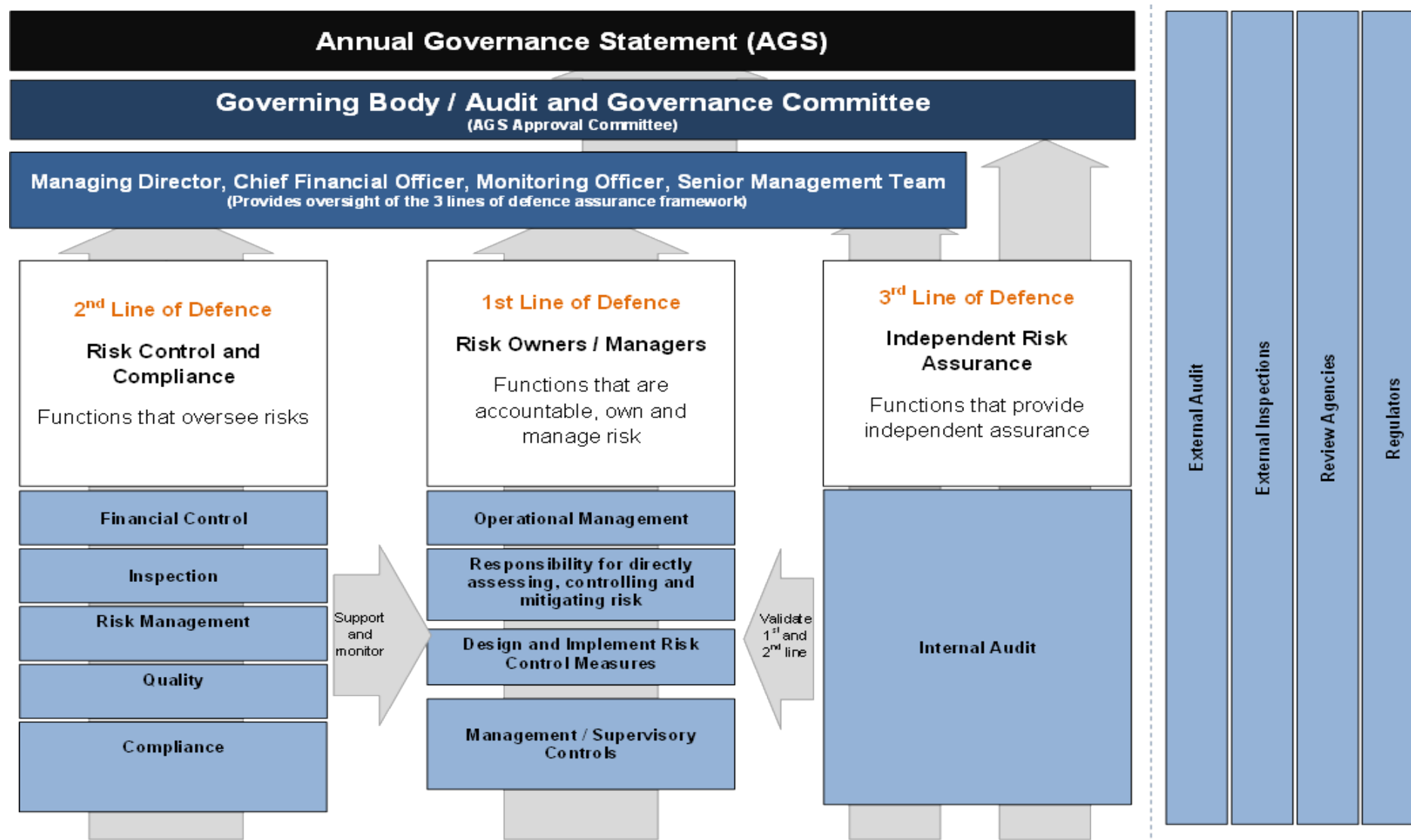
5. Future Developments in 2022/23

5.1 For 2022/23, ARA has produced and plans to deliver a dynamic Risk Management Action Plan (**Attachment B**). This includes improvement opportunities identified by the 2021/22 independent review of the Council's risk management processes. The goal of the Action Plan is to further embed and promote risk management good practice within the Council.

6. Conclusion

6.1 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.

Attachment A – Three Lines of Defence Model: Governance, Risk and Control Assurance Framework



7. The Three Lines of Defence (Assurance Model)

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

- i. Functions that own and manage risks;
- ii. Functions that oversee risks; and
- iii. Functions that provide independent assurance.

The first line

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

The second line

7.3 The second line of defence 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.

7.4 Management establishes these functions to ensure the first line of defence 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 serves a vital purpose but cannot offer truly independent analyses to governing bodies regarding risk management and internal controls.

The third line

7.5 Internal Audit form the Council's third line of defence. 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

- 7.6 In addition to the internal governance arrangements, External Auditors, Regulators, and other External Bodies reside outside the Council's structure, but 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.
- 7.7 Regulators sometimes set requirements intended to strengthen the controls in a council. On other occasions, they perform an independent and objective function to assess the whole or some part of the first, second, or third lines of defence with regard to those requirements.
- 7.8 When co-ordinated effectively, External Auditors, Regulators, and other groups outside the Council can be considered as additional lines of assurance provided to the Council's stakeholders. 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.

Attachment B – Risk Management Action Plan 2022/23

Area	Action	Deadline/Target
<p>Risk Management Policy Statement and Strategy (currently 2020-2023)</p> <p><i>Independent review observation 1</i></p>	<p>Review the Risk Management Policy and Strategy to confirm it is up to date, fit for purpose and to evidence that the statements made within it are being applied and undertaken in practice by:</p> <ul style="list-style-type: none"> i. Council; ii. All Committees; iii. Audit and Governance Committee; iv. Senior Management Team; v. Respective management posts for their particular service areas; and vi. All staff 	<p>Document review to be completed by February 2023. Outcome to be reported to March 2023 Audit and Governance Committee for approval.</p> <p>To also consider impact on wider Council strategic documents.</p>
<p>Risk Management Toolkit</p> <p><i>Independent review observation 2</i></p>	<p>Enact and apply the guidance as described within the Risk Management Toolkit; and to evidence that the processes described are being undertaken. This should include adopting the bow tie methodology for developing the risk register.</p>	<p>By March 2023. Wider Action Plan themes will feed into delivery of this item (such as training and the communications plan).</p>
<p>Member Actions</p> <p><i>Independent review observation 3</i></p>	<p>The Council should review the following for the Committee:</p> <ul style="list-style-type: none"> i. Regular training for Members of the Committee on risk management. To include the importance of risk management, the role it plays in the Council achieving its objectives, and the Committee’s AGS approval role; ii. The reports that should be reported to each and every Committee on risks and risk management; iii. The Members to understand the Council’s objectives (must be SMART) and thereby be able to comment upon and challenge the risks that might affect the outcome of those objectives; and iv. The development of a risk assurance map to enable Members of the Committee to have a visual presentation of the Council’s assurance framework. 	<p>By March 2023.</p>

Area	Action	Deadline/Target
<p>Officer risk management survey</p> <p><i>Independent review observation 4</i></p>	<p>Conduct a survey of managers and then all staff to understand the awareness and understanding of risk management. Including the part they play in assessing risk and in achieving objectives in the most efficient and effective way.</p>	<p>By December 2022.</p>
<p>Officer training</p> <p><i>Independent review observation 5</i></p>	<p>Establish ongoing risk management training for managers and staff.</p>	<p>By March 2023. Approach to consider survey feedback. Base training offer to be tailored to identified needs.</p>
<p>Risk Champions</p> <p><i>Independent review observation 6</i></p>	<p>Establish Risk Champions who understand the benefits of risk management, the systems involved that manage risks (risk register) and have time allocated to support others in their departments and directorates.</p>	<p>By March 2023. Survey approach and feedback link. Approach to be re-affirmed through the updated Policy and Strategy.</p>
<p>Communications Plan</p>	<p>A communications plan will be developed and implemented to promote the importance of continuing to embed risk management principles and practices into day to day activities and decision making processes.</p> <p>Plan to align to wider Action Plan themes and timelines. To also ensure that key points of risk management support are known and accessible.</p>	<p>To be drafted by July 2022 and then delivered throughout 2022/23.</p>
<p>Intranet Update</p>	<p>Maintenance and update of the information available on the intranet, which includes the Risk Management Policy Statement and Strategy and Risk Management Toolkit.</p>	<p>Throughout 2022/23.</p>

Area	Action	Deadline/Target
Strategic Risk Register	<p>Facilitation and support of quarterly Strategic Risk Register review. To ensure alignment with strategic objectives with updates by the Senior Management Team.</p> <p>Key themes to be considered: Clarification of and golden thread to SMART objectives; Review of risk descriptions; Assessing risk appetite; Review of risk controls to distinguish between preventative and recovery controls; and use of the bow tie report tool.</p> <p>Twice-yearly reporting of the Strategic Risk Register to Audit and Governance Committee.</p>	<p>Throughout 2022/23.</p> <p>By July 2023.</p>
Strategic Risk Benchmarking	<p>To review the Council’s Strategic Risks with other peer councils, to highlight any key and emerging risks for SMT to consider.</p>	<p>By December 2022.</p>
Annual Risk Management Report	<p>2022/23 Annual Report to Audit and Governance Committee.</p>	<p>July 2023 Committee.</p>
Service Plans and Risk Registers	<p>Continued provision of guidance and support to service leads to ensure both items are documented for all Council service areas and are updated accordingly. Joint working with the Policy and Governance Team.</p> <p>Key themes to be considered: Clarification of and golden thread to SMART objectives; Review of risk descriptions; Assessing risk appetite; Review of risk controls to distinguish between preventative and recovery controls; and use of the bow tie report tool.</p>	<p>Ongoing within 2022/23.</p>
Risk management support on Council’s significant projects	<p>Provision of risk management advice, support and guidance. Support route to be highlighted through the communications plan and promoted through wider Action Plan items. Support to be provided on request (either from the service directly or through identification via the Internal Audit Plan route).</p>	<p>Ongoing within 2022/23.</p>