

PREPARATION OF RISK REGISTERS

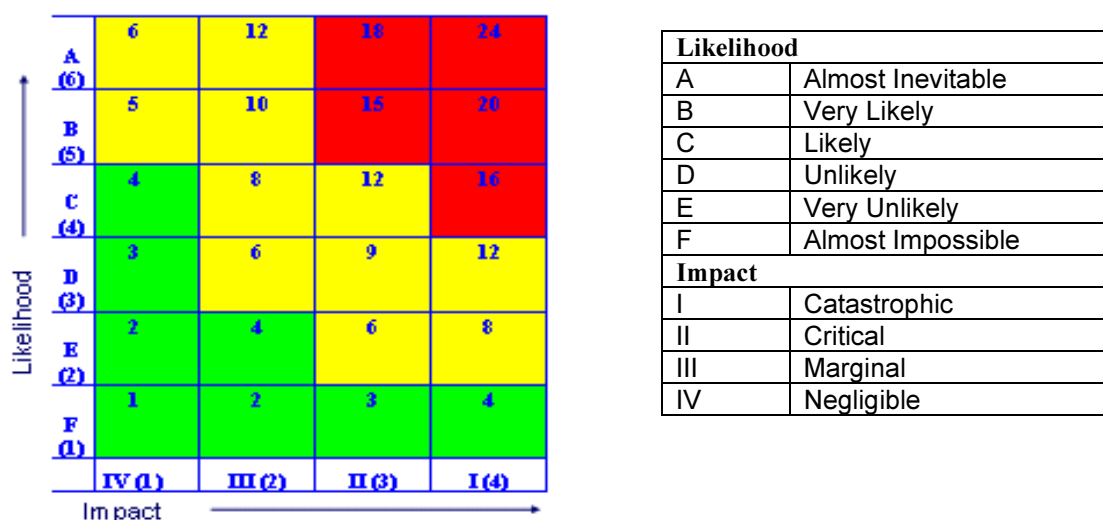
1. Introduction

During 2007/08 a review of our Risk Management process was carried out by Zurich Municipal. The outcome of the review was favourable but made a number of suggestions that could enhance our approach to Risk Management and further embed the process within the organisation. One of the key elements of the proposed changes is a revision of the Risk Registers.

The proposed changes have been approved by Management Team and will be introduced for Risk Registers produced for 2008/09. This document is to be used as the basis for risk register preparation but additional guidance can be obtained from the Insurance and Risk Manager – Brian Courtney or the Chief Internal Auditor – David Buckley.

2. Use of a 6 x 4 Matrix

In future the scoring of risks will be carried out using a 6 (Likelihood) x 4 (Impact) matrix. The advantage of this is that the risk registers can be zoned into coloured areas in the grid. This can then be used to measure movement of risks within the matrix and enable regular reporting of direction of travel to take place.



3. What should be contained in the Risk Register?

The objective of the risk register is to ensure that for all significant risks, consideration has been given to reduce the risk, transfer the risk or to accept the risk. Therefore it is the responsibility of each manager to determine the key risks within their service. The risks should be aligned to the cost centre service plan objectives and must include any risks relating to the service that are identified in the Council Business Continuity Plan.

One of the criticisms of the risk registers was that they were confusing. In order to simplify the process we have redesigned the risk register to be used

for 2008/09 onwards. The first column of the register will be the objective that is being considered. The next column will record the risks preventing that objective from being achieved. There may be several risks pertaining to any individual objective. The next column will show the potential outcomes of the objective failing to be achieved. Any objectives that are included in the business continuity plan will be marked accordingly.

Although there may be several risks relating to an objective there is to be only one score for each objective contained in the plan. This has to be assessed using all of the information available as identified in the existing controls column. Where there is a planned improvement it must be recorded on a separate action plan and cross referenced on the risk register. In order to demonstrate the design of the new risk register a sample is attached.

The process for determining what should appear on the risk register is very mechanical. Identify the objectives from the service cost centre plan and evaluate them against the description contained within the matrix. Review the internal controls in place to assess the risk for scoring on the grid and consider whether there are any additional controls that can be introduced in order to mitigate the risk further. Additional controls planned must be achievable and cost effective.

Once this process has been completed for all objectives then the outcome must be recorded on the risk register. The risk registers have been altered to avoid confusion between risks and potential consequences. For each objective identified there can be several potential risks preventing it from being achieved with a variety of potential outcomes.

Each objective will be given one Likelihood and Impact score based on all of the risks that are likely to prevent the objective being achieved. The matrix is to be used for ascertaining the overall risk score.

A risk score must be recorded for each objective and should be colour coded according to it's position on the matrix. The risk register is then to be sorted into order of risk scoring so that the highest scoring objectives appear first on the risk register.

Once this initial preparation phase has taken place Managers are instructed to pass the draft risk register to their staff for independent evaluation. The objective of this process is to ensure that staff are involved in risk management, that any risks not identified by the manager is considered and to avoid inconsistent scoring. The level of involvement that managers wish to include in this process is the responsibility of each manager. As a rough guideline it should be sufficiently devolved to enable all staff that can make a positive contribution to the process.

Following the peer review the final version of the risk register should be submitted to the Insurance & Risk Manager so that he can carry out an overview of the register and store it centrally.

4. Risk Register usage

As part of the overall corporate governance process the completion of risk registers will be reported to the Audit Committee on an annual basis. However, it is intended that the risk review process is a dynamic process with risk registers being updated to include any new objectives or areas of new activity. They should also be updated to reflect any significant changes as they occur, for example a loss of key staff or an ineffective internal control. It is therefore intended to also report quarterly to Audit Committee on direction of travel of risk.

At the Management Team level there will be a responsibility on managers to report any risk score that moves into the red zone as soon as it is scored. There will also be a report to Management Team on the completion of risk registers.

Internal Audit will look at the risk registers on an annual basis and will include any red zone scores within the annual audit plan. In individual audit briefs there will be a check undertaken to ensure that risk registers have been prepared and that they are regularly reviewed.

The risk management process forms part of the annual inspection that goes towards our overall corporate assessment so it is vital that where reliance is placed on internal controls by a manager then he should be able to evidence that the control is in place and working. For example, if an internal control requires that up to date procedure notes are maintained, then a copy of the notes should be available for external inspection.

5. Improvement Action

Where there is perceived to be the need for improvement arising from the reviews then this needs to be included in an action plan. This will be attached and cross referenced to the risk register showing the action, responsible officer and timescale for implementation.