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## **RISK MANAGEMENT UPDATE**

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### **1. Purpose of paper**

The purpose of this paper is to provide the Audit and Risk Management Subcommittee with an update on the progress of the Council's Risk Management Framework project and outline the next steps.

### **2. Recommendation**

It is recommended that the Subcommittee:

1. *Receive the information;*
2. *Note the progress that has been made to date;*
3. *Note that Risk Assurance's work programme for 2006/07 has taken into account the risks identified and held in Methodware;*
4. *Note that Management Board has agreed to the introduction of quarterly assessment and reporting of risks;*
5. *Note that further work is being carried out to:*
  - a. *develop a new Risk Management Standard and that this will be subsequently presented to the Audit and Risk Management Subcommittee for approval;*
  - b. *ensure that the risk management standard is integrated with other key Council standards;*
  - c. *establish a list of significant internal controls, which will ultimately be mapped against the raw risks to determine residual risks;*
  - d. *determine acceptable levels of risk;*
  - e. *promulgate good risk management practice throughout the organisation.*

### **3. Rebuilding Council's risk management framework**

Approximately a year ago, Risk Assurance recognised the need to rebuild Council's Risk Management Framework. The existing framework was focused on the completion of risk registers as the primary approach to managing Council risks. Managers completed their risk registers twice yearly but there was no overall consolidated assessment or reporting

occurring. There were over 225 risks identified by managers, although this did not include all City-wide or Council-wide risks as managers were predominantly focused on the risks in their business unit.

### **3.1 Establishing the Council's initial risk profile**

Risk Assurance has revised the Council's risk framework using newly purchased and special purpose risk management software from Methodware. As part of this rebuilding process, Risk Assurance undertook a significant rationalisation exercise (removing duplicate risks, amalgamating similar risks, and adding additional City wide, organisational and business unit risks), reducing the number of risks from 225 to approximately 70 risks. This was done initially using the risk registers that business units prepared as part of the 2005/06 business planning, then subsequently updated using the current risk registers contained in the 2006/07 business plans.

Where applicable, risks have also been linked to the Council's strategies and outcomes to enable future identification of strategies and outcomes exposed to the greatest risks. Taking a city-wide approach led to the inclusion of risks that are potentially the direct responsibility of the Council's CCOs.

Each risk was scored using a Qualitative Risk Assessment Matrix (refer Appendix One). This involved plotting the likelihood and consequence on the 5 x 5 scales contained in Appendix One. The outcome of this scoring process was a schedule of inherent risks ranging from insignificant to catastrophic, with grades of minor, moderate and major inbetween.

During March and April of this year, Risk Assurance met with business unit managers and Directors to review their business unit risks in light of the initial consolidated risk assessment we now have. We asked whether:

- all risks were identified and included
- consequence and likelihood ratings are accurate
- hierarchy linkages are accurate and complete
- outcome linkages are accurate and complete
- all other affected business units have been identified and linked.

While the risk data was being verified, the framework was also being populated with key internal controls and linking these to individual risks. This matching process enables differentiation between the raw or inherent level of risk (ie with no internal controls in place to prevent the risk from occurring or to minimise the consequence if the risk occurs) and the residual risk (measured after taking account of controls). Controls can also be presented by level of significance, or in other words, controls that are most critical to reduce risks.

It is important to note that over the next month Risk Assurance will meet with Directors to confirm critical controls in order to complete the linking of risks to controls.

### **3.2 Management Board feedback**

Risk Assurance presented an initial risk profile to Management Board in May. We were expecting requests for changes to the profile given that this was the first consolidated representation of Council risks presented to the Management Board. The consolidated profile and distribution of risks has produced significant interest and healthy debate as to the assessment and ranking of risks. Risk Assurance is pleased with the high level of interest shown by Council Management in relation to this process and we believe that it is an indicator of the high level of focus that exists in the Council of the need to accurately identify, assess and manage risks.

Key points arising from the discussion at Management Board were as follows:

Management Board wanted more information about the rationale for the relative rankings of risk and understand what supporting information was assessed to reduce the raw risk to residual risk. It was agreed that Risk Assurance would meet with individual directors to explain the rationale and to check completeness of controls, and discuss what actions are needed to address any high levels of risk.

It was also noted that significant projects which have a high impact or have been/are being reported to Council and/or Management Board have been reported separately from generic project risk. In addition, Directors asked that future risk profiles be dated as risks can change relatively quickly. Risk Assurance was also asked to report back to the Management Board in June/July on the results of these discussions and this report back would include any consequential impacts on the risk profile.

As agreed at the ARMS meeting in March 2006, notes summarising the Management Board discussion will be included in the presentation of risks to the Subcommittee.

## **4. Next steps**

### **4.1 Review of controls**

A key aspect of the next phase of the project relates to the identification, assessment and allocation of controls responsible for the management of risks. Risk Assurance is in the process of establishing a set of control assessment criteria for Council officers to use when assessing the significance and effectiveness of controls. Once defined Risk Assurance will build this criterion into Methodware and work with managers and Directors to assess individual controls.

Once this process is complete Risk Assurance will use the assessment of risks and controls held in Methodware to independently verify and validate risks and associated controls as part of the audit process. This will ensure data is accurate and complete, and facilitate the appropriate management of risks.

## **4.2 Risk acceptance**

The Council's ability to accept and tolerate risk varies between activities. For example, Council's acceptance of risks associated with services such as water, waste and transport is very low. However, other risk areas may have a higher acceptable level of risk because they are either difficult to manage (earthquake - cannot reduce the likelihood) or the benefits of accepting the risk may outweigh the negative effects of the risk event occurring.

Over the next month Risk Assurance will, in conjunction with Directors and risk owners, quantify the acceptable levels of risk associated with specific risk events. Determining the acceptable levels of risk for each risk event is essential and will allow for the focused management of unacceptable areas of high risk.

## **4.3 Quarterly review and reporting**

Risk Assurance proposes that business unit managers and risk area owners review and reassess risk on a quarterly basis. Quarterly reporting increases the visibility and awareness of key risks, fostering and strengthening the Council's risk culture. It also allows for the identification and reporting on emerging areas of risk in the next quarter.

Risk Assurance will then table a summary quarterly risk report to the Management Board and to the Audit and Risk Management Subcommittee for review.

The Subcommittee has previously indicated a desire for reporting of the top 20 inherent and residual risks with the ranking and risk rating for each risk, both current and previous period. This would enable the Subcommittee to see any new risks coming into the top 20 risks or risks dropping out, and the rationale for this movement. The Subcommittee could also see what mitigation has occurred to change the top 20 profiles.

## **4.4 Linking the risk profile with the audit programme**

In order to establish our work programme for 2006/07, we have reviewed the risks currently populated in Methodware. Our review has ensured that our proposed work programme will cover all risks with a high raw risk score, a high residual risk score, or those with a high reliance on the effective operation of internal controls.

Additional areas of risk expressed through concerns raised by Audit and Risk Management Subcommittee, Council officers and Risk Assurance awareness have also been included in the Work Programme.

## **4.5 Integration with other standards**

It is critical that robust risk management practices are reflected in other Council standards to ensure that where necessary and appropriate, staff consider the potential for things that may occur that adversely impact on the project or activity they are doing.

Risk Assurance has already had initial discussions with the Project Management Office with the view to ensuring new risk management practices are appropriately reflected in

the Council's project management practices. We have also ensured that the (draft) Procurement Standard adequately reflects risk through the strengthening of up-front considerations and dealing with conflicts of interest (amongst other things).

We will work with other key business units and standards owners as required.

#### **4.6 Issuing of risk profile to Audit and Risk Management Subcommittee**

As previously noted, Risk Assurance has met with business unit managers and Directors to review their business unit risks. However, a finalised risk profile is not yet ready for release to the Audit and Risk Management Subcommittee because of the work still needed on controls. We anticipate completing the additional validation and verification requirements of the project over the next month. Risk Assurance will present a full assessment of organisational risk to the Audit and Risk Management Subcommittee in September 2006.

#### **4.7 Approval of the Risk Management Standard**

Also required is the approval of a Risk Management standard by the Subcommittee. Risk Assurance is redrafting the standard, formalising the Council's expectations on risk management, consistent with the Council's "Vision and Values". The Standard contains amongst other things:

- a formal risk management policy;
- details on the roles within risk management including Chief Executive, Audit and Risk Management Subcommittee, Risk Assurance and other Council Officers;
- requirements for the quarterly reporting process.

This new Risk Management Standard will be presented to the Subcommittee in September 2006 for approval.

#### **4.8 Promulgation**

Risk Assurance has already produced a number of the key documents required for the promulgation of the risk management framework. Once signed off by the Audit and Risk Management Subcommittee, Risk Assurance will begin to formally promulgate the revised approach to risk management throughout the Council.

Promulgation will involve the:

- formalisation and adoption of the Risk Management Standard
- updating of the Risk Assurance website to reflect the new framework approach
- presenting of the revised risk management framework to Directors, business unit managers, risk owners and other key council officers
- running of risk management workshops and education seminars

- dissemination of risk management marketing materials (exact details yet to be defined) around the organisation to ensure the profile of risk management remains high.

## **5. Conclusion**

A significant amount of work has been done “behind the scenes” by Risk Assurance. Risk Assurance is getting close to finalising the Council’s risk profile and will use the finalised profile to target areas of additional unacceptable risk not already covered as part the 2006/07 audit programme.

Interest in the new framework from business unit managers and risk owners to date has been high and is raising further questions and focus which is further refining the framework. Risk Assurance has completed many of the fundamental tasks of the project, and is now focusing on integrating the new framework into all Council activities. Regularly reviewing and reporting on risks ensures that the risks that matter are captured, reviewed and assessed to ensure that organisational outcomes and business unit objectives are delivered

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## **Supporting Information**

### **1) Strategic Fit/Strategic Outcome**

*This project supports Key Achievement Area 9 Governance and Citizen Information: As per the Annual Plan, Governance and Citizen Information includes all those activities that make the Council accountable to the people of Wellington and ensure the smooth running of the city. That includes all meetings of the Council and its committees.*

### **2) LTCCP/Annual Plan reference and long term financial impact**

*Relates to C534: Committee and Council process*

### **3) Treaty of Waitangi considerations**

*There are no Treaty of Waitangi implications*

### **4) Decision-Making**

*This is not a significant decision*

### **5) Consultation**

#### **a) General Consultation**

*Not required*

#### **b) Consultation with Maori**

*Not required*

### **6) Legal Implications**

*None*

### **7) Consistency with existing policy**

*This report is consistent with existing Wellington City Council policy*

## Appendix One – Qualitative Risk Assessment Matrix

LIKELIHOOD	Rare	Unlikely	Possible	Likely	Almost Certain
Description	It is rare that the risk event will occur.	It is unlikely that the risk event will arise.	There is a reasonable possibility that the risk event may occur.	It is probable that the risk causes and reasons will occur, and therefore that the risk event will occur.	It is almost certain that the risk event will occur.

CONSEQUENCE	Level of Impact				
	Insignificant	Minor	Moderate	Major	Catastrophic
<b>Achievement of outcomes</b>	It is likely that the event will have no impact on the outcome being achieved.	It is likely that the outcome would still be achievable but with some minor inconvenience.	The affected outcome(s) would still be achievable but only with significant difficulty.	The occurrence of the risk event would result in one or more of our strategic outcomes definitely not being achieved.	The occurrence of the risk event would result in the majority of strategic outcomes definitely not being achieved.
<b>Physical harm</b>	Minor health and safety impact. Rare possibility of minor injury.	Low health and safety impact. Minor injury to single staff member or confined to localised area of the City.	Moderate health and safety impact. Risk of moderate injury or illness, without loss of life, affecting select staff members or a localised area of the City.	Major health and safety impact. Multiple loss of life, serious injury or prevalent illness affecting staff or public across or significant extents of the City or Region.	Widespread loss of life and serious injury or illness affecting the majority of City and Region's residents. State of emergency/quarantine zone enacted.
<b>Provision of services</b>	Infrequent and insignificant disruption to core infrastructure.	Temporary disruption to core infrastructure and services at a localised level.	Inability to provide or maintain core infrastructure and services on a localised level.	Inability to provide or maintain key infrastructure and services on a widespread nature	Inability to provide or maintain key infrastructure and services for significant periods of time.
<b>Political/Reputation</b>	Occurrence of the risk event is not visible internally and externally. No explanation required.	Occurrence of the risk event would not be visible externally. Some explanation/accountability internally would, however, be required.	It is likely that the risk event would be visible to key internal and external stakeholders. Some damage to, or perception of, the Council's reputation.	The risk event would be highly visible to key internal and external stakeholders and public watchdogs. Major damage to, or perception of, Wellington City's reputation.	The risk event is highly visible internationally. Irreversible damage to, or perception of, Wellington City's reputation
<b>Financial</b>	Insignificant financial loss, overspend, negligence, mismanagement, or benefit not received.	Minor financial loss, overspend, negligence, mismanagement, or benefit not received.	Moderate financial loss, overspend, negligence, mismanagement, or benefit not received.	Major financial loss, overspend, negligence, mismanagement, or significant benefit not received.	Huge financial loss, overspend, negligence, mismanagement, or significant benefit not received.
<b>Environmental</b>	Small scale pollution or other environmental damage is localised with no resultant effects.	Minimal pollution or other environmental damage. Short term effects only.	Pollution or other environmental damage at a localised level, with medium term effect.	Significant and widespread pollution or other environmental damage, with long term effects.	Irreversible pollution or other environmental damage. Long-term effects affecting future generations.
<b>Level of accountability</b>	Informal review of the event may be done to identify strength and weaknesses.	Analysis of the event would be done to identify why it happened and what can be done to prevent it recurring	One or more key stakeholders (internal or external) would be affected. A review would be conducted to determine why the risk event occurred and the steps taken to prevent its recurrence.	Multiple stakeholders affected and demand an external review of why the risk event occurred, and what was planned to prevent recurrence. The CEO and/or Councillors would be required to publicly explain the results of the review.	All stakeholders affected and Central Government demands independent review of why the risk event occurred, and what was planned to prevent recurrence, would be required.
<b>Overall assessment of Consequence</b>	<b>Insignificant</b>	<b>Minor</b>	<b>Moderate</b>	<b>Major</b>	<b>Catastrophic</b>