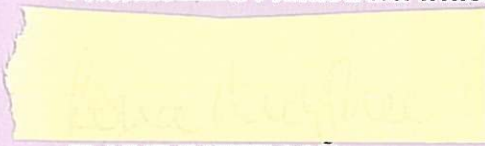


I refer to the meeting of the Audit Committee held on Tuesday 28 April 2009 and, with regard to agenda item 2, Risk Management Progress Report, now attach Risk Assessment and Prioritisation Framework which was circulated at the meeting.



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**RISK ASSESSMENT AND PRIORITISATION FRAMEWORK**

**APRIL 2009**

**VERSION 1.0**



**Risk Assessment and Prioritisation Framework**

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## Risk Assessment and Prioritisation Framework

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### 1 Introduction

Risk management is an integral part of corporate governance and sound management. The effective identification, assessment and management of risk is key to helping organisations be successful in delivering their objectives whilst protecting the interests of their stakeholders.

Effective risk management will allow the Council to:

- Have increased confidence in achieving its desired outcomes.
- Contain threats to an acceptable level.
- Take informed decisions about exploiting opportunities.

This document describes the Framework within which risks will be assessed and monitored by Inverclyde Council and provides a step-by-step guide. It should be read in conjunction with the Council's Risk Management Strategy.

The Framework will allow Directorates and Services to:

- Undertake risk assessment properly and frequently as a natural way to communicate and plan for improvement
- better appreciate their role in managing the strategic and operational risks in their particular area of responsibility
- Have a good understanding of their role in demonstrating risk is managed to acceptable levels.

There are four main stages to the risk assessment process:

- **Identification** – the means by which threats and opportunities are identified.
- **Assessment** – estimating the levels of impact and likelihood of the risks and opportunities and assessing which risks post the greatest threat.
- **Management and Control** – developing and putting into place actions and control measures to manage the risk.
- **Review and reporting** – monitoring that the actions and control measures are appropriate, effective and still relevant, identifying changes in circumstances and environment and checking the effect on risk priorities, reporting on progress to the Council.

This document deals in turn with these four stages, describing processes, responsibilities and timescales.

## Risk Assessment and Prioritisation Framework

### 2 Identification of Risk

This stage can be separated into two distinct phases:

**Initial risk identification** – for Directorates or services that have not previously identified risk in a structured way.

**Continuous risk identification** – to identify new risks that did not previously arise, changes to existing risks and risks which have ceased to be relevant.

In either case, risks should be related to the Council's corporate objectives and be considered at both a strategic and operational level. Strategic risks focus on identifying the key barriers to successful achievement of the Council's objectives. Operational risks are more likely to focus on continuity of business services.

**Common Areas of Risk are:**

<b>Strategic</b>	Doing the wrong things as an organisation. Missing opportunities.
<b>Financial</b>	Losing resources or incurring liabilities.
<b>Reputational</b>	The Council's image. Loss of public confidence.
<b>Political</b>	Political embarrassment. Not delivering on local or national policies.
<b>Partnerships</b>	Specific risks to the Council as a result of being in a partnership.
<b>Legal/Regulatory</b>	Claims against the Council. Non-compliance.
<b>Operational</b>	Service delivery failure, targets missed.
<b>Information</b>	Loss of, or inaccurate data, systems or reported information.
<b>Customer/citizens</b>	Understanding their needs, delivery of services.
<b>Environmental</b>	Things outside of our control. Environmental impact of the Council.
<b>People</b>	Employees, management, Members, Chief Officers.

Not all services of the Council will have risks under all these categories.

## Risk Assessment and Prioritisation Framework

### 2 Identification of Risk (Continued)

When considering risk, typical phrasing could be:

Loss of ...	leads to ...	resulting in ...
Failure of ...		
Lack of ...		
Partnership with ...		
Development of ...		

### 3 Assessment and Prioritisation of Risk

The Council has adopted a clear structured process for risk assessment for which both impact and likelihood are considered.

Some types of risks allow objective analysis eg financial risks whereas others may be more subjective eg risk to reputation. This assessment matrix allows for assessing all types of risk and considers the perspectives of the whole range of stakeholders likely to be affected.

The assessment is carried out by evaluating the impact if the risk is realised and the likelihood of the risk being realised.

For Inverclyde Council, we have adopted a 5 x 5 scale for impact and likelihood as follows:

**Risk Assessment and Prioritisation Framework**

**3 Assessment and Prioritisation of Risk (Continued)**

Risk Impact					
	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Catastrophic
<b>Financial</b>	<£100k	£100k-£250k	£250k-£500k	£500k-£1,000k	£1,000K>
<b>Reputation</b>	Individual negative perception	Local negative perception	Intra industry or regional negative perception	National negative perception	Sustained national negative perception
<b>Legal and Regulatory</b>	Minor regulatory or contractual breach resulting in no compensation or loss	Breach of legislation or code resulting in a compensation award	Regulatory censure or action, significant contractual breach	Breach of regulation or legislation with severe costs/fine	Public fines and censure, regulatory veto on projects/withdrawal of funding. Major adverse corporate litigation.
<b>Operational/ Continuity</b>	An individual service or process failure	Minor problems in specific areas of service delivery	Impact on specific customer group or process	Widespread problems in business operation	Major service or process failure impacting majority or major customer groups

Likelihood					
	1 Rare	2 Unlikely	3 Possible	4 Probable	5 Almost Certain
<b>Definition</b>	Not likely to happen in the next 3 years	Unlikely to happen in the next 3 years	Possible to occur in the next 3 years	Likely to occur in the next year	Very likely to occur in the next 6 months



## Risk Assessment and Prioritisation Framework

### 3 Assessment and Prioritisation of Risk (Continued)

The first assessment of risk levels against these criteria should take no account of any measures or factors that may be in place to control the risk. This establishes the level of "inherent risk".

Having used the tables above to score the inherent risk (ie the risk before any corrective action is applied), the next step is to plot the inherent risks on the matrix as shown below.

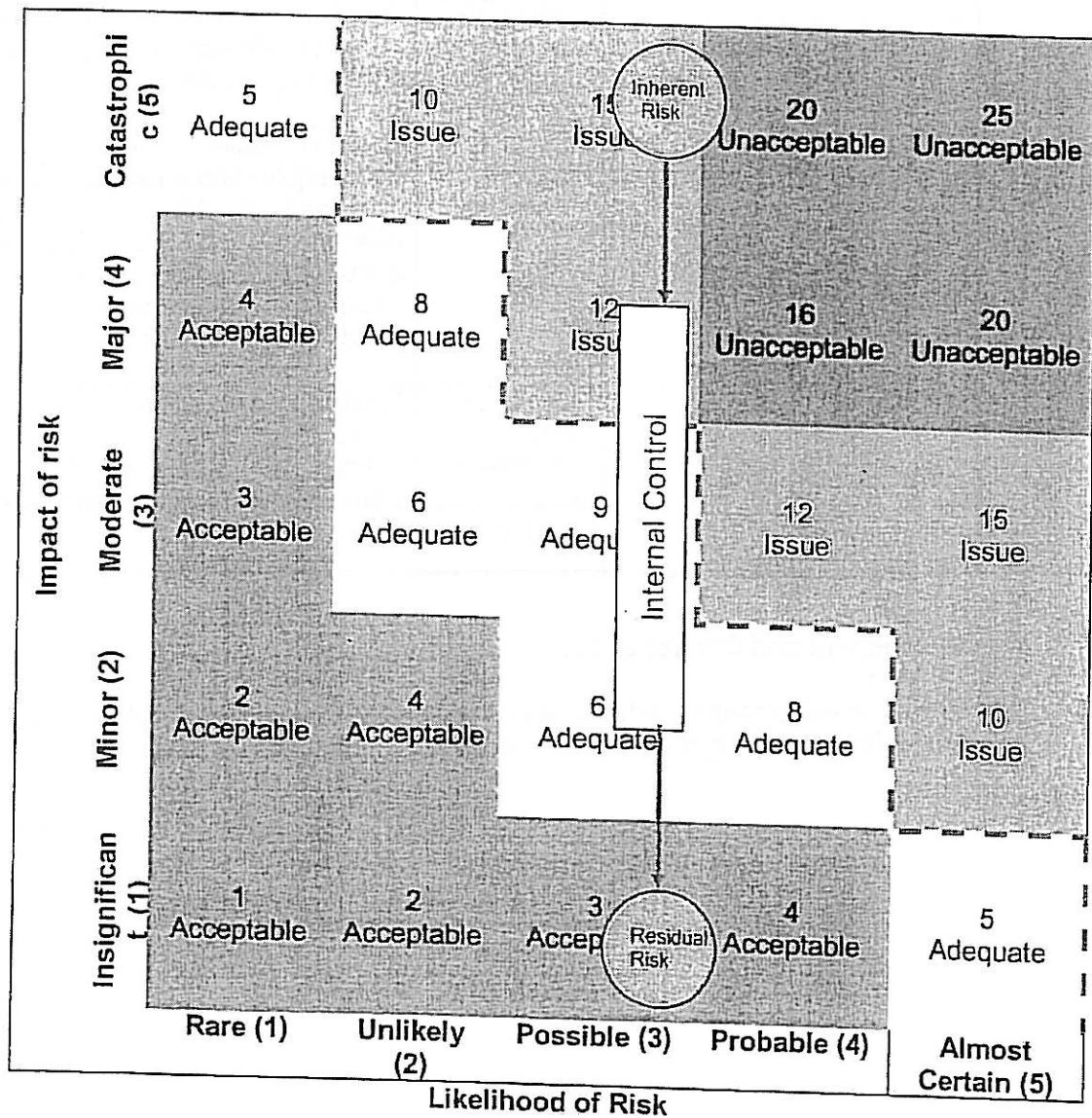
Impact of risk	Catastrophic (5)	5 Adequate	10 Issue	15 Issue	20 Unacceptable	25 Unacceptable
	Major (4)	4 Acceptable	8 Adequate	12 Issue	16 Unacceptable	20 Unacceptable
	Moderate (3)	3 Acceptable	6 Adequate	9 Adequate	12 Issue	15 Issue
	Minor (2)	2 Acceptable	4 Acceptable	6 Adequate	8 Adequate	10 Issue
	Insignificant (1)	1 Acceptable	2 Acceptable	3 Acceptable	4 Acceptable	5 Adequate
		Rare (1)	Unlikely (2)	Possible (3)	Probable (4)	Almost Certain (5)
Likelihood of Risk						

**Risk Assessment and Prioritisation Framework**

**3 Assessment and Prioritisation of Risk (Continued)**

Having carried out the inherent risk assessment, the next task is to establish what control procedures exist. These could include policies, protocols, regular meetings or any other activity that has the effect of controlling the identified risk. Once the control measures are identified and validated, a second risk assessment should be performed, again using the Likelihood and Impact criteria but this time taking account of the known control measures. The result of this second assessment is the "Residual Risk".

The table below shows the matrix discussed previously with colour coding to indicate levels of prioritisation.



Risk Appetite - The boundary between the acceptable risks and those which require managing

## Risk Assessment and Prioritisation Framework

### 3 Assessment and Prioritisation of Risk (Continued)

An explanation of the risk scores and how the risk should be managed is as follows:

Level of Risk (Inherent Risk Score)	Indicated by	How risk should be managed
Very High Risk (16-25)	<b>Red</b>	<b>Requires active management.</b> High impact/high likelihood: risk requires active management to manage down and maintain exposure at an acceptable level.
High Risk (10-15)	<b>Amber</b>	<b>Contingency plans.</b> A robust contingency plan may suffice together with early warning mechanisms to detect any deviation from plan.
Medium Risk (5-9)	<b>Yellow</b>	<b>Good Housekeeping.</b> May require some risk mitigation to reduce likelihood if this can be done cost effectively, but good housekeeping to ensure the impact remains low should be adequate. Reassess frequently to ensure conditions remain the same.
Low Risk (1-4)	<b>Green</b>	<b>Review periodically.</b> Risks are unlikely to require mitigating actions but status should be reviewed frequently to ensure conditions have not changed.

### 4 Management and Control of Risk

We now need to consider what action is needed to manage the residual risks. The main options for addressing residual risk are set out in the following table:

**Risk Assessment and Prioritisation Framework**

4 Management and Control of Risk (Continued)

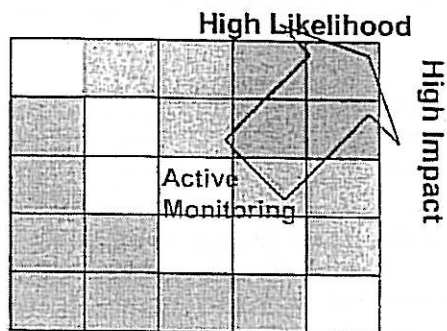
<b>Tolerate</b>	Is the exposure tolerable without any further action being taken? Even if it is not tolerable, the ability to do anything about the risk may be limited or the cost may not be proportionate to the potential benefit gained. This option may be supplemented by contingency planning for handling the impacts that will arise if the risk is realised.
<b>Treat</b>	<p>The greatest number of risks will be addressed in this way. While continuing the activity that gives rise to the risk, action is taken to limit the risk to an acceptable level.</p> <p>Where the decision is to treat the risk, mitigating actions need to be defined. It is important that any additional action is proportionate to the risk. Apart from the most extreme undesirable outcome, it is normally sufficient to design controls to give a reasonable assurance of confining any loss to a level that is acceptable to the Council. Each control action has an associated cost and it is important that the control action offers value for money in relation to the risk that it is controlling.</p>
<b>Transfer</b>	For some risks, the best response may be to transfer them. This might be done by insurance or by paying a third party to take the risk in another way. This may be considered appropriate as it reduces the risk to the organisation or because another organisation is more capable of managing the risk.
<b>Terminate</b>	Some risks will only be treatable to acceptable levels by terminating the activity. There may be limited opportunities for the Council as the activity is driven by legislative requirements.

## Risk Assessment and Prioritisation Framework

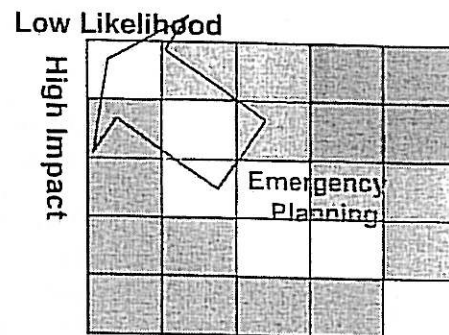
### 5 Review and Reporting

It is important that the management of risk is reviewed and reported on a regular basis in order to monitor whether or not the risk profile is changing and to gain assurance that risk management is effective and to identify when further action is necessary.

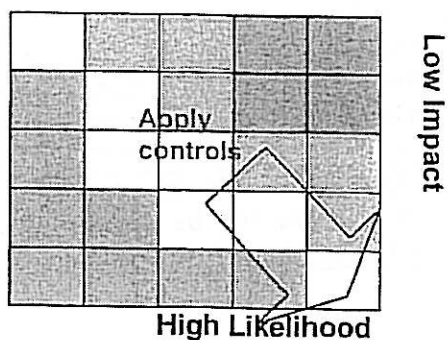
Risks should be monitored according to the following criteria:



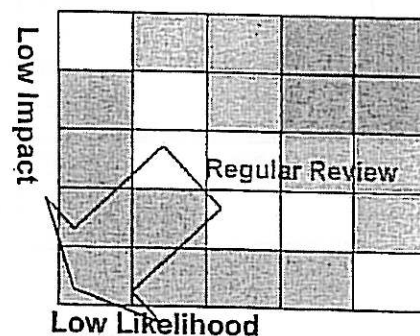
High impact and highly likely risks which must be managed effectively.



High Impact but not likely given either the controls in place or the nature of the risk. Management should periodically review controls and contingencies to deal with these risks.



Low impact and low likelihood risks which should be reassessed on an annual basis to ensure their impact and likelihood does not increase over time.



The Audit Committee is the responsible committee for ensuring that the Council's risk management arrangements are effective and operate as intended.

The Audit Committee will receive regular reports on risk management from the Chief Internal Auditor.