

**Audit & Standards Committee**

**29<sup>th</sup> October 2020**

**DRAFT Risk Management Documentation**

**Purpose of Report**

Following a full internal Management Board review and an Internal Audit Report, the risk management framework of the MCA has been revised and refreshed. This report presents a new risk management policy and process and seeks to provide the assurance that risk is being actively managed by the MCA Executive Management Board.

**Thematic Priority**

Cross cutting.

**Freedom of Information**

Under the Freedom of Information Act this paper and any appendices will be made available under the Mayoral Combined Authority Publication Scheme. This scheme commits the Authority to make information about how decisions are made available to the public as part of its normal business activities.

**Recommendations**

Audit and Standards Committee Members are asked to:

- consider and discuss the revised and refreshed MCA Risk Policy and Process documentation,
- consider whether the amended approach gives the required assurance of active risk management, and subsequently endorse the approach to the MCA Board.

**1. Introduction**

- 1.1** A recent Internal Audit Report on risk management concluded that the processes of the MCA Executive in monitoring and managing risk on behalf of the MCA provides 'significant assurance with some improvements required'.

The recommendations of the audit include refreshing authority's Risk Management Policy and Process to ensure they; accurately reflect the structure of the organisation, set out reporting requirements, clarify escalation and de-escalation procedures and outlines how the MCA oversees the risk management arrangements of the PTE.

The audit report also recommends that a consistent approach to scoring and moderating risks should be developed as well as ensuring adequate training and development for roles with specific risk management responsibilities.

This paper presents a revised Risk Management Policy and Process, strengthened to address the recommendations of the internal audit report.

## **2. Proposal and justification**

### **2.1 Risk Management Policy and Process**

The existing Risk Management Policy and Process have been reviewed and strengthened, and now follow the '[Management of Risk](#)' (MoR®) principles of risk management which are aligned to the international standard for risk management ISO31000:2009 (There are currently 9 MoR® formally trained risk champions in the MCA Executive Team).

The refreshed Risk Management Policy and Process describes why risk management is important to the organisation and the objectives served by implementing a formal risk management approach. It sets out the approach to risk appetite and risk tolerance thresholds, the procedure for escalation/de-escalation, risk management duties of roles within the organisation and reporting requirements. It also sets out how the organisation plans to carry out risk management and the approach to identifying, assessing and evaluating risk, and planning and implementing mitigations.

The content of the documentation now addresses a number of recommendations made by the audit on risk management including:

- ensuring the policy reflects the current structure of the Authority, in particular the roles and responsibilities relating to risk management of the thematic boards;
- expansion of the policy to include an overview of process and procedures, specifically around reporting requirements – meetings, frequency and oversight;
- the inclusion of the oversight arrangements and processes in place that provide assurance in respect of the effectiveness of the PTE's risk management arrangements;
- ensuring that all officers charged with responsibility for risk management have access to training or guidance and to consider including Risk Management training as part of an induction programme;
- a defined level of scrutiny and oversight of risk, supported by clear escalation and de-escalation processes;
- providing clarity on the approach to be taken to scoring risk, ensuring there is a consistent approach to managing risk throughout all departments;
- moderation of risk scoring to ensure the authority's risk profile is accurately represented, and;
- the development of heat maps to record the risk profile and movement in risk score.

### **2.4 Audit recommendations under consideration**

The internal audit also recommends that consideration should be given to utilising a new system (4Risk). This is being investigated, as whilst this is the system utilised by the PTE there is a risk this lends itself to more operational risk management as opposed to strategic risk management. A full review of this will be conducted to consider:

- (a) whether the system can be utilised effectively for the management of strategic risks;
- (b) if there is an opportunity for the system to be used to monitor operational risks in the MCA e.g. for AEB or other capital programmes.

### 3. Consideration of alternative approaches

- 3.1 The MCA Executive respects the recommendations of the recent internal audit of risk management and, having considered various options, believes that the proposed risk management policy and process addresses the improvement points raised in the audit.

### 4. Implications

#### 4.1 Financial

Failure to adequately manage risk could have significant financial implications for the MCA. The established risk assessment, if a risk is financial in nature, was set by financial value.

- Extreme Risk – potential loss of in excess of £10m
- Major Risk – potential loss of up to £10m
- Moderate Risk – loss of up to £1m that can be contained within budget
- Light Risk – Loss of up to £200k that can be contained within budget

It is proposed to amend the above categories as the values were drafted with programme activity in mind and don't reflect the overall operating budget of the MCA.

- **Extreme** – Loss that could destabilise the financial health of the MCA Executive and / or destabilise a programme of activity (most likely a multi-year issue, or one which would take multiple years to resolve);
- **Major/Serious** – Loss that could be detrimental to the financial health of the MCA Executive and / or detrimental to delivering a programme of activity (most probably a single year issue);
- **Moderate** - Loss that is significant which cannot be contained within budget but that would require a new budget to be developed and approved
- **Minor** – Minor loss that can be contained within budget but would result in some planned spend being cancelled or delayed
- **Immaterial** – Minor loss that can be contained within budget with no detrimental impact on other planned activity

These impact levels are set out on page 11 of the Risk Management Policy and Process along with a description of different levels of impact in the categories of 'political', 'reputational' and 'economic'.

#### 4.2 Legal

There are no legal implications as a result of this report.

#### 4.3 Risk Management

Risk is one of the fundamental controls that IA consider and that forms a fundamental aspect of the work of the ASC.

This report follows a significant review of risk by the Statutory Officers and the Management Board of the Authority.

#### 4.4 Equality, Diversity and Social Inclusion

Any risks relating to equality and diversity will be captured in the new risk category of Organisational Management.

## 5. Communications

- 5.1 The revised approach to Risk Management is being presented firstly for discussion at the ASC and will progress to the MCA in November.

## 6. Appendices

- 6.1 Appendix A – Risk Management Policy and Process

<b>REPORT AUTHOR</b>	<b>Claire James</b>
<b>POST</b>	<b>Senior Governance &amp; Compliance Officer</b>
Officer responsible	Ruth Adams
Organisation	MCA Executive
Email	<a href="mailto:Ruth.adams@sheffieldcityregion.org.uk">Ruth.adams@sheffieldcityregion.org.uk</a>
Telephone	<b>0114 220 3442</b>

Background papers used in the preparation of this report are available for inspection at: 11 Broad St. West, Sheffield S1 2BQ

Other sources and references: '[Management of Risk](#)' (MoR®)