

Audit & Standards Committee

29th October 2020

Strategic Risk Management

Purpose of Report

Following a full internal Management Board review and an Internal Audit Report, the strategic risks have been revised and refreshed. This report presents revised strategic risk categorisations and risk management plans. The paper 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 Committee Members are asked to consider and discuss

- The revision of the MCA strategic risk categorisations
- The strategic risk definitions
- The established mitigating controls and the self-assessment of weaknesses in controls
- The annual action plan

1. Introduction

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

To strengthen risk management further the internal audit recommends that the authority review the format of the strategic risk register to ensure there is clarity and evidence of movement in a risk and whether risks are controlled and managed or if further escalation may be required. It also suggests that consideration should be given to separating very high strategic risks and operational / corporate risks to ensure all risks are appropriately managed and mitigated / controlled at the correct level.

2. Proposal and justification

2.1 Strategic Risks

In response to the recommendations, the Management Board of the MCA Executive has undertaken a review of its previous 13 strategic risk categories. A decision was made at a Management Board Risk Management Workshop (3rd June 2020) to rationalise these risk categories, to a fewer number of broader organisational categories which align more closely to the organisational controls. The previous approach had considerable overlaps between risk categories and too many controls were referenced, making it more difficult to do a purposeful self-assessment of weaknesses in controls.

The strategic risk framework has now been rationalised to cover 5 categories of risk:

1. Strategic Focus
2. Organisational Management
3. Budgetary and Financial Management
4. Programme Management
5. Governance and Compliance Management

This simplifies the previous 13 strategic risk areas into these broader groupings.

Against these new risk categories, the individual corporate risks are summarised into revised Strategic Risk Registers, attached at appendix A. (NB – the publishing of this papers has coincided with the announcement of tier 3 restrictions for South Yorkshire. The Strategic Risk Registers at appendix A do not take this into account and will be reviewed in light of this.)

Each register is structured to provide:

- A description of the risks, each individually scored for likelihood and impact
- A description of the potential consequences / impact if the risk materialises
- A risk category cumulative score
- A description of the mitigation strategies and controls
- A mitigated risk category cumulative score
- Control / Mitigation Weaknesses
- Action Plan
- Risk Owner (usually a Statutory Officer)

A summary of the actions for the coming year can be found at appendix B.

2.2 Risk Scoring

The risk ratings shown in the risk registers are structured on a 4-point scale: low, medium, medium-high and high, utilising the following probability impact grid.

Impact	5	Extreme	5	10	15	20	25
	4	Major/Serious	4	8	12	16	20
	3	Moderate	3	6	9	12	15
	2	Minor	2	4	6	8	10
	1	Immaterial	1	2	3	4	5
		Remote	Unlikely	Possible	Probable	Highly Probable	
		1	2	3	4	5	
Probability							

Key

1-4 Low
5-10 Medium
11-16 Medium-High
17-25 High

Each risk within each category has been given an unmitigated probability rating and a mitigated probability rating. A probability rating for the whole risk category has then been determined by calculating the average rating. Likewise, each impact has a mitigated and unmitigated rating in order to calculate an average. The overall risk score for the category has been determined using the average probability and impact score.

The overall risk score for each category is as follows:

Strategic Focus	Medium
Organisational Management	Medium
Budgetary and Financial Management	Medium-High
Programme Management	Medium
Governance and Compliance Management	Medium

Impact	5	Extreme					
	4	Major/Serious				1	
	3	Moderate		1	1		
	2	Minor		2			
	1	Immaterial					
			Remote	Unlikely	Possible	Probable	Highly Probable
		1	2	3	4	5	
		Probability					

2.3 Mitigations outside the influence of the MCA

Generally, progression of the relevant mitigations should lead to a lower mitigated risk rating. In some cases, this will not. In determining the mitigations some mitigating activity is totally outside the gift of the MCA Board or Executive to implement, this is particularly the case with some of the financial risks where the only mitigation resides with central government. The narrative highlights where the MCA Board has control over the mitigating action or where the MCA Board has minimal control over the mitigating action. Whilst the Risk Register has calculated the average score, where a risk category contains an unmitigable risk, even though the category *average* score may be e.g. 'medium' it will be monitored as 'high'.

Board members are asked to consider if they would like to see this shown differently.

2.4 Future reporting and monitoring

As part of the reporting of risk to ASC, Members are asked to consider the reports they wish to see. The draft revised Policy and Process proposes that the full registers are presented twice annually but that, between this, Members receive a Monitoring report that covers and updates on Medium-High and High risks, identifies any risk movements across all risk categories and charts progress against the cumulative action plan, specifically highlighting any actions that may have slipped.

2.5 Potential use of risk management software to enhance reporting

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, it 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 acknowledges the recommendations of the recent internal audit of risk management and, having considered various options, believes that the proposed approach addressed 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. Levels of financial impact are proposed in the draft revised Policy and Process presented at item 12.

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 work.

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 re-categorisation of strategic risk is being presented firstly for discussion at the ASC. Further to any feedback strategic risk will be reported on as outlined in the new Risk Management Policy.

6. Appendices

- 6.1** Appendix A – Strategic Risk Management Action Plans

Appendix B – Summary of 2020/21 Action Plan

REPORT AUTHOR POST

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

Other sources and references: