Risk Management and Corporate Governance in Local Government

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Why Risk Management?

In essence, you want to avoid slipping on one of these!

And if one of your employees does slip on one, you want to know about it quickly and action it appropriately ...
Take Risks

IF YOU WIN,
you will be happy;
IF YOU LOSE,
you will be wise.
FACTS

• All activities of an organisation involve risk.
• All organisations manage risk.
Local Authority Risk
(Excellence in Governance through best practise risk management)

• Published by IPB in 2006.
• Presents a model of best practise in risk self assessment for LA’s.
• Developed in Galway County Council from a pilot project supervised by CCMA.
• DECLG funded a post of RM For the duration of the project.
• Output was publication of LA Risk (excellence in Governance through best practise risk management).
IPB Model of Risk Management for Local Authorities (2006)

- Key Objectives:
  - RM can be integrated effectively into existing management processes.
  - Concentrate on principal risks
  - Process kept as straightforward and simple as possible
  - Existing systems, processes and procedures will be utilised as far as possible.
IPB Risk Publications

• Managing risk in leisure services
• Managing Road and footpath risk
• Managing motorised vehicle risk
• Managing engineering plant and equipment risks
• Managing Serious incidents where there is a Risk of Criminal Investigation
ISO Risk Management Publications

• SWIFT 31000 –
  – IS ISO 31000 Risk Management - Principles and Guidelines
  – National Guidance on implementing Risk Management
• ISO 31010 – Risk Management, Risk Assessment Techniques
• Also available:
  – ISO 31000 – Risk management - A practical guide for SME’s

SWiFT xxx: A rapidly developed recommendatory document based on the consensus of the participants of an NSAI workshop.
Why put in Place an ISO 31000 Risk Management System?

A. Establishes a number of **principles** that need to be satisfied to make RM effective

   *Principles: a fundamental source or basis for RM*

AND

B. Recommends the development and implementation of a **framework** whose purpose is to integrate the process of managing risk into the organisations overall governance, strategy and planning, management, reporting processes, policies, values and culture.

   *Framework: the basic structure underlying the RM system*
Benefits of implementing a risk Management System

• If implemented ISO31000 enables an organisation to:

  1. Increase the **likelihood** of achieving objectives
  2. Encourage proactive management
  3. **Create awareness** of the need to identify and treat risks throughout the organisation
  4. **Improve the identification** of opportunities and threats
  5. Comply with relevant legal and regulatory requirements and international norms
  6. Improve financial reporting
  7. Improve **governance**
  8. Improve stakeholder confidence and trust
  9. Establish a reliable basis for **decision making** and planning
  10. Improve controls
  11. Effectively allocate and use resources for risk treatment
  12. Improve operational effectiveness and efficiency
  13. Enhance health and safety performance, as well as organisational effectiveness
  14. Improve loss prevention and incident management
  15. Minimize losses
  16. Improve **organisational learning**; and
  17. Improve **organisational resilience**
ISO 31000 Risk Management System

Principles

Mandate and Commitment

RM Framework

RM Process
Who benefits from the implementation of a Risk Management System

- ISO 31000 states that the following will benefit
  - Those responsible for developing RM policy
  - Those accountable for ensuring that risk is effectively managed.
  - Those who need to evaluate an organisations effectiveness in managing risk.
  - Developers of standards, guides, procedures and codes of practise, that set out in whole or in part how risk is to be managed.
Why a Framework

• Generic approach.
• Consistent processes.
• Effective risk management.
• Efficiency.
• Coherence.
• Provides principles and guidelines.
Clauses in ISO31000

• 1. Scope of ISO 31000
• 2. Terms and Definitions
• 3. Principles
• 4. Framework
• 5. Process
Clause 1
Scope

• What ISO 31000 is:
  – Provides principles and generic guidelines on RM
  – Can be used by any enterprise, association, group or individual
  – Can be applied to any type of risk
  – Intended to harmonise RM processes in existing and future standards.

• What ISO 31000 is not:
  – Not intended to promote uniformity of RM across organisations
  – It is not intended for the purposes of certification
Clause 2
Terms and Definitions

• 31 terms are defined
  – 1. Risk
  – 2. Risk Management
  – 3. Risk Management Framework
  – 4. Risk Management Policy
  – 5. Risk attitude
  – 6. Risk appetite
  – 7. Risk aversion
  – 8. Risk management plan
  – 9. Risk owner
  – 10. Risk management process
  – 11. Establishing the context
  – 12. External context
  – 13. Internal context
  – 14. Communication and consultation
  – 15. Stakeholder
  – 16. Risk Assessment
  – 17. Risk identification
  – 18. Risk source
  – 19. Event
  – 20. Consequence
  – 21. Likelihood
  – 22. Risk profile
  – 23. Risk analysis
  – 24. Risk Criteria
  – 25. Level of Risk
  – 26. Risk Evaluation
  – 27. Risk Treatment
  – 28. Control
  – 29. Residual Risk
  – 30. Monitoring
  – 31. Review
Definition of Risk

• The effect of uncertainty on objectives.
  – Effect => deviation from the expected
  – Uncertainty => the internal and external factors and influences that determine whether or not your objectives will be achieved.
  – Objectives => organisational goals, can have different aspects and can apply at different levels
  – Risk is often characterised by reference to potential events and consequences, or a combination of these.
  – Risk if often expressed in terms of a combination of the consequences of and the associated likelihood of an occurrence.
“Establishing the Context”

• Activity at the start of this generic Risk management process

• Captures:
  – the objectives of the organisation
  – The environment in which the organisation pursues its objectives
  – The stakeholders
  – The diversity of risk criteria

• Helps to reveal and assess the nature and complexity of the organisations risks.
Yet to be defined

Responsible

obligation to carry out duties or decisions, or control over others

OR

having the obligation to act.

OR

obligation to act
Yet to be defined

• Accountable
  liability for the outcomes of actions or decisions
  NOTE: includes failure to act or make decisions
  OR being obligated to answer for a decision.
  OR obligation to answer for an action
Clause 3

Principles

• For risk management to be effective, an organisation should at all levels comply with the eleven principles below:
  – 1. RM Creates and protects value.
  – 2. RM is an integral part of all organisational processes.
  – 3. RM is part of decision making.
  – 4. RM explicitly addresses uncertainty.
  – 5. RM is systematic, structured and timely.
  – 6. RM is based on the best available information.
  – 7. RM is tailored.
  – 8. RM takes human and cultural factors into account.
  – 9. RM is transparent and inclusive.
  – 10. RM is dynamic, iterative and responsive to change.
  – 11. RM facilitates continual improvement of the organisation.
Definition of Risk Management Framework

• “The set of components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organisation”
  – The foundations include the policy, objectives, mandate and commitment to manage risk
  – The organisational arrangements include plans, relationships, accountabilities, resources, processes and activities.
  – The risk management framework is embedded within the organisations overall strategic and operational policies and practices.
Clause 4

Risk Management Framework

• Provides the foundations and arrangements that will embed RM throughout the organisations at all levels

• Assists in managing risks effectively through the application of the RM Process at varying levels and within specific contexts of the organisation.

• Ensures that information about risk derived from the risk management processes is adequately reported and used as a basis for decision making and accountability at all relevant organisational levels.

• Framework is not intended to prescribe a management system, but rather it is designed to assist the organisation to integrate RM into its overall management system.
  – => organisations should adapt components of the framework to their specific needs
RM Framework Components

M mandate and Commitment

Design a Framework for Managing Risk (PLAN)

Continual Improvement of the Framework (ACT)

Implementing Risk Management Framework and Process (DO)

Monitoring and Review of the Framework (CHECK)
Clause 5

The Risk Management Process

- THE RM process should be
  - An integral part of management
  - Embedded in the culture and practices
  - Tailored to the business processes of the organisation
Clause 5
Definition of the Risk Management Process

• “The systematic application of
  – management policies, procedures and practices to the activities of communicating, consulting, establishing the context,
  and
  – identifying, analysing, evaluating, treating, monitoring and reviewing risk”
Risk Assessment

Risk Identification

Risk Analysis

Risk Evaluation

Communication and Consultation

After establishing the context

Monitoring and Review

Treat the Risk
Difference between IPB model and ISO 31000 Framework

• ISO 31000:
  – Focus on
    • Principles
    • Framework
    • Establishing the Context

• IPB Model
  – Focus on
    • Risk Register
    • Risk Context

• Both utilise good risk management processes
Governance

• **Governance describes both:**
  
  – The manner in which the board e.g. the Councillors direct the organisation.
  
  – The laws and customs (rules) applying to that direction e.g. reserved and executive functions.

• **Corporate Governance**
  
  – consists of the set of processes, customs, policies, laws and institutions affecting the way people direct, administer or control a corporation.
  
  – includes the relationships among the many players involved and the corporate goals.
  
  – The principal players include the shareholders, management, and the board of directors. Other stakeholders include employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large.
CCMA/IPA Good Governance Principles for the local authority sector

- CCMA/IPA have developed
  - a set of draft governance principles
  - A principles based governance framework
- Framework will provide elected members, management and staff with much of the basic information needed to understand their duties, roles and governance responsibilities
- Effective governance
  - encourages the effective use of resources, strengthens accountability for the stewardship of those resources, improves management and service delivery, and thereby contributes to improving peoples lives.
  - Effective governance is essential for building greater trust and confidence in LG
CCMA/IPA Good Governance Principles

1. Focus on the purpose of the authority, on outcomes that deliver sustainable economic and societal benefits

2. Members and officials working together to achieve a common purpose within a framework of clearly defined roles.

3. Promoting and demonstrating public service values through upholding high standards of conduct and behaviour.

4. Taking better informed and transparent decisions and managing risks and performance.

5. Develop the organisational capacity and the leadership capability and competencies of members and officials to operate effectively and fulfil the purpose of the organisation.

6. Engage openly and comprehensively with local people, citizens and other stakeholders to ensure robust public accountability.

Note: Each principal is supported by two supporting principles
Conclusion

• Enhanced Risk Management in an organisation

• Equals (=)

• Enhanced Corporate Governance
Bí Cúramach