



# Making a difference

**The Audit Commission's External Lead on Risk Management Gareth Kelly asks what contribution risk management is making to local authority objectives and outcomes...**

**R**isk management can make a difference if effectively deployed at both strategic and operational levels to deliver on a plethora of local authority objectives. It is a key lynchpin in securing wider integrated management and governance arrangements to assist on any organisation's improvement journey.

A car analogy can be used to get across to public sector bodies the importance risk can play within financial, performance and governance management arrangements to deliver effective risk measured strategic decisions. Risk management is the corporate engine that drives the organisation along the improvement road. It works like this:

- Performance management is the dashboard;
- Financial management is the fuel tank and fuel as the lifeblood of service delivery;
- Corporate governance is the back seat driver; and
- Effective leadership and partnerships are in the front seats.

The Audit Commission, in partnership with ALARM, has conducted triennial local authority risk management surveys since autumn 2000. The 2006 survey has continued to assist in tracking the development of risk management practice within the public sector.

## Why should we be 'MAD' about risk management?

Risk management continues to grow in importance and makes a difference (MAD) within local authorities, with 78% of respondents to the 2006 survey stating that it is clearly embedded within their strategic plan, and 81% that it is explicit in their financial planning. Comparison with previous survey responses shows a considerable increase in the contribution that risk management is now making to the achievement of corporate objectives, delivery of innovative projects, targeting of resources and improvement in service delivery.

The survey results indicate that risk management is starting to make a significant contribution to better outcomes for 57% of respondents. A third of respondents see its importance in improving communities and stakeholder confidence.

Risk management is making the biggest contribution and impact for local authorities on:

- Improved performance management arrangements;
- Confidence in the rigour of their statement on internal control;
- A sound system of corporate governance;



**Comparison to previous surveys shows that risk management is vital to the achievement of corporate objectives, delivery of innovative projects, targeting of resources and improvement in service delivery**

- Improved targeting of resources;
- Protection of reputation and lower risk related costs.

### **What impact is risk management making on local authority partnerships?**

It is interesting to note that 44% of respondents stated that risk management had made a significant or very significant contribution to their successful partnerships. The majority of respondents are using some form of partnership risk management methodology and/or guidance in their significant partnerships. However, more needs to be done to integrate risk management within the wider partnership management and governance arrangements.

**'Although 79% of local authorities stated that their risk management policy/strategy refers to opportunities, as well as threats, only a third record in risk registers the potential opportunities arising from identified risks.'**

The top five risks facing the public sector bodies responding to the survey include the failure to manage effectively:

- Business continuity arising from critical incidents;
- Partnerships;
- Financial standing and capacity;
- IT related risks;
- Achievement of objectives and associated targets.

It is encouraging to see the top risks compared to previous surveys being more strategic as opposed to operational in nature, although the maturity of risk management will only be further achieved when these risks are more outcomes-based, which factor in opportunities, as well as threats.

### **What impact is managed risk taking making on maximising positive outcomes?**

Although 79% of local authorities stated that their risk management policy/strategy refers to opportunities, as well as threats, only a third record in risk registers the potential opportunities arising from identified risks.

Dr Lynn Drennan, Chief Executive of ALARM, said: "The survey results demonstrate considerable progress in public risk management, particularly with regard to the management of internal risks. While it is clear that some external risks, such as those that arise through partnership arrangements, are being addressed, there is still room for improvement in embedding risk management within strategic decision-making."

Each responding organisation will receive an electronic diagnostic report allowing it to compare its overall risk management performance with others in the sector and view the progress made since 2003. ALARM is commissioning a full report on the findings of the survey, due to be published later in 2007.

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