

FINANCIAL PROCEDURE 6

RISK MANAGEMENT

This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council.

The aim of this financial procedure is to provide a framework for the Council to manage the key risks facing the delivery of our services and support the successful delivery of our priorities.

1. Principles Covered

The Risk Management areas covered in this procedure include:

- Definition of risk & key controls
- Roles and responsibilities
- Internal Controls
- Counter Fraud Arrangements
- Insurance

2. Reference Documents

Reference to the following documents may be required:

External publications

- “Delivering Good Governance in Local Government – Framework (2007) and Guidance Note for English Authorities (updated 2012) -CIPFA/SOLACE
- Risk Culture – Under the microscope guidance for boards – Institute of Risk Management – 2012
- CIPFA¹ Code of practice on managing the risk of fraud and corruption (2014)

Internal documents **(insert links)**

- Risk Management Strategy
- Risk Management Toolkit
- County Council Constitution
- Council’s Counter Fraud Policy
- Whistleblowing Policy
- Money Laundering Policy
- Insurance Policies
- Impact Analysis

3. CONTACTS FOR ADVICE

¹ Chartered Institute of Public Finance & Accountancy

Risk Management	Lucy Pledge Audit and Risk Manager
Counter Fraud	Lucy Pledge Audit and Risk Manager
Insurance & Operational Risks	Lucy Pledge Audit and Risk Manager
	Vacancy Insurance Manager
Health & Safety Risks	Fraser Shooter Corporate Health and Safety Advisor

4. Purpose of the Procedure

4.1 To inform officers of mandatory requirements, including those embodied in the County Council's Constitution and to provide guidance on principles of best practice.

4.2 To highlight the roles of internal and external audit and the responsibility of officers to these and other inspection regimes.

4.3 **Mandatory elements of the Financial Procedure are printed in bold type. Departures from the mandatory elements cannot be granted.** The Director of Resources and Community Safety has statutory duties for the financial administration and stewardship of the Council which cannot be overridden.

These statutory duties include:

- setting and monitoring compliance with corporate standards:
- advising on the key financial controls necessary to secure sound financial management.

Other parts of this Procedure represent best practice and provide guidance.

4.4 It is recognised that in a continually changing environment there may be a need for flexibility. In certain instances a departure from the guidance may be appropriate.

4.5 There should be a convincing need for any such departures and **any departures from the guidance must be agreed with the Director of Finance & Public Protection in writing.**

Risk Management

- 5.1 Every aspect of the Council's work involves some level of risk. Policy and decision making, financial management and day to day delivery of services - all involve risk. The Council does not advocate that all risk is removed from its work because this would not be possible and continue to operate effectively. Instead it requires **us to be 'risk aware' – balancing quality, cost and risk associated with our work on behalf of the Council. It requires that steps are taken to manage identified risks to an acceptable level (our *Risk Appetite*²) with 'no surprises'.**
- 5.2 To ensure this happens **it is essential that robust, integrated systems are developed and maintained for identifying and evaluating all significant risks to the Council, whether strategic or operational. This should include the pro-active participation of all those associated with planning and delivering services.**
- 5.3 Risk is defined as the 'effect of uncertainty on objectives'³.
- It usually carries negative connotations for most people, but it can be about seizing opportunities as well as defending against threats.
 - It is measured in terms of likelihood of the event happening and its impact if it did happen.
- 5.4 Risk management is the co-ordinated activities undertaken to direct and control resources to respond to the risks. The Council's risk management framework includes a risk management strategy, processes and guidance designed to identify, analyse, evaluate, respond to and monitor risks.
- 5.5 Good risk management identifies, assesses and acts to reduce risks – enabling the Council to work more efficiently, make better informed decisions and be prepared for uncertainty. This is vital to the successful delivery of Council objectives and priorities – supporting a culture of well measured risk taking through the Councils business activities.
- 5.6 Management are responsible for managing the risks facing their service and to maintain an adequate and effective system of internal control to increase the likelihood that established objectives and goals will be achieved. They also plan, organise and direct the performance of sufficient actions to provide a reasonable level of assurance that objectives and goals will be achieved. They are the key assurance provider in the Council's assurance framework.
- 5.7 Further detail on the roles and responsibilities of all staff at each stage of the risk cycle are included in the Risk Management Strategy and the Risk Management Guide and Toolkit.

² How much risk the Council is prepared to take in order to deliver its services and / or get some form of benefit from its investment (£ or effort).

³ ISO31000 2011

Key Controls:

- The risk appetite of the Council and / or activity should be clearly articulated and understood ie how much risk is the Council prepared to take.
- **Procedures are in place to identify, analyse and evaluate risks - taking appropriate action to respond and manage those risks by either:**
 - **Avoiding the risk – not to proceed with the activity or circumstances that gives rise to the risk. *Risk Avoidance* may also be justified if it costs too much to manage the risk.**
 - **Seek risk – where there are more potential opportunities (benefits) by undertaking an activity or the consequences of not taking a course of action is too high.**
 - **Modify risk – take action to manage the risk (most risks are managed in this way).**
 - **Transfer risk – pass it onto or share the risk with another third party eg insurer or contractor (this will have a financial impact).**
 - **Retain risk – take no action – accept the level of risk or accept that it's not worthwhile to implement additional control actions.**
- **Ensure that risk registers are developed, maintained and monitored for the strategic risks facing the Council, key projects and the development of new service strategies / policies.**
- **A monitoring process is in place to regularly review the effectiveness of actions against the highest strategic and operational risks – considering the operation of existing controls and implementation of future actions. This should be through the use of risk registers or other appropriate methods determined by the Executive Director.**
- **Managers know that they are responsible for managing relevant risks to their service and are provided with relevant information, advice, training, tools and support on risk management initiatives.**
- **Senior managers have a clear understanding of their health and safety accountabilities, associated risks and have been provided with relevant information, training and support.**
- **Risk recovery plans are put in place where high risk areas are tolerated (as they cannot be avoided, transferred or controlled, or should not be because the costs and consequences of so doing are prohibitive), including provision being made for foreseeable financial losses (which may include insurance)**
- **Acceptable levels of risk are determined and unacceptable levels are insured against where appropriate.**

- The authority has identified and tested plans for providing resilience and continuity of service in core areas of business. These include measures aimed at prevention of interruption, dealing with emergencies and rapid recovery.
- **Key decisions must clearly show that the key risks associated with the decision or recommended options have been fully considered.**

5.8 Roles & Responsibilities

5.8.1 The Council's Audit Committee is responsible for overseeing the effectiveness of the Council's risk management arrangements, challenging risk information and escalating issues to the Management Board / Executive.

5.8.2 The Management Board and Executive are ultimately accountable for the risk and related control environment. They are responsible for ensuring that proper risk controls are in place and operating effectively - including insurance where that is appropriate. They are also responsible for approving corporate risk policies and setting the level of risk the Council is prepared to accept – its *Risk Appetite*.

5.8.3 The Executive Director of Finance & Public Protection is responsible for preparing the risk management strategy, for promoting them throughout the County Council and for advising the Executive on proper risk controls, including insurance cover where that is appropriate.

5.8.4 Responsibilities of the Executive Director of Finance & Public Protection

- To prepare and promote the Council's risk management strategy.
- To develop risk management controls in conjunction with other Executive Directors. These may be drawn from the full spectrum of possible controls - avoiding, transferring, controlling or tolerating and planning to recover from the risk should it materialise
- To include all appropriate employees of the Council in a suitable fidelity guarantee insurance.
- To effect corporate insurance cover, through external insurance and internal insurance funding, and to negotiate all claims in consultation with other officers, where necessary.

5.8.5 Responsibilities of Executive Directors

- To take responsibility for effective risk management, having regard to advice from the Executive Director of Finance & Public Protection and other specialist officers (eg monitoring officer, legal, HR, audit and risk management, emergency planning, crime prevention, fire prevention, health and safety)

- **To notify the Executive Director of Finance & Public Protection immediately of any loss, liability or damage that may lead to a claim against the authority, together with any information or explanation required by the Executive Director of Finance & Public Protection or the Council's insurers.**
- **To ensure there are regular reviews of risk within their services which are evidenced, and that these reviews address each of the stages in the risk management strategy and follow an approach and process set out by the Executive Director of Finance & Public Protection.**
- **To ensure that Managers know that they are responsible for managing relevant risks to their service and are provided with relevant information, advice, training, tools and support on risk management.**
- To provide assurance to the Audit Committee that risks are being identified, managed effectively and escalated to the Corporate Management Board / Executive as necessary.
- To provide assurance that appropriate risk management arrangements are effectively operated in key partners⁴ of the Council.

5.9 Corporate Groups

The County Council in its recognition of the importance of Risk Management created the following Groups:

The Corporate Risk and Safety Group – responsible for:

- The facilitation and co-ordination of risk management and health and safety activities across the Council. Providing a corporate forum for developing a practical approach to all aspects of Risk Management
- Monitoring and oversight of the Strategic Risk Register and key operational risks.
- Monitoring and oversight of Health and Safety performance measures
- Development of Annual Reports on risk management and health & safety
- An annual budget is made available for risk management initiatives and application from this source of funding is approved by this group.

The Director Risk & Safety Groups – responsible for:

- Identifying, assessing, measuring, monitoring and reporting significant risks associated with their functions and activities
- Development of Director Annual reports on Health and Safety

⁴ Organisations and / or suppliers that support the delivery of our services. Where we work collaboratively with others deliver our business plan outcomes / objectives.

- Providing assurance on the management of strategic and the top operational risks.

Risk Management Framework

The Risk Management Strategy and accompanying Guidance and Toolkit describes the risk management framework and provides a step-by-step guidance on how to apply it. This is a generic framework that can be applied at all levels – strategic, operational, partnership and project.

6. Internal Controls

6.1 Internal control refers to the systems of control devised by management to help ensure the Council's objectives are achieved in a manner that promotes economic, efficient and effective use of resources and that the Council's assets and interests are safeguarded.

6.2 The Council is complex and requires internal controls to manage and monitor progress towards strategic objectives. It has statutory obligations and requires internal controls to identify, meet and monitor compliance with these objectives.

6.3 The Council faces a wide range of risks, both from internal and external factors. It is necessary to have internal controls to ensure the achievement of its objectives.

6.4 Key Controls

- Key controls should be reviewed on a regular basis and the Council should make a formal statement annually to the effect that it is satisfied that the systems of internal control are operating effectively – the Annual Governance Statement.
- Managerial control systems - includes defining policies, setting objectives and plans, monitoring financial and other performance and taking appropriate anticipatory and remedial action. The key objective of these systems is to promote ownership and accountability of the control environment by defining roles and responsibilities.
- Strategic, operational and financial control systems and procedures, which include corporate governance, assurance, physical safeguards for assets, segregation of duties, authorisation and approval procedures and information systems.
- An effective internal audit function that is properly resourced and operates in conformance with the Public Sector Internal Audit Standard and with any other statutory obligations and regulations, such as the Account and Audit Regulations 2011.

Executive Director of Finance & Public Protection

6.5 The Executive Director of Finance & Public Protection is responsible for advising on effective systems of internal control. These arrangements need to ensure compliance with all applicable statutes and regulations, and other relevant statements of best practice. They should ensure that public funds, assets and other resources are properly safeguarded and used economically, efficiently, and in accordance with the statutory and other authorities that govern their use.

Responsibilities of the Executive Directors

6.6 It is the responsibility of Executive Directors to establish sound arrangements for planning, appraising and controlling their operations in order to achieve continuous improvement, economy, efficiency and effectiveness and for achieving their performance targets and service priorities / objectives.

- To manage processes to check that established controls are being adhered to and to evaluate their effectiveness, in order to be confident in the proper use of resources, achievement of objectives and management of risks.
- To review existing controls in the light of changes affecting the council and to establish and implement new ones in line with guidance from the Executive Director of Finance & Public Protection. Executive Directors should also be responsible for removing controls that are unnecessary or not cost or risk effective eg. duplication.
- To ensure staff have a clear understanding of the consequences of lack of control.

7. Counter Fraud Arrangements

7.1 The Council will not tolerate fraud and corruption in the administration of its responsibilities, whether from inside or outside the Council.

7.2 The Council is committed to the highest standards of openness, probity, honesty, integrity and accountability. Councillors, staff and partners are expected to apply these standards in ensuring adherence to legal requirements, rules, procedures and practices.

7.3 The Council's Counter Fraud and money laundering policies assists the Council in demonstrating its commitment to deter and prevent fraud, corruption and theft. The policy sets out unambiguously the action to be taken where standards are not met. Where it is necessary to refer cases to the police this will be in accordance with the Fraud Response Plan appended to the Counter Fraud Policy. The Council will ensure that any internal proceedings do not prejudice any criminal case.

7.4 Key Controls

- The Council has an effective Counter Fraud policy and maintains a culture that will not tolerate fraud, corruption or theft.
- All members and staff act with integrity and lead by example.
- **All cases of suspected misuse of resources should be reported when first identified to the Executive Director of Finance & Public Protection, through the Audit and Risk Manager (who performs the role of Head of Internal Audit for the Council)**
- The maintenance of a register of interests in which hospitality or gifts accepted must be recorded.
- Adequate procedures are in place to prevent bribery – including the Counter Fraud policy, codes of conduct and Whistleblowing policy.
- Legislation, such as the Transparency Code, Bribery Act and Public Disclosure Act are adhered to.
- The Audit Committee promotes high standards of conduct amongst staff and Councillors. It monitors the Council's policies and consider the effectiveness of the Whistleblowing and Counter Fraud & Corruption arrangements.

7.5 Executive Director of Finance & Public Protection is responsible for:

- The development and maintenance of effective Counter Fraud arrangements.
- Ensuring that there adequate and effective internal control arrangements.
- Ensuring that all suspected fraud and irregularities are reported to the Audit & Risk Manager (performing the role of Head of Internal Audit), the Monitoring Officer or the Chief Executive.

Responsibilities of Executive Directors

- **To report all cases of suspected misuse of resources when first identified to the Executive Director of Finance & Public Protection, through the Audit & Risk Manager (performing the role of Head of Internal Audit).**
- To ensure that staff adhere to the Council's Code of Conduct and Disciplinary Policy and Procedures.

8. Insurance

8.1 Key Controls

- acceptable levels of risk are determined and unacceptable levels are insured where appropriate – Appendix 1 shows the current insurance policies in place. Key facts associated with each policy is held by the Executive Director Finance and Public Protection.
- Insurance fund balances are maintained to cover potential claims and losses
- Tri-annual actuarial reviews are undertaken to evaluate the risk profile and affordability of the Council's insurance arrangements / fund.
- procedures are in place to investigate claims within required timescales.

8.2 Responsibilities of the Executive Director of Finance & Public Protection

- **The Executive Director of Finance & Public Protection shall effect all insurance cover and make arrangements for the negotiation of all claims.** Legal Services Lincolnshire will be involved as appropriate in all aspects of claims handling.

8.3 Responsibilities of Executive Directors

- Executive Directors shall give prompt notification to the Executive Director of Finance & Public Protection of the extent and nature of all new risks and of any alteration affecting insurable risks in their functions. In the case of new risks, consideration will be given by the Executive Director of Finance & Public Protection to the feasibility and desirability of obtaining insurance cover.
- Each Executive Director shall immediately notify the Executive Director of Finance & Public Protection in writing of any loss, liability or damage or any event likely to lead to a claim.
- To notify the Executive Director of Finance & Public Protection promptly of all new risks, properties or vehicles that require insurance and of any alterations affecting existing insurances.
- To consult the Executive Director of Finance & Public Protection and Legal Services Lincolnshire on the terms of any indemnity that the authority is requested to give.
- To ensure that staff, or anyone covered by the Council's insurances, do not admit liability or make any offer to pay compensation that may prejudice the assessment of liability in respect of any insurance claim.

- Claims by members of the public holding the Council liable for loss, damage or injury will be subject to the Civil Procedure Rules, which impose time limits on the handling of such claims. **ANY CLAIM NOTIFICATION RECEIVED SHOULD BE PASSED IMMEDIATELY TO THE LEGAL SERVICES LINCOLNSHIRE UNACKNOWLEDGED.**

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Appendix 1 - Current Insurance Policies

Policy	Summary of Cover
PROPERTY INSURANCE (BUILDINGS AND FARMS)	<p>General (non-education) property – limited cover to the perils of fire, lightning, explosion, aircraft impact, storm (as defined by the Beaufort Scale) and flood (a natural body of water escaping from its natural confines by a natural cause). This excludes any terrorism events that may cause these perils.</p> <p>Education Properties – as above but with added perils of malicious damage, accidental damage, and theft. This excludes any terrorism events that may cause these perils.</p>
BUSINESS INTERRUPTION	If the property is damaged as a result of an insured peril (as above) additional costs of working may be recoverable.
WORKS IN PROGRESS (WiP)	A policy extension to allow for insurance cover if there is an addition to, amendment of, or refurbishment of an existing property. NEW BUILDS must be insured by the contractor commissioned to build.
LIABILITY INSURANCE	Public Liability – general cover to the public for claims where LCC are proven to be Negligent or breached a statutory duty
	Employers Liability – general cover to LCC employees submitting a claim
	Professional Indemnity – general cover where LCC have provided advice that has resulted in a non- injury claim
	Officials Indemnity – where LCC have failed in their statutory duties or given incorrect advice
	Libel and Slander
	Land Charges – where errors in planning have been made
	Public Health Act – claims against LCC for our statutory duties
	Hirers Liability – a contingency cover where properties are hired to community users where they cannot obtain their own insurances
	Specific Legal Policy for Legal Services Lincolnshire – designed for the specialty of this shared service.
	Specific Legal Policy for Incendi – designed for the specialty Lincolnshire Fire & Rescue Service trading company.
COMPUTER INSURANCE	Data storage, computers, laptops, mobile devices, PDA's, etc
MOTOR VEHICLES	Lease Car Fleet
	Lincolnshire Fire & Rescue Service Fleet –

Policy	Summary of Cover
	including officers cars, appliances, USAR vehicles, etc
	School Mini Buses – this is an option that the schools can choose to insure with us or go elsewhere for all known vehicles
	General Fleet – Winter Maintenance, Mobile Library, Social Service mini buses, etc
	ERAC Hire Cars – for the corporate policy on longer car journeys.
ALL RISK INSURANCES	County Council Owned items that need to specified due to their importance, statutory duty to insure, or value such as Civic Regalia, Steinway Piano, Optical Disc Equipment etc.
	Museum and Fine Art Exhibits , including (but not limited to) the Magna Carta and Charter of the Forest, items on long or short terms loan to LCC, and outdoor sculptures such as 'Blow for Freedom'
	Archives – items in long term store or needing condition review or renovation etc.
	Archive Conservators – for their work in cataloguing and assessing historical items from across the country.
	Items on Loan from other Groups, organisations, Museums, Galleries, etc
	Foster Carers Material Damage – as a contingency cover for damage caused by looked after children to the building or contents
ENGINEERING INSURANCE	Includes Engineering Inspection Services to all LEA schools, and equipment within the control and responsibility of the authority.
FINANCIAL LOSS	<p>Money – in schools only which belongs to the school, and in certain other circumstances for Social Services</p> <p>Fidelity Guarantee – this is the only insurance that local authorities are obliged to hold and provides cover against the loss of money – usually through theft</p>
TRAVEL INSURANCE	<p>Schools – LEA schools that have purchased this 'add on' can travel anywhere in the world and undertake any activity (both subject to appropriate risk management and travel advice)</p> <p>LCC Employees - If travelling on behalf of and with full knowledge of LCC</p> <p>LCC Members -If travelling on behalf of and with full knowledge of LCC</p>
PERSONAL ACCIDENT INSURANCE	School Governors of LEA Schools – whilst

Policy	Summary of Cover
	<p>undertaking activities for or on behalf of the school</p> <p>All Foster Carers and Adult Carers for LCC</p> <p>All Volunteers for LCC Whilst Volunteering Activities being Undertaken</p> <p>All Members and Councillors of LCC</p> <p>All Employees of LCC</p> <p>All Teachers and Lecturers of LCC - whilst undertaking activities for or on behalf of the school</p> <p>All Members of LFRS USAR Team - whilst undertaking activities for or on behalf of the authority</p> <p>All Members of LCC Off-Shore Fire Fighting Team - whilst undertaking activities for or on behalf of the authority</p> <p>Hazardous Chemical Consultants Working for or on Behalf of LCC</p>
LOSS OF NO CLAIMS DISCOUNT AND EXCESS	<p>This is a scheme for the benefit of employees of LCC (that requires the employee to purchase the policy) which provides cover for loss of No Claims Discount or excess (up to a specified limit) when the vehicle has been damaged whilst being used on LCC business.</p>
MISCELLANEOUS INSURANCES	<p>Crisis Containment Management</p> <p>Healthline Plus – for medical second opinion and general health information</p>