Best Value toolkit: Risk management

AUDIT SCOTLAND

Prepared by Audit Scotland
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Introduction

The Audit of Best Value

"Achieving Best Value is about ensuring sound governance, good management, public reporting on performance and a focus on improvement"

The duty of Best Value applies to all public bodies in Scotland. It is a statutory duty in local government, and in the rest of the public sector it is a formal duty on Accountable Officers.

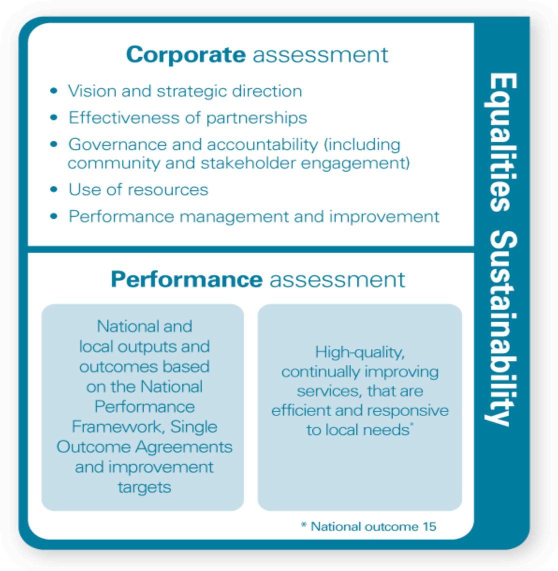
Best Value has already been a powerful force for improved performance and accountability in local government, and it will play an important role in supporting the Concordat and the development of Single Outcome Agreements between the Scottish Government, councils and their partners, and in streamlining and coordinating the scrutiny of public services. It also has the potential to underpin the National Performance Framework and the 'management scorecard' elements of Scotland Performs.

On behalf of the Auditor General and the Accounts Commission, Audit Scotland has identified a set of principles that form the basis for a consistent approach to the audit of Best Value across the public sector, although its application will differ to reflect factors such as the different accountability regimes and reporting arrangements in place in different sectors. This will enable us to apply a consistent set of expectations across all the bodies that we audit, and to reflect and support the reality of partnership working between organisations.

The Best Value toolkits are a key part of the practical application of the BV audit. They provide an evaluation framework that will help auditors to reach robust judgements on how public bodies are delivering Best Value**.** However, they cannot generate Best Value judgements on their own. They cover only part of the process. Judgements about Best Value also involve consideration of service standards and performance, outcomes and how effectively continuous improvement is being achieved. The framework through which the various elements of the Best Value audit are brought together to arrive at an overall conclusion on the extent to which an organisation is achieving Best Value is outlined below:

Exhibit 1

Framework for a BV audit of a public body



Source: Audit Scotland

As the diagram demonstrates, Audit Scotland's approach to the audit of Best Value entails both corporate assessment and performance assessment elements. The former focuses on how an organisation plans and conducts its business and manages its resources while the latter looks at the quality of those services and the outcomes for service users.

Audit Scotland is committed to ensuring that Best Value auditing across the public sector adds value to existing arrangements, is risk-based and builds on our existing knowledge of individual public bodies, and that of our scrutiny partners. Specifically we aim to:

- report on the delivery of outcomes for people who use services
- protect taxpayers' interests by examining use of resources
- put an increasing emphasis on self assessment by public bodies with audit support and validation
- work collaboratively with other scrutiny bodies to ensure our work is aligned and prevent duplication.

The Best Value toolkits

The Best Value toolkits are a series of audit diagnostics, which will help reviewers to establish the extent to which public bodies' arrangements are designed to achieve, and are actually delivering, Best Value. They have been developed to support the corporate assessment process around the five corporate assessment areas noted in Exhibit 1, and the two cross-cutting themes of equalities and sustainability. However, as each toolkit also incorporates a series of questions on the impact of the area under review, they will also provide some evidence to support the assessment of service performance and outcomes.

The Best Value toolkits have been developed as audit tools in consultation with specialist practitioners, and representatives of public bodies and professional groups.

The toolkits take the form of structured key questions, with a matrix of possible levels of performance, ranging from basic to advanced practice. The matrices cannot of course capture all of the ways in which a public body may address the requirements of Best Value, so there is clearly scope for auditors to exercise balanced judgement and for public bodies to respond flexibly in demonstrating how the key areas of challenge are addressed. Individual evaluations are made about the level a public body has attained in each question or area. However, these have not been weighted and it is not intended that these be used to determine an overall scoring for any toolkit. They are designed to contribute to sound professional judgements, not to replace them.

Using the toolkits

The toolkits are designed for application by Audit Scotland's auditors when carrying out Best Value audits of public bodies. In practice, the toolkits will be applied as part of an audit process, whereby the auditor makes enquiries, seeks supporting information and forms conclusions based on the evidence obtained.

Audit Scotland recognises that bodies may find the toolkits helpful in carrying out general organisational reviews or specific service reviews and are therefore available in the Audit Scotland website www.audit-scotland.gov.uk. It should be stressed however that public bodies using the toolkits do so at their own discretion. The toolkits are designed principally as audit tools that are part of

Audit Scotland's overall Best Value audit methodology and are not expressly produced for self-assessment purposes.

Any organisation using the toolkits to inform their own corporate or service-based self-evaluation processes will need to consider the local context when applying them, and also the indicative rather than conclusive nature of the findings when interpreting the results. The toolkits were designed to elicit contextual information and provide evidence for arriving at professional audit judgements. They are not intended to be, and cannot be, used in a "tick-box" fashion.

The Best Value toolkits are generic in nature, in that they are not specific to any one type of public body or to any one sector and are designed so that they can be applied to all public bodies. Auditors will require to be sensitive to the differences between organisations both in terms of different sectors and varying scales of operation.

This toolkit forms part of a suite of audit products that will be applied, over time, to support a structured, evidenced based, judgment on an organisation's approach to the use of the resources with which it has been provided and its achievement of Best Value.

Auditors' evaluations

The toolkit takes the form of a series of questions based on identified good practice. It then offers four sets of descriptors, these being:

Does not meet basic requirements	An organisation may not yet demonstrate the basic practice level in any particular category.
Basic practices	Minimum acceptable standards, which would be sufficient to allow an organisation to demonstrate sound performance.
Better practices	As basic, with some elements of good or even best practice, but not on a consistent basis.
Advanced practices	Consistently demonstrating good or best practice and contributing to innovation.

Best Value toolkit: Risk management

Risk management

- Is risk management actively supported and promoted by senior officers/elected members?
  - Is there a risk management strategy, giving a clear lead and practical guidance to staff?
  - Do senior managers and members give a visible lead in promoting the importance of risk management?
  - Is risk management fully embedded in the organisation's business processes?
  - Is risk management used to help identify opportunities as well as risks?
- Is there a systematic approach to identify and prioritise risks and match them with appropriate responses?
  - Is risk management applied to all key business activities?
  - Are staff provided with the appropriate training to ensure they are equipped to support the risk management process?
  - Is a systematic approach used to identify and evaluate risks?
  - Is the action to be taken to mitigate each risk properly considered and recorded?
  - Are there adequate contingency arrangements to address residual risks?
  - Are risk registers updated regularly?
- Are risks and the action taken to mitigate them regularly monitored?
  - Are key risks and the action taken to mitigate them monitored throughout the year?
  - Is there adequate monitoring of partnership risks?
  - Is risk management adequately reported to stakeholders?
  - Is the risk management process subject to review?
- Does risk management contribute toward the achievement of corporate objectives?
  - Does risk management contribute to successful delivery of public services?
  - Has risk management contributed to the meeting of financial?

	Basic Practice	Better Practice	Advanced Practice
1. Is risk management actively supported and promoted by senior officers/elected members?			
1.1 Is there a risk management strategy, giving a clear lead and practical guidance to staff?	The organisation has a risk management strategy, providing broad guidance on matters such as risk registers, and reporting arrangements.	The organisation has a risk management strategy which provides specific guidance on: • Scope of risk management, including partnership arrangements • Identification of risks • Scoring & prioritisation • Risk appetite • Delegated levels of risk appetite • Addressing risks.	The organisation's risk management strategy is reviewed annually to help ensure that it remains fit for purpose.
1.2 Do senior managers and members give a visible lead in promoting the importance of risk management?	The organisation's risk management strategy has been endorsed by senior managers and members. Risk management forms part of the remit of a committee.	Risk management features as a regular item in CMT meetings, with senior managers reviewing updated risk assessments and action being taken to mitigate them. Risk management features as a regular item in the agenda of a committee, with members reviewing updated risk assessments and action being taken to mitigate them.	In addition to forming part of a committee's remit, risk management regularly features in the agenda of board meetings involving all members.
1.3 Is risk management fully embedded in the organisation's business processes?	Risk management is carried out as part of business planning, with risks assessed for each key objective.	Risk management is not simply seen as an operational issue, but is also considered when developing policies and broad strategies. Risk management is an integral part of project and programme planning.	Risk management is a continuous activity, integrated with other procedures, and is viewed by staff as a standard element of good practice, rather than a one-off or annual activity.

	Basic Practice	**Better Practice**	**Advanced Practice**
1.4 Is risk management used to help identify opportunities as well as risks?	The risk strategy does not explicitly refer to opportunities (or 'positive risks'), but senior officers and members understand these aspects and are prepared to take advantage of them when they arise.	The risk strategy explicitly refers to opportunities, as well as risks. Senior managers understand these aspects and have communicated the importance of identifying these 'positive risks' and seizing them to staff throughout the organisation. Well-managed risk taking is encouraged to help seize opportunities and support effective innovation.	The organisation's risk strategy explicitly encourages well-managed risk taking. There is a history of the risk management process being used to identify opportunities and for them to have been seized by the organisation. For example, opportunities or 'upside risks' may be dealt with by identifying the risks to not achieving the benefit Successful innovations in managing new risks are communicated to others who may also encounter that risk. A 'blame culture' is avoided, with individual success recognised and supported when things go wrong despite risks being well managed.

	Basic Practice	Better Practice	Advanced Practice
2. Is there a systematic approach to help ensure that all key risks are identified, prioritised and matched with appropriate responses?			
2.1 Is risk management applied to all key business activities?	A corporate risk register is maintained, and risk registers are in place for all departments.	Risk management is a top-down process, driven by corporate and service objectives. In addition to internal activities, risk registers include risks relating to key contractors and to partner organisations.	Risk management is applied to all significant projects. Risk management is applied to all proposed partnership arrangements.
2.2 Are staff provided with the appropriate training to ensure they are equipped to support the risk management process?	Key officers have an understanding of the need to manage risks effectively and have a grasp of the key concepts involved.	There is an established core of staff with responsibility for risk management. Their skills and knowledge are supplemented by the provision of appropriate guidance and/or a training programme.	Communication of the need for risk awareness and the provision of risk management training is organisation wide and all staff are encouraged and supported to take responsibility for effective risk management within their service/department.
2.3 Is a systematic approach used to identify and evaluate risks?	A range of methodologies are used in different parts of the organisation, but all identify risks in a structured manner, taking into account both the likelihood of their arising and their potential impact.	There is a consistent set of criteria used to evaluate risks, taking into account factors such as: • Financial impact • Service quality • Public trust • Impact on the organisation's reputation. Risks are prioritised.	Links are identified between lower-level and higher-level risks. Senior managers and members consider the overall risk profile of the organisation.

	Basic Practice	Better Practice	Advanced Practice
2.4 Is the action to be taken to mitigate each risk properly considered and recorded?	The action being taken to mitigate each risk is recorded.	‘Owners’ are specifically identified for each risk.	The organisation has specified its ‘risk appetite’ and explicitly uses this to help determine the appropriate response: • Tolerate • Treat • Transfer • Terminate • Take the opportunity. Levels of risk delegated to different management grades are specified.
2.5 Are there adequate contingency arrangements to address residual risks?	The organisation has adequate general business continuity arrangements.	Plans are in place to address key risks that might be realised despite the controls that are in place (ie the residual risk).	Reliable contingency arrangements are in place to ensure that key services to the public will be maintained and the adverse impact on key outcomes will be minimised
2.6 Are risk registers updated regularly?	Risk registers are updated annually in order to ensure that they match corporate and service objectives.	In addition to risk registers being updated annually, there is also an established process to help ensure that significant changes, particularly escalating risks, are communicated quickly throughout the organisation and steps taken to mitigate them. Risk registers are updated to take into account ‘near misses’.	In addition to regular updates of risk registers throughout the year, senior managers and members are proactive in identifying future medium and long-term risks and opportunities for the organisation. This includes potential changes in the organisation’s wider environment, such as: • laws and regulations • government policies • the general economy • technology • key partners and contractors.

	Basic Practice	**Better Practice**	**Advanced Practice**
3. Are risks and the action taken to mitigate them regularly monitored?			
3.1 Are key risks and the action taken to mitigate them monitored throughout the year?	Monitoring reports, providing updates on the risks identified, and the action taken to mitigate them, are provided regularly to departmental and corporate managers. Further action is taken where existing controls are not effective or where new or escalating risks are identified. An annual statement on internal control is considered by members and subject to external audit.	Monitoring reports, providing updates on the key risks identified, and the action taken to mitigate them, are considered regularly by a committee of members.	Monitoring reports, providing updates on key risks, and the action taken to mitigate them, are considered regularly by all members at board level. As well as monitoring individual risks, senior managers and members monitor the organisation's overall risk profile.
3.2 Is there adequate monitoring of partnership risks?	There is limited awareness of the extent to which partners are successfully managing the partnership risks which they can influence. Risks are managed in isolation from other members of the partnership.	Partnership agreements have been established which clearly define each partner's responsibility and accountability for risk management. There is clarity over the provision of risk management monitoring information and established rights of access to obtain information.	Partnership arrangements have been established which allow for cross-partnership risk management. There is clear evidence that partners are committed to a consistent approach to risk management. I.e. shared risk assessments and joint risk register.
3.3 Is risk management adequately reported to stakeholders?	There is limited risk management reporting. Key officers are aware of developments however this information is not disseminated to the wider stakeholder audience.	Risk management reporting has been developed with regular reports going to relevant committees/boards. Further development is required to integrate risk management reporting into the overall governance framework of the organisation and ensure that risk management progress is communicated to all relevant stakeholders.	Risk management reporting is embedded into the overall governance framework of the organisation as well as the performance management framework. Regular risk management reports are provided to all relevant stakeholders.

	Basic Practice	Better Practice	Advanced Practice
3.4 Is the risk management process subject to review?	The risk management process is well-established, but changes are considered in response to known omissions or significant shifts in the organisation's environment.	The organisation has periodically reviewed its risk management processes and made improvements.	All aspects of the risk management process are reviewed at least annually, with improvements made to help ensure that it remains fit for purpose.

	Basic Practice	Better Practice	Advanced Practice
4. Does risk management contribute toward the achievement of corporate objectives?			
4.1 Does risk management contribute to successful delivery of public services?	There is only limited evidence that the risk management process has actively contributed to improving frontline services, or to 'back office' functions which support frontline services.	There is clear evidence that risk management has contributed to the delivery of corporate priorities, with improvements in services, internal controls, and compliance with regulations and standards.	Risk management is a key driver in service improvements and achieving corporate priorities. It has played a key role in the successful delivery of key projects/programmes which have had a significant impact on the provision of sustainable improvement in services.
4.2 Has risk management contributed to the meeting of financial targets?	There is limited/no evidence of the impact risk management has had on financial performance/position. A framework to evaluate the cost effectiveness of risk management has not been established.	There is some evidence that risk management has had a positive impact on the organisation's financial performance / position. i.e. evidence of a reduction in fraud or efficiency savings in service delivery due to improved project risk management.	There are clear links between risk management practices and the impact they have on the organisation's financial performance. Risk management activity is subject to a cost benefit consideration with action taken based on decisions on value for money.

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