



**REPORT TO:** East Lothian IJB – Audit and Risk Committee

**MEETING DATE:** 6 March 2018

**BY:** Chief Finance Officer

**SUBJECT:** Risk Management Strategy and Policy

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## **1 PURPOSE**

- 1.1 This report lays out the IJB's risk management strategy and the IJB's risk policy.

## **2 RECOMMENDATIONS**

- 2.1 The Committee is asked to:
- (i) agree the draft risk management strategy;
  - (ii) agree the draft risk management policy; and
  - (iii) recommend the strategy and the policy to the IJB.

## **3. BACKGROUND**

- 3.1 At its meeting of November 2015, the IJB received a paper entitled 'Risk Management Approach'. This paper recognised that the IJB's Integration Scheme required the IJB to develop and shared risk management strategy with NHS Lothian and with East Lothian Council.
- 3.2 The IJB agreed that the Audit and Risk Committee would progress this work and report back to the IJB. The IJB has set up a risk register which has been regularly reviewed by the A&R committee and has worked with colleagues in East Lothian and NHS Lothian to share risk management process and intelligence. A set of Audit and Risk information sharing principles were agreed by the last meeting of the A&R which simply agree that all the Lothian IJBs and NHS Lothian will share all and any Internal Audit reports – the risk registers already being public documents

- 3.3 That said, the IJB does not currently have a formal risk management strategy and a policy to implement that strategy.
- 3.4 This matter was also raised by the IJB's external auditors in their annual report for 2016/17. This noted that The IJB should develop its own risk management strategy to ensure it is complying with the Integration Scheme.
- 3.5 Its important to recognise that the IJB is not an operational delivery unit. The delivery of the functions delegated to the IJB is carried out under the auspices of one or other of the partners (NHS Lothian and East Lothian Council) and each of these partners has its own governance process, statutory responsibilities for service delivery, audit and risk committees and risk registers.
- 3.6 The IJB will therefore limit its own risk management strategy to those risks that are wholly IJB risks and not operational risks that are more correctly managed elsewhere. Therefore to take assurance on risk management for operational service delivery risks from the risk management processes of East Lothian Council and NHS Lothian.
- 3.7 This then raises the issue of what is considered to be a wholly IJB risk? In general, wholly IJB risks relate to the ability of the IJB to prepare and deliver its strategic plan. The risks the IJB must manage are therefore the risks in delivering the IJB's own business. The operational and delivery risk of delivering the functions delegated to the IJB will remain to be managed by the partners. However, if the risks in the delivery of the partners business become so significant as to impact upon the delivery of the IJB's functions then the IJB will require to be appraised of these risks and the actions being taken to manage them.
- 3.8 This raises the second key issue – when does an operational risk become a strategic one? There are significant operational – issues around the recruitment of GPs and around the recruitment of homecare staff for example – which could, if not properly managed, impact on the IJB's business. The IJB therefore, requires to be appraised of 'significant' operational risks although the Chief Officer and the Audit and Risk Committee wish also to add such risk onto the IJB's risk register. It has to be remembered that the management of such risks will remain with the operational partner and therefore the IJB are simply noting the position.
- 3.9 The IJB's Risk Management Strategy is therefore that those risk that are wholly IJB risks (as above) will be managed through the IJB's risk register which will be regularly scrutinised by the Audit and Risk Committee. The IJB's Chief Officer, Chief Financial Officer and Chief Internal Audit supported by other IJB members and the partnership management team will inform the Audit and Risk Committee of operational risks that may be so significant that they will impact on the IJB's business. Operational risks within the partners will continue to be managed by the Partners and the IJB will take assurance from these processes. The draft risk strategy is attached as appendix 1.

- 3.10 The IJB's risk policy will follow the same principles as NHS Lothian's (attached as appendix 2) but as above covering only the business of the IJB.
- 3.11 As a general principle, any governance process has to be commensurate with the resources that a body has available to support it. Hence the proposition that the IJB concentrates its risk management on its own business and takes assurance from the risk management processes of its partners. The IJB has to use its resources carefully and it's worth noting that the IJB's risk register has 5 key risks.
- 3.12 At its December 2017 meeting, the Committee agreed to have a workshop to further discuss risk appetite and also what assurance can be obtained from the data available to the IJB. This workshop took place in January 2018 directly after the IJB's workshop on financial planning. In general the broad principles discussed above were agreed.

#### **4. ENGAGEMENT**

The strategy and the policy, having been adopted by the IJB will be published on the IJB's website.

#### **5 POLICY IMPLICATIONS**

- 5.1 This paper is offers a new policy for the IJB for agreement

#### **6 INTEGRATED IMPACT ASSESSMENT**

- 6.1 The are no implications for health inequalities or general equality and diversity issues arising directly from the issues and recommendations in this paper.

#### **7 RESOURCE IMPLICATIONS**

- 7.1 Financial – there are none.
- 7.2 Personnel – there are none.

#### **8 BACKGROUND PAPERS**

- 8.1 None

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East Lothian  
Integration Joint Board



# Risk Management Strategy

December 2017

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## 1. Background

East Lothian Integration Joint Board has been delegated a range of Health and Social Care functions by NHS Lothian and East Lothian Council.

Although the responsibility for the operational delivery of these functions continues to rest with the partners (NHS Lothian and East Lothian Council) the responsibility for preparing and delivering a Strategic Plan rests with the IJB. The IJB must then consider a risk management strategy to identify and manage the risks associated with the preparation and delivery of the Strategic Plan

When risk is well managed it often goes unnoticed. If it is poorly managed or not managed at all the consequences can be significant and high profile. Effective risk management is needed to prevent such failures.

## 2. Policy Statement

- 2.1 The members of the Integration Joint Board and the members of the partnership management team who support them are encouraged to develop new initiatives, improve performance and achieve their goals safely, effectively and efficiently by consistent application of tried and tested methodologies for identifying and managing opportunity and risk.
- 2.2 In doing so the IJB aims to make the most of opportunities to:
- achieve high standards of performance;
  - deliver high quality services for service users;
  - Support the partners in providing an environment that meets Health & Safety requirements for the people it employs;
  - Support the partners to protect assets and liabilities against potential losses, and
  - minimise uncertainty in achieving its goals and objectives.

## 3. Scope

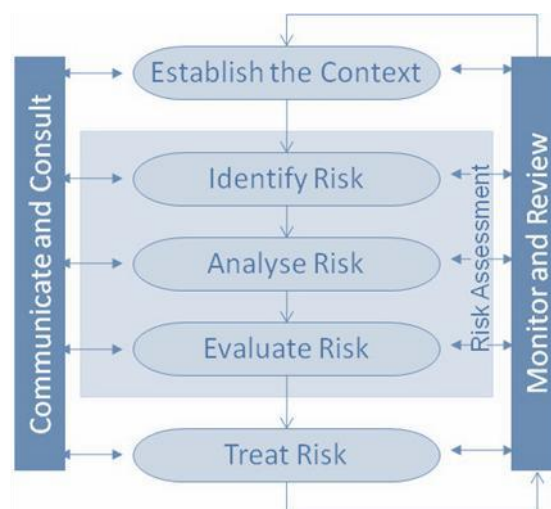
- 3.1 The Chief Officer has overall accountability for risk management.
- 3.2 The IJB's risk management will centre on the business of the IJB. That is the preparation and delivery of the IJB's Strategic Plan. The IJB's risk register will not contain operation risks unless these risks may impact on the business of the IJB
- 3.3 Operational risks – that is the risks around service delivery managed by the partners and implemented through the IJB's directions - will continue to be managed by the appropriate partner. The appropriate partner being the partner delivering the service or the East Lothian Health and Social Care partnership if the service is being delivered by both partners.
- 3.4 The Chief Officer, Chief Finance Officer, Chief Internal Auditor, members of the IJB and partnership staff who support the IJB will be responsible for identifying any operational risks that are sufficiently significant to impact upon the business of the IJB and which can then be entered on the IJB's risk register. However, such a risk will continue to be managed by the appropriate partner(s) and the IJB will require the partner(s) for assurance around the management of that risk.
- 3.5 The IJB is signatory to an Internal Audit information sharing agreement between NHS Lothian, Edinburgh IJB, West Lothian IJB and Midlothian IJB. This agreement will also provide intelligence to the IJB around any other operational or IJB specific risks which can then be added to the IJB's risk register as required.

- 3.5 All risk will be analysed in terms of impact on the IJB, the functions delegated to it and the likelihood of occurrence. This analysis will produce an evaluation of risk as being Low, Medium, High or Very High. The IJB's response in relation to adverse risk, or 'risk appetite' is such that:
- 'Low' risk is broadly acceptable without any further action to prevent or mitigate risk;
  - 'Medium' risk is tolerable with control measures that are cost effective;
  - 'High' risk may be tolerable providing the IJB is assured that adequate and effective control measures are in place; and,
  - 'Very High' risk is unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position.

High and Very High risk will be subject to closer scrutiny by the Audit and Risk Committee.

#### 4. Risk Management Philosophy and Objectives

- 4.1 Risk Management is about the culture, processes and structures that are directed towards realising potential opportunities whilst managing adverse effects<sup>1</sup>. It is pro-active in understanding risk and uncertainty, it learns and builds upon existing good practice and is a continually evolving process that has an important role to play in ensuring that defensible and beneficial 'risk-aware' not 'risk-averse' decisions are made. It ensures that the IJB support its partners to provide high quality services and all staff are aware that every effort has been made to maximise their opportunities to succeed.
- 4.2 The IJB uses the risk management process shown below<sup>2</sup>.



#### 4.3 Risk Management Objectives

The specific risk management objectives of the IJB are to:

- (i) integrate governance and risk management into the planning and oversight of the operational delivery of the functions delegated to the IJB;
- (ii) create a consistent approach to risk across all services using the adopted process;
- (iii) promote practical measures to reduce the IJB's exposure to risk and potential loss;

<sup>1</sup> Australia/ New Zealand Risk Management Standard, AS/NZS 4360: 2004

<sup>2</sup> Australia/ New Zealand Risk Management Standard, AS/NZS 4360: 2004 and ISO 31000 (2009)



- (iv) define clear lines of responsibility for the management of risk.
- (v) provide a system for monitoring the effectiveness of the risk management framework;
- (vi) provide a system for feedback on the management of key risks to the IJB;
- (vii) comply with legislative requirements; and
- (viii) comply with the requirements of Corporate Governance

4.4 The fundamental principles of Risk Management are to:

- ensure that the Risk Management process takes account of and links to the IJB's objectives;
- to keep the IJB and appropriate senior managers advised of any significant risk management issues;
- to promote an open and fair reporting culture;
- agree clear roles and definitions relating to the accountability, management, escalation and communication of key risks; and
- approach the assessment of risks and opportunities consistently.

## 5. Benefits of Effective Risk Management

5.1 Effective risk management will contribute to delivering significant benefits for the IJB. The primary benefit is that appropriate, defensible, timeous and best value decisions are made. Such 'risk-aware' decisions should be based on a balanced appraisal of strengths, weaknesses, opportunities and threats, and should enable acceptance of a certain level of risk in order to achieve a particular goal or reward.

5.2 Defensible decision-making means that:

- all reasonable steps in the decision-making process will have been taken;
- all relevant information will have been collected and thoroughly evaluated;
- reliable assessment methods will have been used;
- decisions (and supporting rationales) will have been clearly documented, and
- processes will have been put in place to monitor the effectiveness of the decision outcomes.

5.3 Other benefits would include:

- high achievement of objectives and targets;
- better use and prioritisation of the IJB's resources;
- high levels of user experience/ satisfaction with a consequent reduction in adverse incidents, claims and/ or litigation;
- avoid duplication of Risk Management issues which affect the partners and bring them together to benefit from good practice.

## 6. Standard Procedures

6.1 Standard procedures should be fulfilled in order to achieve a consistent approach to effectively implementing risk management.

6.1.1 Full implementation of the continuous risk management process, embedding risk management within IJB's processes so that an assessment of risk as well as costs and benefits becomes routine wherever possible.

- 6.1.2 Identification of risk using standard methodologies and involving managers throughout the service with detailed knowledge of the service and the environment in which it operates.
- 6.1.3 Routine reporting of risk information to the Audit and Risk committee with appropriate escalation to the IJB as required.
- 6.1.4 Periodic re-assessment of individual risks, proportionate to significance of risks (i.e. low and medium risks fully reassessed every two years and significant [high and very high] risks annually) including routine audit of robustness of measures implemented to control risks.
- 6.1.5 Fully document the risks in the risk register and to monitor and carry out an annual review of corporate and service risk registers to ascertain progress and to check for contextual changes affecting the risks.
- 6.1.6 Ongoing proactive identification of new and/or potential risks as a general responsibility of all service areas specifically those where risk is inherently discussed as part of their remit.

## 6.2 **Formal Groups**

- 6.2.1 **The IJB** will receive a report from the Audit and Risk committee annually laying out the risk register, the risks and the management actions to mitigate them and confirmation that this process is providing an appropriate level of assurance.
- 6.2.2 **Audit and Risk Committee** will scrutinise and review the effectiveness of the implementation of the risk management processes within the IJB. It will also scrutinise and review the Risk Register.
- 6.2.3 Internal Audit is an independent appraisal function within the IJB. Internal Audit will:
  - review, appraise and report on the adequacy and effectiveness of Risk Management arrangements within the IJB, and
  - take into account the IJB's Risk Register when identifying areas to be included in the Annual Audit Plan.

## Structural Arrangement and responsibilities

### **Individuals**

#### 7.4.1 **Chief Officer**

The Chief Officer has ultimate responsibility for ensuring that there are suitable and effective arrangements in place to manage the Council's risks.

#### 7.4.2 **IJB Members and any partnership officers supporting the IJB**

All IJB members and any partnership officers supporting the IJB should be encouraged to be involved at all levels in identifying current and potential risks where they work. They should make every effort to be aware of situations which place themselves or others at risk, report identified hazards and implement risk reduction measures developed by their service. Risk assessments should encompass all facilities used to deliver services and be completed using the knowledge and experience of all relevant staff and where appropriate service users. This approach will support the formal risk review conducted annually by all services and enable staff to:

- understand the risks that relate to their roles and their activities;
- understand their accountability for particular risks and how they can manage them;
- understand how they can contribute to continuous improvement of risk management;
- understand that risk management is a key part of the IJB's culture;
- report systematically and promptly to the Chief Officer any perceived new risks or failures of

existing control measures

## 9. Risk Registers

- 9.1 The Chief Officer will establish a Risk Register and they will have responsibility for maintaining the Register.
- 9.2 The information to be contained in both the Corporate Risk Register and the respective Service Risk Registers will be:
- risk identification number;
  - risk description (linked to the achievement of business objectives);
  - likelihood/impact rating;
  - risk rating;
  - controls in place;
  - potential residual risk;
  - planned actions;
  - service or person responsible for planned actions/managing the risk;
  - timescale for completion of action, and
  - evidence of regular review.

## 10. Strategy Implementation an, communication and review

- 10.1 The IJB's Risk Management Strategy was first discussed by the IJB's Audit and Risk Committee at its December 2017 meeting and presented to the IJB at its February 2018 meeting. The Strategy accurately represents arrangements for managing risk within the IJB at the time of approval. Implementation of this strategy will be underpinned by Risk Management Guidance and the Risk Management Action Plan.
- 10.2 This strategy will be reviewed at periodic intervals of at least every 3 years to ensure that it reflects current standards and best practice in risk management and fully reflects the rapidly changing environment in local government.
- 10.3 This Strategy, having been adopted by the IJB, will be published on the IJB's website

## 11 . Outputs and Benefits of the Risk Management Strategy

- 11.1 Embedding a Risk Management culture throughout East Lothian IJB is vital to the success of this strategy. The anticipated outputs and benefits of the Risk Management Strategy are:
- Improved service delivery;
  - Better value for money;
  - Improved corporate governance and compliance systems;
  - Improved decision making;
  - Enhanced understanding of the IJB's vulnerabilities;
  - Improved use of resources;
  - Enhanced strategic awareness;
  - Compliance with legislation/ regulation;
  - Adds value to the activities of the organisation, and
  - Increases the probability of success in achieving business objectives.
- 11.2 These outputs and benefits will protect and enhance East Lothian IJB's reputation, which will in turn increase public trust.



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# RISK MANAGEMENT POLICY

## **RISK MANAGEMENT**

### **POLICY Executive**

#### **Summary**

#### **Key elements**

The aim of this policy is to embed risk management within the IJB and ensure effective risk management structures are in place, including:-

- A consistent approach to the identification, assessment and management of
- Assurance that all risk control and mitigation measures will be effective, appropriate, proportionate, affordable and flexible. Risk controls will not be implemented where the cost and effort is disproportionate to the expected benefits.
- The requirement of all members of the IJB and staff supporting the IJB to take responsibility for effective management of risk in all aspects
- The promotion of an open and transparent culture to promote the positive identification and management of risk in the organisation.

#### **Minimum Implementation Standards**

The IJB shall have a record of its Risks (a risk register) and the Chief Officer is responsible for implementing this policy. The Chief Officer will ensure :-

- There is a process to systematically consider the relevance and management of existing and new risks in their area.
- That all members of the IJB and any officers supporting the IJB are clear of their roles and responsibilities in regard to implementing this policy.

#### **Why is Risk Management Important?**

Risk Management can be defined as the processes involved in identifying, assessing and judging risks, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and review progress.

#### **What is a Risk?**

Risk can be defined as the combination of the probability of an event and its consequences (ISO/IE Guide73) and how the threat of that event or action will adversely affect the IJB's ability to achieve its objectives, perform its duties or meet the expectations of its stakeholders. Inherent risk, for the

purpose of this document, can be defined as the exposure arising from a specific risk before any action is taken to manage it and residual risk the exposure arising from a specific risk after action has been taken to manage it and making the assumption that the action is effective.

Risk exists where there is uncertainty of outcome, either in terms of the assurance on the processes the IJB has in place, or in the IJBs's achievement of its performance organisational objectives and targets.

Risk Management is therefore a process that helps the whole organisation identify areas that require attention and remedial action.

### **What Should Risk Management Achieve?**

Risk management is a central part of any organisation's strategic management. It is the process whereby organisations methodically address the risks attaching to their activities, with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.

It should reduce the probability of failure, and increase the probability of success. Risk Management protects and adds value to the IJB and its partners by supporting the organisations objectives by:

- providing a framework that enables future activity to take place in a consistent and controlled manner
- improving decision making and planning and prioritisation by comprehensive and structured understanding of business activity, opportunity and threat

When a risk has been identified, action must be taken to either:

- **Treat:** Eliminate the risk completely, or reduce it to the point where the risk is at an acceptable level.
- **Tolerate:** Where the risk is unavoidable, formally conclude that the risk is of a type that any further action would be disproportionate to the level of risk exposure, and that the risk is therefore at an acceptable level.
- **Transfer the Risk** e.g. insurance cover
- **Terminate the Activity**

The IJB and those officers who support it must be aware that when they have treated the risk they have a responsibility to manage the residual risk through effective systems of controls and monitoring.

When the risk management process has concluded, the IJB should either have an improved response to its assurance need, or improved

organisational performance.

## **RISK MANAGEMENT POLICY**

- The IJB shall have a record of its risks – a risk register
- The IJB shall prioritise its response to its risks in a manner that recognises the objectives of the IJB, and the nature and significance of the risks that are presented.
- The IJB and the Audit and Risk committee shall regularly monitor the current risks, and seek assurance that action is being taken to manage the risks.
- The IJB shall maintain an open and transparent culture to promote the positive identification and management of risk in the organisation.