Audit Committee - 28th June 2012

6. Follow Up Report - Risk Management Update including Partnering (suppliers, other agencies etc.)

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Purpose of the Report

To update members of the Audit Committee on the state and nature of the partnering risk logged onto the risk register, now referred to as the TEN risk register, and to invite comment from members of the committee on the process for tracking commercial suppliers from a risk perspective.

Recommendation

That members of the Audit Committee note the contents of the report.

Background

At the last meeting of the committee at which the Procurement and Risk Manager presented, comment was made by the officer in response to member questions that maybe he should come back to the committee at a future date to explain how he was tracking the commercial partners that we deal with and how any risk associated with them may be indicated. The process used is as follows:

Step 1 Identify the risk!

Step 2 Assess the risk!

Step 3 Develop mitigation or controls

Step 4 Assess risk

Step 5 Apply an action to ensure all above are working and stable.

Clearly using the steps indicated above we can see a number of areas where the risk implications both in terms of risk spotting and risk identification could or can be problematic. Clearly in an organisation that does not have central control over procurement it's often difficult for any corporate function to be able to see what is going on let alone objectively comment on any risk associated with commercial activity.

Unfortunately risk associated with commercial suppliers and or other partner agencies that do not make it up on the corporate risk register cannot at this time be reported on, as they do not have a tag (Partnering risk) to be able to filter them from the whole.

However to overcome this and to address a number of procurement information issues this council has invested in some diagnostic tools that greatly assist in this regard.

- 1. All 4th tier managers have been asked to complete a risk register for the service they manage. Staff in support services update this periodically and chase managers for any updates.
- 2. We have a supplier analysis tool that looks at where and with whom the authority is spending money.

This enables me to do a number of things in relation to risk management, such as:

- Assess who has the largest, and most contracts and therefore which services have the greatest risk in dealing with commercial partners;
- Assess who is using a supplier where local council spending could be more than 50% of the supplier's turnover;
- Review areas of council spend for which no corresponding contract appears on the contracts register.

A new feature of the spend analysis tool is that we can now enter the contracts register and it is then able to tell me how much of the total spend is off contract. We are currently uploading this information. This should improve the Council's management of:

- The risk from suppliers who we currently regard as unimportant, i.e. we do not have a contract with them, yet we are spending many thousands of pounds with them through various services or on an ad-hoc basis.
- Some suppliers maybe at risk due to an over dependence on the work we give them.

From some of the risk register chasing that support services have been doing in the last 12-18 months its become apparent that staff need more understanding of what a contract is, and the implications of not having one. The training we give will improve their understanding of:

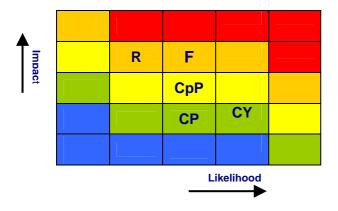
- Whose terms and conditions SSDC are trading under
- Have we issued a purchase order, if not why?
- If we have issued a purchase order then we have entered into a contract!
- If something should go wrong, what actions can be taken to correct this failure, staff are often unaware of options open to them, if any.
- If no purchase order is in place the opportunity for confusion exists with verbal instructions.

Financial Implications

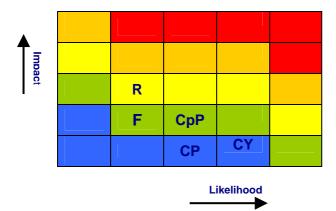
Not managing risk in relation to suppliers can have major financial implications to both the purchasing organisation and the supplying organisation. Overall this authority manages its major commercial relationships very well, however it's the smaller ones that require further review and training as they can add a significant financial risk.

Risk Matrix

Before investment in spend analysis tool



After investment in analysis tool



Key

Categ	jories		Colours strategy)	(for	further detail please refer to Risk management
R	=	Reputation	Red	=	 High impact and high probability
CpP	=	Corporate Plan Priorities	Orange	=	 Major impact and major probability
CP	=	Community Priorities	Yellow	=	 Moderate impact and moderate probability
CY	=	Capacity	Green	=	Minor impact and minor probability
F	=	Financial	Blue	=	 Insignificant impact and insignificant probability

Background Papers: Report to Audit Committee and Minutes – 22nd March 2012