

Review of corporate risk management arrangements in Pembrokeshire County Council

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This document has been prepared as part of work performed in accordance with statutory functions.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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Summary report

Audit snapshot

What we looked at

Risk management for local government is the process of identifying, assessing and mitigating risks that could impact on the achievement of councils' strategic objectives¹. In this review we looked at whether Pembrokeshire County Council's corporate risk management arrangements support the delivery of its strategic objectives. This includes risk identification, management, monitoring and reporting. We did not look at risk management at a departmental or project level.

Why is this important

Effective risk management in local government is important as it can help enhance strategic planning and prioritisation, ensure that services can continue to be delivered, and that councils can meet their strategic objectives. Without effective risk management arrangements, a council might miss opportunities to improve outcomes for its residents. Effective risk management should help councils respond in an agile way to the challenges they face. Risk management is, 'an essential part of governance and leadership, and fundamental to how the organisation is directed, managed and controlled at all levels.'²

What we have found

The Council has strengthened its risk management arrangements in recent years. It has an up-to-date risk management framework and a positive culture that is supporting risk management. We found some areas for improvement that would help to further strengthen the Council's risk management arrangements. These include the understanding and application of risk appetite and tolerance levels, establishing clearer criteria for determining risk escalation and de-escalation and improving the comprehensiveness of reporting.

¹ Under the Well-Being of Future Generations (Wales) Act 2015 councils in Wales have to set and publish well-being objectives. For most councils these are now adopted as the strategic objectives of the organisation.

² UK Government (2023) [The Orange Book – Management of Risk – Principles and Concepts](#)

What we recommend

We made four recommendations aimed at improving the Council's risk management arrangements. These cover risk identification, management, monitoring and reporting, as well as the Council's evaluation of its arrangements.

Detailed report

Our findings

The Council has strengthened its risk management arrangements, but some areas could be further improved to better support the delivery of its strategic objectives

Identifying risks

Risk identification is the process of recognising and documenting potential risks that could impact the achievement of the Council's objectives.

- 1 **The Council has an up-to-date framework for risk management.** Its Business Risk Management Strategy states the importance of fully integrating business risk management into the culture and working practices of the Council in order to help it successfully deliver its corporate objectives. The Council's new digital system provides a platform to support a clear alignment between threats and opportunities, and strategic objectives. Demonstrating how risk management aligns with strategic objectives is important as it helps to ensure that resources are used effectively and efficiently to achieve strategic goals while mitigating potential threats and maximising opportunities.
- 2 **The Council's risk management arrangements include opportunities identification.** There is one opportunity currently listed on its register. The Council is well-placed to build on this positive aspect of its arrangements by identifying further opportunities, and is developing its approach to seek more proactive and preventative approaches to risk and budget savings.
- 3 **The Council is undertaking horizon scanning³.** Horizon scanning is undertaken by Senior Leadership Team (SLT), Heads of Service and corporate managers and is considered by the Corporate Risk Management Group (CRMG). Risks are also discussed by directors and heads of service annually via the Internal Audit annual planning process. Ensuring a consistent approach to identifying risks and opportunities across a longer-term horizon is important to help ensure decisions are made with short and long-term impacts in mind.
- 4 **The Council has a clear and consistent approach to how it defines its risks.** The Council follows the 'if' (cause) and 'then' (consequence) format consistently within the corporate register. Clearly defining risks is important to create a shared understanding of the root cause and to support the identification of appropriate control or mitigating actions.

³ Continuous and dynamic horizon scanning helps the organisation to consider scenarios which could present emerging risks and opportunities.

- 5 **The Council does not differentiate between risks and issues in its risk register.** Risks and issues⁴ require different responses. Greater clarity on the difference would help the Council to ensure effective response, implementing controls to prevent or reduce the probability of a risk occurring, or establishing mitigations to minimise the impact of an issue after it has already happened.
- 6 **The Council has a culture which is helping to support its risk management.** The CRMG is made of the Chief Executive, other senior officers, the Cabinet Member who is Members' Risk Champion and the Chair of GAC. Officers and Members we spoke with described a forum in which open discussion and challenge is provided around risk. This is important in promoting a proactive approach to risk identification and management.

Managing risks

Managing risks involves assessing and addressing potential risks and issues that could impact on the Council's objectives. It involves evaluating the likelihood and potential impact of the risks and issues and developing and implementing effective controls and mitigating actions.

- 7 **The Council could further improve its arrangements by systematically assessing the impacts of its risks.** Risks are assessed by officers using their professional knowledge and any available service data, they are then reviewed collectively at CRMG. The Council is strengthening its approach to the scoring of risks and their controls through the implementation of a new risk management system. It could enhance this by considering the further use of risk analytics tools to support its assessment and evaluation of the impact of its risks.
- 8 **The Council's risk appetite and tolerance levels⁵ are not well understood or being used effectively by officers and Members.** The Council states that risk appetite should be at the heart of the strategy and that risk tolerance is the absolute level of risk within which the Council will operate. However, we found a lack of consistency in its application, despite mandatory training for all staff in risk management. There are a number of risks outside of agreed tolerance levels and the proposed mitigating actions and controls are not bringing them within stated tolerance levels. Expressions of risk appetite and tolerance that are understood across the Council will set parameters for individuals to operate and enable risk-taking that supports the achievement of strategic objectives. Without this, the Council could potentially be exposing itself to greater risk than it intended.

⁴ A risk is a potential future event. It is something that could happen, but it has not yet occurred. An issue is a problem that has already happened or is currently happening.

⁵ Risk appetite is defined as the amount and type of risk that the Council is prepared to pursue, retain or take. Tolerance levels are the levels of risk that the Council aims to operate within.

- 9 **The Council lacks clear criteria for determining risk escalation and de-escalation.** The Council's Business Risk Management Strategy states that it will report risks on a quarterly basis via the CRMG, where risks are escalated/de-escalated as necessary. The Council's approach emphasises the importance of the risk profile being live and officers reporting and escalating risk as frequently as required. However, there is no further clarification or quantification to support officers in making decisions on risk escalation and de-escalation. Clear criteria and rationale for risk escalation and de-escalation are important to support more efficient and effective arrangements.
- 10 **The Council's approach to risk management is not sufficiently integrated.** There is joint departmental ownership of cross cutting risks, but the Council does not demonstrate consideration of the aggregate impact of the risks on its risk register to the delivery of its well-being objectives. Taking an integrated approach to risk management helps identify interconnected risks, potential vulnerabilities and opportunities for better decision-making and risk mitigation.
- 11 **The Council does not systematically review the risk information of key delivery partners.** Directorates may identify delivery partner risks and bring information to CRMG as it arises. Risks are also considered in partnership forums eg the Public Services Board and the South West Wales Corporate Joint Committee. However, the Council does not take a holistic look across partner organisations' risks. Risks often have cross-cutting impacts which extend across organisational boundaries. Collaborative identification of risks from key delivery partners would provide strategic visibility of potential risks and opportunities and help to avoid unintended consequences.

Monitoring and reporting of risks

Risk monitoring helps to assess the effectiveness of the Council's risk treatment. Monitoring should support the understanding of whether and how the risk profile is changing and the extent to which internal controls are operating as intended to provide assurance over the management of risks to an acceptable level in the achievement of organisational objectives.⁶

Reporting of timely, accurate and relevant risk information is important to enhance the quality of effective risk-based decision making and to support the management and oversight of the Council's risk arrangements.

- 12 **The Council regularly reports on risk management, but risk actions are not always up to date, SMART⁷ or costed.** There is regular reporting on risks to the CRMG, SLT, Cabinet and Governance and Audit Committee. However, risk actions

⁶ UK Government (2023) [The Orange Book – Management of Risk – Principles and Concepts](#)

⁷ SMART – specific, measurable, achievable, realistic and timebound.

are not always up to date, SMART or costed. The Council's new risk management system provides a platform to assess the effectiveness of the control actions being taken. However, at the time of our audit this system was not fully embedded. This means that the Council is not able to fully assess the effectiveness of the actions it is taking, properly monitor progress, or determine how best to allocate resources.

- 13 **The Council reports regularly on risk management, performance assessment and budget monitoring but this reporting is not sufficiently integrated.** The Council used to report to Cabinet and GAC an integrated report that covered risk, performance and budget information. This was stopped because it was felt that the report had become too complex. The Council now reports quarterly to Cabinet with three separate reports (the corporate risk register, the corporate performance scorecard, and budget monitoring). Whilst these three reports are included on the same agenda for Cabinet they are presented as separate items. There is no integrated analysis which pulls together the key messages/issues from these three reports. Therefore, there is the potential that the links across the information provided may not be picked up and highlighted for Members to enable better understanding of the composite picture.

Reviewing its arrangements

Reviewing arrangements involves systematically evaluating the Council's risk management arrangements to ensure they meet their objectives, provide value for money and identify areas for improvement.

Lessons learnt refers to the insights and knowledge gained from the application of the Council's risk management arrangements and ensuring that these are documented and reviewed to drive improvement.

- 14 **The Council has reviewed its risk management arrangements in updating its risk management framework.** It is exploring the possibility of undertaking a risk maturity peer assessment with other organisations. However, it does not have a formal system in place to evaluate the value its risk management arrangements provide. This is important to understand how those arrangements help provide value for money.
- 15 **The Council does not routinely share lessons learnt from its risk management arrangements.** This means that the Council may miss opportunities to learn from both successes and failures, to support more informed decision-making and potentially improve risk mitigation efforts in future activities.

Our recommendations for the Council

Exhibit 1: our recommendations for the Council

Recommendations

R1 This report highlights areas for improvement in the Council's **arrangements for the identification of corporate risks and opportunities**. To address this the Council should:

- 1.1 ensure that it maximises the value of its risk management arrangements by further developing its opportunities register (**paragraph 2**);
- 1.2 clearly differentiate between issues (things happening now) and risks (things that might happen in the future) to ensure that the actions it intends on taking reflect the difference (**paragraph 5**).

R2 This report highlights areas for improvement in the Council's **arrangements for the management of corporate risks**. To address this the Council should:

- 2.1 further develop arrangements to systematically assess the impacts of risks, using up to date and reliable information (**paragraph 7**);
- 2.2 ensure that its risk appetite and tolerance levels, and the application and value of these to its risk management arrangements, is understood and adhered to by relevant officers and Members (**paragraph 8**);
- 2.3 establish clear criteria to inform decisions on risk escalation and de-escalation, and ensure that these are understood by relevant officers and Members (**paragraph 9**); and
- 2.4 demonstrate its understanding of the interrelationship between its own risks those of its partners to ensure that the control actions it is taking are appropriate (**paragraph 10 and 11**).

R3 This report highlights areas for improvement in the Council's **arrangements to monitor and report risks**. To address this the Council should:

- 3.1 articulate the actions it is taking to control risks ensuring they are proportionately SMART and costed so that it is able to assess the impact and outcomes of the mitigations (**paragraph 12**); and
- 3.2 report in a way to provide Members with an overall picture on risk management, performance and budget monitoring (**paragraph 13**).

Recommendations

R4 This report highlights areas for improvement in the Council's approach to **reviewing its arrangements** for risk management. To address this the Council that should:

- 4.1 regularly evaluate and report on the economy, efficiency and effectiveness of its risk management arrangements (**paragraph 14**); and
- 4.2 routinely share lessons learnt to improve its risk management arrangements (**paragraph 15**).

Appendix 1

Scope and methods

Our objectives for this audit

Our objectives for this audit were to:

- help discharge the Auditor General's duty to satisfy himself that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- help discharge the Auditor General's duties under the Well-being of Future Generations Act.

Legal basis

We conducted this audit under the duties contained within Section 17 2(d) of the Public Audit (Wales) Act 2004 and the powers contained within Section 15 of the Well-being of Future Generations (Wales) Act 2015.

Our audit methods and when we undertook the audit

We undertook this audit between February and May 2025, by:

- reviewing relevant documents, for example, risk management strategy papers, guidance for Members, and training materials;
- observing a sample of governance and audit committee meetings; and
- holding interviews with key officers and the Cabinet Member who hold responsibility for risk management.

Our findings are limited to our analysis of the above information.

Appendix 2

Audit questions and criteria

Overall question: Does the Council have proper risk management arrangements that support the delivery of its strategic objectives?

Level 2 questions	Level 3 questions	Criteria
1. Does the Council have a clear risk management framework supported by an effective risk management culture?	1.1 Does the Council have a comprehensive risk management framework aligned to its strategic objectives?	• The Council's risk management framework sets out: – Roles & responsibilities – Reporting & monitoring requirements – Governance arrangements – Timeframe for risk register updates – Risk escalation and de-escalation process; and – Is up-to-date (i.e. not beyond its specified review date)
	1.2 Does the Council have an effective risk management culture?	• Senior leaders drive a focus on the importance of risk management in the Council. • The Council views risk management as an integral part of how the Council operates. • Senior leaders promote a culture which encourages open dialogue around risk. • The Council's governance and oversight arrangements include risk management.

Level 2 questions	Level 3 questions	Criteria
		- Members and officers have received training in risk management relevant to their role. - Officers and members have a clear understanding of their role within the risk management framework. - The Council's culture supports the effective identification and management of risks.
	1.3 Has the Council clearly defined its risk appetite and tolerance levels?	- The Council clearly articulates its levels of risk appetite and tolerance. - The Council's risk appetite aligns with its strategic ambitions. - The Council bases its risk appetite and tolerance levels on relevant and accurate information. - The Council reviews its risk appetite to reflect relevant and significant changes to the internal and external environment.
	1.4 Does the Council take a long-term approach to risk management?	- The Council undertakes horizon scanning to identify emerging risks and future threats as well as opportunities. - The Council can demonstrate how its horizon scanning influences its management of risk. - The Council takes a preventative future focused approach to risk.
2. Does the Council effectively identify, manage, monitor and challenge its risks?	2.1 Does the Council thoroughly identify and assess the impacts of risk?	- The Council uses a range of tools to assess and evaluate risk (risk analytics, artificial intelligence, risk modelling, scenario and sensitivity analysis, and stress-testing). - The Council uses reliable information/data to assess the scale, likelihood and potential impact of risks. - Risks reflect significant risks to the delivery of the well-being objectives and strategic goals

Level 2 questions**Level 3 questions****Criteria**

2.2 Does the Council have an integrated approach to risk management?

- The Council maps interdependencies and connections for cross-cutting risks.
- The Council identifies and assesses the aggregate impact of risk across the organisation.
- The Council identifies risk information from key delivery partners and other public-sector organisations and considers how these risks might impact the delivery of its strategic objectives and those of its partners.
- The Council assesses a range of impacts and consequences for risks both within and outside of the Council's control.

2.3 Do the Council's arrangements provide assurance that adequate action is taken to address risks?

- There is clear ownership and accountability of risks.
- Risk responses and actions are clear and aligned to the Council's risk appetite and tolerance and costed.
- Risk actions are regularly updated.
- Mitigating actions are assessed for their effectiveness in changing risk ratings.
- There are clear criteria for escalating/de-escalating risks and a clear audit trail.

2.4 Does the Council regularly monitor and report on risk management?

- The Council uses meaningful scoring /assessments to support monitoring and reporting of risks.
- Risk registers are comprehensive and up to date.
- The Council can clearly articulate why risks are on the register or where they are not, this is clearly explained and documented.
- Senior leaders review risks on a regular and timely basis
- Elected members receive risk reports in a timely, transparent and accurate way.

Level 2 questions	Level 3 questions	Criteria
3. Does the Council have arrangements in place to evaluate the effectiveness of its risk management arrangements?		• The Governance and Audit Committee (GAC) provides effective oversight and challenge to the risk information
	3.1 Does the Council routinely evaluate the effectiveness of its risk management arrangements?	• The Council evaluates its risk management arrangements and identifies gaps and areas for development, including benchmarking against the practice of other organisations. • The Council actively considers the value for money of its risk management arrangements.
	3.2 Does the Council routinely share any lessons learned to improve its risk management arrangements?	• The Council identifies and shares lessons learnt and good practice around risk management across the Council.



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