

AUDIT AND GOVERNANCE COMMITTEE

DATE	13/07/2022
REPORT OF	Executive Director Place and Resources
SUBJECT	Risk Management Annual Report
STATUS	Open

CONTRIBUTION TO OUR AIM

An effective approach to risk management, including the maintenance of a strategic risk register, supports the delivery of the Council's strategic aims by identifying, evaluating and then mitigating those issues which could result in them not being effectively delivered.

EXECUTIVE SUMMARY

This report provides the Audit and Governance Committee with an overview of the Council's risk management activities during 2022/23.

RECOMMENDATIONS

That the Committee notes the Council's progress in managing risk during 2022/23.

REASONS FOR DECISION

The Committee's responsibilities include monitoring the effectiveness of the Council's risk management framework. As part of discharging its responsibilities it receives an annual summary of risk management activity.

1. BACKGROUND AND ISSUES

- 1.1. The Council has a Risk and Opportunity policy that outlines the Council's approach to risk management. The purpose of the report is to confirm that the approach is followed and to highlight any work that has been undertaken in relation to risk management. An appendix has also been provided which demonstrates the Risk Management Framework adopted by NELC. (Appendix 1)
- 1.2. The Strategic Risk Register (SRR) is regularly presented to and reviewed by the Corporate Governance Group and Assurance Board. The Audit and Governance Committee reviews the SRR twice a year with the most recent review being on 20 April 2023. It is scheduled to be next presented to the meeting in November 2023.
- 1.3. As previously reported the Council's liability insurers, Zurich Municipal, were commissioned to conduct a "health check" of the Council's risk management arrangements. A report containing a number of recommendations was issued and consequently an action plan was produced. Work has commenced on implementing the recommendations with support from a Risk Specialist from ZM (as part of our contract with them for insurance) and the work that has been undertaken is detailed below:

- Risk management refresher training was provided to the Audit Committee Working Group in October 2022 to provide an overview of the risk management framework that is applied within the Council. Further training will be provided at the Audit and Governance meeting on 12 July 2023.
 - Each Assistant Director now has a designated risk champion, and ZM delivered training to the champions on 13 September 2022 which provided an overview of risk management principles and processes together with the roles of a risk champion. Terms of reference have been developed and the Group meet on a quarterly basis to discuss service updates, challenges and emerging risks.
 - A review of strategic risks and alignment of strategic risks to the Council Plan outcomes. The Strategic Risk Register was reviewed by ZM, and feedback has been provided to risk owners. As part of this review an exercise was carried out to align the risks to the Council Plan outcomes.
 - Work is ongoing in relation to setting the Council's risk appetite. Risk appetite is defined as being the organisation's willingness to accept risk in pursuit of its business objectives. It also forms part of the overall framework around which decisions on are made. The Council must take risks to evolve and to continue to deliver services effectively, deciding what risks they want to take and the ones it wants to avoid. Workshops have been held at an Assistant Director level with a view to aligning a risk category to each strategic risk. The results of the exercise will be approved by the Senior Leadership Team.
 - The Risk and Opportunity Policy is currently being reviewed against best practice. The outcome from the risk appetite work will be included in the Policy.
 - A timetable is in place to progress the other longer term actions from the original report .
- 1.4. An upgrade to the JCAD Core risk management system is to be implemented. The new functions include setting the risk appetite to a risk and an improved reporting facility. The system is planned to go live in July 2023.
- 1.5. A review of the Council's operational risk registers was carried out in June 2023 by the Strategic Lead Risk and Governance. The exercise confirmed that there has been a significant improvement in keeping the registers up to date since reported last year.
- 1.6. During the year, the Strategic Lead (Risk and Governance) has continued to assist services in using a risk management approach to help deliver operational or project objectives. During 2022/23 the following work was carried out:
- Facilitating workshops to help identify risks
 - Assisting risk leads in generating risks
 - Provision of training, support and advice

- Liaison with Risk Champions to ensure registers are up to date
- 1.7. Liaison continues with Internal Audit on an on going basis to ensure that risk is considered in audit reviews and risk reviews take account of improvements arising from audit work.
 - 1.8. A key example of how risk is used in the council's decision-making process is that Cabinet reports have a section to state that risk should be considered. An examination of Cabinet reports by Internal Audit provided evidence to demonstrate that risk is being considered with sufficient detail to ensure that decision makers are cognisant of the risks with the proposals/decisions to be taken.
 - 1.9. Based on the information set out in this report it can be concluded that arrangements for managing risk within the council are appropriate. There is evidence that risk is taken seriously and there is an understanding of the need to get risk management right. There is also an understanding and consistent implementation of the risk management framework.

2. RISKS AND OPPORTUNITIES

Risk management is the systematic identification, analysis and economic control of opportunities and risks that challenge the assets, reputation and objective of the Council.

An effective risk management framework is an essential element of good management and a sound internal control system, risk management being a key contributor to good governance.

3. OTHER OPTIONS CONSIDERED

Not applicable - the Audit and Governance Committee is required to regularly receive updates in relation to the strategic risk register as part of the discharge of its responsibilities.

4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS

Reputational risk is one of the issues considered when scoring strategic risks. Where applicable controls and actions are in place to mitigate any relevant reputational risks identified as part of the overall risk.

5. FINANCIAL CONSIDERATIONS

Financial risk is one of the issues considered when scoring strategic risks. Where applicable controls and actions are in place to mitigate any relevant financial risks identified as part of the overall risk.

6. CHILDREN AND YOUNG PEOPLE IMPLICATIONS

The risk register includes strategic and operation risks relating to Children and Young People. They are currently being reviewed with the intention that where applicable they will align to the Improvement Plan.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

None directly arising from the recommendations in this report. Where applicable climate change and environmental implications are considered in assessing risks.

8. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report. However, each of the risks identified could have a potential financial impact if not addressed.

9. LEGAL IMPLICATIONS

The approach to the Council's risk registers as set out in this report is considered to comply with the applicable regulatory/statutory framework. An approach to risk includes dealing with legal issues that arise in respect of specific risks. Legal services will therefore be involved, at a sufficiently early stage, to ensure that risks are managed appropriately.

10. HUMAN RESOURCES IMPLICATIONS

There are no direct HR implications arising from the content of this report.

11. WARD IMPLICATIONS

Applicable to all wards.

12. BACKGROUND PAPERS

Risk and Opportunities Policy January 2020

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EXECUTIVE DIRECTOR PLACE AND RESOURCES

Appendix 1

The briefing below provides an overview of the Risk Management Framework adopted by NELC, along with the accompanying roles and responsibilities in ensuring the framework is effective.

Risk Management Structure and Processes

Introduction

A fundamental aspect of a robust risk management process and framework is one which distinctly separates out different types of risk and how they are managed and reported on throughout an organisation.

Typically, within most organisations there are two types of risk: strategic risk and operational risk

In order to make the risk management process the most efficient and effective it can be, its important to ensure that the right risks are assessed and reported to the appropriate corresponding management group in the organisation.

Definitions

Individual organisations will refine and adapt their own definition of each type of risk; however, the following definitions provide guidance on what differentiates a corporate risk from an operational one.

Strategic Risk:

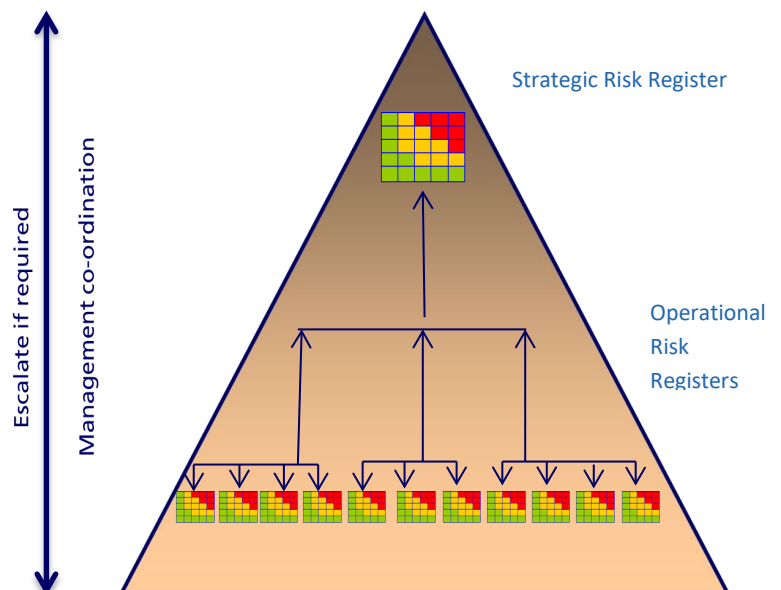
High level risks related specifically to the achievement of the organisation's corporate objectives. If such risk events were to occur, they would have a far-reaching impact across the organisation and on the long-term strategic direction.

Operational Risk:

Localised risks relating to a specific team or service plan objective. Operational risks, although may have a serious impact, are less likely to affect the overall direction of the organisation and can be managed at lower levels of the organisation.

Process

To develop a more mature risk management approach, organisation's need to ensure that there is an effective relationship between the top tier of risk management and lower tiers of risks management. For example, if a risk was to escalate above acceptable levels, it can be identified and moved upwards for monitoring and reporting purposes. Equally, as risks are mitigated to acceptable levels and no longer require senior management attention they should be demoted and delegated to managerial levels further down in the organisation.



If there is sufficient assurance relating to the risk structure and processes at operational levels, to manage low levels of risk, senior management should only be focused on the corporate risks. In doing so, a ‘manage through exception’ culture should be fostered across the organisation resulting in a focused leadership team, Board or Committee working on the most critical areas of risk, where they can influence and support the organisation the most.

Roles & Responsibilities

To support the risk management structure, each risk stakeholder must understand and execute their role effectively.

Stakeholder	Responsibilities
Senior Management / Heads of Service	<ul style="list-style-type: none"> To have oversight of key operational risks which may impact service delivery through regular risk review activities, To provide assurance that risks at an operational level are well managed, To escalate any emerging or increasing operational risks to Executive Directors
Executive Directors	<ul style="list-style-type: none"> To have oversight of the Strategic Risk Register, effectiveness of controls and ensure that action is taken to manage risk to an appropriate level, To report into Members through the relevant Boards, Committee on key corporate risks
Audit & Governance Committee	<ul style="list-style-type: none"> To assess and gain assurance on the effectiveness of the risk management framework, approach and controls in place to manage strategic risks

Assurance Best Practice

The Three Lines of Defense Model



Operational Risk

To gain assurance that operational risk is being managed effectively there are a number of controls which should be in place. These include the business-as-usual processes established by each service to manage and maintain standards as part of the first line of defence. For many services, first line defence controls are built into individual's roles and responsibilities and daily procedures to prevent risk from occurring.

Where operational risk may be higher, additional layers of control and assessment should be in place to identify and manage threats. This is where second line of defence controls are likely to be implemented and reported on to senior management.

Finally regular and vigorous assessment of operational risk can happen through internal audit activity. The output of which should be presented to the relevant Boards and Committee's as part of a regular cycle of reporting.

It is unlikely that, unless an operational risk was to escalate to a high level of threat, additional reporting or monitoring is required above what is already in place.