Annex 3; Risk Register Report

Background

The Local Pension Board has asked for an outline of the methodology of risk used in the risk register.

Methodology of risk model

This paper is intended as a brief introduction to risk management and how it works in practice.

Surrey County Council has an integrated risk management strategy, which is reviewed annually by the Audit and Governance Committee.

The risk management framework is based on HM Treasury's "The Orange Book" risk model, which is widely regarded as a template for best practice.

Risk framework
(May 2017).pdf

Although it is not necessary to rehearse the established methodology set out in the Risk Management Framework, it is helpful to establish the context and the key principles. The main elements of the framework are (1) risk drivers and their interaction with (2) the external environment which are identified, measured, managed and monitored in accordance with the policy.

It is important to be selective in order to capture the key risks, describe them clearly and accurately, identify their consequences and weigh their potential impact. The risk rainbow, which is analogous to a colour coded fan, is tool that assists identification and categorisation of risk.

1.1 Impact criteria

Once the risk has been identified it must be weighed and measured. The council uses a tabular model, which identifies the risks in vertical columns and then measures the potential financial, service and reputational impacts in separate horizontal entries.

(Financial impact "W"+ Service impact "X"+ reputational impact "Y") x Likelihood "Z" = **Total risk**

Financial impact is measured from minor (<1%), moderate (1-10%), significant (10-20%) to severe (<20%).

Service impact is measured by the level of intervention from service manager, head of service, strategic director to cabinet decision.

Reputational impact ranges from internal communication / press release, minor article in local media / lobby group activity, headline article in local media / minor article in national media to headline article in national media / prolonged local media campaign.

Although the impacts are added together, Likelihood is the key multiplier for operational risks and it is measured in a separate table.

Likelihood is measured from remote (no experience with sufficient controls in place), possible (10% have experience and conditions exist for occurrence), probable (most have experience and controls not fully effective) to likely (everyone has experience with no effective measures).

The council utilises a traffic light (RAG) model to measure risk based on the Total Risk Score;

Red = high (32-48)

Amber = medium (16-31)

Green = low (3-15)

1.2 Risk controls (the five "Ts")

This is measured on an incremental scale accompanied by a clear description of the actions to be taken in order to control the risk.

Terminate - stop it

Treat - reduce the likelihood

Take - positive opportunities

Transfer - pass to another service better placed to mitigate the risk (but the original service still owns the risk)

Tolerate - do nothing (cost outweighs benefits / outside our control)

1.3 Monitoring and reporting

A risk register must be maintained and regularly reviewed and reported upon.

1.4 Risk registers

Must be completed and maintained in the agreed format.

1.5 Issue management

Events that have happened and are affecting the organisation in some way need to be actively managed and resolved. A four stage process is used to manage issues;

1) **Capture** the issue with a clear description

2) **Assess** the impact of the issue (high, medium or low)

3) **Action** needed to address the issue

4) **Monitor** regularly to track actions and impacts

1.6 Risk management in practise

Although the precis of the risk management framework captures the key elements, it is apparent that the performance of the model in practice is determined by the ability – and experience - of the officer(s) applying it. The model works efficiently if the right risks are identified and weighed correctly but this relies on skill and experience, which cannot be taken for granted.

Although the Finance Management Team (FMT) has limited experience of risk management this issue can be managed by drawing on collective experience and requiring a quorum of (say) three officers, of which at least two have significant pensions experience, to identify risks and to weigh them. This approach would improve consistency and encourage objectivity and, should either of the experienced officers be absent for any reason, the section could consider inviting a risk specialist make up the numbers and to validate their approach.

Although it is sensible to have the most concise risk register possible in principle, it may be pragmatic to have a comprehensive risk register until the FMT acquires the experience to ensure that no significant risk is overlooked. In the longer-term as the FMT becomes acquainted with the nuances of risk management model it may be possible to prune the risk register so that only key risks are monitored on a regular basis. Equally, it may be possible to relax the quorum for risk management meetings as members of the FMT gain experience and grow in confidence.

1.7 Case study

The biggest risk identified within the remit of the Finance Management Team is poor reconciliation of contributions which may that lead to incorrect contributions being recorded. This is a risk that can be mitigated by moving from quarterly to monthly reconciliation as errors would be smaller, identified earlier, corrected sooner and simplify the annual reconciliation (fewer errors). However, this improvement would require a degree of automation to achieve this efficiently and a number of key strategic decisions would need to be made before it could be implemented.

The natural route to monthly reconciliation would be to build an automated interface in order to dispense with labour intensive manual routines and promote accuracy. Ideally this product would integrate with other systems / teams exchanging data with the employers to prevent duplication of effort. As I understand it, Surrey Council has identified three potential solutions that are capable of performing a range of functions and the main difficulty appears to be identifying one that satisfies the majority of the respective stakeholder’s (employers, administrators and the finance team) requirements.

Conclusion

Surrey County Council has an effective risk management model and the Finance Management Team has used it to identify and address its key risks. The risk register will be refined and risks will be weighed more precisely as the team acquires experience.