



Audit & Governance Committee
8 March 2023

RISK MANAGEMENT

Purpose of the report:

To provide an update on risk management.

Recommendations:

It is recommended that:

1. Members note the update on risk management.

Introduction:

1. This paper provides both a forward perspective in terms of the external operating environment and planned activities over the next financial year, as well as a review of the findings from two recent audits on risk management.

Risk Profile

2. The external operating environment continues to be uncertain. The interconnectedness of the global system means that problems in one part of the world can have a significant impact both to the Council and the residents of Surrey.
3. Some areas of concern in 2023 (either UK and internationally) include:
 - **Labour market unrest:** leading to possibly more widespread industrial action (& during a period of staff shortages)
 - **Economic Recession:** higher unemployment and insolvency (both personal and company)

- **Persistent inflation:** (although unlikely to be double digits)
 - **Continued high demand for Council Services:** pressure on stretched budgets and an already tired workforce
 - **Possible growing social discourse:** increasing numbers of residents struggling with the Cost of Living
 - **Possible further international conflicts:** escalation in Ukraine or other international tensions with impact on energy/fuel security and supply of goods
4. The Corporate Risk Register detailing the key strategic risks for the Council is attached (Annex A) and may well be further influenced by some the factors described above. The Corporate Risk Register is for information and is reviewed in more detail quarterly by Cabinet Members.

Risk Plan for next financial year
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5. Whilst there has been some significant improvements in the management of risk over the past couple of years, there are four principle areas of improvement targeted for 2023, namely:
- Automation: Investigate whether a low-cost risk management solution is viable to move away from risks being captured in spreadsheets as is the case today
 - Best Practice: Connect with Risk Managers from other Councils to identify any areas for improved ways of workings and sharing knowledge
 - Intranet Presence: Develop a risk management intranet site to improve the access to helpful risk information
 - Resilience: Document the processes and working instructions that underpin risk management such as what is required for each meeting, dates of key risk meetings/reports, mapping of the location of files etc.

In addition to the above, it is important to continue to embed risk management within the organisation. This will principally involve:

- Working closely with Directorates to support risk identification, capture/articulation, analysis and appropriate mitigations.
- Monitoring the status of risk: Monthly reporting of the Corporate risks to the Corporate Leadership Team (CLT), quarterly reporting of the Corporate risks to Cabinet Members and six-monthly updates on risk management effectiveness to the Audit and Governance Committee (AGC).

Risk Audit

6. Two audits on risk management took place over the past 6 months. Below are the outcomes from each of these starting with the most recent.
7. Internal Audit completed a review of risk management in Feb 2023. It was a very pleasing report stating:

“Substantial Assurance is provided in respect of Risk Management 2022/23. This opinion means that controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.”

There were two recommendations for improvement detailed below along with the associated management response:

- i) *Risk Registers - We reviewed a sample of directorate risk registers and noted that key information such as risk owners and target dates had not been recorded for all risks included on registers.*

Response: As the risk registers are ‘live’ documents then it is possible some risks may not be fully worked through in terms of assigning ownership, scoring, target dates etc. However, a note will be sent to risk leads advising that whenever possible that the registers should have all the fields completed.

- ii) *Risk Management Awareness and Training - During our review, we noted that there was no web presence for the risk management function and no available training for risk management within the organisation. A general search on risk management on the Intranet, led to the display of unrelated information rather than a link to the current risk management strategy. The importance of training was highlighted in feedback received from a sample of canvassed risk co-ordinators, which indicated the requirement for additional training in risk management.*

Response: A review of the web presence will be conducted to identify what information is currently being returned and how better to bring forward the key risk management information. This will be completed by April 2024. Subsequently, a training module will be implemented as part of a wider initiative to provide an online risk management course.

8. Separately, an audit was conducted by Grant Thornton for the period 2021/22 which included a review of Risk Management. AGC received this report at the January 2023 meeting and it is worth revisiting as there are some actions planned.

9. The Auditor commented in the report of the significant improvements that have been made with risk management and identified 3 points to consider for possible improvement. These are specified along with the response:

Grant Thornton's Annual Report on Surrey County Council for 2021/22:

"Consideration should be given to the following improvements to the risk management process as processes become embedded"

- i) Inclusion of untreated, treated and target risk scores in risk registers*

Response: The scoring system used by the Council reflects the current risk exposure in terms of probability and impact. There is very questionable value from getting risk owners to further assess the untreated score (i.e. assuming existing controls that are already in place are not). Knowing the target risk can be beneficial but must be balanced with not having too many scores that may lead to confusion. Target risk will be revisited in the future once risk is more embedded and specifically at the point where either an 'automated' risk tool is implemented or the current excel risk spreadsheet is updated.

- ii) Develop a training module for new starters to raise awareness of risk across the organisation*

Response: The majority of the risk management effort is focused on those risks which can have the largest impact to the organisation with training targeted at those risk owners. Given support for risk management has finite resources the focus for 2023 will be on the activities highlighted in page 2 of this report. There are benefits in promoting risk management awareness for new starters and the recommendation will be scheduled for 2024.

- iii) Show how assurance is linked to the three lines of defence model"*

Response: The risk approach followed by the Council does follow a three lines of defence model. The first being risk owners working to address the risks, the second being Cabinet and Audit Committee providing review and scrutiny supported by the Head of Risk Management, and the third being internal audit. For clarity, a section will be added to the next iteration of the Risk Management Strategy (due Sept. 2023) that makes explicit reference to how the Council aligns to the three lines of defence model.

Risk Management Strategy

10. The Risk Management Strategy details the overall approach to risk management and is brought to the AGC annually for review. The Committee may recall that it was approved at the AGC in September

2022. At that meeting it was highlighted that the Risk Management Strategy currently forms part of the Councils constitution and therefore any changes require Cabinet approval and formal constitutional amendment. Given there will very likely only be minor tweaks to the risk management approach this did not seem the best use of time/resources.

11. Rather, it was agreed at the September 2022 meeting whether an alternative approach could be investigated whereby AGC have delegated authority to approve the Risk Management Strategy without the need for additional Cabinet approval. As such, Democratic Services incorporated this piece of work as part of a wider activity being undertaken by the Constitution Review Group.
12. The Constitutional Review Group are meeting in February and have been requested to look at the change outlined above. A further verbal update on the latest status will be provided at the AGC.

Next Steps:

13. The AGC will continue to receive risk updates on a six-monthly cycle with the next scheduled for September 2023.

Conclusions:

14. Risk management continues to be actively undertaken within Surrey County Council.

Financial and value for money implications

15. Improved decision making through risk management supports better allocation of resources and value for money.

Equalities and Diversity Implications

16. N/A.

Risk Management Implications

17. Failure to implement effective risk management will reduce the quality of decision making within the Council. Moreover, the AGC will not be able to demonstrate that it is discharging its governance responsibility of having active risk management within the organisation.

Report contact: David Mody - Head of Strategic Risk, Surrey County Council
Contact details: 07918 029479 / david.mody@surreycc.gov.uk

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