

AUDIT AND GOVERNANCE COMMITTEE

DATE	25/07/2024
REPORT OF	Executive Director Place and Resources
SUBJECT	Risk Management Annual Report
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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 2023/24.

RECOMMENDATIONS

That the Committee notes the Council's progress in managing risk during 2023/24.

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. 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 2023/24 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

- 1.3. Liaison continues with Internal Audit on an ongoing basis to ensure that risk is considered in audit reviews and risk reviews take account of improvements arising from audit work.
- 1.4. As previously reported the Council's liability insurers, Zurich Municipal (ZM), 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 progressed on implementing the recommendations with support from a Risk Specialist from ZM (as part of our contract with them for insurance). Work still to be completed includes the alignment of performance indicators to risks, the consideration of Opportunity Risk Management and the further development of the Council's risk maturity. The 2024/25 internal audit plan includes a requirement for a review of risk management arrangements to be carried out by a third party provider.
- 1.5. The Strategic Risk Register (SRR), which is aligned to the Council Plan outcomes, is regularly presented to and reviewed by the Corporate Governance Group and Assurance Board. During 2023/24 the Assistant Directors have worked together to review the content of the strategic risk register and the scores, controls and actions contained within it. In particular there has been consideration as to the level of alignment with the council plan. The Audit and Governance Committee reviews the SRR twice a year with the most recent review being on 18 April 2024. It is scheduled to be next presented to the meeting in November 2024.
- 1.6. The Risk and Opportunity Policy is due to be updated and is currently being reviewed against best practice. ZM were asked to carry out a review of the current policy and found that in relation to its design and content there were no significant gaps compared to expected processes. It is intended to bring the updated policy to the Audit and Governance Committee by November 2024.
- 1.7. As part of the development of the risk and opportunities policy, work is to recommence 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 and is due to be completed by 30 September 2024.
- 1.8. Risk management training was provided to the Audit and Governance Committee, in association with ZM, in July 2024. Further training will be provided at a future meeting.
- 1.9. 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. A review of Cabinet reports shows that a consideration of risks and

opportunities are in most cases properly laid, although they are not always subsequently included in the risk register.

- 1.10. A review of the Council's operational risk registers was carried out in June 2024 by the Strategic Lead Risk and Governance. The exercise identified that further work needs to be carried out on them. There are some areas where the registers are not consistently kept up to date and the Strategic Lead (Risk and Governance) continues to work with Assistant Directors and risk champions to ensure the operational risks are comprehensive, regularly reviewed and updated. Further work to address includes:
- the structure of the Audit and Assurance team is currently being reviewed, with a view of increasing resilience in relation to risk management support to deal with absences and demands; whilst managers have the responsibility to ensure risk registers are complete Audit and Assurance has an important role to oversee compliance and monitor completion of the risk registers;
 - Assistant Directors have been reminded of the importance of keeping risk registers up to date; and
 - further training and communication will be provided in conjunction with the introduction of updated Risk and Opportunity Policy.
- 1.11. One area which has been identified where risk management could be particularly embedded is Children's Services. As a result of significant changes across the Children's Services Leadership and Management Team, the risk register in Children's Services does require further update. Children's Leadership Team have identified this as a priority to be addressed and there is an increased focus on updating the strategic and operational risk registers. This will be informed by the work already undertaken to develop a risk register associated with the Children's Services Improvement Plan. Led by the Assistant Director, risk champions have been identified in the Children's Assurance Partnerships and Evaluation Team who are working collaboratively with Audit and Assurance and wider Children's Services staff to review and refresh the risk registers. Work has already been undertaken to refine the structure of the risk registers to better reflect the Children's Services functions and there will be routine updates as part of children's assurance activity.
- 1.12. Based on the information set out in this report it can be concluded that on the whole the arrangements for managing risk within the council are satisfactory. Areas for improvement, however, have been identified in relation to the completeness of operational risk registers (paragraph 1.6 refers). Whilst there is some understanding of the risk management framework it is not always consistently applied.

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 following significant changes within the Children's Services Leadership and Management team as referred to in paragraph 1.8.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

The risk register includes strategic and operational risks relating to the environment. 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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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:

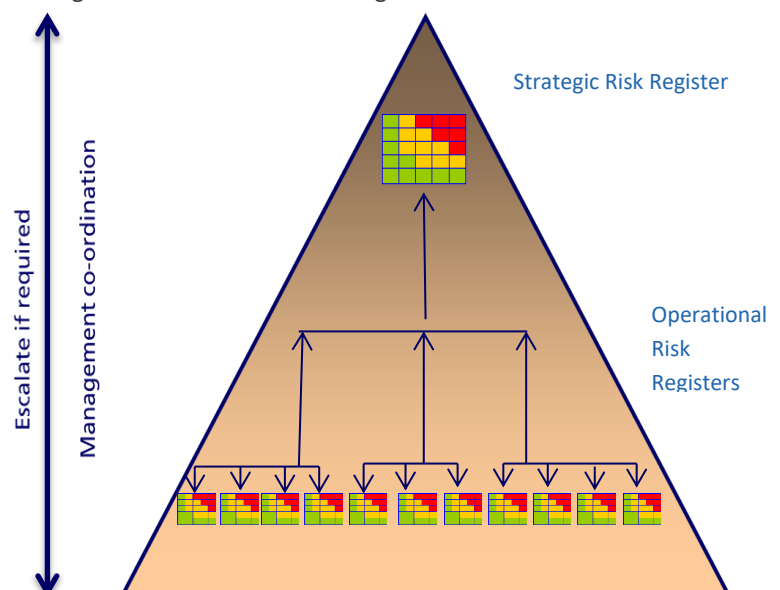
High level risks related specifically to the achievement of the organisation's corporate objectives. If such risk events were to occur, they would have a far-reaching impact across the organisation and on the long-term strategic direction.

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.