Risk Management & Internal Audit Partial Opinion update

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Division and Local Member: All

1. Summary / link to the County Plan

1.1. This report contains the latest information, obtained from our risk management system JCAD, on the Strategic risks to SCC.

1.2. The management of risk has a direct link with the County Vision, Business Plan, the Medium Term Financial Plan, forms an integral part of the Annual Governance Statement (AGS) and is a major component of the External Auditor's Value for Money Audit. Risk management is an essential component of good corporate governance.

2. Items for consideration

2.1. Audit Committee members need to be assured that the management, actions (work tasks to mitigate the risk) and compliance with the review process, are sufficient regarding:

2.2. The Council's Strategic Risk Report (latest position dated 20 March 2019) is attached as **Appendix A. T**he movement in severity/priority of any individual strategic risk since the last report in January 2019 is expressed in the Heat Map at item 3.1 below.

2.3. Strategic risk **ORG0043** - Maintain a sustainable budget. Change to the current score following review.

2.4. SWAP Partial Audits. JCAD is used to track the progress of the recommendations made by internal audit that only achieve a partial opinion.

3. Background

3.1. Strategic risk management is the process of identifying, quantifying, and mitigating any risk that affects or is inherent in an organization's business strategy, strategic objectives, and strategy execution.

The benefits of strategic risk management are
1. greater likelihood of achieving strategic objectives;
2. more systematic decision-making leading to better quality decisions;
3. improved allocation of resources.

The Heat Map below maps the changes to the strategic risks since the last heat map reported to Audit Committee in September 2018.

5 - Very Likely	0	0	15	0	25

	1 Insignificant (0)	2 Minor (0)	3 Significant (1)	4 Major (6)	5 Critical (5)
(1)					ORG0043
4 – Likely (1)	0	0	12	16 **ORG0043**	0
3 – Feasible (9)	0		9 ORG0042	12 ORG0022 ORG0002 ORG0007 ORG0024 ORG0032	15 ORG0009 ORG0011
2 – Slight (1)	0	0	0	8	10 ORG0001 ORG0010
1 - Very unlikely (0)	0	0	0	4	0

3.2. Strategic risk **ORG0043** – Sustainable Budget; Reserves will not be sufficient to manage any in-year overspends for the forthcoming financial year 2018/19. That we don't set a balanced budget for 2019/20. Risk that we don't have a short and medium term financial plan for SCC. (4x4(16).

3.3. This strategic risk has been regularly reported to Audit Committee since early 2016 and remained a focus for assurance on management actions.

3.4. The risk is reassessed on a monthly basis to determine if the likelihood of the risk can be reduced. Given the assessment in the February County Council report, it was felt that the likelihood score can reduce from 'very likely' (5) to 'likely' (4) and impact from 'critical' (5) to 'major' (4) following consideration and approval of the budget for 2019/20 in February 2019.

3.5. Prior to leaving the council the then Interim Director of Finance, Peter Lewis, wrote as part of his risk review of ORG0043, "Improvements to the projected outturn for 2018/19 and the setting of a balanced, robust budget for 2019/20 have allowed for the likelihood and impact scores to be reviewed. General Fund improved; negative earmarked reserves reduced, underspend projected and manageable budget for 2019/20 approved".

3.6. The Government's continued deficit reduction programme has significantly reduced the levels of funding available to local government. The Council faces substantial on-going challenges to achieve a sustainable balanced budget due to this and the increasing demand on its key services, especially those for vulnerable children and adults.

3.7. It is important that Members understand the risks to approved budgets, maintaining enough reserves, balances and contingencies as well as managing a range of mitigations to limit as much as possible potential impacts on core services, especially those prioritised in the County Plan. As savings become ever more difficult to identify and then deliver, it is imperative that expenditure is kept within existing budgets.

3.8. The key risks are identified on the strategic risk register and particularly within risk ORG0043. These include:

1. The availability and use of reserves and the revenue contingency: these are critical in being able to manage peaks in demand and costs incurred. A recent report to County Council (February 2019) recognised the need for adequate reserves and contingencies and aims to adopt a reasonable approach to maintaining both.

2. The potential for overspends in specific demand led service budgets seem to be more stable in recent months although the outlook for some demand led areas can alter relatively quickly. The risk of overspends continues to be mitigated through detailed budget review and challenge sessions which are generating an improved understanding of the budget and hence actions, which are delivering improved control of expenditure within all services.

4. SWAP Internal Audit Partial Recommendations

4.1. When an internal audit results in a partial opinion the audit is recorded in JCAD for regular monitoring, usually quarterly. There are nineteen SWAP Partial Audits recorded in JCAD at present, each audit is assigned to a senior manager with the resulting recommendations being assigned to individual officers. The report of the SWAP partial audit tracker can be found at **Appendix B**.

4.2. From July 2018 to January 2019 nine partial audits, listed in the table below, have been verbally presented to Committee members by senior officers to provide assurance that the current risks faced by the council in these areas are adequately controlled and managed.

4.3.

Partial Audits presented at Audit Committee July 2018 to January 2019		Month presented
JCAD Ref	**Title of Audit**	
SWAP0059	Strategic Asset Management	January 2019
SWAP0022	Concessionary Fares	November 2018
SWAP0040	Risk Of Care Provider Failure	November 2018
SWAP0058	Children's Direct Payments	November 2018
SWAP0047 - CLOSED	Payroll & IR35	September 2018
SWAP0049	Use of Part-time Timetables	September 2018
SWAP0032	Debtor Management	September 2018
SWAP0044	Mental Health Emergency Assets Care Plans	July 2018
SWAP0039	New Operating Model Front Door	July 2018

4.4. On a regular basis, officers are required to provide update information, in JCAD, for the recommendations from each partial audit. Emails are automatically generated by JCAD informing officers when the review is due. The table below highlights six partial audits where the management reviews have still not taken place.

4.5.

SWAP Partial Audits requiring management update		
JCAD Ref	**Title of Audit**	**Review Date**

SWAP0009	SCC Placement Financial Controls 2016/17	31/01/2019
SWAP0022	Concessionary Fares	04/02/2019
SWAP0026	Education of Children Looked After	21/08/2017
SWAP0032	SCC Corporation Debt Management	26/02/2019
SWAP0058	Children's Direct Payments	31/12/2018
SWAP0061	Contract Management of Children's Independent Placements 2017	07/01/2019

5. Consultations undertaken

5.1. Each relevant SLT Director is responsible for reviewing their risks, in many cases in conjunction with the Risk Manager, and assuring themselves that the actions for mitigation are appropriate and delivering the expected outcome, as outlined in the Councils Risk Management Policy.

6. Implications

6.1. How successful we are in dealing with the risks we face can also have a major impact on the achievement of our business outcomes and the delivery of services.

7. Background papers

7.1. Councils Risk Management Policy & Strategy – approved by Cabinet on 19 October 2016
Report of the Leader and Cabinet, paper C - 27 February 2019

Note For sight of individual background papers please contact the report author