![SIAS - Shared Internal Audit Service - Hertfordshire in Partnership]

Final Internal Audit Report

North Herts District Council Risk Management Framework 2020/21

November 2020

Issued to:	Rachel Cooper – Controls, Risk and Performance Manager Tim Everitt - Performance and Risk Officer Ian Couper – Service Director (Resources)
Copied to:	Anthony Roche – Managing Director FAR Committee Members
Report Status:	Final
Reference:	N219/20/001
Overall Assurance:	Satisfactory

INDEX

1. EXECUTIVE SUMMARY

Introduction

1.1 Internal Audit provides North Herts District Council ('the Council') with an independent and objective opinion on the organisation's governance arrangements, encompassing internal control and risk management, by completing an annual risk-based audit plan. This audit forms part of the Council's approved 2020/21 Audit Plan.

1.2 Risk management involves the identification, assessment and monitoring of risks along with the implementation of mitigating controls to reduce the probability of occurrence and/or to manage the impact of the risk should it be realised. Without effective risk management, the Council may be susceptible to events which could result in the Councils vision, objectives and strategic aims not being achieved.

1.3 The Council has introduced a new risk management framework in April 2020, replacing the previous strategy which was introduced in 2017. Some of the key changes in the new framework includes, the introduction of target risk scores, SMART (specific, measurable, achievable, realistic and timely) actions to mitigate risks, the introduction of an archiving process for risks and changes to definitions of risk rating categories.

1.4 The framework was recommended to Cabinet for approval by the Finance, Audit and Risk Committee (FAR) on 16 March 2020 and subsequently approved by the Chief Executive in consultation with the Leader of the Council under 6.3.11(b) of the Councils Constitution. Since the beginning of the 2020/21 financial year, the new framework has started to be implemented across the Council. At the time of the audit review, the Council had 57 operational and 14 corporate risks on its two registers, with changes to the new framework intended to improve the risk management process at the Council.

1.5 The purpose of this audit was to provide assurance that robust governance exists within the risk management framework, the design of the framework is effective to manage risks, suitable guidance and training are available to officers, changes to the framework have been clearly communicated to officers and Members and risk management activities are applied consistently by risk owners, in line with the governance arrangements of the new framework.

Overall Audit Opinion

1.6 Based on the work performed during this audit, we can provide overall **Satisfactory Assurance** that there are effective controls in operation for those elements of the risk management processes covered by this review. These are detailed in the Assurance by Risk Area Table in section 2 below.

1.7 The overall opinion was based on our assessment of the design and operation of control activities in relation to appropriately managing the Council's operational and strategic risks. The subsequent paragraphs provide an overview of how our opinion was formed, highlighting good practice and drawing out some weaknesses identified.

1.8   We have concluded that the Risk Management Framework (RMF) provides officers with sufficient and robust processes and procedures to manage risks, including clearly designated roles and responsibilities, which are outlined within the Councils RMF Policy and Strategy. The roles and responsibilities of the Controls, Risk and Performance Team (Controls, Risk and Performance Manager and Performance and Risk Officer) are included within the RMF Strategy. Our review of the RMF has demonstrated that its design enables the Council to effectively manage risks.

1.9   With respect to the oversight and monitoring of risk management activities throughout the Council, we have noted the Risk Management Group's (RMG) role in reviewing risks provides adequate corporate oversight arrangements. In addition to this role, the reporting arrangements to Senior Management Team (SMT) and members, through Finance Audit and Risk Committee (FARC), and Cabinet are sufficient to ensure members and leadership have oversight of risks. Service Directors are also updated on risks held within their directorates on a monthly basis, through reports issued by the Controls, Risk and Performance Team.

1.10 Our testing showed that reporting arrangements to RMG and FARC were correctly implemented in line with the RMF. However, changes to operational risk ratings were not reported to the SMT in reports received in May and August 2020. The RMF Policy outlines that this arrangement will occur. As a result, we have raised a recommendation in this area. In addition, we advise that the RMF document is clarified to outline the process for making changes to Pentana and reinstatement of risk ratings, where rejection of changes occur by oversight groups.

1.11 With regards to the communication of changes to the RMF, we have seen adequate arrangements to both members and leadership, through the reporting to RMG, FARC and SMT. In addition, we confirmed that communications were provided to all officers, not only Risk Owners, through notifications on the Councils intranet page supported by clear direction on where to locate the RMF documents. We have also seen email communications to three of the six risk owners we met with outlining some of the requirements of the RMF. However, some risk owners informed us that they were unaware of changes to the RMF. Therefore, we have raised a recommendation in relation to awareness and understanding of the RMF.

1.12 Discussions with risk owners and key officers involved in the risk management process and analysis of the Councils risk management system, has shown that risk owners are managing risks in line with most aspects to the RMF. We reviewed all risks that have been reviewed since the new RMF was introduced and found that they all contain risk descriptions, risk ratings have been applied, mitigating actions are assigned and risks are assessed in line with the Councils risk matrix rating system (3 by 3 matrix). This demonstrates that the identification and initial assessment of risk complies with the new RMF, albeit these are the areas that were subject to minimal change.

1.13 However, our review has shown that some requirements of the RMF are yet to be fully implemented. We found that 76% of operational risks reviewed in 2020/21 do not have a target risk score and 22% of corporate risks (two out of nine risks) reviewed in 2020/21 did not have a target risk assigned. In addition, 95% of operational and 89% of corporate risks reviewed in 2020/21 did not have SMART (specific, measurable,

achievable, realistic and timely) actions applied. These design elements of the RMF are key to ensure that the acceptable level of risk is defined, therefore allowing the Council to focus on monitoring key risks and that action is taken in a timely manner. We acknowledge that the challenges caused by COVID-19 has had an effect on the full implementation of the new RMF as well as the focus on ensuring the new definitions for impact and likelihood are implemented and that historic risks are archived. However, it is important that target risks and SMART actions are introduced in a timely manner to ensure the new RMF operates robustly. Therefore, we have raised a low priority recommendation in this area.

1.14 The RMF outlines specific review frequencies for risks, which are to take place on the Pentana by the risk owners. Our testing has identified that 71% of operational risks and 78% of corporate risks not being reviewed as per the timing requirements in the RMF. Of the risks not reviewed in line with the requirements, 41% had a risk rating between 7 and 9 (red), while 59% had a risk rating between 4 and 6 (amber). The RMF outlines that red risks are to be reviewed on a monthly basis as a minimum, while amber risks are to be reviewed on a quarterly basis as a minimum. Our analysis showed that 12 red rated risks had just one risk review in 2020/21 at the time of our testing in September 2020. Adding to this, at the time of testing, 19 operational risks and 5 corporate risks had not been reviewed by the Council in 2020/21. Six of these risks were red rated and ten had an amber rating. From our discussions with risk owners, we understand that they would not typically review a risk out of the scheduled risk assessments, unless changes were required. Therefore, a medium priority recommendation has been raised around ensuring compliance with the risk review frequency set within the RMF.

1.15 We are satisfied that there is sufficient guidance documentation available to risk owners and managers to support risk management activities. We also acknowledge that a risk management toolkit is being developed with part of this expected to roll out at the end of October, which will support officers with fully implementing the RMF.

1.16 We have provided satisfactory assurance in this area as a result of the curtailment of training activities due to the circumstances of COVID-19. We have not raised a recommendation due to the ongoing work of the Controls, Risk and Performance Team to develop a new E-Learning module on risk management, which we understand will be mandatory for all officers to complete, including risk owners. We have reviewed the draft content for this module and have seen clear alignment between the material and the RMF. We understand that this is likely to be introduced at the end of October, after testing is completed with a sample of officers. We also note that the Council plan to provide the opportunity to book 1-2-1 support via Grow Zone on using the Pentana System. The above actions are robust and should they be implemented as designed, we would be providing good assurance in this area.

1.17 For definitions of our assurance levels, please see Appendix B.

Summary of Recommendations

1.18 In order to improve the control environment in operation, we have raised four recommendations as part of the audit undertaken, one of which is a medium priority recommendation and three which are low priority recommendations.

1.19 Please see Management Action Plan at Appendix A for further detail.

Annual Governance Statement

1.20 This report provides satisfactory levels of assurance to support the Annual Governance Statement.

2. ASSURANCE BY RISK AREA

2.1   Our specific objectives in undertaking this work, as per the Terms of Reference, were to provide the Council with assurance on the adequacy and effectiveness of internal controls, processes and records in place to mitigate risks in the following areas:

Risk Area	No	Limited	Satisfactory	Good
Governance Arrangements - Council has a robust risk management framework providing officers with clear processes and procedures to effectively manage risks. Monitoring arrangements are suitable for corporate oversight of risks identified and reporting arrangements enable leadership and Members to have oversight of risks. The design of the risk framework enables the Council to effectively manage risks.				
Communication of Changes – Changes to the risk management framework have been clearly communicated to officers and Members, risk owners are aware and understand the framework.				
Application of Risk Management Activities - Risk owners are managing risks using a consistent approach which is in line with the Councils risk management framework.				
Training and Supporting Guidance - Officers are provided with sufficient guidance and tools to support them in managing risk, training is available to officers to allow them to effectively undertake risk management activities.				

Overall				

2.2   See definitions for the above assurance levels at Appendix B*.*

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
1.	**Risk Reviews** The Risk Management Framework (RMF) Strategy clearly states the frequency that risks should be reviewed by risk owners on the Councils Risk Management System (Pentana). These are as follows: • Red (Ratings 7-9) - Minimum monthly reviews • Amber (Ratings 4-6) - Minimum quarterly reviews • Green (Ratings 1-3) - Only review if situation changes A review of the Councils Risk Management system identified that risk reviews were not taking place at the stated frequencies (at the time of our review in September 2020). The review showed: 1. Corporate Risks: • 7 of 9 corporate risks reviewed in 2020/21 did not take place at the frequency prescribed in the RMF. (6 were red and 1 was amber rated). • Of these 9 risks, 7 did not have a next assessment date which aligns with review requirements	Medium	We recommend that the Controls, Risk and Performance Team remind all risk owners of the stated risk review frequencies stated in the Risk Management Framework (RMF). In addition, we recommend that further checks are introduced to ensure risk reviews are taking place at the required frequency. Escalation measures should be introduced to notify the Service Director where red risks have not been reviewed in two months maximum. A record of action taken should be maintained to verify that reviews are taking place as expected. An exercise should be undertaken to ensure all risks, operational and corporate, have a date of next review that aligns to the RMF is added to Pentana.	**Responsible Officer: Controls Risk and Performance Manager** It has become evident since implementation of the framework that the frequency of the reviews is not currently practical with existing resources. We will propose a revision to the risk management framework that the frequency be revised Red – 3 monthly Amber – six monthly There is no point in imposing reviews which are impractical to complete. Once the revised timescales are authorised, they will be publicised to all officers. Monthly Directorate overviews will highlight any risks not reviewed within these timescales. Next assessment dates to be	Proposed changes to RMG 30/11/2020 Report to FARC and Cabinet 31/12/2020 Included in Directorate Overviews 02/01/2021 31/12/2020

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	of the RMF. • 4 red rated risks had only one review in 2020/21 • A total of 5 corporate risks had not been reviewed in 2020/21. Four of these risks were red and one was amber rated. 2. Operational Risks: • 27 of 38 operational risks reviewed in 2020/21 did not take place at the frequency prescribed in the RMF. (8 were red and 19 were amber rated). • Of these 27 risks, 26 did not have a next assessment date which aligns with review requirements of the RMF. • 8 red rated risks had only one review in 2020/21 • A total of 19 operational risks had not been reviewed in 2020/21, at the time of our review. Two of these risks were red rated and nine were amber rated. Associated Risk Risks are not reviewed at the frequency prescribed in the RMF. Key risks may not be effectively monitored leading to increased likelihood of			added to all risks as they are reviewed.	and ongoing

| No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	risks materialising which would prevent the Council from achieving its objectives.				
2.	**Implementation of Target Risk Scores and SMART Actions** The RMF outlines that target risk scores and SMART (specific, measurable, achievable, realistic and timely) actions are to be implemented for each risk managed by the Council. We reviewed the Councils Risk Management software for all risks which have been reviewed since the new RMF was approved and found that 29 of 38 (76%) operational risks had no target risk score and 2 of 7 corporate risks did not have a target risk score. In addition, our review found that 36 of 38 (95%) operational risks and 8 of 9 (89%) corporate risks did not have any SMART actions. We also understand that the Council intends to add target risk scores as upcoming risk reviews take place. However, at the time of our review	Low	We recommend risk owners immediately review risks which do not have a target risk score or SMART actions and complete the following to ensure compliance with the RMF: • Add a Target Risk Score • Review all outstanding actions ('ongoing work') and ensure that these actions are SMART.	**Responsible Officer: Controls Risk & Performance Manager / Performance and Risk Officer** The new RMF was only implemented in March 2020 at the same time as the lockdown. As a result, it has been difficult to ensure all risk reviews are up to date as Service areas have had to prioritise keeping a service going. We are slowly getting these updated. As risks are reviewed the target score will be set and smart actions identified to get down to the target score. This will also be highlighted in the Monthly Directorate overviews to ensure oversight.	Target Risk Scores /SMART actions on all risk reviews where appropriate from 05/11/2020 Directorate overviews to pick up where requirements of RMF not being met

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	(almost six months into the new RMF being in place) a large percentage of risks are not currently meeting key requirements of the RMF as outlined above. Associated Risk Risks are not managed in line with the Councils RMF. This could lead to poor risk management or inefficiency in managing risks. This may ultimately result in risks materialising and prevent the Council from achieving its objectives.				31/12/2020 (next report due)
3.	**Awareness and Understanding of Risk Management Framework** We identified, through discussions with a sample of risk owners, that awareness, understanding of and confidence in applying the RMF was not consistent across the organisation. The main areas of the RMF where awareness and understanding were limited, are as follows: a) Target risk scores; b) Archiving of risk;	Low	We recommend: 1. A notification is sent to all current risk owners outlining that changes to the RMF and new processes have been implemented by the Council. The notification should: • Explain the key changes to the RMF, purpose of the changes and what the requirements are of the risk	**Responsible Officer: Controls, Risk and Performance Manager** Agree to send further notification of changes as a general update, however it must be noted that 2 of the risk owners who said they were unaware of the changes had been sent specific emails from the Performance and	30/11/2020

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	c) Reporting of risks However, it is important to acknowledge that during our review we have seen suitable actions taken by the Control, Risk and Performance Team to inform the risk owners of changes to the RMF. These include: • Emails from the Performance and Risk Officer to some risk owners outlining that the RMF has changed explaining key requirements of risk owners under the new RMF. We have seen evidence of this for 3 risk owners we met with. • A notice on the Councils Intranet 'Message Board' outlining that changes have been made to the RMF and a link to the new documentation. This was supported by a global email. • Changes to the new RMF being presented to the Senior Management Team (SMT), which Service Directors have access to reports and attend. <u>Associated Risk</u> Key officers are unaware or do not		owner. • Provide a link to the Councils Risk Management intranet page where the RMF documents are located and ask risk owners to review this documentation. • A request to provide the Controls, Risk and Performance Team with positive confirmation that the risk owner has understood the new RMF. 2. A central notification is issued to Service Managers and key officers outlining that changes to the RMF have occurred, where they can locate the new RMF documents and asking them to cascade this message to relevant members of their team. 3. With regards to the areas of the RMF which risk owners require improved awareness, the E-Learning module which is planned to be introduced, should include information on: • Target risk scores and the	Risk Officer, explaining the changes to the process. This further notification of changes will be aligned with the release of the e-learning on GrowZone. The E- Learning currently under construction includes sections on target risk scores and their purpose, how oversight of risks is provided and will include archiving risks Once the e – learning goes live we will be able to ensure we have provided all relevant officers with the training they need and have records of the completed training.	

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	fully understand the risk management framework. This could cause officers to not take the required actions or not on the deliver roles, responsibilities or requirements in the framework. This may lead to delays in the risk management process or ineffective management of risks. This may ultimately result in risks materialising, preventing the Council from achieving its objectives.		purpose of these risk scores. • The expectations around the archiving of risks including the responsibilities of stakeholders in this process. • Information on the oversight and reporting arrangements to members and other oversight groups such as SMT and RMG.		
4.	**Information Reported to SMT** The Councils RMF Policy outlines that "All new, changed and proposed archiving/closure of Operational Risks, must be reviewed by the RMG and SMT prior to the changes to Pentana Risk being finalised". Review of the report received by SMT in May 2020 did not show any information on changes made to two operational risk scores and the August 2020 report also did not show changes made to two operational risk scores. Therefore, the oversight requirements of SMT, which are outlined within the RMF do not appear to have been	Low	We recommend SMT are provided with information on changes to operational risks as per the requirements of the RMF.	**Responsible Officer: Controls Risk and Performance Manager** It was never the intention that changes to operational risks are seen by RMG or SMT, only new and proposed deletions to Operational risks. Framework wording to be made clearer to reflect this as part of the annual review of the documents currently underway. RMG undertake an annual review of all service risks	Proposed changes to RMG 30/11/2020 Report to FARC and Cabinet 31/12/2020

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	met. <u>Associated Risk</u> Information reported to SMT does not meet the requirements of the RMF. SMT may not have adequate information to offer guidance, support and challenge as part of the risk management process. Risks may be ineffectively managed by the Council.			currently on the register. Last review took place in February 2020. These will continue to ensure that these risks are looked at annually in order to provide oversight. This review then feeds through to the quarterly report to SMT.	

Assurance Level	Definition
Good	The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
Satisfactory	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
Limited	The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
No	The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

Priority Level			Definition
Corporate	Critical	🟥	Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	High	🟧	Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	Medium	🟨	Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low / Advisory	🟩	Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.