



## Final Internal Audit Report

# North Herts District Council Risk & Performance Management 2022/23

April 2023

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<b>Issued to:</b>	Ian Couper – Service Director (Resources) Rachel Cooper – Controls, Risk and Performance Manager
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<b>Report Status:</b>	Final
<b>Reference:</b>	N088/22/001
<b>Overall Assurance:</b>	Reasonable
<b>Recommendations:</b>	5 recommendations, 1 High, 3 Medium, 1 Low

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## 1. EXECUTIVE SUMMARY

### Introduction

- 1.1 Internal Audit provides North Herts 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 internal audit plan. This internal audit forms part of the approved 2022/23 Internal Audit Plan.
- 1.2 The Council Delivery Plan brought together all the elements of Integrated Performance Management (Projects, Risks and Performance Indicators) into one plan in 2021. Previously, only performance indicators were approved by Cabinet with no clear link to the projects being undertaken or the risks being managed within and across service areas.
- 1.3 The new process requires the Cabinet to approve project, risks, and performance indicators to support the delivery of the Council Plan. Under delegation from Cabinet, Overview & Scrutiny Committee (O&S) monitor progress against the plan on a quarterly basis. This has meant that the Finance Audit and Risk Committee (FARC) no longer receive regular reports on specific risks, but the Committee does still receive reports in relation to the development and continued effective operation of risk management.
- 1.4 The purpose and aim of the audit was to provide assurance that:
  - a) The Council Delivery Plan supports the risk management process of the Council, and strengthens the link between performance and risk, and
  - b) Officers and Councillors are aware of their roles and responsibilities in relation to risk management and have received adequate training.

### Overall Audit Opinion

- 1.5 Based on the work performed during this audit, we can provide overall **reasonable 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.
- 1.6 In arriving at our overall opinion, we canvassed information from both staff and Councillors through an online questionnaire. Respondents provided data surrounding the availability and understanding of the key information contained within the risk and performance frameworks, along with feedback of the training currently available to them. A review of the committee structure, in relation to risk, was carried out to ensure that the changes which were introduced since the introduction of the Council's Delivery Plan continue to allow the Council to maintain effective oversight of its risk management framework and to manage its risks effectively. We provide below a summary of our observations and findings from each of the assurance areas reviewed within this audit.

- 1.7 The Council has a risk management framework, which had been broken down into four easily understandable parts. Within both the risk and performance framework, the roles and responsibilities for all stakeholders are appropriate and clearly explained. The framework also provides all key information we would expect as to how the Council coordinates and manages the processes making up the framework.
- 1.8 Whilst it was found that the Council has a comprehensive suite of documentation to support both risk and performance management, there are barriers to accessing the documentation on the Council's Intranet site. Risk and performance information was not held together, and officers reported that outdated documents were returned when key risk and performance information was searched for on the Council's intranet.
- 1.9 The Council Delivery Plan has directly linked risks to projects that the Council is undertaking to achieve its objectives. Therefore, information relating to risk and performance should be co-located to enhance the ongoing connection. The revised reporting structure to Cabinet, O&S and FARC strengthens the link between risk and performance, however as we are still within the first reporting year, changes to reports are being made, through discussion at the Councils Risk Performance Group, to ensure that the correct level of assurance is achieved.
- 1.10 Councillors have not received any formal training for risk and performance recently (and not since the new Council Delivery Plan was introduced in 2021). The results of the questionnaire confirmed that not all Councillors who responded had read the key risk and performance documentation (despite being members of either the Cabinet, O&S or the FARC). These two factors explain why not all Councillors could confirm which stakeholders were responsible for key activities and actions within the risk and performance frameworks.
- 1.11 The Council's internal Risk and Performance Group is normally attended by the Executive Member / Risk Champion and invitations have been extended to members of the O&S and the FARC. In the absence of any current training, the interactions and discussions at this group help mitigate the risk that Councillors do not have the necessary training, and so knowledge, to undertake their roles effectively.
- 1.12 The introduction of the Council Delivery Plan has meant that the responsibilities of the O&S and FARC have changed in relation to risk. Our review of the papers presented to these committees since the Plan was introduced identified that the Council's risk profile information is no longer presented to the FARC under the new arrangements. This information is a key source of assurance for Councillors on FARC and, alongside reports which provide updates on overall risk governance, is essential in giving them holistic oversight of the continued effectiveness of the Council's risk management framework.
- 1.13 For definitions of our assurance levels, please see Appendix B.

### **Summary of Recommendations**

- 1.14 To improve the control environment in operation, we have raised five recommendations as part of the audit undertaken, one is a high priority recommendation and three of which are medium priority recommendations. We have

also highlighted two advisory actions within paragraphs 2.2 and 2.3 below, which, whilst not presenting a material risk to the control environment, merit consideration by management.

- 1.15 The high priority recommendation relates to Councillors' risk management training. The medium priority recommendations relate to the current information available relating to risk and performance management, the risk profile of the Council being made available to the correct committee, and the embedding of risk and performance management processes.
- 1.16 Please see the Management Action Plan at Appendix A for further detail.

### **Annual Governance Statement**

- 1.17 This report provides reasonable levels of assurance to support the Annual Governance Statement.

## 2. ADVISORY ACTIONS

- 2.1 During this audit, we identified the following findings that, whilst not presenting a material risk to the robustness of the control environment, merit attention by management.

### **Pentana Risk System**

- 2.2 A review of the system found that only 63% of the registered users had accessed the system within the last two years. There are several reasons as to why officers do not log directly into the system themselves. This is primarily that they can access the information through a report provided to them by the risk and performance team. The service will, however, review the users within the system and update access as required.

### **Risk Management e-learning Module**

- 2.3 The risk management e-learning module on GrowZone addresses the Council's Risk Management Framework, in particular Part 3: Strategy. This part of the framework was updated in December 2022. The updates made to Part 3 of the framework have not been reflected in the current e-learning module. We would recommend that, going forward, any updates to the Risk Management Framework are reflected within the e-learning module.

**3. ASSURANCE BY RISK AREA**

3.1 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	Reasonable	Substantial
<p><b>Policy and Strategy</b> – The current policies, strategies and processes in place support the overall governance arrangements for risk management. There is effective oversight within the framework, committee structure and levels of reporting within the organisation such that the Council can continue to manage its risks in relation to performance activities.</p>				
<p><b>Risk Knowledge and Awareness</b> – Officers (at all levels of the Council) and Councillors are aware of their responsibilities and have received appropriate training to undertake their roles. Data on risk awareness and knowledge will be collated from officers and Councillors via an online questionnaire. This will provide the information for us to deliver feedback on the risk environment of the Council.</p>				
<p><b>Overall</b></p>				

3.2 See definitions for the above assurance levels at Appendix B.

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
1.	<p><b>Risk Training for Officers and Councillors</b></p> <p>Risk management training is available through an e-learning module on GrowZone for all staff and Councillors. The module walks participants through the Risk Management Policy with the fourth module creating an example where the risk management principles can be applied. Training records confirmed that 107 staff had completed the module since 1 April 2021, but no Councillors were recorded as completing this training.</p> <p>When asked within the questionnaire if the risk training had helped staff to carry out their role, 77% confirmed that it had helped them. Others confirmed that it had raised awareness of the process and refreshers are useful to consolidate knowledge.</p> <p>It was confirmed by Director (Resources) and Committee, Member &amp; Scrutiny Manager that there has been no formal Councillor training in the previous three years. Information is provided to Councillors, with opportunities to have anything clarified</p>	High	<p>We recommend:</p> <ol style="list-style-type: none"> <li>1. Members of the Committees charged with the oversight of risks and risk management (O&amp;S and FARC) or who need to understand risk attached to their decisions (Cabinet) will receive a bespoke level of training appropriate to their risk responsibilities.</li> <li>2. Mandatory general risk management training should be given to all Councillors – at their induction.</li> </ol>	<ol style="list-style-type: none"> <li>1 To carry out further training with members of Finance, Audit and Risk Committee during the year. To also carry out risk training with Political Liaison Board (PLB) which includes Cabinet Members and Officer Leadership Team.</li> </ol> <p><b>Responsible Officer</b> Service Director: Resources</p> <ol style="list-style-type: none"> <li>2 New members have an induction programme that includes a session on finance. That session will be extended to also include a section on Risk</li> </ol> <p><b>Responsible Officer</b> Service Director: Resources</p>	<p>31 December 2023</p> <p>30 June 2023</p>

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>as and when required. Committee papers have requested that Councillors/committee comments on and notes recommendations on the type of risk management training they would like to see going forward. However, no detail is recorded within the minutes.</p> <p><u>Associated Risk</u></p> <p>Our finding illustrates the benefit of training staff in risk as 77% confirmed that it had helped them within their role. Councillors, however, cannot evidence that they have received any formal risk training and results from the questionnaire confirm that they have not read key documents relating to how the Council manages its risk and performance frameworks. It is therefore unclear if Councillors have the necessary knowledge to ensure that their decision making is based on robust processes.</p>		<p>3. Risk training is available to all staff, but it is only mandatory for those members of staff with risk management responsibilities. It should be made clear to staff if they are required to complete the training and how often.</p>	<p>3 Agreed. We will undertake a review of the growzone training and update to clarify who should undertake the training and when.</p> <p><b>Responsible Officer</b> Controls, Risk and Performance Officer</p>	<p>30 June 2023</p>
<p>2.</p>	<p><b>Effective oversight within Risk and Performance Framework</b></p> <p>The Finance, Audit &amp; Risk Committee (FARC) focuses on the monitoring of the effective development and operation of risk management whilst the Overview</p>	<p>Medium</p>	<p>We recommend that the risk profile of the Council is made available to those required to give assurance on the Councils' risk</p>	<p>The format of the reports to FAR will be revised and the risk appetite and profile clarified following discussion</p>	<p>30 June 2023</p>

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>and Scrutiny committee monitoring the risks which affect the Council Delivery Plan.</p> <p>FARC now only receive two risk reports a year, a mid-year (in December) and an end of year report (in June). The mid-year report will provide an update on the broader risks and mitigations and provide assurance that risk governance arrangements are working, and effective risk management processes are in place with detailed review of specific risks being able to be requested on an ad hoc basis.</p> <p>Whist reviewing the reports that have been taken to the committees regarding risk, we cannot confirm that the FARC is kept up to date with the Council's risk profile (analysis of the types of threats the Council faces) as outlined by the 2022 CIPFA Audit Committee Guidance.</p> <p><u>Associated Risk</u> The new process had transferred the oversight of the risks in achieving the Council's objectives from the FARC to the Overview &amp; Scrutiny Committee, with the monitoring of the risks involved in the delivery of the Council Delivery Plan. In transferring the overview of the</p>		<p>management processes.</p>	<p>with Leadership Team.</p> <p><b>Responsible Officer</b> Service Director Resources, Controls, Risk &amp; Performance Manager</p>	

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	ongoing risks, it had removed the ongoing risk profile of the Council to the Overview & Scrutiny Committee.				
3.	<p><b>Risk and Performance Policy and Strategy</b></p> <p>As part of the questionnaire, all participants were asked which key risk and performance documents they had read:</p> <ul style="list-style-type: none"> <li>• 54% of officers who responded had read the Council Plan,</li> <li>• 31% had read the Council Delivery Plan,</li> <li>• 24% had read the Risk Management Framework,</li> <li>• 13% had read the Local Code of Corporate Governance and</li> <li>• 12% the Performance Management Framework</li> <li>• 39% had not read any of the above documents</li> </ul> <p>Of those respondents who confirmed that they had read the Risk Management Framework, 89% had read Part 1: The Policy Statement, 58% had read Part 2: Policy, 42% had read Part 3: Strategy and only 32% had read Part 4: Toolkit.</p>	Medium	<p>We recommend that all information regarding risk and performance can be pulled together and made easily accessible on the intranet site or desktop via a specific link. Key documents should be linked so that the connection between risk and key Council documents is available.</p> <p>Management can take this opportunity to review the information so that only current strategies / policies are available and launch the revised information via a Council-wide communication.</p>	<p>Agreed. We will shortly be moving to Sharepoint, so the review of information will enable us to ensure that only up to date information is retained as guidance. Communication can then follow</p> <p><b>Responsible Officer–</b> Controls, Risk and Performance Manager</p>	30 June 2023

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>Respondents stated that information regarding these documents was not easy to find on the intranet as searches returned out of date information. Information regarding risk and performance was not held together and not updated regularly. Officers within the risk team are a key point of information, with many respondents confirming that they are key sources of information for them.</p> <p>Only one Councillor who responded to the questionnaire had read all the key documents. Two Councillors had not read any.</p> <p><u>Associated Risk</u> Key information on how NHC manages risk and performance frameworks is not reaching all staff or Councillors.</p>				
4.	<p><b>Risk Awareness</b></p> <p>Most officers set aside time to consider risk and performance management issues in their area. However, only 42% considered risk and performance management to be embedded within their area.</p>	Medium	The importance of risk and performance should be highlighted by managers in planning and decision-making processes. Ensuring that staff and Councillors receive appropriate training will allow	<p>See (1) above for training for Councillors and Officer Leadership Team. To also do some training with the Senior Management Group.</p> <p><b>Responsible Officer</b></p>	31 December 2023

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>Most Councillors who responded were not sure if risk and performance was embedded within the Council but that senior officers understood its importance. One comment stated that fellow Councillors have low awareness or consideration of risk and that this needed to change.</p> <p><u>Associated Risk</u> Without understanding the reasons for risk and performance management within service areas, processes will not become embedded, providing effective risk and performance management.</p>		<p>them to recognise risk and performance within their area and contribute to the embedding of the frameworks.</p>	<p>Service Director: Resources</p>	
5.	<p><b>Risk Responsibilities for Officers and Councillors</b></p> <p>Within the Risk Management Framework (Part 2: Policy) it states that the Council's Leadership Team and Cabinet have responsibility for keeping corporate risks faced by the Council under review. Only 10% of officers and 33% of Councillors got this question correct. Most thought that it was everyone's responsibility (employees and Councillors).</p> <p>74% of officers confirmed correctly how the Council use the performance</p>	Low	<p>Key information within documents needs to be presented so that the audience is aware of its importance.</p>	<p>Agreed. Report templates to be reviewed with a view to adding a standard paragraph to highlight who is responsible for risk.</p> <p>Guidance updated to reinforce that report authors need to consider the impact of risks and highlight what needs to happen. Performance and Risk Team to provide more challenge to</p>	<p>30 June 2023</p> <p>30 June 2023</p>

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>management in practice.</p> <p>Councillors were asked to confirm who was responsible for several actions within the risk and performance frameworks. Councillors responding were members of either the Finance, Audit &amp; Risk Committee, Overview &amp; Scrutiny or Cabinet.</p> <ul style="list-style-type: none"> <li>• 55% recognised that all Members support and promote an effective risk management culture and 18% knew that all Members constructively review and scrutinise the risks involved in delivering the Councils objectives.</li> <li>• 63% confirmed that Executive members are the link between service teams and the Executive.</li> <li>• 67% confirmed that Cabinet had the political ownership of overall performance and 38% confirmed that they (Cabinet) approve the Council Delivery Plan.</li> <li>• 30% confirmed that Overview &amp; Scrutiny receive regular performance management reports on Council performance</li> <li>• 71% recognised that it is Finance, Audit &amp; Risk Committee who support Cabinet in approving</li> </ul>			<p>content. This will make the risk section clearer.</p> <p>Training at SMG on updated guidance and who is responsible for risk.</p>	31 July 2023

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>Council Delivery Plan, with specific focus on risk and areas of financial performance.</p> <p><u>Associated Risk</u> Not all staff and Councillors were able to confirm who is responsible for key activities and actions within the risk and performance frameworks.</p>				

Assurance Level	Definition
<b>Substantial</b>	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Priority Level		Definition
Corporate	<b>Critical</b>	 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	<b>High</b>	 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.
	<b>Medium</b>	 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.
	<b>Low</b>	 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.