

# Hinckley and Bosworth Borough Council

## Risk Management Internal Audit

July 2021

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**Report distribution:****For action:**

- Director (Corporate Services)
- Consultation and Improvement Officer

**Responsible Executives:**

- Director (Corporate Services)

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It is the responsibility solely of the Council's management and directors to ensure there are adequate arrangements in place in relation to risk management, governance, control and value for money.

# 1. Executive Summary

## Background

An audit of the risk management processes was undertaken as part of the approved internal audit plan for 2020/21.

The Council has a duty to provide a wide range of services that are delivered to the community as part of their ongoing objectives; the delivery of which includes an inherent number of risks. The Council recognises it has a duty to manage these risks in a structured way to ensure delivery of its objectives whilst also providing value for money.

The Council have a Risk Management Policy statement in place which was last updated in March 2020. This overarching policy includes sections on the Council's objectives, how they identify and assess risks and documents the need to identify any mitigating actions. Risks are assessed using a standard scoring matrix where both the gross risk level is decided, then a final net risk score is determined after consideration of any mitigating actions which minimise the impact or the likelihood of the risk materialising.

Once risks have been assessed, they are recorded on the TEN performance management system, which enables them to be monitored by the Consultation and Improvement Officer. The Council are in the process of transferring to a new web based system, 'Inphase for risk management'. As at June 2021, all risks have been transferred across to the new system and informal training for responsible risk owners due to commence ahead of 2021/22 Quarter 1 risk framework updates.

Risks are reported to the Finance and Performance Scrutiny meeting quarterly. These meetings provide a platform for escalation of any high rated risks to the board and also include discussion on whether risks have changed status or should be transferred between service and corporate risk registers.

## Objectives

Our review considered the following process risks:

- There is not a clear link between the Council's strategic priorities and the corporate risk register and service risk register resulting in the risk management system not adequately supporting the delivery of strategic priorities.
- High risks in service areas are not escalated to the corporate risk register hampering Management and Those Charged with Governance's ability to manage key service risks.
- Risks are not actively managed and reviewed by Management or adequately reported to Those Charged with Governance.

Further details on responsibilities, approach and scope are included the Audit Planning Brief dated March 2021.

Within this review, we also provide an update on outstanding recommendations from our 2018/19 and 2019/20 risk management audits.

## Limitations in scope

Please note that our conclusion is limited by scope. It is limited to the risks outlined above. Other risks exist in this process which our review and therefore our conclusion has not considered. Where sample testing has been undertaken, our findings and conclusions are limited to the items selected for testing. This report does not constitute an assurance engagement as set out under ISAE 3000.

# 1. Executive Summary

## Conclusion

### PARTIAL ASSURANCE WITH IMPROVEMENT REQUIRED

We have reviewed the Council's risk management processes and controls. The controls tested are set out in our Audit Planning Brief.

We have concluded that the processes provide **Partial level of assurance with improvement required** to the Council. There are some weaknesses in the controls designed to mitigate the risk management process risks examined during this audit.

**Our work has focused on the areas identified as presenting the greatest risk to the overall risk management controls.**

Objectives	Assurance rating and number of recommendations
There is not a clear link between the Council's strategic priorities and the corporate risk register and service risk register resulting in the risk management system not adequately supporting the delivery of strategic priorities.	Partial Assurance with some improvement required (1 x M)
High risks in service areas are not escalated to the corporate risk register hampering Management and Those Charged with Governance's ability to manage key service risks.	Significant assurance with some improvement required (1 x L)
Risks are not actively managed and reviewed by Management or adequately reported to Those Charged with Governance.	Partial Assurance with some improvement required (1 x M, 1 x L, 1 x M (FR), 2 x L (FR))

## Good practice

1. The Council has a 'Finance and Performance Scrutiny' meeting which takes place on a quarterly basis. These meetings provide a platform for escalation of any high rated risks to the Executive and also include discussion on whether risks have changed status.
2. The Council has a standard scoring matrix in place which is included within the Risk Management Policy. This means a consistent approach is taken to the initial assessment of risks and thereafter means that any risks which require escalation can be quickly identified and reported.
3. High level risks are regularly reviewed and reported
4. The consultation and improvement officer is proactive in his role and in combination with the Senior Leadership Team ensures high level risks are updated quarterly and in line with the Risk Management Policy. However, it should be noted that they leave their post in December 2021.

## Areas for development

1. Clearer links could be made between strategic objectives as detailed in the Council's 4 year corporate plan and the risks contained in both corporate and service area risk registers.
2. Risk owners are not held accountable for updating the risk registers in sufficient detail or for completing risk management training. This may lead to an over reliance on the Consultation and Improvement Officer to drive the risk management process.
3. Previous recommendations made relating to the documentation of risk appetite, tolerance and treatment on an individual risk or risk category basis are yet to be implemented. We recognise that the new system to be introduced (Inphase) has functionality which will support this and should be actively used to drive the ownership and understanding of risk management into the organisation.
4. Management has a unique understanding of the business and so should, periodically, undertake a review of all risks to assess whether registers are complete, and providing the right focus for the Council. This should include consideration of what is potentially missing from the registers.

# 1. Executive Summary

## Recommendations

We have raised 4 recommendations to address the minor control weaknesses identified for 2020/21.

We have also raised 3 further recommendations which build on the latest update of prior year recommendations which are yet to be fully implemented.

	High	Med	Low	Imp
Detailed findings (2020/21 review)	-	2	2	-
Follow up of recommendations	-	1	2	-
<b>Total recommendations</b>	-	<b>3</b>	<b>4</b>	-

## Acknowledgement

We would like to take this opportunity to thank your staff for their co-operation during this internal audit.

# 2. Detailed Findings & Action Plans

1.1

**PARTIAL ASSURANCE WITH IMPROVEMENT REQUIRED**

**There is not a clear link between council strategic priorities, the corporate risk register and service risk register resulting in the risk management system not adequately supporting the delivery of strategic priorities.**

Finding and implication	Audit recommendation	Management response and actions
<p>The Council has a Risk Management policy in place (March 2020). This makes reference to the commitment to manage business risks in a structured way to ensure delivery of objectives, whilst also providing value-for-money. The Council has a corporate risk register and a series of service line risk registers.</p> <p>The Council's 2017-21 corporate plan focuses on three priority ambitions of people, places and prosperity. These are subsequently broken down into further priorities to show how the vision will be delivered.</p> <p>We have seen that consideration is given to service risks during the annual Service improvement / budget planning process. Both corporate and service risks are assigned to one of 11 categories (Political, Economic, Reputation, Assets, Partnerships, Financial, Regulatory, Management, Environment, Citizens, Opportunity) as defined by the risk management policy.</p> <p>At Quarter 3 2020/21, there were 25 risks on the corporate risk register. We conducted a high level review which indicated that 9 risks had a clear link to the 4 year corporate plan, but for 16 corporate risks there was no explicit relationship.</p> <p>We then randomly selected a sample of 2 risks from the corporate risk register and 2 further 'high risk' service risks and investigated whether they could be linked to risks on the other risk register via a top-down and bottom-up approach respectively. For 3 of the 4 risks sampled, we could see that there was a 'golden-thread' between the corporate risks and service risks.</p> <p>In the final case, for service level risk DLS.19 – Recruitment &amp; retention of staff, there was no related corporate risk in place.</p> <p>Per discussion with the Consultation and Improvement Officer, service and corporate level risk registers will not necessarily be linked. If a service risk is considered to cut across various services it will then be elevated to corporate level.</p> <p>The extent of 'unmatched' risks in our testing indicates that the current operation of the risk management system may not be adequately supporting delivery of the Council's corporate plan.</p>	<p>R1 (Medium): A clearer link should be made between the strategic objectives laid out within the corporate plan and the risks contained within registers at both corporate and service level. This could be achieved by:</p> <p>(a) For each risk within the corporate risk register, consideration should be given to which specific strategic objective(s) (as detailed in the corporate plan) they relate to. The strategic objective(s) should then be explicitly cross-referenced within the corporate risk register.</p> <p>(b) Each risk within the service level risk register should be linked to the corporate plan, either by directly cross-referencing the strategic objective (as in (a)) or indirectly, by explicitly cross-referencing to the respective service plan or corporate level risk it relates to.</p>	<p><b>Management Response:</b></p> <p>Accepted</p> <p><b>Agreed Actions:</b></p> <p>The Corporate Plan is due to be refreshed this year and once complete the risk register will be cross referenced to it.</p> <p><b>Responsible Officer:</b></p> <p>Cal Bellavia – Consultation and Improvement Officer</p> <p><b>Executive Lead:</b> Julie Kenny – Director (Corporate Services)</p> <p><b>Due date:</b> February 2022</p>

# 2. Detailed Findings & Action Plans

1.2

**SIGNIFICANT ASSURANCE WITH SOME IMPROVEMENTS REQUIRED**

**High risks in service areas are not escalated to the corporate risk register hampering Management and Those Charged with Governance's ability to manage key service risks.**

Finding and implication	Audit recommendation	Management response and actions
<p>The Council has a Risk Management Policy Statement in place which was last updated in March 2020. This sets out the framework for the monitoring and management of risks, as per the policy. The most significant risks are discussed at corporate, directorate, middle manager and staff team meetings. The policy mentions the corporate and service area risk registers, but does not detail the process of how risks should be transferred between the two.</p> <p>It is our understanding that high risk (red) service risks are considered at Senior Leadership Team (SLT) meetings routinely before being reported to the Finance, Performance and Scrutiny (FPS) Committee quarterly. We obtained and reviewed the summary report for quarter 3, dated 22 March 2021. We tested whether the high risks identified in the service risk register for Q3 2020/21, were reflected in the corporate risk register in the same quarter. The results showed that there were 4 high risk service risks on the Q3 register which were all reported to FPS, however none had been elevated to the corporate risk register.</p> <p>Whilst it is clearly the role of management to judge which should be escalated, we have assessed these as significant matters and there is no trail to show why these were not escalated to the corporate risk register. The service risks were:</p> <ul style="list-style-type: none"> <li>• EAS.25 – Capital programme</li> <li>• CORPICT06 – System Failure due to lack of appropriate protection systems for the HBBC Data Centre</li> <li>• CLS.04 – Hinckley Leisure Centre</li> </ul> <p>Our testing has identified that services risks are either being graded too highly or there is a delay in escalation to the corporate risk register. This may have a serious impact on the Council and the achievement of its objectives if not managed. Documentation of the discussion and rationale for grading by Management would provide a clearer audit trail.</p>	<p>R2 (low): The Council should ensure high level service risks are escalated in a timely manner to the corporate risk register if required or if they are not escalated, there should be clear documentation of why each item is not considered to be of such significance to be a 'corporate risk' within both FPS meeting minutes and the risk registers.</p> <p>Section 5.2 'Identify risks' in the Risk Management Policy should be updated to include more detail on the actual process for risk identification and the relationship between the corporate and service level registers.</p> <p>As the most significant service level risks are reported to FPS on a quarterly basis and members are sighted on high level service risks we deem this to be a low risk recommendation.</p>	<p><b>Management Response:</b> Accepted</p> <p><b>Agreed Actions:</b> Managers will be reminded of escalation procedure and method</p> <p><b>Responsible Officer:</b> Cal Bellavia – Consultation and Improvement Officer</p> <p><b>Executive Lead:</b> Julie Kenny – Director (Corporate Services)</p> <p><b>Due date:</b> September 2021</p>

## 2. Detailed Findings & Action Plans

1.3

**PARTIAL ASSURANCE WITH  
IMPROVEMENT REQUIRED**

**Risks are not actively managed and reviewed by Management or adequately reported to Those Charged with Governance.**

### Finding and implication

Risks are reviewed by management using the Council's performance management system, TEN. The risk score and narrative for each risk should be updated quarterly to allow preparation of the Risk Management Framework summary report which is presented to members at the quarterly Finance and Performance Scrutiny (FPS) Committee meetings.

We reviewed the Public Document Pack and Printed minutes for all FPS meetings held during 2020/21. We noted that no report was presented for Q1 2020/21 due to Covid-19 related disruption. This had been rectified for reports relating to Q2 and Q3. Meeting minutes indicated that members noted reports and in some cases gave additional consideration as to whether risks should be elevated to corporate level and whether assigned risk levels were deemed appropriate.

We obtained the risk registers as at Q3 and compared this with those as at Q2. 10/25 corporate risks and 11/75 service risks had not been updated at all for Q3 with some showing last review dates as far back as 2019. A further 3/25 corporate risks and 29/75 service risks had no update in their commentary despite the review date being updated, In these cases there was no further evidence to show that they had been reviewed properly prior to being rolled forward.

Per discussion with the Consultation and Improvement Officer, when collating the FPS report the TEN system requires him to manually check whether each risk has been updated and that he is frequently required to chase risk owners multiple times for updates. Risk owners often send updates to the Consultation and Improvement Officer so that he can update TEN on their behalf. The Council is in the process of transferring to a web-based risk management system, 'Inphase'. It is our understanding that risk owners will be trained on how to use the new system.

### Audit recommendation

R4 (low): The accountability of risk owners to review risks in a timely manner and in sufficient detail should be increased. The capability of Inphase to readily report on risks not updated should be fed into the quarterly FPS reports. The new system does not mandate that narrative be added to quarterly updates, however this should be strongly encouraged in order to evidence proper review, even if only to briefly justify why there has been no change to the risk level within the quarter.

The majority of risks in both the corporate and service area registers had some level of review indicated (even if just a change of date with no narrative), with this in mind we have deemed this to be a low risk recommendation.

### Management response and actions

#### **Management Response:**

Accepted

#### **Agreed Actions:**

Managers will be reminded of their responsibilities and accountability. However, as long a review of risks can be evidenced, this is sufficient for management

#### **Responsible Officer:**

Cal Bellavia – Consultation and Improvement Officer

**Executive Lead:** Julie Kenny – Director (Corporate Services)

**Due date:** September 2021



# 2. Detailed Findings & Action Plans

1.4	PARTIAL ASSURANCE WITH IMPROVEMENT REQUIRED	Risks are not actively managed and reviewed by Management or adequately reported to Those Charged with Governance.	
Finding and implication		Audit recommendation	Management response and actions
<p>Considering the unprecedented impact of Covid-19 over the past year, we expect the pandemic to be reflected in both the corporate and service level risk registers. Many of the updates to current risks made mention to the pandemic in Q2 and Q3, however the number of new risks added, specifically to monitor how the impact of Covid-19 on the Council is being mitigated, has been limited. At Q3, there were 5 service level risks relating specifically to Covid-19 but none in the corporate risk register.</p> <p>Per discussion with Consultation and Improvement Officer, he is the only individual who views the risk registers in their entirety. Risks are added as and when requested by managers. This usually comes about from a formal or informal, but there is no prescribed process for this.</p>		<p>R5 (medium): In addition to the quarterly summary report, both SLT and members should review full risk registers on a regular basis. Any risks which are no longer deemed relevant (e.g. those not updated since 2019) should be removed with justification. This should also ensure that regular consideration is given to what is not present on the registers e.g. Covid related risks within corporate register.</p>	<p><b>Management Response:</b> Accepted</p> <p><b>Agreed Actions:</b> SLT will review the full corporate risk register on a six monthly basis.</p> <p><b>Responsible Officer:</b> Julie Kenny – Director (Corporate Services)</p> <p><b>Executive Lead:</b> Julie Kenny – Director (Corporate Services)</p> <p><b>Due date:</b> September 2021</p>

# 3. Follow up of Prior Year Recommendations

Management has accepted these further recommendations, but is still considering their response. It should be noted that Inphase has now been rolled out and the majority of managers trained. We will confirm management responses and report to the next Audit Committee.

Recommendation	June 2021 update	Management response
<p>The Council should consider adding to their risk register what the acceptable level for each risk is.</p> <p>(Due date: March 2020)</p>	<p>A walkthrough of Inphase on 09/06/2021 showed that there is a 'Target' risk level section available for each risk, within this new system. However, this had not yet been utilised and discussions with the Consultation and Improvement Officer suggested that there were currently no plans to do so.</p> <p><b>Risk: Risk are not activity managed and reviewed by Management or adequately reports to Those Charged with Governance.</b></p> <p><b>Further Recommendation (FR1): (low)</b></p> <p>Consideration should be given to using the 'Target' risk level section in Inphase to allow the Council to better define their risk appetite on a risk by risk basis and focus efforts on reducing the risk score of those which are 'out of target', regardless of the absolute risk score.</p> <p>Whilst reporting high level risks to members is good practice, it may be more efficient for them to have oversight of risks which are not within the Council's appetite so that due attention can be given to mitigation of risks before they reach an extreme level.</p>	<p><b>Management Response:</b></p> <p><b>Agreed Actions:</b></p> <p><b>Responsible Officer:</b></p> <p><b>Executive Lead:</b> Julie Kenny – Director (Corporate Services)</p> <p><b>Due date:</b></p>
<p>The strategy of dealing with each risk should be incorporated into the risk register in alignment with the updated risk appetite statement in the risk management policy.</p> <p>(Due date: May 2020)</p>	<p>Per response from Consultation and Improvement Officer: "We will be implementing a new performance system later this year and I believe the new system has a field for updating the risk approach so this should satisfy the recommendation".</p> <p>A walkthrough of Inphase on 9/6/21 showed that the Risk Approach section was available for input but this had not yet been utilised. Discussions with Consultation and Improvement Officer suggested there were currently no plans to do so.</p> <p><b>Risk: Risk are not activity managed and reviewed by Management or adequately reports to Those Charged with Governance.</b></p> <p><b>Further Recommendation (FR2): (low)</b></p> <p>Consideration should be given to using the Risk Approach section in Inphase as a useful risk management tool.</p>	<p><b>Management Response:</b></p> <p><b>Agreed Actions:</b></p> <p><b>Responsible Officer:</b></p> <p><b>Executive Lead:</b> Julie Kenny – Director (Corporate Services)</p> <p><b>Due date:</b></p>

# 3. Follow up of Prior Year Recommendations

Management has accepted these further recommendations, but is still considering their response. It should be noted that Inphase has now been rolled out and the majority of managers trained. We will confirm management responses and report to the next Audit Committee.

Recommendation	June 2021 update	Management response
<p>Records should be kept by HR / Senior management and reviewed to ensure that all staff undertake appropriate risk management training.</p> <p>Management should consider whether this training should be further supplemented by update training, or team events so that the importance and effective input to the risk management process is reinforced to relevant staff.</p> <p>Induction training for members should involve risk management training.</p> <p>(Due date: Dec 2020)</p>	<p>A spreadsheet was provided detailing a list of managers and whether they had completed the 'Managing risk' training course as at 17/3/2021. The list indicated that 2 of 33 had completed the course.</p> <p>Per discussions with Consultation and Improvement Officer, a Risk Management Foundation course was currently under development. It still requires tailoring to align with the Council's risk matrix prior to roll out by the end of 2021.</p> <p><b>Risk: Risk are not activity managed and reviewed by Management or adequately reports to Those Charged with Governance.</b></p> <p><b>Further Recommendation (FR3): (medium)</b></p> <p>This training, as a minimum, should be made mandatory for all responsible risk owners. A greater emphasis should be given to ensuring that risk management training is completed in a timely manner.</p>	<p><b>Management Response:</b></p> <p><b>Agreed Actions:</b></p> <p><b>Responsible Officer:</b></p> <p><b>Executive Lead:</b> Julie Kenny – Director (Corporate Services)</p> <p><b>Due date:</b></p>
<p>It is recommended that the Authority implement a risk appetite statement or update its risk management policy to include further explanation of their risk appetite, including documenting how much risk they will accept for the different categories of risk.</p> <p>(Due Dec 2019)</p>	<p>Latest risk management policy, updated March 2020 includes a section (section 4) which covers Risk Appetite and Tolerance. The explanation within the policy is relatively general and does not specifically refer to the variation in risk appetite on a category or risk level or how this will be defined.</p> <p>No further recommendations made. In our opinion, implementing <b>FR1</b> and <b>FR2</b> (detailed above) would integrate the Council's risk appetite and tolerance definitions into it's risk management processes and align them with the current policy.</p>	

# 4. Appendices

# Appendix 1 – Staff involved and documents reviewed

## Staff involved

- Cal Bellavia - Consultation and Improvement Officer
- Julie Kenny - Director (Corporate Services)

## Documents reviewed

- Risk Management Framework (March 2020)
- Corporate risk registers (as at March 2021)
- Service area risk registers (as at March 2021)
- Finance & Performance Scrutiny report (22 March 2021)
- Corporate plan 2017-2021

# Appendix 2 - Our assurance levels

The table below shows the levels of assurance we provide and guidelines for how these are arrived at. We always exercise professional judgement in determining assignment assurance levels, reflective of the circumstances of each individual assignment.

Rating	Description
<b>Significant assurance</b>	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are suitably designed to achieve the risk management objectives required by management.</p> <p>These activities and controls were operating with sufficient effectiveness to provide significant assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by no weaknesses in design or operation of controls and only IMPROVEMENT recommendations.</p>
<b>Significant assurance with some improvement required</b>	<p>Overall, we have concluded that in the areas examined, there are only minor weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by minor weaknesses in design or operation of controls and only LOW rated recommendations.</p>
<b>Partial assurance with improvement required</b>	<p>Overall, we have concluded that, in the areas examined, there are some moderate weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide partial assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by moderate weaknesses in design or operation of controls and one or more MEDIUM or HIGH rated recommendations.</p>
<b>No assurance</b>	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are not suitably designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were not operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review</p> <p>Might be indicated by significant weaknesses in design or operation of controls and several HIGH rated recommendations.</p>

# Appendix 2 - Our assurance levels (cont'd)

The table below describes how we grade our audit recommendations.

Rating	Description	Possible features
<b>High</b>	Findings that are fundamental to the management of risk in the business area, representing a weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> <li>▪ Key activity or control not designed or operating effectively</li> <li>▪ Potential for fraud identified</li> <li>▪ Non-compliance with key procedures / standards</li> <li>▪ Non-compliance with regulation</li> </ul>
<b>Medium</b>	Findings that are important to the management of risk in the business area, representing a moderate weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> <li>▪ Important activity or control not designed or operating effectively</li> <li>▪ Impact is contained within the department and compensating controls would detect errors</li> <li>▪ Possibility for fraud exists</li> <li>▪ Control failures identified but not in key controls</li> <li>▪ Non-compliance with procedures / standards (but not resulting in key control failure)</li> </ul>
<b>Low</b>	Findings that identify non-compliance with established procedures, or which identify changes that could improve the efficiency and/or effectiveness of the activity or control but which are not vital to the management of risk in the business area.	<ul style="list-style-type: none"> <li>▪ Minor control design or operational weakness</li> <li>▪ Minor non-compliance with procedures / standards</li> </ul>
<b>Improvement</b>	Items requiring no action but which may be of interest to management or which represent best practice advice	<ul style="list-style-type: none"> <li>▪ Information for management</li> <li>▪ Control operating but not necessarily in accordance with best practice</li> </ul>



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