



**AUDIT RISK ASSURANCE
FINAL REPORT
RISK MANAGEMENT
REVIEW
MARCH 2022**

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1. Introduction

- 1.1 TIAA have been commissioned by the Head of Audit Risk Assurance (ARA) in consultation with the Council to undertake an independent review of the Council's risk management processes. As part of the review, TIAA will provide an assessment on where on the risk maturity scale the Council are currently.
- 1.2 TIAA have experience of risk management at other councils throughout the country and can utilise this to support and assist the Council to review and refresh its processes in this area.
- 1.3 The review considered the following key matters:
 - i. The Council's Constitution or similar that may refer to risk management (to include Financial Regulations);
 - ii. The current risk management strategy, policy and procedures;
 - iii. Any and all risk registers that currently exist; and
 - iv. Interviews with key and relevant officers and Members at the Council
- 1.4 Advice and guidance are given without prejudice to the right of Internal Audit to review and make recommendations on relevant policies, procedures, controls and operations at a later date.
- 1.5 This report will be submitted to the Audit & Standards Committee (the Committee) scheduled for April 2022 in Part 1.

2. Executive Summary

- 2.1 The review of the Council's Risk Management arrangements concluded that on the risk maturity scale the Council were only at a level 3 and not a level 4 as identified in documentation. The main outcomes of the review identified the following:
 - i. Policies and procedures (including the risk management toolkit) were clearly written but were not always followed in practice;
 - ii. The risk register (which did not follow the bowtie methodology as described in the toolkit) did not always contain risks but causes or consequences identified as the risk;
 - iii. The Audit and Standards Committee although receiving some very useful data on the control framework did not receive specific risk management reports. The Council should therefore consider what the most appropriate method of providing information on risk management to elected members should be;
 - iv. The 2021 to 2024 Delivery Plan has demonstrated a good understanding of key projects and activity and how these are to be measured as progress towards developing SMART objectives and what might help or hinder their achievement;

- v. Regular risk management training should be provided to all Members of the Audit and Standards Committee; and
- vi. To support the Council on its risk management journey a number of other issues such as appointing Risk Champions, determining risk appetite and assessing inherent risk should all be considered.

3 **Findings**

- 3.1 During this review the Council's key documents (that support the risk management framework) were examined, an interview with the Section 151 Officer was undertaken. The Chairman of the Audit and Standards Committee also provided answers to a short questionnaire. These indicated that some of the documentation, such as the Risk Management Toolkit, identify an exemplary risk management process. However, there were actual processes in place, but these did not reflect that of the Toolkit.
- 3.2 The Risk Management Policy Statement and Strategy (2017 -2020) – as updated in 2021 was reviewed
- 3.3 This document sets out the Council's policy and general strategy to identify, evaluate, monitor and to effectively manage the Council's risks, particularly those which affect its priorities and core business.
- 3.4 While the Risk Management Policy Statement and Strategy provides a clear overview of what is expected of the Council, its Members and officers, much of what is stated in this document is not supported by actual events. Examples of good narrative in the Policy that were not reflected in working practices include:
 - i. The risk register did not reflect the bow tie methodology as described in the Risk Management Toolkit;
 - ii. Strategic risks did not seem to be linked to their objectives (risks are uncertainties and can only exist in relation to an objective);
 - iii. Risks in the register were not always risks but were sometimes the cause (COVID 19 Pandemic) of the risk or just a statement (Government white paper on local government reorganisation and devolution);
 - iv. In addition, in some instances, what is described as a "risk" may not actually be the risk but rather the consequence, for instance:

CCR1 – "Failure to develop a budget strategy identifying income and savings opportunities to meet the funding gaps identified in the Budget Strategy and MTFP."

It is suggested that the failure to develop a budget strategy is not the risk (whereas this could actually be a preventative control – in part). The risk is the "failure to realise the income and savings as detailed or described in the budget strategy".
 - v. Furthermore:

CCR18 – “The loss of income from recycling/incentive credits and the potential for increased costs of recycle processing.”

It is suggested that the loss of income from recycling is not the risk (but a consequence of poor recycling rates). The risk will apply to the Councils overall budget and income with the poor recycling being one of the “consequences” as a result of a risk occurring.

vi. No evidence could be found to confirm that the Council had established its risk appetite.

- 3.5 The Risk Management Toolkit was reviewed. This is a guide to assist officers and committees to help effectively describe, assess, monitor and ultimately manage the various risks which the Council faces in its work. It should be read in conjunction with the Risk Management Policy Statement and Strategy (2017). It sets out the various points which should be considered to ensure that risks are properly recorded in the Council’s risk registers, whether the Strategic Risk Register or the Operational Risk Register.
- 3.6 However, what happens in practice does not reflect the methodology for risk management as described in the toolkit and, in particular, how the risk register is managed and populated. See 2.4 above and specifically:
- i. Stage 1 - Clarification of objectives – as these were not SMART (Specific, Measurable, Achievable, Realistic and Timely) it would be challenging to identify which risks would either help its achievement or hinder their outcome;
 - ii. Stage 2 – Identifying risks – the Toolkit makes it clear how to do this, but the risk register does not always contain descriptions that can be considered as “risks”;
 - iii. Stage 3 – Assessing the risk – to this end the Council’s risk appetite has not been determined, which is a key driver in assessing the amount and type of risk the Council is prepared to accept;
 - iv. Stage 4 – Risk control – the risk register does not distinguish between preventative controls and recovery controls. Risk Triggers and Risk Impacts also are missing from the register;
 - v. Stage 5 – Monitor and report – the “Bow Tie Report” for each risk recorded will give a detailed depiction of the risk information in a diagram, providing a clear illustration of the risk. The review did not identify any bow tie reports. (The “Bow Tie” methodology is a risk evaluation method that can be used to analyse and demonstrate causal relationships in high risk scenarios. The method takes its name from the shape of the diagram that is created when an analysis of the relationship between the many causes that might trigger a risk, the risk itself and the many outcomes or consequences should the risk occur. The resultant shape looks like a man’s bowtie.)
- 3.7 The risk register was reviewed. The risk register should flow from the Risk Management Toolkit and reflect the good practice as described in it.

- 3.8 The register does not flow from the Toolkit or follow the “bow tie” methodology as described in the Toolkit. By not applying the bow tie method this is the main reason why many of the “risks” may not be the risk. The bow tie method helps in identifying the cause which will potentially trigger the risk. Preventative controls can then be identified, along with the many consequences should the risk occur. Recovery controls are then more readily identified once potential consequences are known.
- 3.9 The Annual Governance Statement (AGS) 2019/20 which describes the Governance Assurance Framework was reviewed, along with the role of the Audit and Standards Committee:
- 3.10 The chairman of the Committee was asked to comment on the committee’s involvement in risk management as this is key to understanding and supporting the approval of the Annual Governance Statement. The Chairman felt the committee was not involved as deeply as it should be in terms of risk management.
- 3.11 It should be noted however, that as well as the annual report on risk management activity, the Committee also receive Internal Audit reports, the Annual Report of the Head of ARA, reports from the External Auditor and occasionally from other assurance providers. All of these, to a greater or lesser extent contain information pertaining to the Council’s risk environment.
- 3.12 Therefore, the Committee does undertake a great deal of the work that it should, in accordance with its Terms of Reference and the CIPFA Guidance.
- 3.13 However, while there is a standing item on Risk Management on every Audit and Standards Committee agenda, a review of agenda and minutes did not identify any specific reports relating to Risk Management reported to the Committee. The Strategic Director of Resources did comment that he did provide Members with the corporate risk register for review and comment at this point of the agenda.
- 3.14 The Chairman of the Committee went on to state “the ability of the Audit Committee to challenge the reports relies upon access to additional information that may not have been included in a written report. This was usually achieved by reference to Excelsis. This access is not currently available and is unlikely to be so in the immediate future.” (Excelsis is the current software application for maintain the council’s risk register).
- 3.15 The Council should consider the most appropriate method of providing information on risk management to elected members, whether that is through direct system access or sufficiently detailed risk reporting.
- 3.16 In addition, the Chairman also stated:
- “Members of the Audit Committee need to have available or to acquire the necessary skills to investigate in depth how a risk is being managed and controlled. The ability to challenge the management and the cost of control depends on the understanding of all the people making the challenge. It is likely that training would be necessary for members of the audit committee to carry out the challenge effectively. Risk Management training was offered this year but very poorly attended. The problem appears to be a lack of understanding as to how essential the management of risk is in terms of continuing council services. To have an interest in this topic has become something of a

specialisation. Some method must be found to ensure that members of the Audit Committee do undertake the necessary training to understand and examine the system.”

- 3.17 It is clear that, at the present time, the Committee is not fully achieving its role with regard to understanding risk management and being able to challenge risk and the controls (cost and effectiveness) that will mitigate both the likelihood and impact or the risk occurring. The follow should be progressed:
- i. Regular risk management training to be provided to all Members of the Audit and Standards Committee. (Members to be informed of why risk management is important and the role it plays in them approving the Annual Governance Statement);
 - ii. Sufficient data and detail need to be reported to each and every meeting of the Audit and Standards Committee. The reports would include deep dives into a specific risk, any near misses the Council or other similar bodies may have experienced between meetings and any forthcoming events that might have additional risks for the Council to manage. (It is not suggested that the whole risk register is reported but a report on key risks that are forthcoming, and the actions being taken or proposed to manage them should be a regular feature. It should be noted, as stated elsewhere in this report, that the current risks in the risk register may not be risks and this needs to be addressed for meaningful reporting to occur to this Committee.);
 - iii. The Council have recently produced their 2021 to 2024 Delivery Plan which does detail the Council's key projects and activity to achieve their objectives. This document does go some way towards achieving SMART objectives which will assist in identifying risks relating to the achievement of those objective;
 - iv. Consideration be given to developing a risk assurance map. A risk assurance map will give senior officers and Members a visual representation of where the Council can take its assurances from for the achievement of each of their key objectives. The risk assurance map would highlight both gaps and duplication in the assurance framework for the Council using the three lines of defence. This can then be presented as a visual impression to the Committee for comment and discussion;
- 3.18 From a review of risk management processes at the Council, a score of 4 out of 5 seems generous and, as this is contained within the AGS, may not present an accurate reflection of the Council's risk maturity. A number of the documents and practices that should support effective risk management are either ineffective or not present in the activities of the Council. Two examples would be a risk register that may not contain risks and a lack of evidence that there is a formal risk appetite present at the Council.
- 3.19 To assist in understanding the Council's current state with regard to its risk maturity a questionnaire was devised and completed by the Section 151 holder. The questionnaire covered the following key areas:
- i. Risk Culture;
 - ii. Risk Identification;
 - iii. Risk Assessment;
 - iv. Risk Appetite;
 - v. Risk Response;
 - vi. Risk Reporting;

- vii. Integration with the Strategic and Service Plans; and
- viii. Assessment of Risk Management Effectiveness

3.20 The key outcomes from the questionnaire identified the following:

- i. The Council should consider identifying a specific Risk Champion or Champions who can take responsibility for coordinating and progressing risk management throughout the Council;
- ii. Consideration should be given to including risk management within individuals' job descriptions;
- iii. Inherent risk should be assessed to determine its significance;
- iv. Speed of occurrence and persistence of risks should be considered as an integral part of its risk management procedures;
- v. The Council's risk appetite for each risk should be determined and included as an integral part of the risk register

3.21 While the Council's Risk Management documentation (Risk Management Policy Statement and Strategy and Risk Management Toolkit) are clearly written the Council are not following the good practice described within.

3.22 In addition, it should be noted that this report is an independent fact-finding review to assess the documentation and processes the Council have in place for the management of risk. The review is in two parts with part 2 providing help and assistance to the council to help embed a better understanding and application of risk management. To that end TIAA will bring best practice from other councils that will assist Stroud District Council on the risk management journey.

4 Risk Management Review Assessment

4.1 On the basis of the documentation examined, responses to the questionnaire and the evaluation and sample testing of the risk management system and processes in place, it is TIAA's view that the Council are at a level 3 on the risk maturity scale. Further work and training are needed to be compliant with its Risk Management Strategy and Policy and most importantly its Risk Management Toolkit.

4.2 We have identified areas where improvements can be considered to enhance the existing risk management processes and to help re-focus and support the Council on its risk management journey.

4.3 TIAA are available and working with ARA will assist the Council in its risk management journey. Key areas of assistance would be in the following areas:

- i. Developing a methodology for creating SMART objectives;
- ii. Assisting in the development of using the bow tie methodology of supporting risk management all as described in the Risk Management Toolkit;

- iii. Training of Members, managers and staff to help them understand risk and the application of risk management;
- iv. To assist with the development of Risk Assurance Mapping; and
- v. The development of an all staff survey to gauge their understanding and awareness of risk and controls.

5 Risk Management Improvement Areas

- 5.1 The Council should review the Risk Management Policy and Strategy to confirm it is up to date, fit for purpose and to evidence that the statements made within it are indeed being applied and undertaken in practice by:
 - i. Council;
 - ii. All Committees;
 - iii. Audit and Standards Committee;
 - iv. Strategic Leadership Team;
 - v. Strategic Heads and Chief Executive for their particular service areas;
 - vi. Heads of Service and Unit Managers;
 - vii. Officer Risk Champions; and
 - viii. All staff
- 5.2 The Council should enact and apply the guidance as described within the Risk Management Toolkit and to evidence that the processes described therein are indeed being undertaken. This should include adopting the bow tie methodology for developing the risk register.
- 5.3 The Council should review the following for the Audit and Standards Committee:
 - i. Regular training for Members on risk management, its importance, the role it plays in the Council achieving its objectives and the role it plays in the committee approving the Annual Governance Statement;
 - ii. The reports that should be reported to each and every Committee on risks and risk management;
 - iii. The development of a risk assurance map to enable Members of the Committee to have a visual presentation of the assurance framework for the whole council.
- 5.4 The Council should conduct a survey of managers and then all staff to understand their awareness and understanding of risk management and the part they play in assessing risk and in achieving objectives in the most efficient and effective way.
- 5.5 The Council should establish ongoing training to better understand risk and risk management for managers and staff.
- 5.6 The Council should establish Risk Champions who understand the benefits of risk management, the systems involved that manage risks (risk register) and have time allocated to support others in their departments and directorates.

6. Acknowledgement

6.1 The Consultant would like to thank all of the staff involved for their help and co-operation during the review of Risk Management.

7. Report Issue

7.1 This report will be issued to:

- The Chief Executive
- The Strategic Director of Resources

8. Review Limitations

8.1 The matters raised in this report are only those which came to our attention during the course of the review from sample testing undertaken, examination of documents and discussion with staff.

8.2 The work of Internal Audit should not be relied upon to identify all strengths and weaknesses that may exist or all the improvements that might be made. It may not identify all circumstances of fraud or irregularity should there be any. However, audit procedures have been designed to give a reasonable probability of discovery of any material irregularities.

9. Summary of Recommendations Made by Priority

9.1 Recommendations arising from this review have been prioritised as:

| | |
|------------------|---|
| High Priority: | 0 |
| Medium Priority: | 5 |
| Low Priority: | 1 |
| Rejected: | 0 |

10.

Management Action Plan

Risk

For audit purposes risk is the chance of error, financial loss or fraud remaining undetected if effective controls are not in place or require improvement. Internal Audit prioritises review recommendations as:

High Risk

Action that is considered necessary to ensure that the Council is not exposed to serious levels of risk such as breaches of legislation, statutory duty, Council policies and procedures or to the potential for financial loss or fraud. Controls are either not in place or are ineffective.

Medium Risk

Action that is considered necessary to ensure exposure to high risk is prevented. Existing controls need improving.

Low Risk

Action that is considered desirable and should result in enhanced control or better value for money.

Please note that priority levels for individual recommendations reflect the relative level of risk to the Council, when considering the overall control environment and financial implications in relation to the potential for fraud or loss.

| Ref | Observation | Risk / Opportunity | Priority Level | Recommendation | Managers Comments | Action by Date |
|-----|--|---|----------------|---|--|-------------------------------|
| 1 | <p>The Council's Risk Management Policy and Strategy were reviewed. It was found that risk management activities in practice did not always conform to the Policy or the Strategy.</p> <p>It was also found that the bow tie methodology, as stated in the Council's Risk Management</p> | Inconsistent or incorrect application of risk management practices. | Medium | <p>The Council should review the Risk Management Policy and Strategy to confirm it is up to date, fit for purpose and to evidence that the statements made within it are indeed being applied and undertaken in practice.</p> <p>The Council should enact and apply the guidance as described within the Risk</p> | <p>Agreed by the Strategic Director of Resources.</p> <p>The Risk Management Policy and Strategy will be reviewed and a revised policy brought to committee later in the year.</p> <p>The Bow tie methodology is reflected in the manner in which risks are presented in excelsis. Future training for</p> | 1 st October 2022. |

| Ref | Observation | Risk / Opportunity | Priority Level | Recommendation | Managers Comments | Action by Date |
|-----|--|--|----------------|---|--|----------------------------|
| | Toolkit, was not being utilised. | | | Management Toolkit and to evidence that the processes described therein are indeed being undertaken. This should include adopting the bow tie methodology for developing the risk register. | managers will cover how the methodology can be best implemented. | |
| 2 | <p>The Audit Committee's role with regards to risk management should be reviewed.</p> <p>Currently, the Audit Committee does not receive the Council's risk registers at each of its meetings.</p> <p>Receipt of the Strategic and departmental risk registers, on a rolling basis, would enable the Committee to monitor the management of risk on a regular basis.</p> <p>The review has also highlighted the need for</p> | The Committee is not wholly fulfilling its role in accordance with the CIPFA Guidance. | Medium | <p>Risk registers should be reported to each Committee meeting, on a rolling basis.</p> <p>Regular training should be provided to Members on risk management, its importance, the role it plays in the Council achieving its objectives and the role it plays in the committee approving the Annual Governance Statement.</p> | <p>Agreed by the Strategic Director of Resources.</p> <p>The Strategic Risk register will be submitted to each Committee as a standing item.</p> <p>Service registers will be brought when requested by the Committee as part of the work programme.</p> | 1 st June 2022. |

| Ref | Observation | Risk / Opportunity | Priority Level | Recommendation | Managers Comments | Action by Date |
|-----|--|--|----------------|---|--|------------------------------|
| | <p>risk management training to be provided to Members of the Audit Committee.</p> <p>Whilst training was provided by Internal Audit, not all Members had attended.</p> | | | | Audit Committee members will again be invited to a further session of risk management training. | 1 st October 2022 |
| 3 | <p>The Council does not currently have an assurance map.</p> <p>An assurance map would enable the Committee to have a structured means of identifying and mapping the main sources and types of assurance across the Council and the three lines of defence.</p> | The Council and the Committee can have a fuller and more detailed understanding of the sources of risk and the assurances (where available) that mitigate these. | Medium | The Council should develop an assurance map to provide a visual presentation of the assurance framework for the whole council. | <p>Agreed by the Strategic Director of Resources.</p> <p>An assurance map will be commissioned and brought to a future committee.</p> | 1 st June 2022. |
| 4 | As a suggestion, to aid the Council's understanding of risk management and to help determine the scope of future engagement with the wider officer team, a survey of risk management knowledge | Inconsistent or incorrect knowledge and application of risk management practices. | Medium | The Council should conduct a survey of managers and then all staff to understand their awareness and understanding of risk management and the part they play in assessing risk and in | <p>Agreed by the Strategic Director of Resources.</p> <p>A survey will be developed and issued to the Council's Leadership and Management Team (LMT)</p> | 1 st June 2022. |

| Ref | Observation | Risk / Opportunity | Priority Level | Recommendation | Managers Comments | Action by Date |
|-----|---|---|----------------|---|--|-------------------------------|
| | and application in practice should be undertaken. | | | achieving objectives in the most efficient and effective way | | |
| 5 | Based on 4. above, the Council can use the survey results to identify any gaps in knowledge or inconsistencies in the application of risk management practice. | Inconsistent or incorrect knowledge and application of risk management practices. | Medium | The Council should establish ongoing training for managers and staff. | Agreed by the Strategic Director of Resources. Training will be carried out, possibly using external providers | 1 st October 2022. |
| 6 | The Council should consider establishing a Risk Management Group, with Champions from each department. This could be an effective way to establish consistency in risk management practices across the Council. | Inconsistent or incorrect knowledge and application of risk management practices. | Low | The Council should establish Risk Champions who understand the benefits of risk management, the systems involved that manage risks (risk register) and have time allocated to support others in their departments and directorates. | Agreed by the Strategic Director of Resources. A role of risk champion (or similarly named role) will be developed, and a group established. Champions will be of sufficient seniority to challenge colleagues on risk management compliance. | 1 st October 2022. |