



Internal Audit

FINAL

Dacorum Borough Council

Assurance Review of Governance and Risk Management

2021/22

June 2022

Executive Summary

OVERALL ASSESSMENT



ASSURANCE OVER KEY STRATEGIC RISK / OBJECTIVE

Poor corporate governance, including risk management, weakens an organisation's potential and may lead to financial difficulties and the possibility of fraud.

KEY STRATEGIC FINDINGS

-  The Corporate Risk Register (CRR) and the Operational Risk Registers (ORRs) does not incorporate information pertaining to risk appetite, Strategic Objectives/ Priorities, inherent risk scores and target risk scores, which would provide more context to Members and staff.
-  Mitigating controls assigned to risks are not reviewed or assessed by Risk Owners, to confirm whether the controls are appropriate or adequate in reducing the risk occurring/ impact. Additionally, updates provided by Risk Owners are not aligned to the mitigating controls.
-  Review of the CRR and ORRs, it was noted that there are no linkages between both risk registers and are standalone risk registers.
-  The Council is going through staffing and governance structural changes, which has led to appointments at Senior Leadership Team (Tier 2) and possibly also at Corporate Leadership Team (Tier 3). It is essential that risk management training is rolled out to Tier 2 and Tier 3 posts, who are listed as Risk Owners on CRR and ORRs.

GOOD PRACTICE IDENTIFIED

-  The CRR is presented quarterly to Audit Committee and similarly, the ORR is presented quarterly to the respective Overview and Scrutiny Committees, throughout the year.

SCOPE

The audit reviewed the Council's Governance arrangements; and Risk Management - arrangements for identifying and monitoring the mitigating controls with regards to the Council's business significant risk map. Two risks currently included in the Council's business significant risk map were selected and the effectiveness of the identified controls were reviewed.

ACTION POINTS

Urgent	Important	Routine	Operational
0	4	3	1

Assurance - Key Findings and Management Action Plan (MAP)

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
2	Directed	<p>Review of the 2021/22 Quarter 2 and 3 Corporate Risk Register (CRR), it was noted that the CRR, presented to the Audit Committee, is at 'post mitigation', and includes updates and brief commentary against each risk listed.</p> <p>The CRR does not provide information relating to:</p> <ul style="list-style-type: none"> • The initial inherent risk score pertaining to the individual risk; • Cross reference of the Council's Strategic Objectives/ Priorities, where applicable, to each risk listed; • The risk appetite associated with the individual risk; and • The movement of the individual risk score from one quarter to the next; and • The Target risk to be attained by year end. 	Management to address the CRR gaps noted opposite in order to enhance and present a more informative risk register to both Members and staff.	2	<p><i>The role out of the In Phase system has meant a redevelopment of the reporting style and format, which led to reports in quarter 2 not being fully developed. A return to the previous reporting style will be made which will include;</i></p> <ul style="list-style-type: none"> - <i>Inherent risk scores, and</i> - <i>Reference to Strategic Objectives</i> <p><i>The quarter on quarter movement in risk scores is detailed in the Quarterly Strategic Risk Covering report but not detailed in the specific appendix. I can see benefits of simplicity of including the quarterly changes in the risk appendix and will implement this reporting change going forward.</i></p> <p><i>The Council is midway through undertaking a review of the Core strategic objectives and Strategic Risk Register, during this process a review of risk appetite associated with objectives and risks will be undertaken that will form part of future strategic risk reporting. The creation and inclusion of Target risk levels is also planned to be included after the current review is completed.</i></p>	Quarter 2 2022/23 reporting	Nigel Howcutt - CFO

PRIORITY GRADINGS

1 **URGENT** Fundamental control issue on which action should be taken immediately.

2 **IMPORTANT** Control issue on which action should be taken at the earliest opportunity.

3 **ROUTINE** Control issue on which action should be taken.

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
5	Directed	<p>In addition to the CRR, the Council also has Operational Risk Registers (ORRs) in place, at Directorate/ Department level.</p> <p>Review of the 2021/22 Quarter 3 ORRs for Housing and Finance & Resources, which are presented to their respective Overview and Scrutiny Committee, it was noted that it does not contain nor make reference to any specific Corporate Risks, which may impact on the Directorate/ Department areas. For example, the Corporate risk relating to Recruitment & Retention.</p> <p>Similarly, as noted with the CRR, the ORR does not capture the information as noted in Recommendation 2.</p>	<p>The Directorate/ Department Operational Risk Registers (ORR) to list those Corporate Risks, which may impact on service delivery within their area. This will in turn demonstrate a connection between the Strategic and Operational risks.</p> <p>Furthermore, the ORR should capture the information listed under Recommendation 2, which will enhance the ORR.</p>	2	<i>A more defined link between the operational risks and the Specific Strategic Risk register will be included in future reports.</i>	Quarter 2 2022/23 reporting	<p>Hannah Peacock – Head of transformation and Performance</p> <p>Nigel Howcutt - CFO</p>

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6	Directed	<p>Two corporate risks were selected from the CRR, and the following was noted:</p> <p>(i) Failure to secure sufficient investment in essential infrastructure required.</p> <ul style="list-style-type: none"> Update to the risk was missing from the 2021/22 Quarter 3 CRR. The update noted in 2021/22 Quarter 2 stated 'no movement from Q1'. These updates were not linked to the 'Controls & Assurances' section. <p>(ii) The Council is unable to recruit and retain the staff required.</p> <ul style="list-style-type: none"> The update for Q3 referred to developing a People's Strategy, which is not listed in the 'Controls & Assurance' section. The Q2 update focused on a shortage of HGV drivers. However, this issue was not reflected in the 'Residual Risk' score, which remained at 6. There was no update provided in Q3, as to where the Council stood with the HGV situation. As with the previous risk, the updates are not linked to the mitigating controls listed for the risk. 	<p>It be ensured that the risk updates are aligned to the mitigating controls listed under 'Controls & Assurances', so that Members are aware and informed of the progress/position against the risk. Where potential issues may impact on the risk, the risk score must be revised to reflect this. Furthermore, updates be linked to the previous report, so that previous issues are not followed up and reported.</p>	2	<p><i>A more aligned link between risk updates and mitigating controls will be detailed in future narrative reports.</i></p> <p><i>The impact of change that affect the risk score will be better reflected in the narrative.</i></p> <p><i>Risk scoring though is subjective and with many variables affecting each risk score, there can often be new risk updates with additional mitigation and controls that lead to no risk score changes.</i></p>	<p>Quarter 2 2022/23 reporting.</p>	<p>Nigel Howcutt CFO</p>

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Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
7	Directed	<p>The Council is currently going through a staff and Committee structural change, which has seen appointments made to the Senior Leadership Team (Tier 2) and it is envisaged that this may also be the case for the Corporate Leadership Team (Tier 3).</p> <p>Discussions held with the two Executive Directors, it was stated that in light of these changes, it would be beneficial if risk management training is provided to Tier 2 and 3, especially for new post holders.</p>	Once the Council has completed its staff and structural change, a risk management training programme be devised along with a timetable. To ensure key postholders are familiar with the Council's risk management process, reporting and monitoring requirements.	2	<i>A new and improved risk management training programme will be rolled out for the Audit Committee, Senior Leadership team and the Corporate Leadership team. This programme will reflect the changing roles and changing strategic direction of the organisation.</i>	Quarter 2 2022/23 reporting	Nigel Howcutt CFO
1	Directed	<p>Review of the Risk Management Strategy and the Guide to Managing Risks, it was noted that both documents are dated November 2020.</p> <p>Discussions held with the Risk and Insurance Team leader, it was noted that both documents had not been reviewed, as per the annual review cycle, due to the staffing and governance changes taking place at the Council. No date had been set as to when both documents would be reviewed by,</p>	A date be set as to when the Risk Management Strategy and the Guide to Managing Risk, is to be reviewed by, post the Council's changes.	3	<p><i>The current Risk Management Strategy should have been refreshed by November 2021, given the changing Governance and Management structures taking place between September 2021 and April 2022 the review was delayed and is currently underway.</i></p> <p><i>A key output of the current strategic risk review is the delivery of a new Risk Management Strategy Policy, outlining clear roles and responsibilities.</i></p>	Quarter 2 2022/23 reporting	Nigel Howcutt CFO

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Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
3	Directed	<p>Discussions held with two Executive Directors (EDs), who are named 'Risk Owners' on the CRR, it was noted that quarterly updates are provided by the EDs to the Section 151 officer.</p> <p>However, in providing the updates, the EDs were unaware whether the mitigating controls listed for each risk, were appropriate in minimising the risk impact. As no review or assessment is performed of the mitigating controls listed against the risk.</p>	<p>CRR and ORR Risk owners to perform periodic review/assessment of the mitigating controls, to ensure that the controls listed, are aiding in reducing the impact of the risk in occurring.</p> <p>Where it is identified that this may not be the case, the Risk Owner must revise the mitigating controls and report to Management/ Members of the revision and why it was necessary to do so.</p>	3	<i>The role out of a wider organisational Risk Management Training programme will provide CRR and ORR owners with a greater understanding of their roles and responsibilities and how to fulfil the relevant reviews and assessments.</i>	Quarter 2 2022/23 reporting	Nigel Howcutt CFO
4	Directed	<p>Discussions held with the two EDs, it was stated that there is no sight of the CRR at the Senior Leadership Team or the ORR at Senior Management Team.</p> <p>They have sight of the risk registers when the quarterly updates are requested.</p>	It be ensured that the CRR and ORR, is a standing item on the respective Senior Leadership/ Management Team agendas.	3	<i>The CRR and ORR were previously presented to the COG on a quarterly basis with the change in governance arrangements these will now be presented to the SLT on a quarterly basis, along with the other performance reports.</i>	30/09/22	Nigel Howcutt CFO

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Operational - Effectiveness Matter (OEM) Action Plan

Ref	Risk Area	Finding	Suggested Action	Management Comments
1	Directed	The Council does not conduct 'deep dive' exercises of Corporate risks, which would provide Members and Management with assurance over the management of the individual risk listed on the Corporate Risk Register.	It is suggested that a cycle be established, whereby all Corporate risks are subject to a 'deep dive' exercise and the results reported to Audit Committee.	<i>These will be included in future Audit Committee agendas.</i>

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures.

Findings



Directed Risk:

Failure to properly direct the service to ensure compliance with the requirements of the organisation.

Ref	Expected Key Risk Mitigation	Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
GF	Governance Framework There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.	In place	1	-
RM	Risk Mitigation The documented process aligns with the mitigating arrangements set out in the corporate risk register.	In place	-	1
C	Compliance Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.	Partially in place	2,3,4,5,6 & 7	-

Other Findings



In February 2022, the Council's Constitution was subject to minor amendments, namely to reflect changes to job titles. The Monitoring Officer advised that the Constitution will be subject to a full review, in light of the staffing and portfolio structural changes, taking place at the Council and in doing so the 'Delivering Good Governance in Local Government Framework' will be considered. Additionally, the Council adopted a new a Code of Conduct for Members, which forms part of the Constitution.



The Council's Risk Management Strategy and the Guide to Managing Risks provides adequate guidance on risk management, scoring, monitoring and reporting.

Other Findings



Governance

Review of the Council's Constitution, it was noted that it is made up of nine parts, and includes amongst other elements:

- roles and responsibilities of Members and key Senior Management;
- committee structures and their purpose, in the form of Terms of Reference; and
- Member's Code of Conduct, Member's Interests.



Review of the minutes for the 2021/22 Cabinet, Audit Committee and the Finance & Resources Overview and Scrutiny, it was noted that the minutes were informative and contained context. The Monitoring Officer advised, that he attends the Cabinet and Full Council meetings, to ensure that the meetings are conducted appropriately and the minutes of these meetings are reviewed for factual accuracy and legitimacy.



Risk Management

During the summer of 2021/22, the Council implemented a new risk management and compliance software called 'Inphase', which is used for both Corporate and Operational risk registers.

Risk Owners update Inphase on a quarterly basis with the latest position against the respective risk.



Two risks were selected for review from the Corporate Risk Register (CRR), as follows:

- Failure to secure sufficient investment in essential infrastructure required (**Risk Owner - Executive Director for Place**); and
- The Council is unable to recruit and retain the staff required (**Risk Owner – Strategic Director People and Transformation**).

Discussions held with the two Risk Owners, it was advised that:

- The activities/work listed on the 'Controls & Assurances' list, is in progress, which is established via regular update meetings with staff; and
- The Executive Director for Place was previously an Assistant Director for Place, and is familiar with the risk management process, as he was responsible for the risk register at an operational level.



Delivery Risk:

Failure to deliver the service in an effective manner which meets the requirements of the organisation.

Ref	Expected Key Risk Mitigation	Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
PM	Performance Monitoring There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.	Out of Scope	-	-
FC	Financial Constraint The process operates within the agreed financial budget for the year.	Out of Scope	-	-
R	Resilience Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.	In place	-	-

Other Findings



The Corporate Risk Register and the Operational Risk Registers are presented quarterly to Audit Committee and the Overview and Scrutiny Committees, respectively.

EXPLANATORY INFORMATION

Appendix A

Scope and Limitations of the Review

- The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan. As set out in the Audit Charter, substantive testing is only carried out where this has been agreed with management and unless explicitly shown in the scope no such work has been performed.

Disclaimer

- The matters raised in this report are only those that came to the attention of the auditor during the course of the review, and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Effectiveness of arrangements

- The definitions of the effectiveness of arrangements are set out below. These are based solely upon the audit work performed, assume business as usual, and do not necessarily cover management override or exceptional circumstances.

In place	The control arrangements in place mitigate the risk from arising.
Partially in place	The control arrangements in place only partially mitigate the risk from arising.
Not in place	The control arrangements in place do not effectively mitigate the risk from arising.

Assurance Assessment

- The definitions of the assurance assessments are:

Substantial Assurance	There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.
Reasonable Assurance	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved.
Limited Assurance	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved.
No Assurance	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

Acknowledgement

- We would like to thank staff for their co-operation and assistance during the course of our work.

Release of Report

- The table below sets out the history of this report.

Stage	Issued	Response Received
Audit Planning Memorandum:	8 th December 2021	8 th December 2021
Draft Report:	11 th May 2022	8 th June 2022
Final Report:	9 th June 2022	

AUDIT PLANNING MEMORANDUM

Appendix B

Client:	Dacorum Borough Council		
Review:	Governance and Risk Management		
Type of Review:	Assurance	Audit Lead:	Audit Manager

Outline scope (per Annual Plan):	Risk: Rationale: It is vital for organisations to have good governance in place which in turn drives effective risk management. Scope: To review: the Council’s Governance arrangements (topic to be specified); and Risk Management - arrangements for identifying and monitoring the mitigating controls with regards to the Council’s business significant risk map. Two risks currently included in the Council’s business significant risk map will be selected and the effectiveness of the identified controls will be reviewed		
Detailed scope will consider:	<p>Directed</p> <p>Governance Framework: There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.</p> <p>Risk Mitigation: The documented process aligns with the mitigating arrangements set out in the corporate risk register.</p> <p>Compliance: Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.</p>	<p>Delivery</p> <p>Performance monitoring: There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.</p> <p>Financial constraint: The process operates with the agreed financial budget for the year.</p> <p>Resilience: Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.</p>	
Requested additions to scope:	(if required then please provide brief detail)		
Exclusions from scope:	None		

Planned Start Date:	03/02/2022	Exit Meeting Date:	25/04/2022	Exit Meeting to be held with:	Section 151 Officer
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SELF ASSESSMENT RESPONSE

Matters over the previous 12 months relating to activity to be reviewed	Y/N (if Y then please provide brief details separately)
Has there been any reduction in the effectiveness of the internal controls due to staff absences through sickness and/or vacancies etc?	N
Have there been any breakdowns in the internal controls resulting in disciplinary action or similar?	N
Have there been any significant changes to the process?	N
Are there any particular matters/periods of time you would like the review to consider?	N