

Item: 3.4

Monitoring and Audit Committee: 9 February 2023.

Internal Audit Report: Corporate Governance and Risk Management.

Report by Chief Internal Auditor.

1. Purpose of Report

To present the internal audit report on procedures and controls relating to Corporate Governance and Risk Management.

2. Recommendations

The Committee is invited to note:

2.1.

That Internal Audit has undertaken an audit of the procedures and controls relating to Corporate Governance and Risk Management.

2.2.

The findings contained in the Internal Audit report, attached as Appendix 1 to this report, relating to Corporate Governance and Risk Management.

It is recommended:

2.3.

That the Committee review the audit findings to obtain assurance that action has been taken or agreed where necessary.

3. Background

3.1.

The Council adopted a Local Code of Corporate Governance in 2012, with the most recent review and update in September 2022. The code sets out a requirement for an annual corporate governance self-assessment process to be completed. The results of the self-assessment process are used in the preparation of the Annual Governance Statement, published as part of the annual accounts.

3.2.

Risk Management is the planned and systematic approach to the identification, evaluation and control of risk. The objective of risk management is to secure the assets and reputation of the Council and ensure its continued financial and organisational wellbeing.

3.3.

The objective of this audit was to review whether procedures and controls relating to Corporate Governance and Risk Management are operating effectively.

4. Audit Findings

4.1.

The audit provides adequate assurance that the processes and procedures relating to Corporate Governance and Risk Management are well controlled and managed.

4.2.

The Internal Audit report, attached as Appendix 1 to this report, includes five medium priority recommendations and two low priority recommendation within the action plan. There are no high level recommendations made as a result of this audit.

4.3.

The Committee is invited to review the audit findings to obtain assurance that action has been taken or agreed where necessary.

5. Corporate Governance

This report relates to the Council complying with governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

There are no financial implications associated directly with the recommendations in this report.

7. Legal Aspects

Complying with recommendations made by the internal auditors helps the Council meet its statutory obligations to secure best value.

8. Contact Officers

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9. Appendix

Appendix 1: Internal Audit Report: Corporate Governance and Risk Management.



Internal Audit

Audit Report

Corporate Governance and Risk Management

Draft issue date: 11 January 2023

Final issue date: 26 January 2023

Distribution List

Corporate Director Strategy Performance and Business Solutions

Corporate Director Neighbourhood Services and Infrastructure

Corporate Director Enterprise and Sustainable Regeneration

Corporate Director Education Leisure and Housing

Chief Officer Orkney Health and Social Care Partnership

Head of Legal and Governance

Head of Improvement and Performance

Head of Property, Asset Management and Facilities

Service Manager Strategy and Partnership

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Audit Opinion

Based on our findings in this review we have given the following audit opinion.

Adequate

Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

Complying with the CIPFA/SOLACE Good Governance Framework enables the Council to review its own effectiveness and to identify continuing improvements in its governance arrangements.

The objective of risk management is to secure the assets and reputation of the Council and ensure its continued financial and organisational wellbeing.

Our review has indicated that procedures for the Local Code of Corporate Governance self-assessment and the Annual Governance Statement are well controlled and managed but there are some improvements that would enhance the Council's risk management arrangements.

This review has highlighted several areas of good practice including:

- In September 2022, the Council reviewed and updated the Local Code of Corporate Governance and the Risk Management Policy and Strategy.
- There is a robust procedure in place to ensure that self-assessments are carried out timeously, employing a consistent approach throughout the Council.
- The Annual Governance Statement is issued on time and in accordance with the relevant guidance.
- The Corporate Risk Register is regularly reviewed and presented to the Policy and Resources Committee.

The report includes 7 recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via Pentana Risk.

Total	High	Medium	Low
7	0	5	2

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

The Public Sector Internal Audit Standards require that an annual internal audit opinion is given based on an objective assessment of the framework of governance, risk management and control.

The Council adopted a Local Code of Corporate Governance (the Local Code) in 2012. This was revised in June 2017 to reflect changes in the Delivering Good Governance in Local Government Framework (the Framework) published by CIPFA in association with SOLACE. The code was further updated and approved by Council in October 2022 following consideration by the Policy and Resources Committee on 20 September 2022.

The Corporate Risk Management Policy and Strategy is reviewed biennially. The Risk Management Policy and Strategy 2020-2022 was approved in 2020. The Risk Management Policy and Strategy 2022-2024 was approved by Council following consideration by the Policy and Resources Committee on 20 September 2022.

The Local Code sets out a requirement for an annual corporate governance self-assessment process to be completed. The results of the self-assessment process are used in the preparation of the Annual Governance Statement, published as part of the annual accounts. A review of the procedure followed during 2021/22 is required in order to provide an opinion on the framework of governance, risk management and control as set out above.

The Local Code of Corporate Governance and Corporate Risk Management Policy and Strategy were last subject to an Internal Audit in 2019.

This review was conducted in conformance with the Public Sector Internal Audit Standards

Audit Scope

The objective of this audit was to provide assurance that there are adequate arrangements in place to ensure:

- That there is a robust process followed for the annual corporate governance self-assessment.
- That the Annual Governance Statement is issued on time and in accordance with the relevant guidance.
- That there is an effective procedure for the identification and management of risk throughout the Council.
- That the policies, procedures and activities that form the system of internal control are designed and operated to ensure that risk is maintained at an acceptable level.

The scope of the audit included but was not limited to a review of the following:

- The Council's governance framework in terms of the Local Code and the requirements of the Framework.
- The process employed, and the evidence provided to support the statements and scoring in the annual self-assessment.
- The individual assurance statements completed by Corporate Directors and Heads of Service.

- The process in place for the preparation of the Annual Governance Statement to confirm that the statement addresses key governance issues.
- The Council's arrangements in place for risk management including the strategy, policy and maintenance of the risk register.
- Key internal control documentation to ensure that there are robust controls in place to reduce risk to an acceptable level.
- That monitoring and reporting of risk aligns with the Council's new corporate management structure.

Audit Findings

1.0 Corporate Governance Self-Assessment

- 1.1 The revised Local Code of Corporate Governance was approved by the Council in October 2022 and is based on the principles and sub-principles contained in the CIPFA/SOLACE framework.
- 1.2 A robust procedure is in place to ensure that annual self-assessments are carried out on time and a consistent approach is employed throughout the Council.
- 1.3 The assessment and the resultant action plan were reviewed by the Corporate Leadership Team and the results were presented to the Monitoring and Audit Committee in June 2022.
- 1.4 Attached to the Annual Assessment is an Improvement Action Plan for 2022/23 which contains planned updates and improvements identified from the self-assessment which were scheduled to be made to existing corporate governance arrangements. Historically, the plan has been uploaded to the Council's Performance and Risk Management System – Pentana Risk, for recording and monitoring actions. However, a review of the plan for 2021/22 indicates that many actions remain overdue, and few are commented on.
- 1.5 It is important that any plan is monitored. An update on progress with the planned updates and identified improvements included in the 2022/23 Improvement Action Plan should be provided to the Corporate Leadership Team and the Monitoring and Audit Committee.

Recommendation 1

2.0 Annual Governance Statement

- 2.1 Following the self-assessment process, Assurance Certificates are produced by Corporate Directors and Heads of Service. These feed into the Annual Governance Statement which forms part of the Council's Statement of Accounts.
- 2.2 The Annual Governance Statement is signed by the Council's Chief Executive and the Leader of the Council and was presented to the Monitoring and Audit Committee for approval on 25 August 2022.

3.0 Risk Management

- 3.1 The Council's Risk Management Policy and Strategy 2022-24 was approved by Council in October 2022. It was amended to reflect changes in job titles and management structures within the Council. This version is available on the Council's website.
- 3.2 The Risk Management Policy and Strategy sets out the monitoring regime for risk registers. The Corporate Risk Register should be reviewed biannually or where a new risk is identified. During 2022 this register was discussed at three separate meetings of the Policy and Resources Committee. Reviews of the audio discussions at these meetings indicate that scrutiny of the Corporate Risk Register is good.
- 3.3 For Directorate (formerly Service) risk registers, the Risk Management Policy and Strategy states that risk registers are presented to the relevant committee or board annually to advise

members of the risks which may affect the achievement of the Council's strategic objectives. Historically, Directorate risk registers were presented to the relevant committee during the June cycle of meetings. The last time Directorate registers were presented to Committee was in June 2021. At the June 2022 cycle of meetings, performance reports mentioned that due to the changes within the Council's management structure, the risk registers for new Directorates would be developed and reported in due course. This means that members will have had no scrutiny over Directorate risk registers since June 2021. With the introduction of a new Council structure, it is important that Directorate risk registers are reviewed to ensure they reflect all changes resulting from the restructure and are reported to the relevant committee as soon as possible.

Recommendation 2

- 3.4 Section 8 of the Risk Management Policy and Strategy sets out the management arrangements for risk management. As well as referring to the responsibility of Corporate Directors to ensure a risk register is compiled and maintained in respect of their Directorate, it also mentions that Heads of Service will be responsible for ensuring a risk register is kept within their service. These should be reviewed biannually or when a new risk is identified. Risks which fall outwith the risk tolerance level should be escalated to the respective Directorate risk register. Corporate Directors should ensure that their Heads of Service are compiling risk registers and that these are reviewed in accordance with the Risk Management Policy and Strategy.

Recommendation 3

- 3.5 Risk registers are monitored through Pentana Risk so that any performance risks are highlighted to senior management through exception reporting. A review of Pentana Risk however indicates that for all risk registers there are updates outstanding and for some this number is significant. Corporate Directors should ensure that risk registers in Pentana Risk are updated on a timely basis.

Recommendation 4

- 3.6 Risk Management Guidance has been issued which outlines how risk management is undertaken within the Council. This is a very useful document, approved by the Senior Management Team in July 2020. It includes sections on roles and responsibilities and the identification, analysis, prioritisation, management and monitoring of risk. The guidance states that it will be reviewed biennially. This review is overdue and should take place as soon as possible. To ensure the Risk Management Guidance is available to all managers it should be made available on the Council's intranet.

Recommendation 5

- 3.7 The Risk Management Guidance states that 'training in risk management will be undertaken on a regular basis and those responsible will undertake continuous professional development in line with their area of responsibility. The Safety and Resilience Manager will organise training on a regular basis, and at least every two years'. No risk management training has been undertaken since November 2019, because of capacity issues, mainly due to the pandemic. The Council should ensure that staff receive suitable risk management training in accordance with the Risk Management Guidance.

Recommendation 6

- 3.8 The Risk Management Policy and Strategy mentions the Council's Performance and Risk Management Group as one of the risk management monitoring arrangements in place 'ensuring that the group continues to be an effective and streamlined means of maintaining an overview of risk management and supporting corporate consistency in the implementation of the risk management policy'. The Local Code of Corporate Governance self-assessment mentions that the group provides a forum for considering, researching, and making recommendations on risk management, as well as enabling each member to 'champion' risk management within their respective services'. Minutes from previous meetings and discussions with relevant officers indicate that this was a useful forum to discover and discuss emerging risks that may require attention.
- 3.9 This Group, which should meet on a quarterly basis, has not met since January 2020. At this meeting and the previous one in September 2019, a Council wide risk register refresh was discussed. Re-establishment of this group should be considered.

Recommendation 7

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1. An update on progress with the planned updates and identified improvements included in the 2022/23 Improvement Action Plan should be provided to the Corporate Leadership Team and the Monitoring and Audit Committee.	Low	Agreed.	All Corporate Directors to review their updates. Corporate Director for Strategy Performance and Business Solutions to report to CLT and Monitoring and Audit Committee.	31 March 2023 CLT – May 2023 M&A – June 2023
2. With the introduction of a new Council structure it is important that Directorate risk registers are reviewed to ensure they reflect all changes resulting from the restructure and are reported to the relevant committee as soon as possible.	Medium	Agreed.	All Corporate Directors	30 June 2023
3. Corporate Directors should ensure that their Heads of Service are compiling risk registers and that these are reviewed in accordance with	Medium	Agreed.	All Corporate Directors.	31 March 2023

the Risk Management Policy and Strategy.				
4. Corporate Directors should ensure that risk registers in Pentana Risk are updated on a timely basis.	Medium	Agreed.	All Corporate Directors.	30 June 2023
5. The Risk Management Guidance should be made available on the Council's intranet Review of the Risk Management Guidance document should take place as soon as possible.	Low	Agreed.	Corporate Director of Neighbourhood Services and Infrastructure.	31 March 2023
6. The Council should ensure that staff receive suitable risk management training in accordance with the Risk Management Guidance.	Medium	Agreed.	Corporate Director of Neighbourhood Services and Infrastructure.	30 June 2023
7. The re-establishment of the Performance and Risk Management Group should be considered.	Medium	Agreed.	Corporate Directors of Neighbourhood Services and Infrastructure, and of Strategy, Performance and Business Solutions.	31 March 2023

Key to Opinion and Priorities

Audit Opinion

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.