TRANSPORT FOR THE NORTH

Risk Management – Risk Register Deep Dive

FINAL

Internal audit report: 1.19/20

31 May 2019

RSM

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Debrief held	17 April 2019	**Internal audit team**	Lisa Randall, Head of Internal Audit
Draft report issued	1 May 2019		Sarah Massel, Assistant Manager
Revised draft report issued	30 May 2019		Tosif Ugradar, Senior Auditor
Responses received	31 May 2019		
Final report issued	31 May 2019	**Client sponsors**	Iain Craven, Finance Director
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1 EXECUTIVE SUMMARY

1.1 Background

As part of the approved internal audit plan for 2019/20, we have performed a review to provide assurance on how Transport for the North (TfN) ensures the accuracy and completeness of control and assurance of information recorded in TfN's Risk Registers.

TfN's Risk Management Strategy (RMS) sets out TfN's approach in relation to risk management. In summary, the process for risk management within TfN is: identifying the risk, evaluating and analysing the risk, and monitoring and controlling the risk. As TfN is involved in complex programmes/projects affecting a variety of stakeholders from suppliers to the general public, the RMS also details the various risk categories which should be considered during the development of any programmes/projects, for example resources, funding, media, public and delivery partners.

Documentation of risks is via the individual risk registers. As part of our review, the Corporate Risk Register, Programme Risk Registers (Northern Powerhouse Railway, Integrated Smart Travel, Strategic Rail and Roads Network) and Directorate Risk Registers (Finance, Governance, HR, Stakeholder Communication and Strategic Transport Plan Development) were reviewed (being all of the risk registers in place at TfN).

The quality and completeness of the information captured within the risk registers was also reviewed, in addition to ensuring operational activities accurately reflect documented risk mitigating actions for a sample of risks selected from each of the risk registers. Furthermore, the communication and reporting structure was reviewed to highlight whether risk is being reported to senior management and other key stakeholders such as the Audit and Governance Committee and the TfN Board.

1.2 Conclusion

Overall, our review identified that whilst risk registers are in place and contain key details, such as risk description, mitigating actions, action owners amongst others, there is inconsistency with regards to the level of commentary supporting the progress made against each risk. Furthermore, whilst a documented Risk Management Strategy is in place, this had not been reviewed or updated since March 2017 due to resource constraints.

A review of the risks reported to the Audit and Governance Committee noted inconsistencies in the types of risks shared at the Committee's meetings.

These matters have been taken into consideration when determining the assurance opinion provided below.

Internal audit opinion:
Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage the identified area are suitably designed and are being consistently applied.

No assurance | Partial assurance | Reasonable assurance | **Substantial assurance**

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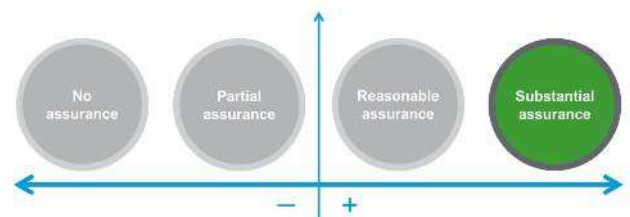
1.3 Key findings

The key findings from this review are as follows:

Risk Management Strategy

As previously stated, a Risk Management Strategy (RMS) exists, issued in March 2017 having been approved by the Senior Management Team (SMT). The RMS details TfN's approach to risks. Management informed us that the RMS should be reviewed annually, however due to resource constraints, at the time of audit, no review or update has taken place of the RMS. Additionally, the RMS lacks detail on the definition of risk proximity, a description field for risks within the risk registers reviewed, highlighting whether the risk is short term, medium term or long term. Currently, there is a risk that the RMS is not reflective of current risk management procedures in operation at TfN. As such, a 'medium' priority action has been raised.

Risk Registers

A review of risk registers noted the existence of a corporate level risk register, programme level risk registers and directorate level risk registers (refer to the 'Background' section above for examples of the Programme and Directorate risk registers). Risk registers at each level are documented within a consistent template and include key information including risk description, score and action owners.

A sample of five risks was selected across the three types of risk registers (Corporate, Programme and Directorate), and evidence reviewed in relation to the mitigating action assigned to the risks. Through review of supporting information, for the five risks and actions reviewed, no discrepancies were noted with regards to current state of actions and the progress reported within the risk registers.

Progress monitoring of mitigating actions assigned to risks and action owners is captured within each of the risk registers and updated by the Portfolio Risk Manager. Timeliness of updates with regards to progress made against mitigating actions for risks is inconsistent across the risk registers. In order to provide a complete audit trail, where there are no updates in relation to mitigating actions this should be clearly documented as evidence that the risks have been reviewed. As a result, a 'medium' priority action has been raised.

Risk Management Oversight

Review of meeting minutes and board packs highlighted that there is senior management oversight of the key risks including Corporate, Programme and Directorate risks. Annually, the TfN Board reviews a risk report (sponsored by the Chief Executive) detailing the corporate risks (as captured within the Corporate Risk Register). The Operating Board Team and Programme Board review risks relating to the four programmes on a monthly basis. Additionally, the Audit and Governance Committee review risks on a quarterly basis.

As per the Audit and Governance Committee Terms of Reference, the Audit and Governance Committee should consider any reports shared by the Finance Director. Through review we noted that the Audit and Governance Committee does not consistently review both corporate and programme risks at each of its meetings. As a result, a low rated action has been raised for both corporate and programme risks to be included in all quarterly meetings ensuring senior management visibility of all the key risks.

1.4 Additional information to support our conclusion

The following table highlights the number and categories of management actions made. The detailed findings section lists the specific actions agreed with management to implement.

Area	Control design not effective	Non-Compliance with controls	Agreed actions		
			Low	Medium	High
Risk Management Strategy	0	1	1	0	0
Risk Registers	0	1	0	1	0
Management oversight	0	1	1	0	0
Total			2	1	0

2   DETAILED FINDINGS

Categorisation of internal audit findings	
Priority	**Definition**
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible regulatory scrutiny/reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, regulatory scrutiny, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
Risk Management Strategy								
2.1	A Risk Management Strategy (RMS) exists, outlining TfN's approach to risk management. The RMS is reviewed and approved by the TfN Senior Management Team (SMT) annually.	Yes	N/A	During 2016 and 2017, the Portfolio Risk Manager documented TfN's Risk Management Strategy (RMS), which is accessible to staff via the intranet as well as to the public via TfN's website. The stated purpose of the RMS is to support the strategic objectives of the organisation and to set out TfN's approach to risk management. The RMS details the benefits of good risk management and also the	Low	The Risk Portfolio Manager will review and update the Risk Management Strategy in order to ensure that it is in line with current organisational operations. The Risk Management Strategy will then be reviewed and approved by the Senior Management Team on an annual basis, with the version control box stating the next due date		

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				common barriers to embedding risk management in an organisation. The RMS documents the process for managing risk using commentary and graphics. In summary, the risk management process is; identifying the risk, evaluating and analysing the risk, and monitoring and controlling the risk. The RMS also details the various risk categories which should be considered during the development of any programmes/projects, for example resources, funding, media, public and delivery partners. In addition, the RMS details the risk scoring mechanism utilised at TfN, including a Red Amber Green (RAG) rating against scores. It also outlines the reporting structure from Programme Board to Partnership Board. The RMS was reviewed and approved by the TfN Senior Management Team on 27 March 2017. We were informed that the RMS should be reviewed and updated annually, however due to limited resources, this has not taken place. There is therefore a risk that the strategy being applied by employees is not in line with current operations. Additionally, there is no clear detail within the RMS with regards to the frequency of review of		for review. In addition, the Risk Management Strategy will include the frequency of the review of the risks within the Corporate Risk Register.		

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				the risks within the Corporate Risk Register.

Furthermore, the risk registers reviewed include a description field, 'Risk Proximity', which is a reference to whether the risk is short term, medium term or long term. A review of the RMS highlighted no reference to the 'Risk Proximity' field as such there is no guidance as to what is considered a short, medium or long-term risk. | | | | |
| **Risk Registers** | | | | | | | | |
| 2.2 | Corporate, Programme and Directorate Risk Registers are documented and updated by the Portfolio Risk Manager to reflect the progress made against mitigating actions. | Yes | No | **Corporate Risk Register (CRR)**

Currently there are six key risks documented within the CRR. The CRR includes key elements such as the risk owner, mitigating strategies, risk score and target completion date. Review of the CRR highlighted the following:

- One out of the six risks included progress updates for July, August and December 2018.
- One out of the six risks included progress updates as for August and December 2018 only. | Medium | The Risk Portfolio Manager will ensure that the Corporate, Programme and Directorate Risk Registers are updated consistently following each review point. Where there are no changes to a risk, and/or action, this will be documented as a nil return to ensure that there is a clear audit trail of senior management review. | | |

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				• The remaining four risks included progress updates for December 2018 only. Progress updates are therefore provided at inconsistent frequencies. Such key mitigating actions may not therefore be reviewed by senior management and/or updated. **Programme Risk Registers (PRR)** The PRRs capture similar details as recorded for the CRR as referred to above. We obtained the Northern Powerhouse Rail, and Strategic Rail PRRs, and confirmed that the detail across both registers was consistent. In addition, the delivery of the Northern Powerhouse Rail (NPR) is also included within the Corporate Risk Register. The risks aligned to the Strategic Rail Risk Register, are encompassed across the various risks within the Corporate Risk Register as these risks link in to political, funding and resource risks. Although progress updates are recorded against some actions, we noted that this is not consistent throughout the document.				

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				Directorate Risk Registers (DRR) The details captured within the DRRs are consistent with those captured within the CRR and PRRs as referred to above. The Finance Risk Register and Communications Stakeholder Risk Registers were selected for review and we confirmed that the detail across each of these risk registers is consistent. The DRRs are specific to the service, for example the Finance risk register includes risks relating to budgeting and funding, whereas the comms stakeholder risk register includes risks on websites, and brand identity. Although progress updates are recorded against some actions, this is not consistent throughout the document.				
Management Oversight								
2.3	Quarterly, the Audit and Governance Committee reviews the key risks facing the organisation.	Yes	No	A review of minutes of the meetings of the Audit and Governance Committee from December 2018 and March 2019 risks were reported upon at each meeting, however we noted that both levels of risk were not reported upon at each meeting (specifically, Programme level risks were reported to the March 2019 meeting, and Corporate level risks were reported to the December 2018	Low	Both Corporate and Programme level risks will be reviewed by the Audit and Governance Committee on a quarterly basis.		

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				meeting). Consistent review of each level of risk by the Committee would support the RMS and ensure that there is clear oversight of TfN's risks at this level.				

APPENDIX A: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following areas:

Objectives of the area under review
To ensure controls and assurances information recorded in TfN's Risk Register is accurate and consistent with the activities operating in practice.

When planning the audit, the following areas for consideration and limitations were agreed:

Areas for consideration:

This review will take the approach of a 'deep dive' assessment of a sample of risks and associated control mechanisms to provide assurance over control existence and quality.

For each selected risk, we will review the information recorded in the Risk Register to determine whether the actions and activities being undertaken by management to mitigate the risks are clearly described.

In addition to this, for each selected risk we will also test whether evidence is in place to demonstrate the existence of each activity as recorded in the Risk Register (this will include an assessment of the accuracy with which the control and assurance information is recorded in the Risk Register based on the underlying records/evidence).

Limitations to the scope of the audit assignment:

- We will not comment on whether TfN has identified all of its risks and opportunities;

- We will not provide an opinion on the effectiveness of any of TfN's controls or assurance mechanisms;

- We do not endorse any particular risk management methodology or process. It remains the responsibility of the Board and senior management to agree and manage information needs and determine the most effective approach for the organisation;

- Any testing undertaken during the review will be performed on a sample basis only; and

- Our work does not provide absolute assurance that material error, loss or fraud does not exist.

APPENDIX B: FURTHER INFORMATION

Benchmarking

We have included some comparative data to benchmark the number of management actions agreed, as shown in the table below. In the past year, we have undertaken a number of audits of a similar nature in the sector.

Level of assurance	Percentage of reviews	Results of the audit
Substantial assurance	10%	✔
Reasonable assurance	40%	
Partial assurance	25%	
No assurance	25%	
Management actions	**Average number in similar audits**	**Number in this audit**
High	1	0
Medium	3	1
Low	1	2
Total	**5**	**3**

The benchmarking data demonstrates that TfN is performing broadly in line with other organisations where we have carried out similar reviews, in terms of the level of assurance provided. We have proposed a lower than average number of management actions, however our "medium" priority action at 2.2 above reflects improvements that are required to all three levels of risk register.

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