

# FTF Internal Audit Service

## Risk Maturity Assessment Report No. PK04/18

**Issued To:** G Paterson, Chief Officer  
J Smith, Chief Financial Officer

F Easton, Change and Improvement Team Leader  
P Jerrard, Governance and Risk Coordinator

Audit and Risk Committee  
External Audit

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<b>Final Report Issued</b>	<b>11 November 2019</b>
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*Re-issued to reflect change on page 3, para 3 'Risk Management Strategy' to 'Risk Management Framework'*

## CONTEXT AND SCOPE

1. IJB Risk Management Policy & Strategy states that *‘appropriate application of good risk management will prevent or mitigate the effects of loss or harm and will increase success in the delivery of objectives, better clinical and financial outcomes, achievement of targets and fewer unexpected problems’*.
2. The following risks could prevent the achievement of the above objective and have been identified as within scope for this audit:
  - The organisation may not be managing risks appropriately because it does not have a comprehensive risk management framework, congruent with those of its partner organisations in place comprising appropriate strategy, structures, policies and procedures based on sound risk management principles appropriate to integrated working;
  - Risks are not considered and addressed as part of all decision making activities.
  - All relevant strategic and operational risks may not be accurately identified, assessed, evaluated, recorded and monitored;
  - The quality of data including risks, controls and assurance may not be to the required standard;
  - Risk responses may not be appropriate and aligned with an appropriately defined and approved risk appetite;
  - Relevant risk information may not be captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities;
  - Users may not have appropriate knowledge of, and access to, robust risk management systems which are structured to allow partnership working;
  - Training and awareness for all stakeholders of the risk management process may be insufficient;
  - Adequate resources may not be available to support the risk management process;
  - Risks with partner organisations may not be appropriately managed;
  - Responsibility for managing operational risks may not be clearly assigned;
  - Effective assurance and reporting arrangements may not be in place over all risks relating to delegated functions;
  - Appropriate assurances may not be provided to all relevant bodies and their Audit Committees on the operation of risk management and the integrity of systems.
3. The P&K IJB Risk Management Strategy (RMS) was first approved at the July 2016 IJB with an updated Strategy approved by the Audit & Performance Committee (APC) in November 2018.
4. Our audit work was designed to evaluate whether appropriate systems are in place and operating effectively to mitigate the risks identified above and to inform future developments of Risk Management in P&K IJB.

## AUDIT OPINION

5. Due to the nature of the review which was to establish areas for improvement, we have not provided a formal audit opinion, although we have concluded that P&K IJB has made good progress and that an adequate risk management framework is in place.

6. However, we would highlight that further work is now required, both to meet best practice and to reflect the IJB's increasing maturity as an organisation and better understanding of the complex assurance arrangements with its partners. Whilst there are a significant number of further actions required, many of these should be seen as enhancements which will allow the IJB to embed Risk Management fully within its activities, in line with national and international best practice, noting that the IJB is operating in an extremely complex risk and assurance environment where there is considerable reliance on the risk management frameworks operating within the parent bodies, which are themselves in a process of development and flux.
7. In particular, there is an opportunity to engage the IJB Board in the update of the Risk Register, to use insights gained from the ongoing update of the Strategic Commissioning plan and to reflect on the lessons learned from the last three years, as well as overtly taking into account the risk registers of partner bodies. There is also potential to greatly enhance the interaction between risk management, decision-making and performance management and to increase the level of assurance over both current controls and the actions required to manage risks down to agreed tolerance. However, we would highlight that P&K IJB has a number of significant strategic and operational issues to address and therefore the planning of further enhancements to the Risk Management system will need to take into account the other governance developments required within the organisation.
8. The key issues are as follows:

#### **Risk Management Arrangements**

- The Risk Management Framework has been updated following a comprehensive review and contains most of the required elements. However, whilst it does include an escalation process, it does not clearly state that responsibility of operational risks lies with the parent bodies. Eventually, the Strategy will also need to be revised to reflect the ongoing, if sporadic, work to develop a Tayside wide mechanism for risks shared with the parent bodies;
- We did, however, find evidence of escalation of risks from the IJB Executive Management Team (EMT) to the Local Authority and note that the Chief Officer attends the NHS Tayside Strategic Risk Management group and is therefore able to escalate risks there;
- Officers at a senior level with extensive Risk Management experience were appointed to take forward Risk Management and it was evident that Risk Management had been appropriately prioritised and had been moved forward significantly. We note that both officers are due to retire soon and work is in progress to ensure that the officer identified to replace them, receives appropriate training and support. Notwithstanding this, the IJB should consider nominating an individual to champion Risk Management at IJB Board level;

**Identification/Risk Register**

- The most recent report to the June 2019 Audit and Performance Committee (APC) stated that *'a full update of the Strategic Risk Profile ...will be undertaken. This will ensure a 'golden thread' between the plan to improve the arrangements in place to deliver the objectives of the IJB and the reduction in overall risk exposure'*. In order to inform this review, we would highlight that key risks such as those relating to Mental Health and Prisoner Healthcare were not escalated to the Strategic Risk Register as soon as they could and should have been and would suggest that there is now an opportunity to update the Risk Register by capturing the risks identified as part of the ongoing review of the Strategic Commissioning Plan;
- We would also highlight that there are no overall quality or clinical and care governance risks nor a specific risk relating to the production and delivery of the Strategic Plan;
- Board Development events were held to consider both the Risk Register and the new Framework. We view this approach as very positive and would recommend that the IJB continue to use the wider perspective of the officers and members to review the risk register and enshrine this approach within the RMS.

**Governance & reporting**

- The agreed risk appetite, which forms part of the RMS, does not set a tolerance level but instead is intended to direct the focus of the organisation. We would highlight that many risks have not been reduced below their inherent score, suggesting that controls and actions may not be effective. However, we would note that the IJB has now introduced risk response plans for treatment actions sent out to Risk Managers to be discussed at EMT, which should help to address this issue.
- The score for Risk SR06 - Governance does not appear to reflect recent issues highlighted by Internal Audit and others in relation to ongoing difficulties faced by the IJB and will require significant revision once the formal Joint Inspection report has been received.
- The RMS does include operational monitoring arrangements and the EMT did conduct regular scrutiny at first but this tailed off due to other urgent priorities and the imminent departure of key officers. These arrangements have been revived now that an officer has been appointed with responsibility for risk management and a rolling programme agreed for the EMT.
- Although the IJB does not have a large Committee structure, there is possibly an opportunity for greater involvement by IJB Committees in the detailed consideration of specific risks relevant to their remit e.g. the APC for the Governance Risk and the Clinical and Care Governance group for risks such as Prisoner Healthcare and Mental Health once incorporated into the Risk Register. Questions that might be asked by Committee members could include:
  - Does the risk score feel right?
  - Do the current controls match the stated risk?
  - Will the mitigating actions bring the risk down to its target level?
  - If the mitigating actions are fully implemented would the outcome be achieved?
  - Does the assurance provided describe how the controls are performing?
  - Do the assurances come from more than one source including independent sources?

- Are limited resources being allocated appropriately i.e. on uncontrolled high risks or in otherwise well controlled areas of risk?
  - Is there anything missing you would expect to see in the risk?
- Whilst Board papers do sometimes contain a section for risk, this is often not completed appropriately and does not usually contain any reference to the relevant Strategic Risk. In particular, performance reports, which are directly relevant to a number of Strategic Risks neither reference the risk nor allow a conclusion on whether the risk score is supported by the available performance information.
- The Risk Register contains an overt assessment of controls which reflects best practice and these are reviewed by the EMT as part of their consideration of risks and the risk register. However, whilst the RMF does state that *'A key element to ensure adequate follow up is a monitoring process which is able to provide reasonable assurance to the IJB / Partnership that there are appropriate control procedures in place for all significant risks and that these procedures are being followed'*, the assessment of controls is based on individual judgement and there are no formal mechanisms to provide assurance to the EMT, APC or IJB on the adequacy and effectiveness of controls or of the actions intended to reduce the risk. The IJB should consider the possibility of undertaking a proportionate assurance mapping exercise, focused on key risks in the first instance, to address this issue.
- We would also highlight that a number of controls, such as those for SR03-Workforce are operated by parent bodies and therefore assurances will need to be sought from them.
- The APC does not receive an annual risk management assurance report and there are no defined performance measures which would provide assurance to the APC that the RMS is being delivered.
- The June 2019 Risk Management update to the APC stated that a detailed action plan would be developed which will integrate actions arising from the PKHSCP 2018/19 Governance Self Assessment, the Joint Inspection report and the Ministerial Strategic Group Self Assessment.

## ACTION

9. The action plan at section 2 of this report has been agreed with management to address the identified weaknesses. A follow-up of implementation of the agreed actions will be undertaken in accordance with the audit reporting protocol.

## ACKNOWLEDGEMENT

10. We would like to thank all members of staff for the help and co-operation received during the course of the audit.

**A Gaskin BSc ACA**  
**Chief Internal Auditor**

**Action Point Reference 1****Finding:**


This report highlights a range of areas where Risk Management could be enhanced. However, the IJB has a range of pressing issues to resolve and has recently changed its risk management support structure.

**Audit Recommendation:**

A SMART action plan overtly addressing all the issues identified within this report should be prepared, taking into account available resources and the management time that will be required to remediate the other governance issues facing the IJB.

This action plan should be monitored regularly by the APC. A key component of this plan should be the production of an Annual Risk Management Report which overtly comments on progress with the action plan and which provides a definitive opinion on the adequacy and effectiveness of Risk Management arrangements based on a recognised methodology.

**Assessment of Risk:**

Significant		Weaknesses in control or design in some areas of established controls.  <b>Requires action to avoid exposure to significant risks in achieving the objectives for area under review.</b>
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**Management Response/Action**

The issues highlighted in this report have been recognised and agreed by the Chief Officer / Director Integrated of Health and Social Care and the Executive Management Team of Perth & Kinross Health & Social Care Partnership.

As recommended, a SMART action plan has been prepared which overtly seeks to address all of these identified issues. This action plan will be considered by the Partnership's Executive Management Team at each monthly risk review meeting.




**Action by:****Date of expected completion:**

Jane Smith, Chief Financial Officer

31 May 2020

*Assessment of Risk*

To assist management in assessing each audit finding and recommendation, we have assessed the risk of each of the weaknesses identified and categorised each finding according to the following criteria:

Risk Assessment		Definition	Total
Fundamental		Non Compliance with key controls or evidence of material loss or error. <b>Action is imperative to ensure that the objectives for the area under review are met.</b>	<b>None</b>
Significant		Weaknesses in control or design in some areas of established controls. <b>Requires action to avoid exposure to significant risks in achieving the objectives for area under review.</b>	<b>One</b>
Merits attention		There are generally areas of good practice. <b>Action may be advised to enhance control or improve operational efficiency.</b>	<b>None</b>