



# TRANSPORT FOR THE NORTH

## Risk Management Strategy

Internal audit report 3.21/22

FINAL

27 August 2021

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# 1. EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, remote working has meant that we have been able to complete our audit and provide you with the assurances you require. It is these exceptional circumstances which mean that 100 per cent of our audit has been conducted remotely. Based on the information provided by management, we have been able to complete our work in line with the agreed scope.

## Background

As part of the approved internal audit plan for 2021/22, we have undertaken a review of Transport for the North's (TfN's or 'the organisation's') risk management process.

TfN's Risk Management Strategy states the following regarding the management of risk: *'TfN faces a wide range of risks (both threats and opportunities) at all levels across the organisation. The nature of TfN's activity means that not only is risk management central to the achievement of its strategic objectives, but the process by which it addresses risk (related to its activity) has the potential to achieve sustained benefits across the full portfolio of projects and programmes.'*

At the time of our review, TfN had nine 'risk themes' recorded on its Corporate Risk Register (these incorporated a total of 20 risks across the different themes). Of these nine risk themes, two had a 'very high' risk probability (relating to the Northern Powerhouse Rail (NPR) Strategic Outline Case and Rail Operations (Franchise Management and Investment)), four had a 'high' risk probability, two had a 'medium' risk probability, and one had a 'minimal' risk probability based on the organisation's risk management/risk scoring methodology.

In spring/summer 2021, TfN implemented the 'Predict!' system, which has been used for the electronic recording and monitoring of risk-related information from June 2021 onwards (this replaced the spreadsheet-based approach previously operated by TfN).

The Predict! system uses a standard electronic format for the recording of programme/project and corporate risk information. The system also allows management to produce standard template reports that can be used for update and monitoring purposes. The reporting available within the Predict! system is not currently being used for reporting the Corporate Risk Register to senior management and Board/Committee members. Instead, management and members have agreed on a reporting approach that specifically meets their needs (the Corporate Risk Register report format was amended in spring 2021).

The risk management-related processes undertaken by TfN has not been significantly impacted during the Covid-19 pandemic as management and Board members are still able to access the risk-related information electronically (governance meetings for overseeing the risk-related information also continue to be undertaken remotely during the pandemic). The risks relating to Covid-19 have been reflected in TfN's risk registers and update reports, however, this has not impacted the risk management process itself.

Our review was designed to assess the processes used for recording and monitoring risk information, with particular focus on the information recorded in the TfN Risk Management Strategy.

## Conclusion

Through our work we confirmed that TfN has established processes in place for the identification and assessment of risk, and for the reporting of risk information to senior management and TfN Board members. This is now supported by the Predict! system following its implementation in the spring/summer of 2021.

We recognise that the risk data had only recently been migrated to the Predict! system at the time of our review and, as such, some of the fields within the system had not been fully populated at that point.

However, we were able to confirm that the organisation's standards regarding the identification and recording of risks and controls/actions were being followed consistently for the areas we reviewed.

Whilst clearly established processes are in place to support the risk management process, we identified some areas where we consider the procedures could be improved in this area. These relate to the updating of the Risk Management Strategy document, and the consistent recording of information in the Predict! system and the Corporate Risk Register reports.

Two management actions are included in section 2 of this report, which are designed to support management with their ongoing work in this area. However, these matters have not impacted upon the positive assurance opinion provided below.

In addition to the management actions raised in this report, at Appendix A we have included the outcomes of a comparison exercise we undertook to review the content of TfN's Risk Management Strategy against some examples from other organisations within our client portfolio across a range of sectors.

#### 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 this risk are suitably designed, consistently applied and effective.



## Key findings

We identified the following key findings during the audit:



TfN's Risk Management Strategy describes the procedures involved in the risk management process and the associated high-level roles and responsibilities. However, the Risk Management Strategy has not yet been updated to reflect the risk recording and monitoring processes following the introduction of the Predict! system.



Risk management training is provided to all employee new starters as part of a Human Resources (HR) induction process (the training is delivered by the Portfolio Risk Manager, although attendance is monitored by the HR Department). This training forms part of a wider induction package which also incorporates training in other areas such as legal and finance-related matters. More specific training is also provided to individuals across the organisation who have risk reporting and monitoring responsibilities. In addition to this, Predict! training is being provided to relevant staff by the Portfolio Risk Manager during the period April to August 2021 as part of the system roll-out process.



The Predict! system allows authorised staff to have access to the risk register for their area and highlights any risks that are due for review/update at a point in time. The Predict! system is used to record corporate risks, as well as programme/project and directorate-level risks (TfN has a total of 10 programme/project and directorate-level risk registers).

The project/programme and directorate-level risk registers are reviewed as part of routine risk review meetings held between the relevant 'risk champion' and the Portfolio Risk Manager. For those areas that do not have an allocated risk champion, the Portfolio Risk Manager facilitates the risk review process with management in the directorate.

The corporate risks are reviewed and updated by the Portfolio Risk Manager and the Finance Director on an ongoing basis taking account the activities and actions included in the TfN Business Plan, and the outcomes of the programme/project and directorate risk review meetings.

We noted that TfN does not currently have a defined risk appetite as management do not consider this to be an appropriate approach given that many of the organisation's key risks are affected by decisions which are outside of its control. RSM's Consultancy Team is currently working with TfN management to consider alternative approaches to the assessment of risk appetite going forward. As this is something which is currently under review, no management action has been raised in this report relating to this matter. We also note that the Predict! system is designed to capture a 'target score', which will enable management to understand whether or not the current risk exposure is acceptable in each case going forward.

TfN does not currently define its assurance sources in terms of defined assurance mechanisms. As such, there is no specific 'assurance' field within the risk register template in the Predict! system. However, assurance-related information is captured in the 'Action Description' field within the system. We also note that an 'Assurance Framework' is being developed by TfN to set-out the structures and processes that will support the delivery of the organisation's Investment Programme. This is something that was considered previously as part of our Investment Programme Assurance Review (7.20/21) in 2020/21 and, as such, no further work was undertaken in this area as part of this review.

As part of the audit, we interviewed the risk champions for three selected areas to obtain an understanding of their involvement in the risk management process, and to seek their views on the design and effectiveness of the process.

All of the individuals interviewed considered that they had a good understanding of their responsibilities in relation to the risk management process, and they felt that the risk recording processes have been improved through the introduction of the Predict! system. The interviewees felt that they are appropriately supported regarding these responsibilities, although they recognise that there is limited resource in this area and the Portfolio Risk Manager has a wide-span of responsibility in terms of managing the overall process.

Routine updates on the organisation's risk management activities are provided to senior management and TfN Board/Committee members on a regular basis. This includes presentation of a Corporate Risk Register report to the Operational Board Team, the Audit and Governance Committee, and the TfN Board. By reference to relevant meeting minutes, we confirmed that regular risk management updates have been provided to the above groups throughout the last 12 months (this includes routine presentation of the Corporate Risk Register report during this period).

As part of our review, we performed a comparison exercise between the corporate risk information recorded in the Predict! system as at 15 July 2021 against the information included in the Corporate Risk Register report presented to the Audit and Governance Committee on the same date. In most cases, we were able to confirm that the information was reported consistently between the Predict! system and the report. However, some differences were noted as part of this process, which related to a proposed change to the risk scoring matrix and a delay in updating the Predict! system due to resource challenges within the Risk Management function. A management action is included in section 2 of the report to help ensure there is consistency between the Predict! system and the corporate risk reporting going forward.

## 2. DETAILED FINDINGS AND ACTIONS

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.

Area: Risk Management Strategy				
<b>Control</b>	<b>Updating the Risk Management Strategy</b> TfN has a Risk Management Strategy, which describes the procedures involved in the risk management process and the associated high-level roles and responsibilities.	<b>Assessment:</b>		
		<b>Design</b>	✓	
		<b>Compliance</b>	Partial	
<b>Findings / Implications</b>	<p>We confirmed that the Risk Management Strategy is available for staff to access on the TfN's intranet system, however, management was unable to confirm when the Strategy document was last updated and approved, and there was no tracking control on the document to provide this information.</p> <p>We noted that the Risk Management Strategy has not yet been updated to reflect the risk recording and monitoring processes following the introduction of the Predict! system. Management informed us that they have been awaiting the full roll-out of the system and the delivery of the supporting training to all relevant staff before updating the Strategy document.</p> <p>We recognise that this is something that management are already planning to address, however, we have raised a management action to help ensure the Risk Management Strategy is updated at the earliest opportunity.</p> <p>In addition to this, at Appendix A we have also included the outcomes of a comparison exercise we undertook to review the content of TfN's Risk Management Strategy against some examples from other organisations within our client portfolio across a range of sectors. Management may wish to consider this when updating the TfN Risk Management Strategy.</p>			
<b>Management Action 1</b>	Management will update the Risk Management Strategy to ensure it reflects the current processes operating in practice (this includes utilisation of the Predict! system). Once updated, the Risk Management Strategy will be approved at the appropriate level before being published for staff to access.	<b>Responsible Owner:</b> Risk Manager	<b>Date:</b> 31 October 2021	<b>Priority:</b> Low
	In addition to this, tracking control will be added to the Strategy document to confirm when the document was last reviewed and approved, and to highlight the future review timeframes for the document.			

## Area: Monitoring and reporting

<b>Control</b>	<b>Updating corporate risks within Predict!</b> A Corporate Risk Register report is prepared for each meeting of the Audit and Governance Committee (the report is also presented at meetings of the Operational Board Team and the TfN Board wherever appropriate). The Corporate Risk Register reporting format has recently been amended to meet the needs of the Audit and Governance Committee.	<b>Assessment:</b>  <b>Design</b> ✓ <b>Compliance</b> Partial
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<b>Findings / Implications</b>	<p>As part of our review, we performed a comparison exercise between the corporate risk information recorded in the Predict! system as at 15 July 2021 against the information included in the Corporate Risk Register report presented to the Audit and Governance Committee on the same date. In most cases, we were able to confirm that the information was reported consistently between the Predict! system and the report. However, the following points were also noted as part of this process:</p> <ul style="list-style-type: none"> <li>• In some cases, there were differences between the scores recorded in the Predict! system and those included in the Corporate Risk Register report. However, this was due to the fact that the new risk scoring matrix has not been fully adopted yet in all areas of the organisation and, as such, it is not reflected in the Predict! system at this point. This is considered reasonable based on the current status of the implementation process, and therefore no management action has been raised in this report relating to this matter; and</li> <li>• The Corporate Risk Register report contained two additional risks that were not recorded on the Predict! system at the time of our review (these related to the leaking of confidential information, and the misalignment of TfN's Investment Programme to the agreed Decarbonisation Trajectory). Management informed us that this was the result of a timing issue, which was impacted by resource challenges within the TfN Risk Management function. As such, we were informed that the risks will be added to the Predict! system in due course (management wanted to ensure that the risks were incorporated into the reporting to the Audit and Governance Committee as a matter of priority before being reflected on the Predict! system). Whilst we recognise the approach taken here given the circumstances, we have raised a management action to help ensure there is consistency between the Predict! system and the corporate risk reporting going forward.</li> </ul> <p>In addition to this, at Appendix B we have included an example of an integrated risk register dashboard template, which management may wish to consider as part of their risk register reporting going forward.</p>		
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<b>Management Action 2</b>	Management will ensure that the information recorded on the Predict! system is consistent with that included in the Corporate Risk Register reports presented to TfN Board/Committee members. In addition, following the review of corporate risks with senior management and the subsequent approval of corporate risks from the Finance Director, the Predict! System will be updated to ensure that any changes are captured in the system.	<b>Responsible Owner:</b> Risk Manager	<b>Date:</b> 31 October 2021	<b>Priority:</b> Low
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## APPENDIX A: ANALYSIS OF TFN'S RISK MANAGEMENT STRATEGY

As part of our review, we compared the content of TfN's Risk Management Strategy with some examples from other organisations within our client portfolio across a range of sectors. The outcomes of this comparison exercise were as follows:

Area/category	TfN	Example 1	Example 2	Example 3
Links to business plan/corporate objectives	✓	✓	✓	✓
Benefits/objectives of risk management process	✓	✓	✓	✓
Board and committee roles and responsibilities	Partial – stated in the context of reporting	✓	✓	✓
Management/staff roles and responsibilities	Partial – not clearly stated for all staff levels or risk champions	✓	✓	✓
Risk identification and assessment/evaluation process	✓	✓	✓	✓
Identification of interdependencies/cross-departmental risks	✓	✓	x	x
Control identification process	✓	✓	✓	✓
Assurance identification/mapping process	x	✓	✓	✓
Risk scoring methodology description	✓	✓	✓	✓
Guidance/quantifiable metrics to support risk scores	Partial – quantifiable measures for probability scores	✓	✓	✓
Risk appetite statement/target risk monitoring process	x	✓	✓	✓
Risk action planning process	✓	x	✓	✓
Reporting process	✓	✓	✓	Partial – reporting timeframes not specified
Risk training process	x	x	✓	✓




The above table shows that there are some areas where the TfN Risk Management Strategy differs from the good practice risk management policies/strategy documents we have seen in other organisations. We recognise that in some cases this is reflective of the organisations' risk management processes (for example, TfN does not have a risk appetite statement, therefore there is no reference to this in the Risk Management Strategy). However, in other areas the TfN document may benefit from the inclusion of the related information. Some of the key points noted in this respect were as follows:

- As noted above, the TfN Risk Management Strategy needs updating to reflect the processes operating in practice. This includes changes made to the reporting processes and risk scoring methodology, as well as changes resulting from the implementation of the Predict! system. Management may also wish to include details of the training requirements/process for the utilisation of the Predict! system going forward.
- The TfN Risk Management Strategy includes details of Board member and management responsibilities within the wider context of the reporting structure, whereas the other examples include specific 'roles and responsibilities' sections with a specific explanation of the responsibilities of each oversight group/committee and management/staff level (this also includes any reporting and decision-making responsibilities, wherever appropriate). We also noted that the responsibilities of the risk champions are not included in the TfN Risk Management Strategy.
- Whilst the TfN Risk Management Strategy contains quantifiable measures/guidelines for the probability scores within the risk scoring matrix, no quantifiable guidance is provided in the Strategy document to support the impact scores. We note that the Corporate Risk Register report presented to the Audit and Governance Committee in July 2021 included quantifiable thresholds/guidance for both the probability scores and the impact scores. Therefore, management may wish to consider replicating this information in the Risk Management Strategy.



# APPENDIX B: EXAMPLE OF AN INTEGRATED RISK REGISTER AND ASSURANCE FRAMEWORK DASHBOARD TEMPLATE

We have seen other organisations across a range of sectors use an integrated dashboard approach when reporting their corporate/strategic risk registers to the board. This helps to demonstrate the end-to-end process in a single reference document, from risk identification and assessment, to controls and mitigating actions, to assurance mechanisms. This enables the organisation to demonstrate the links between risks, existing controls and planned actions for further risk mitigation. An example of an integrated risk register dashboard template is included below for management’s consideration:

Risk Ref	Risk Description	Cause & Effect	Inherent Risk Score	Risk Control	Control Assurance (Department)	Control Assurance (Management)	Control Assurance (Independent)	Overall Assurance Strength of Control	Residual Risk Score	Action Required	Progress Notes	Target Risk Score
Staff 3	<p>Insufficient staff development and retention</p> <p><b>Risk Owner:</b> Craig Duff</p> <p><b>Risk Lead:</b> Duncan Short</p> <p><b>Last Updated:</b> 14 Jul 2020</p> <p><b>Latest Review Date:</b> 13 Jul 2020</p> <p><b>Latest Review By:</b> Craig Duff</p> <p><b>Last Review Comments:</b> Risk discussed at SMT and update will be made at next meeting in August 2020</p>	<p><b>Cause</b></p> <ul style="list-style-type: none"> <li>- Appraisal and performance management arrangements are not consistent</li> <li>- Unable to provide appropriate training and development opportunities</li> </ul> <p><b>Effect</b></p> <ul style="list-style-type: none"> <li>- Low standards of teaching and education</li> <li>- High staff turnover / Shortage of staff</li> </ul>	<p>I = 5 L = 4 20</p> 	<p>Action Plans in place for all staff and discussed at monthly meetings</p> <p><b>Control Owner:</b> Sarah Catterall</p>	<p>All evidence held with HR team and confirmed reviewed monthly</p>	<p>Quarterly reports reviewed at HR Committee</p>	<p>Internal Audit review provided substantial assurance</p>	<p>Substantial</p> <p>Assurance Date: 14 Jul 2020</p> <p>Assurance By: Craig Duff</p>	<p>I = 4 L = 2 8</p> 	<p>Undertake a review of the succession planning processes across the Trust</p> <p><b>Person Responsible:</b> Craig Duff</p> <p><b>To be implemented by:</b> 31 Mar 2021</p>	<p>13 Jul 2020</p> <p><b>Craig Duff</b></p> <p>Working group set up</p>	<p>I = 3 L = 1 3</p> 
				<p>All staff provided with personal training and development plan</p> <p><b>Control Owner:</b> Sarah Catterall</p>	<p>All staff hold a copy as well as HR Team</p>	<p>SMT receive update report every month</p>	<p>Organisation X used to provide support in reviewing plans</p>	<p>Adequate</p> <p>Assurance Date: 14 Jul 2020</p> <p>Assurance By: Craig Duff</p>				
				<p>Annual Appraisal Process for all staff</p> <p><b>Control Owner:</b> Sarah Catterall</p>	<p>All evidence of annual appraisals held with HR Team</p>	<p>Once a year, HR Committee receive update report</p>	<p>Internal Audit review captures evidence of annual appraisals</p>	<p>Substantial</p> <p>Assurance Date: 14 Jul 2020</p> <p>Assurance By: Craig Duff</p>				
				<p>Classroom / Teaching observation plans in place</p> <p><b>Control Owner:</b> Sarah Catterall</p>	<p>All observation evidence held within Central Office</p>	<p>Monthly reports reviewed at SMT</p>	<p>Annual Ofsted reviews observation evidence</p>	<p>Adequate</p> <p>Assurance Date: 14 Jul 2020</p> <p>Assurance By: Craig Duff</p>				
				<p>Experienced in-house training and development team in place to support all staff</p> <p><b>Control Owner:</b> Sarah Catterall</p>	<p>Evidence held with HR Team of all experienced and qualified staff</p>	<p>Not Applicable</p>	<p>Not Applicable</p>	<p>Substantial</p> <p>Assurance Date: 14 Jul 2020</p> <p>Assurance By: Craig Duff</p>				
				<p>In the event of staff absences, access to experienced bank staff is available</p> <p><b>Control Owner:</b> Will Hollis</p>	<p>Some key areas are struggling to obtain bank staff due to current economic climate</p>	<p>Update report to SMT quarterly on numbers of bank staff used</p>	<p>Not Applicable</p>	<p>Limited</p> <p>Assurance Date: 14 Jul 2020</p> <p>Assurance By: Craig Duff</p>				
				<p>Staff get to discuss concerns with HR if ever they need to</p> <p><b>Control Owner:</b> Will Hollis</p>	<p>Records kept of all appointments</p>	<p>SMT only receive updates if HR team require further advice</p>	<p>External Staff Survey revealed all staff happy with support they receive</p>	<p>Substantial</p> <p>Assurance Date: 14 Jul 2020</p> <p>Assurance By: Craig Duff</p>				

## APPENDIX C: CATEGORISATION OF 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 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, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions raised as a result of this audit.

Area	Agreed actions		
	Low	Medium	High
Risk Management Strategy	1	0	0
Roles and responsibilities	0	0	0
Embedding of risk management processes	0	0	0
Risk management training	0	0	0
Monitoring and reporting	1	0	0
<b>Total</b>	<b>2</b>	<b>0</b>	<b>0</b>

## APPENDIX D: BENCHMARKING

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

Level of assurance	Percentage of reviews	Results of the audit
Substantial assurance	43.7%	✓
Reasonable assurance	46.2%	
Partial assurance	10.1%	
No assurance	0.0%	

Management actions	Average number in similar audits	Number in this audit
High	0.1	0
Medium	1.6	0
Low	2.6	2
<b>Total</b>	<b>4.3</b>	<b>2</b>

The above benchmarking data demonstrates that TfN is performing well in this area when compared with other organisations where we have undertaken a similar review.

# APPENDIX E: SCOPE

## Scope of the review

The internal audit assignment has been scoped to review TfN's processes in relation to the following objective:

### Objective of the risk under review

To support the work undertaken by TfN to establish a risk management framework which aims to strengthen the risk management processes and governance approaches.

### The following areas were considered as part of the review:

Our review was designed to assess how TfN's new risk management software supports the effective management of risks. The following areas were considered as part of the review:

- Review of the TfN's Risk Management Strategy and documented procedural notes, including documented risk management arrangements and constituent parts, to compare with good practices we have seen at other organisations;
- Whether clear roles and responsibilities for risk management are in place within the TfN;
- The extent to which risk management processes have been embedded using TfN's new risk management system. We reviewed the design of the control framework in place in regard to risk identification, risk assessment, risk mitigation and risk reporting within the system to assess whether the system enables risk management processes to be carried out in line with TfN policies and good practice;
- Whether risk management training requirements have been identified across the TfN, including training needs analysis and the provision of training to different roles held across the TfN in line with their responsibilities; and
- Monitoring and reporting, including processes for the ongoing reporting and communication of risk related information.

### Limitations to the scope of the audit assignment:

- The scope of the work was limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out in for this review;
- Conclusions are based on our assessments made through discussions with management, assessment of the current framework of controls and review of relevant documentation made available;
- Our review was not designed to set TfN's risk appetite and tolerance;
- We have not commented on whether risk management responsibilities have been assigned to appropriate members of staff;
- We have not commented on whether all risks to TfN have been identified, only whether mechanisms are in place to identify, assess and report on risks;

- This review does not constitute an assessment of the overall effectiveness of the TfN's governance structure;
- We do not endorse a particular means of risk management. It remains the responsibility of the Board and senior management to agree and manage information needs and determine the most effective approach for TfN;
- We have not commented of the content of risk management training material;
- Any testing undertaken during the assignment has been performed on a sample basis only;
- The results of our work were reliant on the quality and completeness of the information provided to us; and
- Our work does not provide an absolute assurance that material error; loss or fraud does not exist.

Due to the exceptional circumstances resulting from the Covid-19 pandemic, our audit was carried out remotely through the use of secure portals for the transfer of information, and through electronic communication means.

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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

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