

TITLE: RISK MANAGEMENT AUDIT REPORT

Date: 13 MAY 2020 ARC MEETING

For Information, Decision or Discussion:	ARC: for information.
Summary:	<p>Public Sector Internal Audit Standards requires an organisation's risk management system to be regularly reviewed to ensure it is an effective framework for the organisation. The audit provides an independent review and forms a key piece of evidence for the annual Governance Statement.</p> <p>Good assurance is provided over SNH's risk management framework.</p>
Action:	<p>AO: to approve internal audit report;</p> <p>ARC: to note findings.</p>
Risks/Opportunities:	<p>The audit does not contribute directly to a specific SNH Corporate Plan Outcome priority. However, it does provide confirmation that SNH has an effective risk management framework in place to help ensure that material risks to SNH's four Corporate Plan Outcomes are identified, proportionate controls put in place and regular reports on the management of the risk are made to senior managers.</p>
Implications:	
Resource/Staffing:	N/A
Recommendations:	No recommendations made.
Report Author(s):	<p>Cover Paper:</p> <ul style="list-style-type: none"> Helen McGeorge, Head of Internal Audit <p>Internal Audit Report:</p> <ul style="list-style-type: none"> David Boyes, Head of Internal Audit.
Sponsor	Francesca Osowska, Accountable Officer
Appendices:	SNH Internal Audit Report

Purpose

1. Public Sector Internal Audit Standards requires an organisation's risk management system to be regularly reviewed to ensure it is an effective framework for the organisation. The review forms a key piece of evidence for the annual Governance Statement.

Background

2. The objectives of the audit were to assess whether:
 - SNH's Risk Register is regularly reviewed by risk owners to ensure the full range of risks have been identified and appropriately prioritised;
 - Changes to the Risk Register are appropriately authorised;
 - SNH's Senior Leadership Team, ARC and Board receive regular risk reports, and are provided with early sight of and re-assurance about high level risks and their management;
 - SNH's suite of corporate risks is responsive to changes in Corporate Plan priorities and SNH's strategic risk appetite;
 - Risk owners and staff responsible for the administration of the risk management system receive adequate training and guidance to carry out their roles;
 - Evidence of good practice and lessons learned are promoted and communicated to risk owners.

Findings and Recommendations

3. Good assurance is provided over SNH's risk management framework. The assurance is at this level due to the following:
 - All risks included within the Risk Management System have a risk rating and a Risk Owner;
 - Risks are regularly reviewed by Risk Owners, Activity Team Managers and the Risk Officer;
 - Corporate risks are regularly reviewed by SLT, ARC and the Board, including risk deep dives by the ARC;
 - Activity Team Risk Appetite Statements have been updated to reflect the Board's Strategic Risk Appetite;
 - The 2020/21 SNH Business Plan and current set of Corporate Risks have been reviewed to ensure they align;
 - The Risk Officer has risk management experience and qualifications;
 - Methods of sharing good practice in risk management have been established.

Helen McGeorge, Head of Internal Audit

Scottish Natural Heritage
Internal Audit – Executive Office

Audit of Risk Management System – 2019/20

5 May 2020

Circulation

ARC Members

Francesca Osowska – Chief Executive and Accountable Officer

Jane Macdonald - Director of Business Services and Transformation

Stuart MacQuarrie – Deputy Director Business Services and Transformation

Catriona Burns – Outcome Manager – Business Transformation

Yvonne McIntosh – Planning and Performance Manager

Niall Campbell – Planning and Performance Officer

Audit Scotland

Introduction

1. This report summarises the findings of the audit of SNH's Risk Management System. This exercise is carried out as part of the Internal Audit plan for 2019/20.

2. This section of the report provides the background to the audit, the management summary for the exercise and the overall level of assurance that can be provided.

Background

3. Public Sector Internal Audit Standards requires an organisation's risk management system to be regularly reviewed to ensure it is an effective framework, allowing managers to focus on the key risks to SNH's Corporate Plan Outcomes. The review forms a key piece of evidence for the annual Governance Statement.

Terms of Reference

4. The objectives of the audit were as follows:

- ToR1: SNH's Risk Register is regularly reviewed by risk owners to ensure the full range of risks have been identified and appropriately prioritised;
- ToR2: Changes to the Risk Register are appropriately authorised;
- ToR3: SNH's Senior Leadership Team, ARC and Board receive regular risk reports, and are provided with early sight of and re-assurance about high level risks and their management;
- ToR4: SNH's suite of corporate risks is responsive to changes in Corporate Plan priorities and SNH's strategic risk appetite;
- ToR5: Risk owners and staff responsible for the administration of the risk management system receive adequate training and guidance to carry out their roles;
- ToR6: Evidence of good practice and lessons learned are promoted and communicated to risk owners.

5. There is one risk relating to the risk management system recorded within the SNH risk register:

- Risk 326 - Lack of Project Risk Registers - As a result of the lack of evidence that key projects are managing the threats to their delivery (due to a lack of risk registers) there is a risk that some of these projects could fail if the threats materialise. This could result in the related Activity not achieving its planned outcome. **Rated – Medium.**

6. The Risk Management System sits within Activity 4113 – Finance, Planning and Performance. The risk appetite for this area is stated in the Activity Plan as:

- **Risk Appetite is Cautious** - The aim of this Activity is to ensure that the organisation meets the necessary governance to fulfil its duties as an accountable public body. However, whilst there is little appetite to take unnecessary risks towards any compliance or regulations it is unlikely that we can avoid some risk, particularly if reduced resources require us to streamline our approach to delivery of this Activity. This is particularly the case where there is some flexibility or openness in the interpretation of any governance requirements. Accordingly, we would have some tolerance to taking risks but would only do so where we are confident that we could win any challenge over our decisions or actions.

7. Based on this risk appetite we have assessed the risk tolerance level as;

- **Risk Tolerance is Low** – accept a low level of tolerance towards risks which may prevent us from achieving the outcome. Therefore, within our capacity to do so, we shall implement all necessary controls to prevent risk and to ensure that the residual risk is minimised as much as possible in order to fully achieve the outcome.

Management Assurance

8. We are able to provide a good assurance over the controls in place for the risk management system within SNH. This provides confirmation that SNH has an effective risk management framework in place to help ensure that material risks to SNH's four Corporate Plan Outcomes are identified, proportionate controls put in place and regular reports on the management of the risk are made to senior managers.

9. The assurance is at this level due to the following:

- All risks included within the Risk Management System have a risk rating and a Risk Owner;
- Risks are regularly reviewed by Risk Owners, Activity Team Managers and the Risk Officer;
- New risks are reviewed by Activity Team Managers;
- Directors can escalate risks to the Corporate Risk Register outwith the quarterly reporting period if necessary;
- Corporate risks are regularly reviewed by SLT, ARC and the Board, including risk deep dives by the ARC;
- Activity Team Risk Appetite Statements have been updated to reflect the Board's Strategic Risk Appetite;
- The 2020/21 SNH Business Plan and current set of Corporate Risks have been reviewed to ensure they align;
- The Risk Officer has risk management experience and qualifications;
- Methods of sharing good practice in risk management have been established.

Findings

10. The current risk management tool was introduced in late 2015/16, and the risk management process is summarised in a flow chart in [Annex A](#).

ToR1 and ToR2: Review of Risks and Approval of Changes

11. All risks within the Risk Register are assigned to one of SNH's Activities and are scored for impact and likelihood. This leads to each risk being rated Very High, High, Medium or Low. Scoring, coding to an Activity and the need for a Risk Owner are enforced by the system.

12. New risks raised by staff are automatically forwarded to the relevant Activity Team Manager for review and to consider the response (e.g. to control, tolerate, avoid). This should

ensure that they are relevant, appropriately scored and have the right level and type of controls in place. The review by the Activity Team Manager also helps prevent duplication of risks. Once the Activity Team Manager has reviewed and confirmed the risk, it becomes live (unless the risk is to be avoided or can be closed).

13. At March 2020, the number and rating of risks in the SNH risk register was:

Rating	Very High	High	Medium	Low
Number of Risks	2	54	182	24

14. Risk Owners are required to provide regular reports on the status and management of their risks on a quarterly basis. However, updates can be provided more frequently if the Risk Owner believes this is necessary through exception reports – for example, if the risk's probability or impact changes, or if the controls in place need updating. 41 risks in the Risk Register have had at least one exception report since April 2019, showing that many Risk Owners are reacting to changes as they occur. However at the end of Q4 2019/20 only 67% of all risks had an update provided on time – much lower than the previous three quarters, although this rose to 97% after follow-up action by the Risk Officer with Risk Owners. This is highly likely to be due to the move to homeworking during mid-March 2020 following the Coronavirus pandemic.

15. Activity Team Managers are responsible for monitoring the quarterly reports and any interim updates provided by Risk Owners. This is also monitored by the Risk Officer as part of their compliance checks where an assessment is made on whether the update commentary is satisfactory. Activity Team Managers provide a summary on the key risks to delivery of their Activity and how these are currently being managed which is then issued to the relevant Outcome Manager

16. The SNH Risk Officer monitors risk management activity on a quarterly basis through a series of checks:

- The number of risks being reviewed;
- Whether the Activity Team Manager rates the update to be of sufficient quality to provide meaningful information;
- The number of new risks being raised;
- Changes in risk scores;
- The number of risks being archived;
- Whether the risk controls listed have been edited.

17. The first two indicators must be met for risk management activity within an individual Activity to be seen as satisfactory. The last three indicators are not mandatory as they may genuinely not occur during a quarter.

18. Where Risk Owners have not complied with the first two requirements, then the Risk Officer contacts them and provides training or support if needed. The results of these risk management activity checks are reported to the ARC against each Activity on a quarterly basis.

19. During 2019/20, the majority of the 15 Activities in SNH met the required standard as can be seen in the following table:

Quarter	Risk Activity Standard Not Met
Q1 2019/20	<ul style="list-style-type: none"> • 3151 Supporting Good Development • 3152 Natural Resource Management
Q2 2019/20	<ul style="list-style-type: none"> • 3152 Natural Resource Management
Q3 2019/20	<ul style="list-style-type: none"> • None
Q4 2019/20	<ul style="list-style-type: none"> • 4111 People and Organisational Development

20. As can be seen from the following table, the overall level of missing reports in practice is low:

Quarter	Reports Due	On Time	Missing	Compliance Rate
Quarter 1 2019/20	70	67	3	96%
Quarter 2 2019/20	71	69	2	97%
Quarter 3 2019/20	70	69	1	98%
Quarter 4 2019/20	66	64	2	97%

21. Delayed risk reports are followed up by the Risk Officer, as timely updates are important as they are reported to Activity Managers, and inform reports to SLT, ARC and Board.

22. In terms of new risks and archived risks, the levels for 2019/20 up to and including Q3 were:

- New risks – 44 new risks added across 11 different Activities;
- Archived risks – 51 existing risks archived across 8 different Activities.

23. Any risks that are considered to be of corporate significance to SNH as a whole can be escalated to the SLT by the lead Outcome Manager following consultation with Activity Team Managers for consideration as a new Corporate Risk.

24. Escalation of High or Very High level risks does not automatically occur within the risk management system – it is based on the judgement of Activity Team Manager's and Outcome Managers, and may not require escalation to the SLT.

25. All risks are reported on a quarterly basis which means there may be a likelihood that any emerging issues will take longer to reach SLT, Board or ARC. If the risk is escalated between quarters the relevant Director (for the risk) can make a decision on behalf of SLT as to whether it should join the Corporate Risk Register.

26. Risks escalated by Activity Team Managers are reviewed by SLT on a quarterly basis to determine if they should become Corporate Risks. When a risk becomes a Corporate Risk, it is then reviewed by SLT on a quarterly basis until SLT decides it should be de-escalated. At the end of Q4 2019/20, there were 15 Corporate Risks being overseen by SLT. Two risks were added to the Corporate Risk Register and two were de-escalated during the year.

27. As part of the quarterly monitoring, Corporate Risk Owners are also asked to recommend whether the risks should remain as Corporate Risks, or whether they feel they can be de-escalated. ARC and the Board can also request that risks are escalated or de-escalated as Corporate Risks however the decision lies with SLT. Examples of such risks include Computer Virus (de-escalated) and Climate Change Impacts (escalated). Currently a new corporate risk is being developed which will cover Coronavirus.

28. In addition to Activity-based risks, risks can also be raised against Projects. Project risks are normally owned by the Project Manager and all are now set to a standard quarterly

reporting schedule. If the risk cannot be controlled at the Project level, then it can be escalated to the Activity Team Manager. The Activity Team Manager will then decide if it should then be transferred to/recorded in the SNH Risk Register as an Activity-based risk. If required, the Activity Team Manager can also escalate it to SLT for consideration as a Corporate Risk. As of March 2020, there were 175 Project Risks recorded.

ToR3 and ToR4: Reporting to SLT, ARC and Board, and SNH’s suite of Corporate Risks being responsive to changes in Corporate Plan priorities.

29. On a quarterly basis SLT reviews the set of Corporate Risks, including any proposed new ones which have been escalated by Activity Team Managers. The report lists the current position of each of the Corporate Risks, including risk level, control measures and the Risk Owner’s latest update report. Once approved by SLT, the Board receives a paper showing the Corporate Risks position at its scheduled meetings.

30. A separate quarterly paper is prepared for ARC meetings. As well as showing the latest position with the set of Corporate Risks, the ARC reports also set out the Risk Officer’s risk activity assessment using the indicators previously mentioned. Any risks escalated to become new Corporate Risks within a quarter are reported to the ARC via correspondence, rather than awaiting the end of quarter reports. This allows the ARC to provide input and advice at an early stage.

31. During 2019/20, the ARC also received quarterly “deep dives” into individual long-standing, static Corporate Risks, and the following were covered:

- 53 – Marine Protected Areas (November 2019);
- 66 – GI – Disallowance and De-commitment (May 2019);
- 84 – Joint Working (February 2020);
- 255 – Realising Nature’s role in addressing Climate Change (August 2019).

32. In addition, ARC requested that the management of the following Corporate Risks was reviewed by Internal Audit as part of the 2019/20 internal audit plan:

- 21 – Budget Management;
- 283 – Influencing Wildlife Management Stakeholders;
- 463 – EU Exit Readiness.

33. These reviews help ARC to advise SNH management on whether individual risks should remain as a Corporate Risk or if they should be de-escalated.

34. A review of the current Corporate Risks during audit fieldwork found that all of the 15 risks have a clear link to the delivery of SNH’s 2018-2022 Corporate Plan priorities. During 2019/20 a review was carried out by the Risk Officer to ensure that existing Corporate Risks continue to align with the new 2020/21 SNH Business Plan. In addition, as part of the Board’s own review of the new Business Plan, it considered any risks to delivery to identify any potential gaps. This reflected the organisation’s more open appetite to taking risk and its approach to delivery and concluded that no adjustments were required.

35. An Annual Risk Review is provided to the ARC, with part of this detailing SNH’s risk maturity level. SNH’s risk maturity is assessed against the following criteria:

- Centralised risk function;
- Culture;
- Improvement;
- Policies, processes & strategies;
- Reporting;
- Review;

- Roles and responsibilities.

36. There are 5 levels of maturity for each criterion, with the Risk Officer and the ARC seeing level 3 as the most appropriate for SNH to achieve:

- Level 1 – Initial;
- Level 2 – Repeatable;
- Level 3 – Defined;
- Level 4 – Managed;
- Level 5 – Optimised.

37. The most recent risk maturity assessment was carried out by the Risk Officer in April 2020 for the period 2019/20, and the results are shown in the table below, and will be reported to the May 2020 ARC meeting.

Criteria	Level Assessed 2018/19
Centralised Risk Function	Level 4 – Managed
Culture	Level 2 – Repeatable
Improvement	Level 3 - Defined
Policies, processes & strategies	Level 3 - Defined
Reporting	Level 4 – Managed
Review	Level 3 - Defined
Roles and Responsibilities	Level 3 - Defined

38. Previously, ARC has confirmed that Level 3 maturity is acceptable for SNH although there is a desire to increase maturity to Level 4 (Managed). Culture did not reach Level 3 (Defined) as there still remains insufficient evidence that risk management is widely embedded as part of decision making except at the higher management levels.

39. During 2019/20, Activity risk appetite statements were revised by the Risk Officer to reflect the Board's August 2018 Strategic Risk Assessment and issued to the relevant Activity Team Managers. SNH's risk appetite has also been promoted amongst staff using the intranet. There were also plans for risk appetite discussions to take place within individual Activities. However due to capacity issues, this has only happened with one Team - Workplace Facilities and Services. In addition two more Activities were due to hold discussions on risk management in Q1 2020/21 but this has been delayed due to Coronavirus and again capacity issues.

ToR5: Training and Guidance

40. The Risk Officer is a Management of Risk Practitioner - this status lasts for 5 to 6 years before a refresh is required. The Risk Officer also has access to the Knowledge Hub, the largest public sector collaboration platform and receives regular posts from the international body 'Public Risk Management Organisation' (PRIMO). This helps SNH keep up to date with risk management developments and news at a global scale about the management of risk.

41. Risk training for staff is provided by the Risk Officer on a one to one basis and by attending Activity Team meetings. Since February 2016, 74 employees have received training from the Risk Officer:

- 3 Outcome Managers;
- 19 Activity Team Managers;
- 45 Risk Owners;
- 4 Project Risk Owners;
- 3 others.

42. During 2019/20 only 5 staff received risk training, although SNH's approach to risk management was also covered during 4 PrinceLite project management courses which was attended by 35 SNH staff members during 2019/20. Whilst these numbers seem low, many Risk Owners and Activity Team Managers have undertaken risk training prior to 2019/20. 11/15 of the current Activity Leads and 10/12 staff who are currently Corporate Risk Owners have received risk management training from either the Risk Officer or through PrinceLite training.

ToR6: Communication of Good Practice

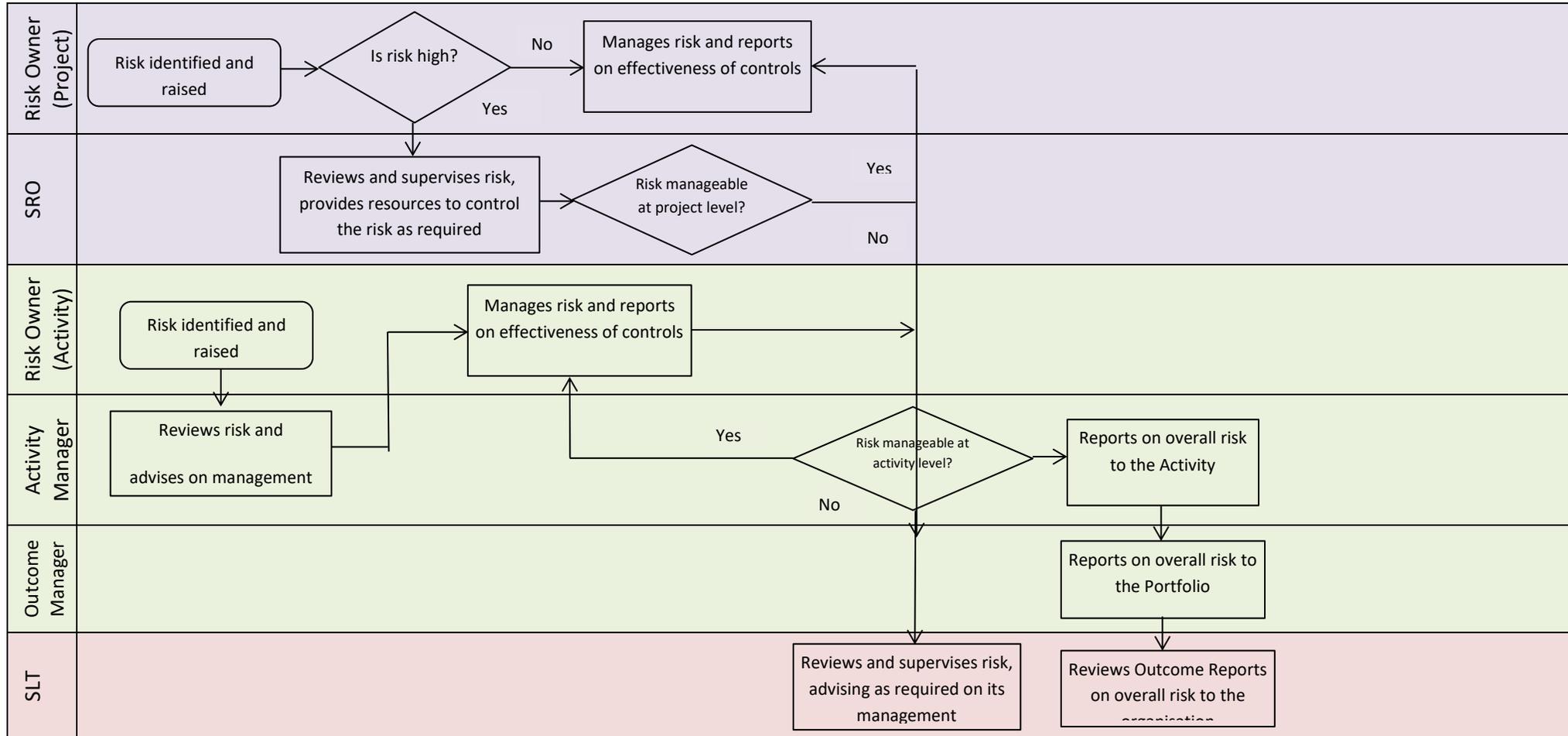
43. Sharing good practice is important as it helps build a consistent approach to risk management across SNH. The following methods are used within SNH to promote and share good practice:

- Training courses in risk management carried out by the Risk Officer;
- Awareness raising at Activity Team meetings where the Risk Officer is invited to attend;
- The Risk Management intranet page which contains links to risk management guidance and advice;
- Links within the risk management guidance to examples of previous risks that have been recorded and their control measures.

Acknowledgements

44. We would like to thank the Planning and Performance Officer for his time and information.

Annex A Risk Management in SNH - Process Map from Risk Management Guidance



From: Francesca Osowska
Sent: 05 May 2020 09:16
To: Helen McGeorge
Cc: Francesca Osowska; Jane Macdonald; Stuart MacQuarrie; Niall Campbell; Catriona Burns; Yvonne McIntosh; David Boyes
Subject: RE: internal audit - final report - risk management system

Dear Helen,

Many thanks for the audit report. I was very pleased to see the good assurance. This is testament to the excellent work that has been carried out over the recent period to review risks (particularly static risks), the deep dive process and conversations with teams to ensure that the risk register is a live and useful document. My thanks to Niall and colleagues for taking this forward.

I am happy for the report to go to the Audit and Risk Committee.

Best wishes,

Francesca Osowska | Chief Executive

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If you receive this email late at night or early in the morning it means I am working flexibly but please do not feel that you have to pick this up outside of your own normal working hours.

From: Helen McGeorge <Helen.McGeorge@nature.scot>
Sent: 04 May 2020 13:01
To: Francesca Osowska <ceo@nature.scot>
Cc: Josie Brown <Josie.Brown@nature.scot>; Jane Macdonald <Jane.Macdonald@nature.scot>; Stuart MacQuarrie <Stuart.MacQuarrie@nature.scot>; Niall Campbell <Niall.Campbell@nature.scot>; Catriona Burns <Catriona.Burns@nature.scot>; Yvonne McIntosh <Yvonne.McIntosh@nature.scot>; David Boyes <David.Boyes@nature.scot>
Subject: internal audit - final report - risk management system

Francesca

Cc Jane, Stuart, Niall, Catriona, Yvonne and David

Please find attached the final draft SNH internal audit report covering SNH's Risk Management System for the period 2019/20. The report provides good assurance over the risk framework in place in SNH. Jane Macdonald has reviewed the report and the ARC cover template is also attached.

The audit does not contribute directly to a specific SNH Corporate Plan Outcome priority. However, it does provide confirmation that SNH has an effective risk management framework in place to help ensure that material risks to SNH's four Corporate Plan Outcomes are identified, proportionate controls put in place and regular reports on the management of the risk are made to senior managers. In addition, during 2019/20, a number of corporate risk deep dives took place, Activity Risk Statements were refreshed to reflect the Board's strategic risk appetite and the corporate risks were mapped against the Year 3 Business Plan and the Board's risk appetite

Can I ask you as Accountable Officer to confirm you are content with the report by Tuesday 5 May 2020 (Josie has put time in your Calendar for this tomorrow)? I will then forward the report to Audit Scotland and it will be an Information Paper at the May 2020 ARC meeting. I'll also promote the report and the good news on the assurance level to SNH staff via the intranet.

Regards, Helen

Helen McGeorge | Head of Internal Audit

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