



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
22 <sup>nd</sup> February 2022	
10:00am	<u>Public</u>

## **INTERNAL AUDIT RISK MANAGEMENT REPORT 2021/22**

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### **1 Synopsis**

*Following a recent Internal Audit review of the Risk Management system, the overall control environment is assessed as **Reasonable**, with minor control weaknesses identified. The focus of the review was on user compliance with processes around operational and project risks.*

### **2 Recommendations**

The Committee is asked to consider and endorse, with appropriate comment the findings from the review of Risk Management by Internal Audit.

## **REPORT**

### **3 Risk Assessment and Opportunities Appraisal**

- 3.1 The management of risk is a key process which underpins successful achievement of the Council's objectives and priorities. It forms part of the Annual Governance Statement and an annual audit is undertaken to ensure that the processes and protocols are established and embedded facilitating effective decision making.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities or climate change consequences arising from this report.

### **4 Financial Implications**

- 4.1 The Internal Audit plan is delivered within approved budgets. The work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the wider Council and its associated budgets.

### **5 Climate Change Appraisal**

5.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaptation. However, the work of the Committee will look at these aspects relevant to the governance, risk management and control environment.

## 6 Background

6.1 As part of the Public Sector Internal Audit Standards (PSIAS 2120), Internal Audit is required to evaluate the effectiveness, and contribute to the improvement, of the risk management process. Information gathered during audit reviews provides an understanding of the Council's risk management processes and their effectiveness. Internal Audit evaluates the Council's risks relating to governance, operations and information systems. It does this in respect of:

- the achievement of the strategic objectives,
- reliability and integrity of financial and operational information,
- efficiency and effectiveness of operations and programmes,
- safeguarding of assets and,
- compliance with laws, regulations, policies, procedures and contracts.

6.2 To support the PSIAS, the Audit Committee's Terms of Reference include a requirement to review annually the adequacy of the Council's Risk Management arrangements. The last such review was undertaken in September 2020 as a self-assessment control questionnaire.

6.3 The current review differed slightly from previous audits. During the Covid-19 pandemic focus for the Risk and Insurance team shifted towards business continuity, however, it is acknowledged that the team continued with its business as usual activities during this time. The current audit set out to ascertain the processes around the updating and review of operational risk registers and to ensure that projects risks are captured and risks are reported to Senior Management on a regular basis in line with the Opportunity Risk Management Strategy.

### Internal Audit Risk Management Report – Executive Summary

6.4 Audit findings are evaluated to provide a level of assurance on the effectiveness of the system of internal control. These evaluations are defined as 'Good', 'Reasonable', 'Limited' and 'Unsatisfactory'. Based on the audit work undertaken, the overall control environment the Risk Management system has been assessed as **Reasonable**. Whilst the Assurance level has reduced from the Risk Management Audit undertaken in 2020/21 it should be noted that the scope of the audit for 2021/22 has been changed to look at the system with a more *user compliance focus*. Four of the five recommendations raised relate directly to actions required by service areas.

6.5 Evaluation and testing confirmed that there is generally a sound system of control in place but there is evidence of non-compliance with some of the controls.

**Control Objective: Conclusion and Summary of Findings**

6.6 The following table shows the audit opinion against each of the four control objectives.

	<b>AUDIT OBJECTIVE</b>	<b>CONCLUSION AND SUMMARY OF FINDINGS</b>
1.	To confirm there is a robust system in place for the identification, assessment, recording and control and monitoring of operational risk.	<p><b>This control objective is partially achieved.</b></p> <p>There is an Opportunity Risk Management Strategy (ORMS) in place which was approved by the Chief Executive in January 2021. The strategy clearly defines roles and responsibilities in relation to risk management.</p> <p>Risks registers demonstrate the link between risks and the outcomes identified in the Shropshire Plan. Work is underway to ensure the process for recording opportunities aligns with the ORMS.</p> <p>Operational risks are recorded within SharePoint with service areas responsible for updating these as part of their normal management activities. Review of a sample of operational risk registers identified instances where the risk registers required updating, particularly in relation to the impact of COVID.</p>
2.	Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels determined to be acceptable to management and the board.	<p><b>This control objective is achieved.</b></p> <p>Risks are considered by management and controls are in place for all risks. Strategic risks are reviewed quarterly and reported to Directors and Informal Cabinet. Operational Risks are reported to Heads of Service and Directors on a bi-annual basis with an overarching report provided to Directors. The reporting arrangements are in line with the ORMS.</p>
3.	Ongoing monitoring activities are conducted to periodically reassess risk and the	<p><b>This control objective is partially achieved.</b></p> <p>Operational risks are reviewed bi-annually in line with the ORMS and reported to Senior Management.</p>

	<b>AUDIT OBJECTIVE</b>	<b>CONCLUSION AND SUMMARY OF FINDINGS</b>
	effectiveness of controls to manage risk.	All risks are recorded in SharePoint as live documents, they can be updated by Managers at any time. Work is underway to further develop Power BI reporting for operational risks.
4.	The Board and management receive periodic reports of the results of the risk management process.	<p><b>This control objective is achieved.</b></p> <p>Reports in respect of strategic risks are considered quarterly by informal Cabinet and Directors.</p> <p>In addition to this the Audit Committee receive a strategic risk update on a six-monthly basis.</p> <p>Risk Management training is provided to Audit Committee Members on a more regular basis.</p>

<p><b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b></p> <p>Risk Internal Audit Review</p>
<p><b>Cabinet Member (Portfolio Holder)</b>  Lezley Picton, Leader of the Council and Brian Williams, Chairman of the Audit Committee</p>
<p><b>Local Member:</b> N/A</p>
<p><b>Appendices</b>  None</p>