	Committee and Date	Item 11
	Audit and Governance Committee	
	5th February 2026	Public
	10:00am	

Internal Audit Risk Management Report 2025/26

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Cabinet Member (Portfolio Holder):	Heather Kidd, Leader of the Council Duncan Kerr, Chairman of the Audit and Governance Committee Roger Evans, Portfolio Holder – Finance	

1. Synopsis

Following a recent Internal Audit review of the Risk Management system, the overall control environment is assessed as **Limited**, with evidence of non-compliance with some key controls identified.

2. Recommendations

2.1. 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.

4.2. Shropshire Council continues to manage unprecedented financial demands and a financial emergency was declared by Cabinet on 10 September 2025. The overall financial position of the Council is set out in the monitoring position presented to Cabinet monthly. Significant management action has been instigated at all levels of the Council reducing spend to ensure the Council's financial survival. While all reports to Members provide the financial implications of decisions being taken, this may change as officers review the overall financial situation and make decisions aligned to financial survivability. All non-essential spend will be stopped and all essential spend challenged. These actions may involve (this is not exhaustive):
- scaling down initiatives,
- changing the scope of activities,
- delaying implementation of agreed plans, or
- extending delivery timescales.

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 adaption. 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 Global Internal Audit Standards (GIAS) and the UK Public Sector Application Note Internal Audit is required to prepare an overall conclusion encompassing governance, risk management and control. 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 GIAS, the Audit and Governance 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 2024/25 and the Internal Audit resulted in a 'Reasonable' opinion.

6.3. The Internal Audit for 2025/26 again included the processes for reviewing and updating operational risk registers, the capture and monitoring of project risks and the reporting of risks to Senior Management on a regular basis in line with the Opportunity Risk Management Strategy. Strategic risks continue to be reviewed on a bi-annual basis, with the outcome of each review reported to Leadership Board and an update provided to the Audit and Governance Committee. In addition, the operational risk position is presented to Leadership Board following each bi-annual review. There are no formal reporting points for project risks, these are allocated to the appropriate project board for management and review. The Risk Management Team offer advice and guidance on project risks when contacted by project managers, where resources allow.

6.4. The Risk and Business Continuity Team currently comprises two full time equivalents, following the departure of the Risk and Business Continuity Manager through the Voluntary Redundancy Scheme in autumn 2024. A request for growth of the team has been included in the MTFS and budget setting for 2026/27 onwards. Management of the function now sits with the Strategy and Scrutiny Manager, after several management changes as part of restructuring over the last 12 months. Reliance is placed on Managers across the Council to complete operational risk reviews with oversight from Service Managers and Directors.

6.5. Plans to implement a Council-wide Risk Assurance Model for the review of operational risks from January 2025 were not progressed due to organisational restructuring, capacity limitations and resource constraints. The proposed model is now misaligned with the current structure. Consequently, the existing process of bi-annual operational risk register reviews has continued.

6.6. The Opportunity Risk Management Strategy is reviewed and updated on an annual basis; however, it has not been fully redrafted since 2022. A full redraft is due to be undertaken in summer 2026 in alignment with the publication of the new Council Plans. There is an online training module available for all staff and members, which is in the process of being mandated. Face-to-face operational review training sessions for managers have not taken place since the departure of the Risk and Business Continuity Manager due to the reduction in resource available, however if additional capacity is realised, this may allow for these sessions to be restarted.

Internal Audit Risk Management Report – Executive Summary

6.7. 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 **Limited.** Whilst there is basically a sound system of control in place, the system contains weaknesses which leave some risks unaddressed and there is evidence of non-compliance with some key controls.

Control Objective: Conclusion and Summary of Findings

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

	AUDIT OBJECTIVE	CONCLUSION AND SUMMARY OF FINDINGS
1.	To confirm there is a robust system in place for the identification, assessment, recording and control and monitoring of operational risk.	**This control objective is not achieved.** An Opportunity Risk Management Strategy (ORMS) is in place, signed off by the Interim Chief Executive in October 2025, which sets out roles and responsibilities for risk management across the Council. However, it has been acknowledged that a full re-draft of the Strategy is required to align with the new Council plans following their publication in 2026 and to incorporate process changes recommended in this audit report. This constitutes the first significant recommendation, with a further five also identified, as summarised below. The two scheduled review periods for operational risk registers in 2025 resulted in poor compliance, with fewer than 40% updated in May and under 30% in November. The review process requires a comprehensive overhaul to improve both the timeliness and accuracy of risk register updates. Project Control is the designated system for reporting project risks as stipulated in the ORMS; however, not all risks are currently recorded within it, leading to incomplete risk reporting. A recommendation to address this gap has also been included in the Programme Management Office (PMO) audit report. Leadership Board has not received project risk reports since establishment in early 2025, hindering their ability to fulfil their responsibility for risk management across the Council. The recommendations raised in the Corporate Peer Challenge (CPC) have not yet been reflected in the strategic risk register. There are plans to hold a workshop with Leadership Board to address this. A report has been prepared to request approval from Leadership Board for mandating the risk management training module for all managers/risk owners. In addition, if further resource is secured within the Risk and Business Continuity team, there is the potential to resume in-person training sessions. A further four requires attention recommendations have been made under this control objective including the risk of not achieving MTFS savings targets being reflected in operational risk registers, a risk management training package to be produced and delivered to all members, consideration given to appointing a member risk champion, the recording of opportunities as well as risks and ensuring links to strategic risks are recognised and recorded on operational risk registers.
2.	Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels determined to be	**This control objective is achieved.** No recommendations have been raised under this control objective as risk registers were found to be populated in sufficient detail.

	AUDIT OBJECTIVE	CONCLUSION AND SUMMARY OF FINDINGS
	acceptable to management and the board.	
3.	Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.	**This control objective is achieved.** Overall, this control objective was assessed as satisfactory, with one exception leading to a 'requires attention' recommendation. The proposed improvement focuses on amendments to strengthen the layout, functionality, and controls within the risk register format.
4.	The Board and management receive periodic reports of the results of the risk management process.	**This control objective is not achieved.** The significant recommendation regarding the reporting of project risks to Leadership Board included under the first control objective resulted in this control objective being assessed as not achieved. It was noted that a comprehensive risk management timetable is in place for 2025 and 2026, and that a clear process exists for the reporting of incidents and near misses to the Risk and Business Continuity Team via the Health and Safety team.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Risk Internal Audit Review

Local Member: N/A

Appendices

None