

Our Council Scrutiny Panel

15 January 2020

Report title	Audit and Risk Committee Briefing	
Decision designation	Not Applicable	
Cabinet Member with Lead Responsibility	Councillor Louise Miles	
Corporate Plan Priority	Confident Capable Council	
Key decision	No	
In forward plan	No	
Wards affected	Not Applicable	
Accountable director	Claire Nye, Finance	
Originating service	Audit	
Accountable employee(s)	Peter Farrow Tel Email	Head of Audit 01902 554460 Peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not Applicable	

Recommendations for noting:

The Our Council Scrutiny Panel is recommended to:

1. Note the role of the Council's Audit and Risk Committee, and in particular its role with regards to risk management.

1.0 Purpose

- 1.1 To inform the Our Council Scrutiny Panel of the role of the Council's Audit and Risk Committee, and in particular its role with regards to risk management.

2.0 Background

- 2.1 The Our Council Scrutiny Panel have asked to be provided with information on the role of the Council's Audit and Risk Committee, and in particular its role with regards to risk management.

- 2.2 While risks are ultimately owned and managed by the individual risk owners/senior officers, the responsibility for the monitoring of the Council's strategic risk register sits predominantly with the Audit and Risk Committee. Within the Committee's terms of reference, there is a statement of purpose which states:

"The purpose of our Audit and Risk Committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place".

The terms of reference go on to state part of their role is:

"To monitor the effective development and operation of risk management in the Council".

"To monitor progress in addressing risk-related issues reported to the committee".

- 2.3 In order to help discharge this role, the strategic risk register is presented to each meeting of the Audit and Risk Committee, who review the register and obtain assurance that key risks are appropriately managed. They also take the opportunity to conduct deep dives by 'calling-in' certain risks for a more detailed review at their next meeting.
- 2.6 The strategic risk register does not include all the risks that the Council faces. It represents the most significant risks that could potentially impact on the achievement of the corporate priorities. Other risks are captured within directorate, programme, project or partnership risk registers in line with the Council's corporate risk management framework.
- 2.7 The latest version of the strategic risk register is due to be presented to the Audit and Risk Committee on 20 January 2020.
- 2.8 Specific questions that have been raised with regards to the role of the Audit and Risk Committee, are answered below:

Can you set out briefly the responsibilities of Audit and Risk Committee and the principles and guidance that informs the work of the committee

The role of the Audit and Risk Committee is to provide independent assurance on the adequacy of the risk management framework and the internal control environment. It provides an independent review of the governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It also oversees both internal audit and external audit helping to ensure that efficient and effective assurance arrangements are in place. It operates to terms of reference based on the model provided by the Chartered Institute of Public Finance and Accountancy (CIPFA).

What are the main messages that you would like to highlight in the Audit and Risk Committee Annual Report 2018-2019?

The key achievements of the committee as set out in its Annual Report are:

- Providing assurance to the Council through a process of independent review and challenge
- Raising the profile of internal control issues across the Council and of the need to ensure that agreed audit recommendations are implemented
- Regular consideration and review of the key risks that the Council faces, through examination of the strategic risk register and accompanying strategic assurance map
- Maintaining a good working relationship with the Council's internal and external auditors
- Building the skills and knowledge of the committee members through regular technical updates and the consideration of related guidance issued by CIPFA
- The presence of two independent members serving on the committee in order to broaden the committee's experience and independent view point
- Maintaining a detailed focus on the actions being taken to combat fraud

What is your assessment of the extent to which the organisation as a whole is aware of the importance of risk management and the Council's overall risk appetite?

The Council has a strong and embedded risk management process. The risk appetite is fluid, dependent upon the nature and type of each risk and its importance in ensuring the Council can meet its objectives.

Do you think that there is a comprehensive process for identifying and evaluating risk, and for deciding what levels of risk are tolerable?

Each directorate maintain their own operational risk register which includes an element of horizon scanning. Each risk identified is scored using a corporate risk scoring methodology and assessed as red, amber or green. There is then an escalation process in place should it be felt that an existing or emerging risk needs to be considered for inclusion on the strategic risk register. The strategic risk register is then reviewed by the

Strategic Executive Board before being presented to the committee. The Strategic Executive Board may also collectively add a risk to the strategic risk register.

When risks are added to the strategic risk register a risk owner is identified and a risk score is allocated to each risk, mitigating actions, controls and gaps in control are discussed with the risk owner on at least a quarterly basis. The register is then monitored regularly to ensure that controls are being adhered to and mitigating actions put in place. Where appropriate, target dates to reduce risk scores are set and monitored.

Risks are scored by assessing the likelihood of the risk occurring and its potential impact. A '5 by 5' risk matrix approach, rating the likelihood and impact of each risk from 1 – 5 using the criteria set out below:

Risk Scoring – Impact

Impact	Score	Descriptor
Low	1	Minimal loss, delay inconvenience or interruption. Can be easily and quickly remedied
Low / Medium	2	Minor loss, delay, inconvenience or interruption. Short to medium term effect.
Medium	3	Significant waste of time and resources. Impact on operational efficiency, output and quality. Medium term effect which may be expensive to recover.
Medium / High	4	Major impact on costs and objectives. Serious impact on output / or quality. Medium to long-term effect and expensive to recover.
High	5	Critical impact on the achievement of objectives and overall performance. Critical impact on costs and / or reputation. Very difficult and possibly long-term to recover.

Risk Scoring – Likelihood

Impact	Score	Descriptor	
Low	1	Rare (0-5%)	This risk will only materialise in exceptional circumstances.
Low / Medium	2	Unlikely (5-25%)	The risk will probably not materialise.
Medium	3	Possible (25-60%)	The risk may materialise at some point.
Medium / High	4	Likely (60-80%)	The risk will probably materialise.
High	5	Almost certain (80%+)	The risk will materialise in most circumstances.

The two ratings are then multiplied to give a final score for each risk. Scores are then plotted onto the risk matrix below to identify whether risks are red, amber or green.

Likelihood	5	Yellow	Yellow	Red	Red	Red
	4	Yellow	Yellow	Yellow	Red	Red
	3	Green	Yellow	Yellow	Yellow	Red
	2	Green	Green	Yellow	Yellow	Yellow
	1	Green	Green	Green	Yellow	Yellow
		1	2	3	4	5
		Impact				

Do you think that there is appropriate co-operation between the work of internal and external auditors?

There is a good working relationship between the internal and external auditors, and both always attend each meeting of the committee.

Do you think that Risk Register is an appropriate reflection of the known risks facing the Council?

The strategic risk register captures all of the key risks faced by the council and it is reviewed by the Strategic Executive Board before being presented to the committee. The register also includes a detailed summary on how each risk is being managed.

How are future risks related to different Brexit outcomes, or a sudden loss of funding or revenue, project delays, identified and managed as part of the work of the committee? Can you describe the system of assurance used to alert the committee of things that may be going wrong?

As indicated in the answers above, each directorate maintain their own operational risk register and there is an escalation process in place should it be felt that an existing or emerging risk needs to be considered for inclusion on the strategic risk register. The register is then reviewed by the Strategic Executive Board before being presented to the committee. The register notes if each risk has increased, decreased or remained static since it was last reviewed. The committee may also ‘call-in’ specific risks in areas of concern, for a more detailed review at its next meeting.

Broadly set out the reporting arrangements for the committee and communicating work done during the year internally and externally and the progress made against stated priorities.

The committee's reports, minutes and papers are publicly available on the Council's website. The committee's Annual Report is presented to Full Council by the Chair and a copy of the latest Annual Report has been appended to this report.

What is your view of how well the implementation of the committee's recommendations are monitored and actioned?

Both the internal and external auditors follow up their recommendations – and any non-compliance would be reported back to the committee. The committee is not aware of there being any significant concerns over the non-implementation of agreed recommendations.

To what extent is the work of the committee effective in adding value to corporate governance and control systems of the Council?

The work of the committee adds value in the following:

- Increasing public confidence in the objectivity and fairness of financial and other reporting;
- Reinforcing the importance and independence of internal and external audit and similar review processes;
- Providing additional assurance through a process of independent review; and
- Raising awareness of the need for internal control and the implementation of audit recommendations.

4.0 Financial implications

4.1 There are no financial implications arising from the recommendations in this report.
[GE/03012020/P]

5.0 Legal implications

5.1 There are no legal implications arising from the recommendations in this report.
[GE/03012020/P]

6.0 Equalities implications

6.1 There are no equalities implications arising from the recommendations in this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from the recommendations in this report.

8.0 Human resources implications

8.1 There are no human resources implications arising from the recommendations in this report.

9.0 Corporate landlord implications

9.1 There are no corporate landlord implications arising from the recommendations made in this report.

10.0 Schedule of background papers

10.1 Appendix A – Audit and Risk Committee Annual Report 2018-2019