

Audit Committee – 13 January 2009

Submission of Corporate risks for scrutiny

Summary of report

This report provides feedback on two corporate risks selected for scrutiny by Audit Committee on 1 December 2008. The risk assessments and management action plans supporting these risks are at **Appendix 1** and **2**.

Recommendation

To note the contents of the report.



**James Walsh – Assistant Director of Finance / Chief
Finance Officer**

30 December 2008

Governance

Audit Committee's responsibility for risk management includes the following:

- Reviewing the mechanisms for the assessment and management of risk.
- Giving assurance about the process.
- Ensuring the council meets its statutory requirements, as stipulated within the Accounts and Audit Regulations 2006 as follows:
 - Regulation 4 (1) - The relevant body shall be responsible for ensuring that the body has a sound system of internal control which facilitates the effective exercise of the bodies functions and which includes arrangements for the management of risk.
 - Regulation 4 (2) - The relevant body shall conduct a review at least once a year of the effectiveness of its system of internal control and shall include a statement on internal control with any financial statements the body is required to publish. The outcome of the review is set out in the Statement of Internal Control (SIC) which is signed off by the Leader of the Council and the Chief Executive indicating that they are satisfied that there are robust arrangements in place for the management of risk.

The audit committee is also required under the CPA KLOE to ensure that it receives reports on risk management on a regular basis and take appropriate action to ensure that strategic business risks are being actively managed, including reporting to full council as appropriate.

Performance management and risk management issues

Risk management is an integral part of the corporate governance framework and is a key area within CPA. This recognises that the member committee with responsibility for risk management takes appropriate action to ensure that corporate business risks are actively managed. By periodically selecting sample risks for scrutiny, audit committee fulfils this requirement and enables challenge where risks are not considered to be effectively managed. This approach reduced the risk of strategic risks not being actively managed which would adversely impact on council performance.

Equality implications

None arising directly from this report.

Summary of Risks Selected for Scrutiny

Corporate Risk No 31 (old risk number 95) – Failure to comply with EU grant regulations and repayments required

This risk first appeared on the Corporate Risk Register in July 2008 following a facilitated risk workshop with CMT on 5 June 2008.

This risk relates to European Structural Fund grants that have been awarded as part of the West Midlands Objective 2 and 3 Programmes 2000-2006. Government Office West Midlands inspectors are now auditing the Programme to determine whether strict programme delivery and performance criteria were applied. Walsall is the Accountable Body for its own Action Plan. Where grants have not been focused on eligible activity, or where projects have kept inadequate records, grant could be withdrawn, withheld or clawed back.

There is a comprehensive risk management action plan (**Appendix 1**) which underpins this risk, centering around three main pillars of activity:

- 1) A reconciliation exercise ensuring that, as far as possible, projects previously approved under the Programme have adequate eligibility, payment, control and other records sufficient to demonstrate an audit trail for grant received.
- 2) Transfer of liability, where practical, to the projects unable to demonstrate compliance with European rules by withdrawal, withholding or clawback of funding.
- 3) Negotiation with GOWM on behalf of the Managing Authority (UK Government) to mitigate the consequences to Walsall MBC. This is proving particularly difficult, as even where Walsall MBC relied on advice provided in the early days of the programme and the advice was subsequently proven incorrect, GOWM are not sharing responsibility for programme failures.

The European Social Fund programme has almost completed a major inspection – this will result in some small/medium scale clawback, but the inspectors appear to have accepted the principle of the way in which Walsall constructed its programme, so the discussions now centre round individual items of expenditure or activities rather than the entire programme.

The European Regional Development Fund has a similar large scale inspection in February. This will result in the formal discovery of a number of irregularities requiring clawback of grant. It is not yet possible to quantify the risk associated with this inspection, but it is possible that it could involve six figure sums. GOWM are under pressure to close the programmes on time, and are taking an increasingly hard line on irregularities.

Corporate Risk No 32 (old risk number 96) – Ineffective arrangements for neighbourhood/community engagement

This risk also first appeared on the Corporate Risk Register in July 2008 following a facilitated risk workshop with CMT on 5 June 2008. It is owned by the executive director of neighbourhoods and relates to the effectiveness of LNP's which have been established across the borough and how they engage with their communities.

This risk originally scored an impact of 3 (critical) and a likelihood of 5 (high) = 15. However, its likelihood has now been reduced down to a score of 4 (significant) making its overall score now as a 12 as a result of introducing a range of different community engagement activities and techniques in each area. Although it still remains in the upper quartile of the corporate risk matrix it is underpinned by a comprehensive risk management action plan (**Appendix 2**).

Consultation

Officers with responsibility for managing the corporate risks selected for scrutiny have been consulted and their views and comments are included within the body of this report.

Background papers

Corporate risk register/files/working papers

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Strategic Risk Assessment

Summary of Risk: Failure to comply with EU grant regulations and repayments required

Date of Assessment: December 2008

IDENTIFYING THE RISK					
Ref	Risk (ie: Threat to the organisation)	Consequence	Assessment of Risk		
			I 1 - 4	L 1 - 6	PR IxL
31 (95)	<p><u>Vulnerability</u></p> <p>European auditors are looking at the many EU grants that have been awarded to the public sector in the UK and are scrutinising them against delivery targets. Where grants have not been 100% focused on the strict delivery objectives grants will be withdrawn or asked to be repaid.</p>	<ul style="list-style-type: none"> Significant fines (£m's) Other services reduced to cover costs Reputational issues Future funding withdrawn Projects halted Objectives not achieved Improved services not delivered 	3	5	15

Rating Scores: Impact: Catastrophic = 4 (Affects all of the objectives) Critical = 3 (Affects most of the objectives) Marginal = 2 (Affects some of the objectives) Negligible = 1 (Little effect to objectives)

Likelihood: Very High = 6 High = 5 Significant = 4 Low = 3 Very Low = 2 Almost impossible = 1

Management Action Plan (MAP)

Risk Group: Corporate Management Team **Date plan produced: December 2008**

Likelihood	6				
	5			31	
	4				
	3				
	2				
	1				
		1	2	3	4
Impact					

Risk Owner: James Walsh **Lead Officer: Julie Gethin**

Last Updated:
December 2008

Last Reviewed:

Risk Number	Current Risk Score	Target Risk Score	Achieved By:	Description
31	15	9	March 2009	Failure to comply with EU grant regulations and repayments required

Action/controls already in place	Adequacy of action/control to address risk	Required management action/control	Responsibility for action		Critical success factors & KPIs	Review frequency	Key dates
Walsall European Programmes and Performance Board	Adequate	None required. 6-weekly meetings in place to monitor compliance action plan and performance manage programmes	Julie Gethin	Steve Morris	Monthly meetings scheduled Regular performance reports produced Compliance Action Plan - all actions implemented	Monthly	January 2009
Economic Pillar Executive Group (PoWeR)	Adequate	None required. Meets regularly. Reviews performance of LAA projects at each meeting	Julie Gethin	Andrew Rumble	Project performance on trajectory (spend and outputs)	Monthly	Quarterly review

Action/controls already in place	Adequacy of action/control to address risk	Required management action/control	Responsibility for action		Critical success factors & KPIs	Review frequency	Key dates
WBSP Executive Committee	Adequate	None required. Executive Committee receives update reports at each meeting.	Julie Gethin		Programme performance on track. Compliance action plan successfully implemented	Monthly	Quarterly review and year-end
Finance Department	Adequate	None required. Dedicated Finance support in place for programme management team SLA with Finance to give clarity on their roles and responsibility	Julie Gethin	Vicky Buckley	SLA in place. Back dated reconciliation work completed in line with compliance action plan	Monthly	January 2009 March 2009
Internal Audit	Adequate	None required. Audit days scheduled over the calendar year. End of year and final audits required for both programmes	Julie Gethin	Dave Blacker	Agreed number of audit days Document internal audit reports evidencing compliance and remedies	Quarterly	February 2009
Neighbourhood Services Performance Board	Adequate	None required. Considered as part of project register updated	Julie Gethin		Issues escalated if required. Input from Executive Director at meetings with GOWM	Quarterly	December 2008
Programmes Team	Adequate	None required. Additional resource identified by GOWM as required to implement compliance action plan and sustain effectiveness of new processes and procedures now in place	Steve Morris		Compliance action plan successfully implemented	Fortnightly	January 2009 March 2009

Strategic Risk Assessment

Summary of Risk: Ineffective arrangements for neighbourhood / community engagement

Date of Assessment: December 2008

IDENTIFYING THE RISK					
Ref	Risk (ie: Threat to the organisation)	Consequence	Assessment of Risk		
			I 1 - 4	L 1 - 6	PR IxL
32 (96)	<p><u>Vulnerability</u></p> <p>There is national drive on improved engagements with the community at a local level i.e neighbourhood level. LNP's have been established but there is question mark over their effectiveness</p>	<ul style="list-style-type: none"> Community voice not consistently heard Contact with the residents is deemed insufficient Democracy gap increases Patchy approach Criticism from community Criticism from external agencies Failure to meet Government expectations set out in Safer Stronger Communities 	3	4	12

Rating Scores: Impact: Catastrophic = 4 Critical = 3 Marginal = 2 Negligible = 1
 (Affects all of the objectives) (Affects most of the objectives) (Affects some of the objectives) (Little effect to objectives)

Likelihood: Very High = 6 High = 5 Significant = 4 Low = 3 Very Low = 2 Almost impossible = 1

Management Action Plan (MAP)

Risk Group: Corporate Management Team **Date plan produced: 12 December 2008**

Likelihood	6				
	5				
	4			32	
	3				
	2				
	1				
		1	2	3	4
		<u>Impact</u>			

Risk Owner: Jamie Morris **Lead Officer: Julie Gethin**

Last Updated:
Dec 2008

Last Reviewed:

Risk Number	Current Risk Score	Target Risk Score	Achieved By:	Description
32	12	9	Sept 2009	Ineffective arrangements for neighbourhood/community engagement

Action/controls already in place	Adequacy of action/control to address risk	Required management action/control	Responsibility for action		Critical success factors & KPIs	Review frequency	Key dates
Walsall Partnership provides the governance structure for LNPs. The Chair of Walsall partnership (Leader of the Council) and Chief Executive of Walsall Council have produced a paper to consult with stakeholders over the future of LNPs. A consultant has been appointed through the Efficiency and Improvement Partnership West Midlands to assist and deliver widescale	Adequate	Continued monitoring by the Walsall Partnership Board	Clive Wright		<p>Consultant report is received.</p> <p>The report recommendations/options are considered.</p> <p>Walsall Partnership Board give a clear and definitive statement on the purpose of LNPs going forward and how they should be supported</p>	Quarterly	<p>March 2009</p> <p>June 2009</p>

Action/controls already in place	Adequacy of action/control to address risk	Required management action/control	Responsibility for action		Critical success factors & KPIs	Review frequency	Key dates
consultation of stakeholders. A questionnaire has been devised to support this process. A consultant report with recommendations is expected by March 2009.							
Consultation with members CMT	CMT are aware of the ongoing consultation process						