



## Argyll & Bute Council

2016-17 Annual Review of Risk Management Arrangements

*Draft for discussion*

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# 1 Executive Summary

## 1.1 Audit objectives

Effective risk management is a key element of the Council's overall governance arrangements and ensures that the systems of internal control remain effective.

The Audit Committee has a role to promote risk management and provide reasonable assurance that arrangements are effective. We therefore agreed that an independent review of risk management arrangements will be included as part of the annual internal audit programme of work.

In prior years, we have provided assurance about the management of operational risks. During the period of our audit, a significant review of the Council's Planning and Performance Management Framework was underway, which we anticipate will necessitate changes to the operational risk management arrangements. Our review has therefore focused on the strategic risk register, but we note the implications for operational risk management.

The key objective for the audit is to ensure that the Council is not exposed to an unacceptable level of risk as a result of failing to adequately determine its risks and monitor changes in the Council's risk profile. To maintain independence, the review was carried out by Grant Thornton, the Council's internal audit strategic partners.

## 1.2 Risks

Our review considered the way in which strategic and operational risks are managed at the Council. We considered the following risks as part of the review:

- Roles and responsibilities for risk management are not clear leading to ineffective corporate governance and resulting in confusion over lines of accountability.
- Current arrangements fail to identify new and emerging risks resulting in potential exposure to unacceptable risk.
- Arrangements to manage and mitigate risks are ineffective leading to inappropriate allocation of resources.

## 1.3 Key findings

The audit generated the following key findings:

- The Risk Management process is well embedded and understood across the Council. Training was provided to elected members on the process and understanding risk appetite in December 2015.
- The SMT regularly review and update the Strategic Risk Register, including the identification of emerging risks, key mitigating actions and planned actions for the future.

- The Policy and Resources Committee receive regular reports on key financial risks, to support the monitoring of budget and financial performance.
- The Argyll & Bute Integrated Joint Board has developed its own Risk Management arrangements, but there is not yet clarity on how the risk register will be scrutinised by the Council.
- There is scope to improve the structure of the register to clarify the controls in place to mitigate the strategic risks, and the status of mitigating actions.
- Any changes to the PPMF must ensure that current and emerging risks are captured and monitored on a regular basis.

#### 1.4 Audit Opinion

Overall, we found that internal controls in place to support risk management are generally well designed and operating in practice. As a result, the level of assurance given for this report is **Substantial**. Our definitions for the levels of assurance are included in Appendix A.

We made three recommendations:

- The Strategic Risk Register should be explicit about which risks continue to be actively managed, and those that are being tolerated. Where risks are being treated, the actions should be framed in SMART terms to ensure that accountability is clear for mitigating actions.
- The Council should agree which committee will scrutinise the IJB's risk register and mitigating actions.
- Any changes to operational risk management arrangements should be supported by training and guidance to ensure that service level risks continue to be identified and managed effectively.

#### 1.5 Acknowledgement

Our audit involved discussions with a range of individuals across the Council, including the Chief Internal Auditor, Performance and Improvement Team, and Heads of Service. We would like to take this opportunity to thank those staff for their assistance and co-operation during the course of the audit.

## 2 Detailed Findings

1.	Medium	Structure of the Strategic Risk Register	
Finding and Implication		Proposed action	Agreed action ( <i>Date / Ownership</i> )
<p>The Council's Strategic Risk Register has remained relatively stable over a number of years, but the approach to treating risks has changed.</p> <p>The Council's Risk Management Guidance outlines the alternative approaches to the management of each risk, including treat, tolerate, transfer and terminate. However, the approach taken to each risk is not explicit within the register.</p> <p>Where the approach is to treat the risk, the Strategic Risk Register has designated risk owners, but actions are not framed in SMART terms with due dates, meaning that there is limited accountability for the impact of mitigating actions.</p> <p><b>Risk Implication:</b> There is a risk that Council resources may not be targeted at the most effective risk mitigation actions. There is also a risk that effective scrutiny is not possible due to a lack of clarity about approach, deadlines and accountability.</p>		<p>We have included a suggested structure change for the Strategic Risk Register in Appendix B. The key changes proposed are:</p> <ul style="list-style-type: none"> <li>■ Use of status symbols to highlight where risks exceed the risk tolerance levels.</li> <li>■ Current mitigations should reflect the key internal controls in place consistently that help to reduce the impact or likelihood of the risk materialising.</li> <li>■ The register should include the approach to managing the risk, including treat, tolerate, transfer and terminate.</li> <li>■ Planned mitigating actions should be specific, should have a named owner, and a due date.</li> </ul>	<p>SMT are currently reviewing the structure and content of the SRR. Where appropriate, consideration will be given to the proposed actions.</p> <p>Date Effective: 30<sup>th</sup> June 2017</p> <p>Owner: Head of Strategic Finance</p>

<b>2.</b>	<b>Medium</b>	<b>Argyll &amp; Bute Integrated Joint Board</b>
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<b>Finding and Implication</b>	<b>Proposed action</b>	<b>Agreed action (Date / Ownership)</b>
<p>In April 2016, the Argyll &amp; Bute Integrated Joint Board became operational, and therefore play a role in directing many of the Council's services. The IJB has agreed its own risk management policy and risk register. The policy allows for reporting of the risks to the Council on an annual basis, but it is not yet clear which committee should consider the IJB risks.</p> <p><b>Risk Implication:</b> There is a risk that the Council may not have a full understanding of risks impacting its priorities and social work responsibilities.</p>	<p>The Council should ensure that the IJB risk register is subject to full Committee scrutiny.</p>	<p>The performance review and scrutiny committee will consider IJB Risk Management activity alongside.</p> <p>Date Effective: 30<sup>th</sup> June 2017</p> <p>Owner: Chief Officer Integration</p>

<b>3.</b>	<b>Medium</b>	<b>Changes to the PPMF</b>
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Finding and Implication	Proposed action	Agreed action ( <i>Date / Ownership</i> )
<p>The Chief Executive has launched a significant review of the PPMF. As a result of the review, there are proposed changes to the approach taken to identify current and emerging operational risks. The current approach is based on risks to achieving priorities within the Service Plan.</p> <p>The new approach is likely to be more externally-focused, to consider the risks to the community rather than internal processes. This means that an alternative structure will be required to ensure that each service considers current and emerging risks on a consistent basis.</p> <p><b>Risk Implication:</b> There is a risk that changes to the risk identification process may impact the structure and rigour of identification of operational risks.</p>	<p>Any changes to the operational risk management process should be supported by training and guidance for staff.</p>	<p>Policy and Guidance documentation will be updated to reflect any revisions to operational risk management processes.</p> <p>Date Effective: 30<sup>th</sup> June 2017</p> <p>Owner: Head of Strategic Finance</p>

## A Definition of internal audit ratings

### Overall Level of Assurance

Every audit report is graded with an overall assurance rating. An explanation of each grading is given below:

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.



### Audit issue rating

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:



**High** - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

**Medium** - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

**Low** - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.




## B Example of revised structure of Strategic Risk Register

The table below outlines worked up examples of a revised structure for the Strategic Risk Register.

Description of risk	Potential consequences	Li	Im	Score	Tol	Status	Internal Controls	Treatment Actions	Action owner	Due Date	Approach
Projected population decline and potential economic decline and failure to identify relevant factors causing the decline and the need to develop strategies and action plans to address that decline in an effective manner	<p>Sustained economic decline and population loss, particularly amongst our economically active generations results in a circle of decline with reduced employment, lower earnings, failing businesses and poor perception of the area.</p> <p>Population decline reduces Govt funding and reduces scope for efficiencies and economies of scale. Combined population and economic decline may increase the need and costs for services.</p>	4	4	16	12		<p>Single Outcome Agreement and LOIP focused on population and economic recovery</p> <p>Strategic Economic Development Action Plan (EDAP)</p> <p>Strategic Infrastructure Plan</p>	<p>Deliver Growth Funds</p> <p>Implementation of local development plans</p> <p>Funding of £XXk levered in from external sources to support economic development</p>	<p>XX</p> <p>XX</p> <p>XX</p>	<p>31 March 2017</p> <p>30 June 2017</p> <p>30 Sept 2017</p>	Treat
The arrangements in place for civil contingencies and business continuity are not effective	Ineffective management of major emergencies affecting Council services and communities in Argyll & Bute in response to a major	2	3	6	6		<p>Suite of emergency plans and procedures in place and updated regularly</p> <p>Ongoing training programme</p> <p>Peer review of major exercises</p>				Tolerate

	<p>emergency.</p> <p>Incident and recovery phase of an emergency lead to greater inconvenience and hardship and a longer timescale for return to normal.</p> <p>Council unable to effectively deliver its own services as a result of an emergency.</p>						<p>undertaken</p> <p>West of Scotland local resilience partnership in place to share intelligence</p> <p>Critical Activity Recovery Plans in place for all key activities and updated on an annual basis</p> <p>Emergency Planning Test events.</p>				
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**Status key:**

	Risk level equals or lower than risk tolerance
	Risk level exceeds risk tolerance by up to 5
	Risk level exceeds risk tolerance by more than 5



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