

Argyll and Bute Council
Internal Audit Report
December 2019
Final

Risk Management

Audit Opinion: High

	High	Medium	Low
Number of Findings	0	0	1

Contents

1. Executive Summary	3
Introduction.....	3
Background.....	3
Scope	3
Risks.....	3
Audit Opinion	4
Key Findings.....	4
2. Objectives and Summary Assessment	4
3. Detailed Findings.....	5
Appendix 1 – Action Plan	7
Appendix 2 – Audit Opinion	9

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1. Executive Summary

Introduction

1. As part of the 2019/20 internal audit plan, approved by the Audit & Scrutiny Committee in March 2019, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to risk management.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.
3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. Local government has seen and will continue to see unprecedented changes. This will lead to significant new risks, as the Council reviews its services and how they are delivered. Risk management will support and enhance the decision making process, increase the likelihood of the Council meeting its objectives and enable it to respond quickly to new pressures and opportunities.
5. Risk management is the planned and systematic process by which key risks are identified, evaluated and managed so as to maximise benefits and minimise potentially negative consequences to the Council and its partners. Risks are significant uncertainties that may affect the Council's ability to achieve its strategic and operational objectives.

Scope

6. The scope of the audit was to assess the adequacy of, and compliance with, the Council's risk management arrangements.

Risks

7. The risks considered throughout the audit were:
 - **CEU ORR 6:** Risk management is not embedded as an integral part of decision making process
 - **Audit Risk 1:** Risk registers are not updated regularly
 - **Audit Risk 2:** Risks are not properly assessed
 - **Audit Risk 3:** Risks are not prioritised
 - **Audit Risk 4:** Risks are not monitored and reported

Audit Opinion

8. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.
9. Our overall audit opinion for this audit is that we can take a high level of assurance. This means that internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.

Key Findings

10. We have highlighted one low priority recommendation where we believe there is scope to strengthen the control and governance environment. This is summarised below:
 - the risk management manual should be updated to ensure it reflects current working practice and presented to the Strategic Management Team (SMT) and Policy and Resources Committee (P&R) for approval.

2. Objectives and Summary Assessment

11. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
1	Risk management is actively supported and promoted by senior officers / elected members	ORR 6 Audit Risk 2 Audit Risk 4	Substantial	The Council and Health and Social Care Partnership (HSCP) have comprehensive risk management guidance. The Council's Manual has been approved by the SMT and P&R however it needs to be updated to reflect changes approved by the Audit and Scrutiny Committee in July 2019. Roles and responsibilities are clearly defined and arrangements for updating risk registers have been defined and are being adhered to.
2	There is a systematic approach to identify and prioritise risks and match them with appropriate responses	ORR 6 Audit Risk 1 Audit Risk 2 Audit Risk 3	High	The Council's Manual and HSCP guidance clearly set out a systematic approach for identifying and evaluating risks.
3	Risks and the action taken to mitigate them are	ORR 6 Audit Risk 4	High	The Council's and HSCP social work risk registers are being regularly reviewed and updated. The Manual should be

	regularly monitored			updated to reference the Chief Executive's annual report on the Council's strategic risk register to the Audit and Scrutiny Committee.
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12. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

Risk management is actively supported and promoted by senior officers/elected members

13. The Council has a risk management manual (the Manual) which was last updated and approved by the SMT in March 2018 and P&R in May 2018. The Manual is comprehensive and clearly sets out:

- a definition of risk
- the Council's approach to managing risk
- a risk appetite statement
- roles and responsibilities including senior management and elected members
- the risk management cycle detailing the stages to undertake to manage risk.

14. In the Council's 2017/18 external audit report, presented to full Council in November 2018, Audit Scotland concluded that the revised Manual represented an enhancement to the Council's risk management process. No further comment on the Council's risk management arrangements was made in the Council's 2018/19 external audit report.

15. There were no material changes to the risk management process during 2018/19 and so it was not deemed necessary to update the Manual during that financial year. In September 2019 the Audit and Scrutiny Committee agreed that an annual audit of risk management was no longer required. This would be replaced by an annual strategic risk assurance mapping exercise with an audit of risk management to be conducted at least every three years. The Manual should be updated to reflect this change.

Audit Plan 1

16. The HSCP is responsible for the strategic planning and reporting of a range of health and social care services delegated by NHS Highland Health Board and the Council (described within the Integration Scheme (March 2015)). The Integration Joint Board (IJB) is responsible for the operational oversight of the Partnership.
17. The Integration Scheme requires that the:
- parties will develop a shared risk management strategy that will identify, assess and prioritise risks related to the delivery of services under integration functions, particularly any which are likely to affect Argyll and Bute Integration Joint Board's delivery of the Strategic Plan
 - Chief Officer will ensure the maintenance of an up to date integrated risk register in respect of all functions delegated to Argyll and Bute Integration Joint Board.

18. The Council's Head of Financial Services has operational responsibility for risk management (excluding social care). The HSCP risk manual assigns operational responsibility for social care risk management to the HSCP Chief Officer.
19. Our 2018 audit of risk management identified one high priority issue in relation to the governance arrangements for the management of social care operational risks including responsibilities and the arrangements for regular review and updating of risks.
20. In 2019 the HSCP prepared a risk management strategy and they have risk management guidance that provides comprehensive information on the key aspects of populating and maintaining risk registers. The guidance is available to all appropriate managers.

There is a systematic approach to identify and prioritise risks and match them with appropriate responses

21. Both the Council and HSCP risk manuals set out a comprehensive process to identify and prioritise risks. In particular how to:
 - identify risk
 - assess the likelihood and impact of the risk
 - prioritise risks (red, amber or green)
 - mitigate and manage the risk.
22. The Council's Manual and the HSCP guidance both set out risk management reporting requirements in terms of the appropriate operational teams or committees and the information to be reported.

Risks and the action taken to mitigate them are regularly monitored

23. Minutes of the SMT and the three Council Departmental Management Teams confirm that risk registers are being reviewed and updated as per the requirements established by the Manual. In addition it is clear the reporting arrangements are being adhered to. Furthermore the Head of Financial Services updates P&R on the Council's key financial risks as a standard agenda item.
24. The Council's constitution requires the Chief Executive to present the strategic risk register to the Audit and Scrutiny Committee on an annual basis. This occurred in June 2019. However the Manual refers to an annual report to the Policy and Resources Committee and should be updated.

Action Plan 1

25. A review of the Council's and HSCP risk registers confirmed that risks have been assessed and prioritised and mitigating action identified where a decision has been taken to treat the risk.

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Low	1	<p>Risk Management Manual</p> <p>The risk management manual should be updated to reflect that:</p> <ol style="list-style-type: none"> 1. annual risk management audit to be replaced by annual strategic risk assurance mapping exercise 2. audit of risk management to be conducted at least every three years 3. the Chief Executive presents the strategic risk register to the Audit and Scrutiny Committee rather than the Policy and Resources Committee on an annual basis. <p>The updated manual should be submitted to the Strategic Management Team and Policy and Resources Committee for approval.</p>	Failure to have a risk management manual that reflects current practice may lead to non-compliance with agreed procedures	The risk management manual will be updated and presented to the Strategic Management in February 2020 Team before being presented to the and Policy and Resources Committee for approval on 14 May 2020	Head of Financial Services 14 May 2020

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.