

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Customer Services
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22 June 2011

SUPPLEMENTARY PACK 2

AUDIT COMMITTEE

**FRIDAY 24 JUNE 2011 AT 11.15 AM IN THE COUNCIL CHAMBER, KILMORY,
LOCHGILPHEAD**

I enclose herewith a further **Internal Audit Report to Audit Committee** which was marked to follow in the appendix attached to the report at item 12 of the above agenda.

I also enclose herewith item 17 (**Risk Management**) which was marked to follow on the above agenda.

Douglas Hendry
Executive Director - Customer Services

TO FOLLOW ITEMS

- 12. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE**
Report by Chief Internal Auditor (Pages 1 - 10)
- 17. RISK MANAGEMENT**
Report by Head of Strategic Finance (Pages 11 - 14)

AUDIT COMMITTEE

Martin Caldwell
Councillor George Freeman
Councillor David Kinniburgh
Ian M M Ross

Councillor Gordon Chalmers
Councillor Daniel Kelly
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Internal Audit Report

FINAL

Facility Services

Review of Sustainability

March 2011

SECTION		PAGE
1	Introduction	1
2	Audit Scope and Objectives	2
3	Risk Assessment	2
4	Corporate Governance	2
5	Main Findings	2
6	Recommendations	3
7	Audit Opinion	3
8	Acknowledgements	4
Appendix 1	Detailed Findings	
Appendix 2	Action Plan	

1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Sustainability as part of the 2010/11 Internal Audit programme.

The Council is required, by virtue of both legislative requirements and internal executive directions, to deliver increased levels of sustainability in its operations. This is to be achieved primarily through a reduction in greenhouse gases, the recycling of waste and the increased use of energy from renewable sources.

The reduction in greenhouse gases is driven by the Climate Change (Scotland) Act 2009 which requires the setting of national targets for emissions up to 2050. The Act covers all sectors of the economy, and for local authorities imposes a requirement to act in a sustainable manner and in a way that contributes to the delivery of national targets. The part of the Act affecting public bodies came into effect on 1 January 2011.

Carbon production for Scotland in 2009 was approximately 55m tonnes, of which the public sector produced about 1m tonnes and Argyll and Bute Council 25,000 tonnes. All carbon production is expressed as tonnes of carbon dioxide (CO₂) equivalent.

Specific targets have been set for Scotland for each year up to 2022. The target for that year will require a reduction of 28.6% on the target for 2010. The target is a national one and there are no individual targets for each sector.

The Council's main obligations with respect to waste are primarily from the EU Landfill Directive 1999 and the Waste Framework Directive 2008. There are detailed provisions in respect of landfill. Regulations to give effect to the Waste Framework Directive have not yet been made, but will be required soon as they will impact on waste collection and sorting targets for 2015 and beyond.

The Council has made some progress in terms of using renewable energy for its own purposes. There are two biomass heating schemes, and more are planned. A small amount of electricity is generated at three schools using photo voltaic cells. The Council is actively promoting Argyll as a suitable location for third parties to invest in renewable energy, but there are constraints with regard to getting access to the national grid. A Renewable Energy Action Plan has been drawn up.

Two Committees have been set up to deal with environmental issues – the Environmental Policy and Performance Group and the Environment Thematic CPP Group.

2 AUDIT SCOPE AND OBJECTIVES

The broad objectives of the review were to ensure:

- The Council had developed processes which could deliver the Government's requirements with regard to sustainability
- That its corporate and service plans reflected the requirements of the SOA and other relevant directives
- That there were processes for the review of sustainability issues, and to monitor how these processes operated in practice
- That the Council had engaged with the public in promoting a sustainability culture

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our Systems Based Auditing, ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit.

Although there are risks relating to energy management and compliance with government directives, there are no risks aimed specifically at sustainability. Given that the Council now has a legal obligation under S44 of the Climate Change (Scotland) Act 2009 to act in a manner which is "most sustainable", it may be appropriate to consider the risks associated with compliance with the Act.

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

The Council has recognised its sustainability obligations and has put in place a number of strategies aimed at meeting its legal obligations and contributing to nationally set targets.

The council has met its waste management targets. It has been less successful with regard to carbon, although significant new capital investment has been approved. There are issues with regard to measuring performance which need to be resolved before an accurate statement of the Council's position can be made.

The Council is participating in the Carbon Management Revisited programme. This will help clarify targets and performance, and may also integrate waste management more closely into the carbon management regime.

The Council is at risk of having its performance downgraded as a result of a proposal by the Scottish Government to redefine the EU concept of composting, and the Council needs to mount a robust defence of its present practices.

6 RECOMMENDATIONS

Nine recommendations were identified as a result of the audit. Three are high priority, five are medium and one is low. The recommendations are shown in the action plan attached at Appendix 2 and has been compiled with the co-operation and agreement of the Supervisor/Manager.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

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 is 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.

7 AUDIT OPINION

Based on the findings we can conclude that the Council has put in place measures to meet its sustainability obligations, and has had some success, but further initiatives are needed if the Council is to meet long term targets and deliver its services in the most sustainable manner. Participation in the Carbon Trust sponsored Carbon Management Revisited programme is

expected to contribute to the setting of more realistic objectives, and the drawing up of action plans to meet those.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to staff in Facilities and in Roads and Amenity Services for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll and Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	The Council's stated position on carbon reduction does not make clear the extent to which carbon reduction is to be pursued as an objective in itself or as part of a process whereby other economic or financial benefits are secured.	High	The Council should clarify its broad carbon reduction objectives, and the extent to which carbon reduction activity is to be influenced by economic considerations as well as the pursuit of a lower emissions figure in its own right..	Head of Facility Services	31 August 2011
2	Conversion factors used to determine performance are subject to change for technical reasons out with the control of the Council and this may give a misleading impression of the Council's performance in some areas	Medium	Where an apparent improvement or deterioration in performance has arisen out of changes in methodology or reference data outwith the control of the Council, this should be made clear in the published data.	Head of Facility Services	31 August 2011

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	Conversion factors are based on a mix of Scottish and UK derived figures.	Medium	The Council should promote the use of Scottish reference data where this produces a materially different performance figure. At the very least, an understanding of the Scottish figures should be obtained and used for option appraisal purposes.	Head of Facility Services	31 August 2011
4	Progress to date together with planned capital schemes will not deliver the target figures for carbon emissions set by the Council.	High	The Council's emissions target for the periods to 2012 and 2014 should be revisited in the light of progress to date and funding levels available, and should be supported by a costed list of projects. The targets need not reflect the trend in national targets set for Scotland as a whole either in the short or long term.	Head of Facility Services	31 August 2011

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
5	There are doubts over the accuracy of some of the baseline figures used to measure the carbon footprint.	Medium	The methodology used for baseline carbon figures should be revisited, and the process adopted should be set out in detail to enable the figures to be validated and more easily interpreted.	Head of Facility Services	31 August 2011
7	The Scottish Government has indicated that it will abandon the EU methodology for calculating recycling performance and this will materially reduce the apparent performance of the Council.	High	The Council should seek to reverse the position adopted by the Scottish Government and advocate the use of existing EU conventions for determining its recycling performance.	Head of Roads and Amenity Services	31 July 2011
8	There is no methodology in the Carbon Plan for measuring dependence on fossil fuels. It is therefore not clear how the Council intends to equate the different elements of fossil fuel usage so as to measure the percentage change in dependence.	Medium	The Council should set out in detail how it proposes to reduce its dependence on fossil fuel, with targets for each action which would reduce dependence and a methodology for determining the relative value, in fossil fuel terms, of the various actions it proposes.	Head of Facility Services	31 August 2011

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
9	The Zero Waste Plan appears to make no concession to those councils which are faced with higher waste management costs by virtue of their location and population density.	Medium	The Council should carry out a risk assessment of the key aspects of the Zero Waste Plan in order to determine the potential scale of additional investment which might be required by virtue of its location and rural nature	Head of Roads and Amenity Services	31 December 2011

**ARGYLL AND BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
24 JUNE 2011**

RISK MANAGEMENT

1 SUMMARY

- 1.1 This report updates the Audit Committee with current progress in relation to development of risk management.

2 RECOMMENDATION

- 2.1 The terms of this project are noted.

3 DETAIL

- 3.1 Quarterly progress reports on the Strategic Risk Register and Operational Risk Registers for the quarters ending 31 December and 31 March have been submitted to SMT. The existing SRR and ORRs have been reviewed / monitored during 2010-11. Summary information on the analysis of risks and red, amber and green classifications has been included on quarterly performance scorecards reported to the Executive Committee.

- 3.2 There have been a number of audit report actions relating to the development of risk management outstanding. These are noted below:

- 1 Risk Management Policy & Framework
The risk management policy and risk management framework document would benefit from updating to reflect the ongoing development of the risk management process within the Council. Once updated this should be approved by the SMT and the Council.
- 2 Oversight and Challenge
The governance responsibilities for risk management have yet to be fully and clearly defined across the organisation, including to all relevant individuals and groups involved within the risk management process.
- 3 Risk Identification & Assessment
The existing risk identification and assessment process should be further developed to provide clear and transparent guidance for all stakeholders.
- 4 Risk Aggregation
The risk aggregation process has yet to be clearly defined to

ensure the effective aggregation of risks from 13 operational risk registers into one strategic risk register

5 Risk Monitoring & Reporting
No formal risk reporting process has yet been developed, however, ongoing developments with Pyramid are acknowledged.

6 Communication & Change
No road map or implementation plan exists to improve and develop the existing risk management process.

7 Our examination of the current 34 strategic risks found that these did not appear to be arranged in any particular order, although certain risks were similar in nature and could potentially be grouped together.

8 The preparation of the Specimen Risk Framework schedule provided a useful audit tool to further examine the linkage of the underlying risks to the strategic risk register. This could also provide the basis for management to ensure that the appropriate linkages initially exist and remain intact as risk management within the Council evolves.

9 In examining the Operational Risk Registers it is not apparent which are strategic risks, included in support of the strategic risk register, and which are separate operational risks, identified as specifically relating to that service.

10 Our work has identified additional potential strategic risks and suggested refinements for consideration as follows:

5.1 Failure to realise efficiency gains should be amended to failure develop shared services opportunities – Internal & External

5.2 Failure in reliable provision of core ICT infrastructure

5.3 Failure to develop eProcurement

5.4 Strategic risk 24 could be extended to cover 'UK and European' Government Policy (as well as Scottish Government)

5.5 Best Value – Policy & Strategy currently take corporate lead, but certain departments have identified a risk in respect of BV in their departments.

3.3 A review of the risk management framework has taken place and the undernoted document revised and prepared. The documents have been considered by SMT and are currently being reviewed by DMTs and the Risk Management Group. This review stage will be completed by the end of June. This will address recommendations 1 to 6 and 8 outlined in

paragraph 3.2 above.

3.4 Internal Audit carried out a review of risk management and have identified some further improvements to the Councils approach to risk management,. These recommendations are noted below. Those due by 30 June will be addressed as part of finalising the risk management framework outlined in paragraph 3.3 above.

- 1 The Council should set out formally its appetite for risk in terms that will enable those involved in determining how risks are to be treated are aware of the Council's policy on the management of different levels of risk. The risk culture should make clear the responsibilities or risk owners and the need for them to set risk targets within the context of the culture **June 30th 2011**
- 2 The roles and responsibilities of existing bodies should be reviewed, and the revised functions of these bodies, together with any additional input from key staff should be set out in detail. **June 30th 2011**
- 3 A simplified document should be prepared for those new to risk management. The document should in particular deal comprehensively with the causes of risk as a key factor in risk identification and management. **June 30th 2011**
- 4 The risk scoring methodology should be reviewed with a view to better representing the relative value of each risk, and the component elements which together make up the risk value. **June 30th 2011**
- 5 Detailed guidance on risk scoring should be provided, and a training programme initiated to address weaknesses in this area. **June 30th 2011**
- 6 Consideration should be given to using risk assurance statements as a means of enhancing accountability **March 31st 2012**
- 7 The Council should explore alternatives to Pyramid as a means of managing the risk registers. **September 30th 2011**

3.5 Reviews of the SRR and ORRs are currently taking place. They should be

completed by the end of June. This will update and revise the SRR and ORRs and in particular address the outstanding audit recommendations 7,9 & 10 of paragraph 3.2 above

3.6 The following calendar of risk management activity / reporting is in place;

- June - Finalise risk management framework
Complete review of SRR & ORRs
Start of Planning Cycle reports on SRR & ORRs.
- July - Quarterly reports on SRR & ORRs and risk management action plan for June
- August - Update start of planning cycle reports on SRR & ORRs.
- September - Quarterly reports on SRR & ORRs and risk management action plan for September.
- January - Quarterly reports on SRR & ORRs and risk management action plan for December.
- March - End of Planning Cycle reports on SRR & ORRs
Review of risk management framework and identify changes to be put in place for 2012-13.
- April - Quarterly reports and end of financial year reporting on SRR & ORRs and risk management action plan.

Bruce West
Head of Strategic Finance
15 June 2011