



Argyll & Bute Council

2015-16 Annual Review of Risk Management Arrangements

Contents

1	Executive Summary	1
2	Detailed Findings	2
Appendices		
A	Definition of internal audit ratings	4

1 Executive Summary

1.1 Background

Effective risk management is a key element of the Council's overall governance arrangements. The Audit Committee has a role to promote risk management and provide reasonable assurance that arrangements are effective. We therefore agreed that a review of risk management arrangements will be included as part of the annual internal audit programme of work.

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 led by Grant Thornton, the Council's internal audit strategic partners.

1.2 Audit Approach

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.

Our approach included interviews with key officers across the Council, including a sample of Heads of Service, review of risk management policies and guidance documents, minutes of meetings and updates to the Strategic and Operational Risk Registers. We also reviewed the risk monitoring facilities on the Council's performance monitoring system, Pyramid.

1.3 Key findings

Roles and responsibilities

The Risk Management Policy and supporting guidance provides a clear framework for risk across the Council. Responsibility for risk management is delegated to the Strategic Management Team (SMT), with responsibility for risk management led by the Head of Strategic Finance. The SMT receive updates on the Strategic Risk Register on a 6 monthly cycle, and there was evidence of discussion and challenge both on the risks and on scores. A recent proposal to improve risk management arrangements by formally documenting and monitoring risk appetite has recently been submitted to the SMT for approval.

Interviews with officers at service level confirmed a good level of understanding of risk management and their individual responsibilities. Training on risk management is included within the Argyll & Bute Manager Programme, and refresher training has been provided. In addition, support and guidance is available from the Council's Chief Internal Auditor, as the Risk Champion.

As part of our review of internal controls, we reviewed the Terms of Reference of the Council's committees. As Table 1 highlights, three committees currently have a role to play in relation to risk management.

Table 1: Committee responsibilities for Risk Management

Committee	Role
Policy and Resources Committee	"to oversee the arrangements for risk management"
Performance Review and Scrutiny Committee	"...monitoring the delivery of corporate improvement programmes and ensuring they are progressing in line with the corporate aims and objectives"
Audit Committee	"promote good internal control, financial and risk management, governance and performance in order to provide reasonable assurance of effective and efficient operation"

Source: Argyll and Bute Council Constitution

To allow them to discharge their responsibilities, the Policy and Resources Committee and Performance Review and Scrutiny Committee both receive a 6 monthly update on the Strategic Risk Register. The Audit Committee receives an annual assurance report on Risk Management. There is scope to further clarify the respective roles of each committee, particularly in relation to scrutiny of key mitigating actions to address strategic risks.

Refer to Action Plan Point 1

A risk management seminar is planned for all elected members on 7th December 2015, which will include discussion on key strategic risks, but also training on risk appetite and tolerance.

New and Emerging Risks

On a 6 monthly basis, the SMT meet with a specific focus on Strategic Risk. The Head of Governance and Law, and Chief Internal Auditor attend the meeting to formally discuss and challenge the updated Strategic Risk Register and any emerging or topical risks. Interviews with key officers, and review of minutes, provided assurance that this process is robust.

The Council's operational risk registers are updated on on-going basis and are formally reviewed on an annual basis as part of the service planning process. This provides a systematic approach to ensure that risks to key service outcomes will be identified and monitored.

The Operational Risk Register is a standing item on Departmental Management Team (DMT) Meetings. Minutes of team meetings provided evidence of the consideration and updating of emerging risks

at service level. We were also satisfied that arrangements to escalate risks are in place through DMT and SMT reporting.

Managing and Mitigating Risks

The Strategic Risk Register includes designated risk owners and details of current and planned mitigating actions, although actions are not yet framed in SMART terms.

Operational risk registers are reviewed quarterly, although there are inconsistencies in how this operates in practice. Some services maintain a detailed operational risk register on a spreadsheet, which should then be mirrored in Pyramid. Others directly amend the risk register within Pyramid.

During the review, we noted limitations with the functionality of Pyramid, specifically relating to the documentation and reporting of mitigating

actions. In practice, this means that actions may be in progress, but may not be visible to elected members or other users of Pyramid.

Refer to Action Plan Point 2

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.

1.5 Acknowledgement

Our audit involved discussions with a range of individuals across the Council, including the Chief Internal Auditor, Head of Strategic Finance and other 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	Committee Scrutiny
Finding and Implication	Proposed action	Agreed action (Date / Ownership)
<p>Our review of Committee reporting arrangements highlighted strong awareness and engagement relating to risk management across the Council. However, there was limited evidence of detailed scrutiny around the effectiveness of mitigating actions taken to date and planned for the future.</p> <p>The Strategic Risk Register has designated risk owners, but the lack of actions framed in SMART terms means that there is limited accountability for the impact of mitigating actions.</p> <p>Risk Implication: There is a risk that Council resources may not be targeted at the most effective risk mitigation actions, and that the Council's risk profile does not reduce to an acceptable level.</p>	<p>We propose that the Performance Review and Scrutiny Committee should receive an annual report on the management of strategic risks which includes:</p> <ul style="list-style-type: none"> ■ Actions framed in SMART terms (including long and medium term measures). ■ The outcomes of mitigating measures taken on the residual risk. 	<p>As part of the SRR review process consideration will be given proposed actions. An assessment of the impact or outcomes of mitigating measures will inform the review risk appetite and risk tolerance and risk scoring levels.</p> <p>Date Effective: August 2016</p> <p>Owner: Kirsty Flanagan Head of Strategic Finance</p>

2.	Low	Pyramid
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Finding and Implication	Proposed action	Agreed action (<i>Date / Ownership</i>)
<p>There are inconsistencies across services in the approach taken to document operational risks, including mitigating actions. Some services continue to prepare and monitor operational risks using spreadsheets. This means that there is sometimes a delay in updating Pyramid, and that Pyramid does not reflect the wording of risks, or the mitigating actions in place to address risks.</p> <p>There were also inconsistencies in the approach taken to update Pyramid. For example, the Head of Planning ensures that Pyramid is updated on a quarterly basis himself. Others delegate updating to the Performance Team, who do not, therefore, have detailed understanding of the risk or potential consequences.</p> <p>Risk Implication: There is a lack of visibility of operational risks, and the actions being taken to address risks. This may also mean that elected members may not be aware of emerging risks within individual services.</p>	<p>We propose that operational risk registers are updated and attached to Pyramid on a quarterly basis.</p>	<p>Operational Risk Register update process will be reviewed to ensure a consistent and efficient approach is in place.</p> <p>Date Effective: 31 March 2016</p> <p>Owner: Kirsty Flanagan</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.



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