

RISK MANAGEMENT AND AUDIT

1.0 EXECUTIVE SUMMARY

The Audit Committee requested an annual report from the Chief Executive on the overall approach to risk management and an outline of the current position /progress on how strategic risks were being addressed and linkage to internal and external audit.

This is my first report as the Chief Executive which details key issues and developments in relation to risk management and related activities around internal and external audit.

Specific reference is made to the strategic risks relating to population and economic decline and finance expenditure and detail is provided on the mitigations in place to address these.

RISK MANAGEMENT AND AUDIT

2.0 INTRODUCTION

- 2.1 This report sets out a summary of the key issues / developments in relation to risk management and related activities around internal and external audit. The report sets out how as Chief Executive I will have oversight of these areas and also sets down some of the important developments over the last year. The report is intended as a high level overview and further detail on any individual aspect can be provided.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Audit Committee:
- (i) note the terms of this report.

4.0 DETAIL

Strategic Risks & Priorities

- 4.1 The Strategic Risk Register (SRR) is continuously monitored and is subject to a formal bi-annual review, in August and February in line with Service Planning and Budget Setting processes.
- 4.2 Key risks identified in the SRR include population and economic decline and also finance expenditure. These remain priority areas for the Council and a range of mitigations are in place in an attempt to address these risks. A list of examples of mitigations in place can be found in appendix 1 of this report. As requested by the Audit Committee last year, I have provided an update in relation to the challenges, progress and status of these.
- 4.3 The Single Outcome Agreement (now retitled Local Outcome Delivery Plan (LOIP)) sets out an overall objective of economic development and reversing population decline - "Argyll and Bute's economic success is built on a growing population". There are 6 outcomes within the LOIP which address a number of the strategic risks in the SRR.
- 4.4 The delivery plans for the 6 LOIP outcomes are currently under review and will be completed over the summer. These delivery plans identify

both the key partners and the actions necessary to deliver on the LOIP outcomes. They are live documents and as such they will be subject to future review and change in line with Community Planning governance arrangements in order that they continue to represent the actions of partners to meet the outcomes. The success measures in the new delivery plans will relate to our long term objectives.

- 4.5 A key challenge and priority for the Council is improving engagement and work together with our citizens and communities. Part of this will be about cutting red tape and moving the focus from process to outcomes and speeding up the pace of implementation. Focusing on the impact of what we do will also prioritise prevention and early intervention work wherever possible.
- 4.6 It is by working in partnership with others that we will achieve what we need to for Argyll and Bute. Developing new, positive relationships with our communities on an ongoing basis is a top priority for me as the new CEO as well as for the organisation.
- 4.7 Local government funding remains a challenge so supporting the Council to develop a sustainable, long term financial strategy, based on transforming how we work, will continue to be a key part of my work. We have made a lot of progress in transformation in recent years as we respond to change and I look forward to continuing this journey.
- 4.8 Members of the Audit Committee may be aware that the Argyll and Bute Economic Forum launched a report in February 2016 setting out their views to growing our economy. The forum is private sector led and over the last year has looked from a business perspective into the challenges and opportunities to further growing our economy.
- 4.9 Focusing on sectors of competitive advantage, sustainable growth and job creation, the report sets out recommendations on tourism, food and drink with particular emphasis on aquaculture. In addition, the report sets out further recommendations on youth and education, some of our main towns and mitigating barriers to economic growth. This independent report can be considered to be fully aligned with the strategic objectives of the Community Planning Partnership and is being used to inform strategic plans for the Council.
- 4.10 Finance Expenditure and Income continues to be identified as a Strategic risk. The Council faces a challenging financial outlook due to the national /global economic circumstances and more locally population decline. This is also a time when significant investment is required to address the commitments set out in the LOIP and the key risks around economic and population decline etc in the SRR. The Council faces the challenge of a reducing resources base and increasing costs and demands for significant investment. It is essential the Council resources

are allocated to its priorities. As mentioned above the challenge going forward will be to shift focus from process to outcome.

- 4.11 A key risk within Finance Expenditure relates to supporting the Council to develop a sustainable, long term financial strategy based on an effective transformation programme and this will be a top priority for me as the new CEO.
- 4.12 As members may be aware, the Council agreed at its budget several one off ambitious investments to support the Single Outcome Agreement's overarching vision to build the economy through a growing population. These investments include the Inward Investment Fund, the Rural Resettlement Fund, and the Lochgilphead and Tarbert Regeneration Fund.
- 4.13 In addition the Council also agreed at its budget meeting to create the Asset Management and Investment Fund which will generate income for the Council by seeking out investment opportunities that will provide the Council with a commercially advantageous financial return on investment.
- 4.14 Further information on these funds was considered by the Policy and Resources Committee on the 12 May 2016 and the reports can be viewed online at;
<https://www.argyllbute.gov.uk/moderngov/ieListDocuments.aspx?CId=544&MId=7095&Ver=4>
- 4.15 In addition, the Council also agreed at its budget to the creation of the 'Argyll, Lomond and the Islands Rural Regeneration Initiative' as the new flagship regeneration programme for the Council which will be designed to attract more people to live and work here securing employment and prosperity for our region.
- 4.16 This initiative contains a package of measures around use of reserves which will see an investment of £75m in Argyll and Bute. This includes existing allocations for major capital regeneration projects, schools etc.
- 4.17 The initiative will encompass all existing and new strategies, plans and activities relating to population and economic growth into a single and cohesive programme to assist with delivering our overall objective. This coordinated approach will support making improved linkages across projects and initiatives assist with identifying gaps and ensuring new projects are aligned.
- 4.18 The Integration of Health and Social Care is now live. The partnership has developed an initial Risk Management Strategy document which outlines an approach and framework for managing risk. Both Council officers and NHS officers have had input to the process and are satisfied

that the approach adopted, provides a satisfactory foundation which will allow effective management of risk. As Risk Management develops and embeds with the new partnership guidance will be revised accordingly.

- 4.19 In my initial year I will also focus on a revision to the planning and performance management framework to support improved scrutiny, improve the accessibility of the framework and reduce the bureaucracy associated with performance reporting. I will focus on the development and embedding of a customer first culture, staff empowerment and a review of processes to speed up implementation and proportionate governance of change. Prevention and early intervention are made more difficult by the current financial context but require to be central to our improvements and the delivery of a longer term and sustainable financial plan
- 4.20 There is no single approach to addressing the challenge facing Argyll and Bute. The combination of factors /actions set out in this report should move us in the right direction. This progress will be monitored and reported periodically to identify progress and any additional or alternative action required.

Operational Risks

- 4.21 Operational Risk registers are available within each service and our risk management approach allows for clear links to service outcomes. Operational Risks are kept under review on an ongoing basis with risk forming part of regular performance scorecard reporting.
- 4.22 As part of the service planning process the service outcomes are reviewed to ensure the demand risks facing a service are being addressed. The Council has agreed a demand and supply approach to operational risk identification.
- 4.23 Demand risks represent the key challenges facing the Council that are driven /imposed externally through others having demands, expectations or obligations for the Council to meet and are directly linked to service outcomes.
- 4.24 Supply risk are defined as the risks related to how we plan, organise and deliver our services to meet our demand risks. To ensure consistency of approach across services supply risks are categorised into areas such as Human Resources, Finance, Assets, Information etc.

Financial Risks

- 4.25 A process for identifying key financial risks and their potential budgetary impact was established a number of years ago. This was further

developed to ensure that financial risk information was reported in a summary format each quarter as part of the budget monitoring report.

- 4.26 There remains scope to improve the process and approach to monitoring and reporting financial risks and ensuring there is a collective understanding of the information. A separate financial risks report is now be prepared and reported to Policy and Resource Committee every 2 months.

Strategic Risk Group

- 4.27 The work of the Strategic Risk Group (SRG) i.e. Risk Management, Health and Safety, Business Continuity and Civil Contingencies now form part of the SMT business agenda with each area reporting progress on an individual basis. In respect of Risk Management Activity, SMT considered reviews of SRR and ORRs, results of CIPFA benchmarking, updates to risk management policy and guidance together with progress reports on developmental issues.

Risk Management Improvement

- 4.28 The Council continues to be a member of the CIPFA Risk Management Benchmarking Club. The results of the 2015 exercise showed continued improvement with an overall rating of Embedded and Integrated.
- 4.29 The development of an Assurance Map during 2014 was undertaken by Grant Thornton and the internal audit team and was an important step in our risk management activity. Assurance mapping involves mapping coverage against key risks utilising a “three lines of defence model” being;
- Front line /business operations
 - Oversight of management activity
 - Independent assurance providers.
- 4.30 This is now programmed as an annual report and provides management with additional assurance that there were no significant or material gaps in our coverage.

Members Training

- 4.31 At the request of the Policy and Resources committee a training session took place for members which focused on the Strategic Risk Register and Risk Appetite.

Internal Audit

- 4.32 Internal Audit continues to play a key role in Assurance and Risk. The Audit plan provides coverage on some key risk areas and Management continue to place reliance on the good work of the service. During the year the Chief Internal Auditor met with the previous Chief Executive with regular briefings taking place on all audit matters. I have continued this practice this year. These briefings cover progress with the audit plan, considering the key issues arising from audit reports, reviewing internal audit performance and discussing internal audit development issues.
- 4.33 I will continue to receive copies of all internal audit reports and the Chief Internal Auditor has direct access to me (and vice versa) should this be required. I receive a briefing on the Audit Committee papers. It is important that management address action agreed as part of an audit and each month at SMT we review progress on all outstanding audit recommendations. We need to ensure that our Services engage with Internal Audit on a timely basis.

External Audit

- 4.34 I will continue the trend of my predecessor to meet the Council's external auditors on several occasions during the year. A meeting is always held to discuss the Assessment and Improvement Plan prepared jointly by all audit and inspection agents. With the Head of Strategic Finance I have the opportunity to comment on the proposed external audit plan and fee level. During the year I will be able to comment on all external audit reports at the draft stage.
- 4.35 In December 2015, the Accounts Commission published their findings on the Controller of Audit's Statutory Report on the Council with regards to Best Value and focused on the Council's;
- Political management arrangements.
 - Scrutiny
 - Roles and relationships, including between members and officers.
- 4.36 The Commission findings are as follows;
- a) Acknowledges and welcomes the progress by the council since 2013 in relation to improved governance, decision-making and scrutiny

arrangements and the improving relationships between political groups and between members and officers.

- b) The Commission also considers that members and senior officers need to consolidate this progress by continuing to improve the council's openness, transparency and how it involves its communities in decision-making and scrutiny, in order to build the trust and confidence of service users and the public. More can be done to ensure a more effective contribution from area committees.
- c) The Council's current approach to the scale of the financial challenge it faces is not sustainable. This approach urgently needs to be more clearly linked to the council's priorities and based on rigorous appraisal of options for service redesign.
- d) The Commission notes with disquiet the dysfunctional relationships which persist between a number of individuals. The Commission is firmly of the view that the interests of the public are best served by a shared commitment by all parties to maintaining constructive relationships and a high standard of conduct.

4.37 In January 2016, the Council considered these findings and responded as follows;

- a) The Council welcomes the findings, particularly in relation to the progress that the Council has made; the improvements in political and managerial leadership, decision making and scrutiny with a consequent reduction in risk.
- b) Welcomed the recommendations to consolidate progress and build on this to ensure a sustainable future particularly at a time of significant financial challenge.
- c) Agreed to accept the recommendations and the development of an improvement plan to take forward the Statutory Report and Accounts Commission findings.

4.38 As the new Chief Executive, it is my intention to develop the Improvement Plan for the consideration of the Council and will submit to the Audit Committee upon its approval by the Council.

5.0 CONCLUSION

5.1 This is my first report as Chief Executive to the Audit Committee and I recognise that the Council exists in a complex and challenging environment. The Strategic Risk Register continues to be the primary document that identifies the key challenges and risks facing the Council. There are a range of organisational procedures in place to address this including operational risk registers and service plans etc. I can confirm that Internal Audit is free to act independently and objectively and remains free from interference by any element in the Council.

6.0 IMPLICATIONS

6.1 Policy – None.

6.2 Financial – None.

6.3 Legal – None.

6.4 HR – None.

6.5 Equalities– None.

6.6 Risk– None.

6.7 Customer Service– None.

Cleland Sneddon, Chief Executive
17 June 2016

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APPENDICES

1. Risk Mitigations

Appendix 1 Risk Mitigations

No	Activity	Update / Challenge / Progress
1	<p>Argyll Lomond and the Islands Rural Regeneration Initiative.</p> <ul style="list-style-type: none"> • Asset Management Fund £2m • Inward Investment Fund £1m • Rural Resettlement Initiative £0.5m • Lochgilphead and Tarbert Regeneration Fund £3m 	<p>New all-encompassing flagship regeneration programme.</p> <ul style="list-style-type: none"> • A new initiative to generate income for the new council. • A new initiative to attract inward investment • A new incentive scheme to encourage people to settle in Argyll and Bute. • A new initiative to promote regeneration and economic development in the area.
2	Argyll and Bute Economic Forum	The report issued by the private sector led forum in February 2016 informs strategic plans of the Council towards achieving our overall objectives.
3	CHORD Regeneration Programme	<p>The programme is significantly advanced with many of the projects now complete including Campbeltown and Helensburgh.</p> <p>In Rothesay the Townscape Heritage (TH) Project was completed and the Council is currently bidding for a second TH for the town after an initial stage 1 approval.</p> <p>The Council continues to take forward a number of key strategic developments at various stages as follows;</p> <ul style="list-style-type: none"> • Rothesay Pavilion • Queens Hall, Dunoon • Public realm and maritime visitor infrastructure, Oban.
4	Lorn Arc TIF	Council is recruiting new project managers to progress this initiative.
5	Longer term financial strategy based on an effective transformation programme.	A priority as new CEO, in conjunction with the budget process for 17/18, work will be initiated to develop a longer term financial plan.
6	Restructuring Economic Development and Strategic Transportation	Restructure approved by Council and almost complete with a number of new posts now filled and recruitment at an advanced stage for final posts.
7	Partnership Engagement	As new CEO, will seek to enhance existing partnership working significantly developed by my predecessor and develop new ones where appropriate.