

## **1. BACKGROUND**

- 1.1 This report has been prepared as a result of the Internal Audit review of Risk Management as part of the 2006/2007 Internal Audit programme.
- 1.2 Risk Management is a relatively new requirement for Local Authorities to develop and implement. However, there is specific reference to risk management and responsibilities within the Council Constitution:
- The full Council is responsible for approving the Council's risk management policy and strategy ,and for reviewing the effectiveness of risk management;
  - The Director of Corporate Services is responsible for preparing and promoting the Council's risk management policy throughout the Council;
  - The Audit Committee is responsible for scrutinising risk management aspects of the Council's business.
- 1.3 Risk Management is more than Health & Safety and insurance issues. It encompasses a whole range of activities of the Council in achieving its operational and strategic objectives - this is why it is a core part of Best Value and why external audit will increasingly focus on it. External audit has expressed the following views regarding risk in its Annual Accounts - Report to Members 2005/06, "the council needs to further embed its risk management approach" and "there has been little progress in undertaking a review of the strategic risk management register". The latter comment is based on an external audit review that took place at the end of March 2006.
- 1.4 As a result of our audit work, some findings were generated. These findings were subsequently discussed with management and where appropriate included in the action plan for future implementation.

## **2 AUDIT SCOPE AND OBJECTIVES**

- 2.1 The broad objective of the audit is to evaluate whether there is a Risk Management Framework (RMF) in place which can enable the risk management process to be carried out and developed in a comprehensive manner, whereby all significant risks are identified, evaluated, controlled, monitored and reported in accordance with best practice.
- 2.2 The adequacy of the arrangements to meet the objective has been assessed using a grading of one to five ticks (✓ 's). Five ticks indicate good arrangements and one tick inadequate arrangements are in place. The assessment is set out in section 6 (figure 1). The assessment has been made by considering the value and significance of the findings and recommendations.

### **3 AUDIT APPROACH**

3.1 The following approach was used to satisfy the objectives of the audit:-

- Discussions were held initially with the Head of Democratic Services and Governance and the Governance and Risk Manager for background to risk management procedures and development in the Council and its relationship with promoting the principles of Best Value within the Council;
- Audit prepared and requested the completion of a questionnaire by management to assist in addressing the above objective;
- Tests were devised and carried out as part of the exercise, and relevant evidence was requested and reviewed of progress made;
- Other councils were contacted to establish what developments they are making and to provide contact points for future development;
- Any problem areas were highlighted, and brought to the attention of management via a draft report and their comments were incorporated into the report where appropriate;
- A final report was prepared for the attention of the Director of Corporate Services.

### **4 SUMMARY OF MAIN FINDINGS**

4.1 Internal Audit in the course of the audit found through testing that a number of key steps have been achieved in establishing Risk Management within the Council.

4.2 Risk management procedures are currently being developed by the Council in accordance with "A Risk Management Standard" produced in 2002 by The Institute of Risk Management (IRM), The Association of Insurance and Risk Managers (AIRMIC) and The National Forum for Risk Management in the Public Sector (ALARM).

4.3 The RMG has organised training for service managers and members regarding the management of risk. A draft strategic risk management register has been produced for all services. This follows on from two previous registers commenced in 2003. The latest draft is expected to be agreed by the RMG on behalf of the SMT by December 2006.

4.4 There is a requirement for an overall understanding of how risk management should be promoted within the Council. It appears to Internal Audit that at the strategic level some Heads of Service require to have more involvement than presently with progressing risk management procedures.

4.5 There is a requirement for a framework by which everyone in the council has a view as to how the risk management process is supposed to work. Internal Audit has taken the key elements of the

Risk Management Strategy and produced a model which will be adopted by the SMT. (See Below).

**RISK MANAGEMENT FRAMEWORK MODEL**

<b>AUDIT COMMITTEE GOVERNANCE AND REVIEW</b>	
<b>EXTERNAL AUDIT REVIEW</b>	<p style="text-align: center;"><b>RMG</b></p> <ul style="list-style-type: none"> <li>• Establish Higher Level Corporate Risks</li> <li>• Review Departmental Strategic risks</li> <li>• Meet with chair of LCGs</li> <li>• Agree and Monitor Department Risks / Evidence</li> <li>• Report Strategic Risks to SMT</li> </ul>
	<p style="text-align: center;"><b>SMT</b></p> <ul style="list-style-type: none"> <li>• Review all Referred Risks from the RMG</li> <li>• Obtain Input from Department Directors</li> <li>• Quarterly Updates from RMG</li> <li>• SMT Address High Level Risks</li> </ul>
	<p style="text-align: center;"><b>DMT's</b></p> <ul style="list-style-type: none"> <li>• Agree their Department Risks</li> <li>• Work with LCGs</li> <li>• Agree Department Operational/Strategic Risks</li> <li>• Agree Strategic risks to RMG</li> <li>• Ensure that LCGs keep evidence of risks resolved</li> </ul>
	<p style="text-align: center;"><b>LCGs &lt;- Services</b></p> <ul style="list-style-type: none"> <li>• <b>Establish Registers for</b> Operational /Strategic Risks</li> <li>• <b>Initially set up Quarterly Meetings between:</b> LCGs &amp; RMG</li> <li>• Gather Evidence of Risk Resolved.</li> <li>• Section Registers if required</li> </ul>

- 4.6 It is recognised that Loss Control Groups (LCGs) have been set up in some departments. However, LCGs need to be set up as soon as possible in all departments and a framework set out for their operation. Some departments need to consider whether they need to set up service registers below their LCG to cover the variety of services they deliver. This requires agreement by their Departmental Management Team (DMT).
- 4.7 The DMT will initially request quarterly updates from the LCG representative so that they are fully aware of both the corporate and departmental risks that need to be addressed. They will expect the LCG to keep evidence of those risks addressed.
- 4.8 The RMG will provide the link between the departments and the SMT. It will liaise with the LCGs initially on a quarterly basis through the RMG meetings. At these meetings the LCGs will bring their departmental assessments of the risks for discussion and review by the RMG. The outcome will be a report to the SMT listing the top risks to the council.
- 4.9 The SMT should only receive through exception reporting by the RMG, the high level strategic and operational risks that the Council needs to address. It is suggested that the limit should be set at the top 10 risks.
- 4.10 The Chairman of the Audit Committee has indicated that risk management should be included as a standing item on the Committee's agenda. Thereby ensuring both regular updates on progress from officers and scrutiny by the committee. It will enhance the Council development of Best Value.

- 4.11 It is recommended that Internal Audit include an assurance statement regarding risk management in the Annual Internal Control Statement commencing March 2007. This statement currently addresses internal control and governance issues.
- 4.12 It is recommended that ways of measuring benefits are considered by the RMG as soon as possible. Simple measurements should be devised in the short term and developed as resources permit with a report going to the SMT on a quarterly basis.

## **5 ACTION PLAN**

- 5.1 The action plan attached at Appendix 2 has been compiled with the co-operation and agreement of the Head of Democratic Services and Governance.
- 5.2 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.
- 5.3 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 fundamental, material or minor. The definitions of each classification is set out below:-

**Fundamental** - 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;

**Material** - 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;

**Minor** - 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.

## **6 CONCLUSION**

- 6.1 Risk Management is a relatively recent governance control and local government has been expected to embrace it at the same time as dealing with many other demands on services. Considering the general lack of adequate resources to cope with all the demands it is Internal Audit's opinion that reasonable progress has been made by the Council

to address the requirements of introducing a Risk Management framework.

- 6.2 However, during the course of the audit, some areas were identified as requiring further development and therefore some recommendations have been made. These have been discussed with management and an action plan agreed. (Any issues not accepted by management are done so with their knowledge and acceptance of risk and control weakness.)
- 6.3 Figure one below sets out a summary of the overall conclusions arising from the audit in terms of the specific objective detailed at section 2.1

**Figure 1: Summary of overall conclusions**

Specific objectives	Assessment
To ensure that a Risk Management framework is in place which can enable the risk management process to be carried out in a comprehensive manner, whereby all significant risks will be identified, evaluated, controlled, monitored and reported in accordance with best practice.	✓✓✓
<p><b>Key:</b></p> <ul style="list-style-type: none"> <li>✓✓✓✓✓ - Arrangements accord with good practice and are operating satisfactorily.</li> <li>✓✓✓✓ - Arrangements accord with good practice, but certain minor matters noted as requiring improvement.</li> <li>✓✓✓ - Adequate arrangements in place, but certain matters noted as requiring improvement.</li> <li>✓✓ - Arrangements in place offer scope for substantial improvement.</li> <li>✓ - Concern is expressed about the adequacy of the scope of these arrangements.</li> </ul>	

## **7 ACKNOWLEDGEMENTS**

- 7.1 Thanks are due to Head of Democratic Services and Governance and his staff for their co-operation and assistance during the audit and the preparation of the report and action plan. Thanks are also due to Council departmental management and staff along with Audit Scotland who provided comment on the relevance of the proposed model.
- 7.2 Argyll & Bute Council's internal audit department has prepared this report. Its work was limited to the scope in paragraph 3.1 of this report. It cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to it.
- 7.3 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.