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.

The report details key issues/developments in relation to risk management and related activities around internal and external audit. Including items relating to Strategic Risks and Priorities, Operational Risks, Financial Risks, Strategic Risk Group, risk Management Improvement, members training, 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 mitigating actions /plans in place to address these.

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 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 The Audit Committee note the terms of this report.

4.0 DETAIL

Strategic Risks & Priorities

4.1 The Strategic Risk Register (SRR) is continuously monitored, however is subject to a formal bi-annual review, in August and February in line with Service Planning and Budget Setting processes.

The process for reviewing the strategic risk register is outlined below:

- Designated risk owner to update on an ongoing basis in consultation with appropriate chief officers /service managers and spokespersons.
- SMT to review progress /update report.
- Performance Review and Scrutiny Committee to consider progress/ update reports.
- Policy and Resources Committee to consider progress update reports

4.2 Key risks identified in the SRR include Population and Economic Decline and also Finance expenditure. These are priority areas for the Council and a range of mitigations are in place in an attempt to address these risks. Although not an exhaustive list examples of mitigations in place are detailed in Appendix 1.

4.3 The Single Outcome Agreement sets out an overall objective of economic development and reversing population decline - "Argyll and Bute's economic success is built on a growing population". This is backed up by 6 outcomes. The SOA is designed to address a number of the strategic risks in the SRR.

4.4 Delivery plans for each of the 6 SOA outcomes were agreed by Council 26 June 2014. These delivery plans identify both the key partners and the actions necessary to deliver on the SOA outcomes. They are live documents and as such they will be subject to 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 plans have been developed to a robust standard that will allow good progress

4.5 To secure all sector support in partnership working to deliver our overall objective, Argyll and Bute Community Planning Partnership hosted an Economic Summit on the 29th October 2014. A number of key messages were heard on the day with main announcement being the establishment of the Argyll and Bute Economic Forum

4.6 Nicholas Ferguson, Chairman of SKY plc, agreed to chair the economic forum with the inaugural meeting held 17 March 2015 where it was agreed to focus initially on two areas where Argyll and Bute have a competitive advantage and there is scope for sustainable growth and creation of high value employment. The sectors are tourism and food and drink production and it was agreed to also focus on ensuring a collaborative approach to youth and education. Sub groups were formed for each of the three areas which report to the economic forum which will meet quarterly with the second meeting at the end of May 2015.

4.7 Finance Expenditure and Income has been 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 SOA and the key risks around economic and population decline etc in the SRR. The Council faces the challenge of a reducing resources base but increasing costs and demands for significant investment. It is essential the Council resources are allocated to its priorities.

4.8 The Services choices programme has been set up to address these issues and identify options and proposals going forward. The Policy and Resources committee at its meeting of 2nd April agreed to establish a project board comprising of 12 members, 8 administration and 4 opposition with trade unions invited to nominate 2 representatives. The project board is tasked with producing options to be presented to a workshop for all elected members on 5 June. The outcome of the workshop will then be reported to a special meeting of the Policy and Resources Committee late in June 2015 which will in turn make recommendations to a special meeting of the Council.

4.9 Related to the above, across the CPP, similar consideration is being given to the contributions being made to SOA outcomes. The CPP is beginning to take a wider look at activities, resources and expenditure. The potential for reallocating expenditure and budget will be a key test of the partnership.

4.10 The Integration of Health and Social Care is a substantial programme of reform led by the Scottish Government with the aim of improving the support given to people who need access to health and social care services in Scotland. Argyll & Bute Council and NHS Highland have agreed on a body corporate model, an Integrated Joint Board (IJB). The Integrated Joint Board is responsible for planning health and social care services for the local population, through a Strategic Plan which will include specific arrangements for risk management and audit. A small working group has been set up and is in the initial stages of developing shared risk registers.

4.11 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

4.12   The ORRs were subject to a major review during 2013-14. They are kept under review on an ongoing basis. Each quarter a report on the ORRs and changes to them is submitted to SMT and the SRG.

4.13   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.

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.

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

4.14   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.

4.15   There was scope to improve the process and approach to monitoring and reporting financial risks. Officers in Strategic Finance have been asked to review this process and are developing a revised approach that will simplify the identification and assessment of financial risks and streamline the reporting. A separate financial risks report will now be prepared and reported to Policy and Resource Committee every 2 months.

Strategic Risk Group

4.16   The work of the SRG, i.e. Risk Management, Health and Safety, Business Continuity and Civil Contingencies are now standing items on SMT business agenda with each reporting progress on a minimal 6 monthly basis.

In respect of Risk Management Activity, SMT consider 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

4.17   The Council continues to be a member of the CIPFA Risk Management Benchmarking Club. The results of the 2014 exercise showed continued improvement with an overall rating of Embedded and Integrated. Two themes have been identified for improvement, i.e. Outcomes & Delivery and Partnership and Shared Resources. The 2015 exercise will commence shortly and results will be reported to the Audit Committee when these become available.

4.18   The development of an Assurance Map undertaken by Grant Thornton and the internal audit team 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.

This was a good piece of work and provided management with additional assurance that there were no significant or material gaps in our coverage.

4.19   An improvement plan (Risk Management Action Plan) for risk management is maintained. This will be updated to reflect the key issues coming from the risk CIPFA benchmarking report and any areas targeted for improvement.

Members Training

4.20   During 14/15 members were offered an opportunity to participate in risk management and develop their knowledge. Attendance at the seminars was good with 22 and 23 members in attendance. On 7 April 2014 a seminar was held to consider the draft SRR. Members reviewed each of the risks and contributed useful feedback on a number of aspects of the SRR which have been considered in preparing the latest update to the SRR. On 2 June 2014 members received 2 presentations from Zurich Risk Engineering on key issues / principles around risk management and from the Head of Strategic Finance on Argyll and Bute Council's approach to risk management.

At the request of the Policy and Resources committee arrangements are being put in place for a further training session focused on the Strategic Risk Register and Risk Appetite.

Internal Audit

4.20   The Council successfully recruited a permanent Chief Internal Auditor during 14/15 and regular briefings take place with me on all audit matters. 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.

4.21   I 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.

4.22   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.

External Audit

4.23   I 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 am able to comment on all external audit reports at the draft stage. Follow up of external audit activity is reviewed on a monthly basis by SMT.

5.0   CONCLUSION

5.1   The Council exists in a complex and challenging environment. The SRR comprises the key challenges / risks facing the Council. There are a range of organisational procedures in place to address this with operational risk register and service plans etc. to support the process. 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. Report is for noting

6.2   Financial – None. Report is for noting

6.3   Legal – None. Report is for noting

6.4   HR – None. Report is for noting

6.5   Equalities– None. Report is for noting

6.6   Risk– None. Report is for noting

6.7   Customer Service– None. Report is for noting

Sally Loudon Chief Executive
19 June 2015

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APPENDICES
1. Risk Mitigations