CHELTENHAM
BOROUGH COUNCIL

Notice of a meeting of Audit Committee

Wednesday, 23 March 2011
6.00 pm
Pittville Room, Municipal Offices, The Promenade

Membership	
Councillors:	Bernard Fisher, Rowena Hay, Robin MacDonald, Paul Massey (Vice-Chair), Andrew Wall (Chairman) and Paul Wheeldon

The Council has a substitution process and any substitutions will be announced at the meeting

Agenda

1.	**APOLOGIES**	
2.	**DECLARATIONS OF INTEREST**	
3.	**MINUTES** Agreement of minutes of the meeting held on 12 January 2011	(Pages 1 - 8)
4.	**PUBLIC QUESTIONS**	
5.	**PUBLIC INTEREST REPORT ACTION PLAN** Report of the Borough Solicitor and Monitoring Officer	(Pages 9 - 22)
6.	**REVISED RISK MANAGEMENT PROCESS AND POLICY** Report of the Assistant Chief Executive	(Pages 23 - 48)
7.	**COMMISSIONING AND GOVERNANCE ISSUES** Discussion paper of the Assistant Chief Executive	(Pages 49 - 50)
8.	**VALUE FOR MONEY AUDIT PLAN** Report of KPMG	(Pages 51 - 60)
9.	**INTERNAL AUDIT PLAN** Report of the Audit Partnership Manager	(Pages 61 - 66)
10.	**WORK PROGRAMME**	(Pages 67 - 68)

11.	**ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION**	
12.	**DATE OF NEXT MEETING** 22 June 2011	
	Briefing Notes (for information only) Corporate Governance Group	

Contact Officer: Saira Malin, Democracy Officer, 01242 775153
Email: democratic.services@cheltenham.gov.uk

Audit Committee

Wednesday, 12th January, 2011
6.00 - 7.25 pm

Attendees	
Councillors:	Andrew Wall (Chairman), Bernard Fisher, Rowena Hay, Robin MacDonald, Paul Massey (Vice-Chair) and Paul Wheeldon
Also in attendance:	Cabinet Member Finance & Community Development, Rob Bell (Assistant Director – Operations), Sara Freckleton (Borough Solicitor & Monitoring Officer), Jane Griffiths (Assistant Chief Executive), Rob Milford (Audit Partnership Manager), Ian Pennington (KPMG), Mark Sheldon (Chief Finance Officer) and Rachael Tonkin (KPMG)

Minutes

1. DECLARATIONS OF INTEREST

None declared.

2. APOLOGIES

None received.

3. MINUTES

The minutes of the last meeting, along with the exempt extract had been circulated with the agenda.

Councillor Massey referred members of the committee to page 3 of the minutes and the bullet point that referred to recycling. He suggested that it should be made clear that this was in relation to the internal recycling rather than the service provided to the public.

Upon a vote it was unanimously

RESOLVED that the minutes (once amended according to the comment received) and the exempt extract of the meeting held on the 29 September 2010 be accepted and signed as an accurate record.

4. PUBLIC QUESTIONS

None received.

5. PROJECT AND PROGRAMME MANAGEMENT GUIDANCE NOTE

The Assistant Chief Executive introduced the discussion paper as circulated with the agenda and apologised that the relevant Officer was inexplicably not in attendance.

Whilst this item would not ordinarily be considered by the Audit Committee, members had indicated, at an earlier meeting, that they wished to review the council's response to the project and programme management recommendations within the KPMG public interest report.

Members were referred to the guidance notes that had been developed in response to the recommendations, as well as a useful reminder of the risks.

The following responses were given by the Assistant Chief Executive(with input from the Audit Partnership Manager and Chief Finance Officer where required) to questions from members of the committee;

- The KPMG report identified that the decision to take high court action had been taken as a legal case rather than a project. The document defined what activity constituted a project and presented a formula for determining whether it was a large or complex project and recommended project management approaches. SLT had endorsed the document in an attempt to instil in Officers, what constituted a project.
- SLT and Service Managers would refer to the document prior to undertaking an activity to establish whether it was in fact a project. Operational Programme Board monitored projects across the Council in order to properly manage resources.
- From an Audit perspective, projects were assessed to see whether or not benefits had been realised and performance monitored.
- The threshold figures were quite high and should be reviewed at some point in the future. This would be raised with SLT when they met to consider, if the guidance note was being used and if not, why not.

The discussion paper did not require a decision by Members, however, it was unanimously

RESOLVED that the Senior Leadership Team revisit the thresholds and provide a definition of the criteria.

6. ANNUAL AUDIT LETTER 2009/10

Ian Pennington from KPMG introduced the Annual Audit Letter 2009/10 as circulated with the agenda.

The good news was that most items had been dealt with in the September 2010 meeting and there was very little else for the Audit Committee to discuss.

The aim of the document was that it summarised Audit activity and was more accessible to the public.

In response to a question from a member of the committee the Assistant Chief Executive explained that the data backup was based at the Depot and that formal testing would require a full shut down of the system, which would be very disruptive. Desktop testing was being undertaken and a formal test was in the planning.

The Cabinet Member Finance and Community Development observed that the level of cuts had been higher than those referenced in the document.

7. GRANTS CERTIFICATION SUMMARY REPORT 2009/10

Rachael Tonkin from KPMG introduced the grants certification summary 2009-10 as circulated with the agenda.

In total, KPMG had certified six grants and returns, four of which were unqualified with no amendment.

Two were unqualified but required minor adjustments to the final figure, details of which were summarised on page 4.

The final page of the document gave details of the fees for each grant certification, which were contained within the original estimate overall. This was attributed to good grants co-ordination and accurate grants preparation by Officers of the Council.

In response to a question from a member of the committee, Ian Pennington confirmed that CBC consistently compiled very good quality returns.

The Assistant Chief Executive would pass on this message to the relevant Officers.

8. FINANCIAL STATEMENTS AUDIT PLAN 2010/11

Rachael Tonkin from KPMG introduced the Financial Statements Audit Plan 2010/11 as circulated with the agenda.

The document described KPMG's approach to audit work for CBC in the coming year (2011/12). The work was divided into two streams, value for money (VFM) and financial statements.

VFM (formerly Use of Resources) work would change following new guidance from the Audit Commission and focus on financial stability.

Page 3 detailed the schedule of work, which was currently in the planning stage.

CBC like all local authorities, was required to implement IFRS for the 2010/11 financial statements. The year end work would be bought forward by a month, to July, to alleviate the busy closedown and final accounts audit season, prior to consideration by the Audit Committee in September.

The diagram on page 5 showed the key financial statement risks identified by KPMG for 2011/12. Two areas of increased risk assessment would be;

- Implementation of IFRS
- 'GO' project

The 'GO' project raised issues about resources and the control environment.

The document then detailed the key audit risks and outlined the impact on the KPMG audit plan. The transition to IFRS impacted all areas.

Materiality items below £20k and considered trivial, would not be reported to the Audit Commission.

Ian Pennington queried the layout of page 9 of the document which he felt could have been clearer.

CBC had a good track record in preparing accounts of a high standard and as such KPMG would focus their testing on a sample of transactions that were more likely to be prone to significant fraud or error, rather than everything. This would reduce the level of work required by KPMG and as such, their fee.

The independence confirmation was set out on page 10 of the document and confirmed that KPMG were independent of CBC.

Pages 11 and 12 detailed the Audit fees for 2011/12, though the fee for the follow up work to the public interest report could be reduced based on the level of work required. CBC would be reimbursed directly by the Audit Commission for IFRS.

The audit timeline and deliverables, on pages 13 and 14, also highlighted the Audit Committee involvement. The suggestion from KPMG was that the September meeting of the Audit Committee for year end conclusions, be scheduled for earlier in the month than in previous years.

The following responses were given to questions from members of the committee;

- The £119m referred to in the document included housing benefits and CBC turnover.
- A lot of work was being done by Officers now in order that it was possible for KPMG to bring forward their audit of the accounts and the sign off of the financial statements.
- IFRS did apply across Europe but only to larger plcs rather than smaller ones, though over time, it would apply to all.
- The Elector Challenge had the potential to create more work and result in additional costs, but unfortunately this was the right of electors. However, challenges were often dealt with immediately or passed to Officers and members were reminded that the accounts had been challenged for the past 3 years.

9. PUBLIC INTEREST REPORT ACTION PLAN MONITORING REPORT

This item was taken after the standing agenda items and before any other.

The Borough Solicitor and Monitoring Officer introduced the report as circulated with the agenda.

She explained that this was the third report to have come before the committee. A vast majority of the actions had now been completed, the most recent of which was the constitution review which was agreed at the last meeting of Council.

There were some minor residual actions which had been highlighted in bold.

One related to the tracking of decisions, which would be possible once the new committee management system had been fully implemented.

There were some issues relating to risk and project management training and one outstanding matter from the working group report was the Employee Code of Conduct. Members had requested that this be updated to resemble the Members Code of Conduct, but some consultation was required before this could go to the Standards Committee for approval.

The full review of the constitution had been deferred with the agreement of Council, though this would start this year, ready for the new municipal year.

The Borough Solicitor and Monitoring Officer was pleased that the majority of actions had been delivered on time and hoped members shared these sentiments.

The following responses were given to questions from members of the committee;

- Overview and Scrutiny Committees currently had the right to scrutinise decisions made by the Staff and Support Services Committee and the same would be true of the Appointments Committee. This would be made clear in the constitution as part of the comprehensive review.
- A number of actions were addressed by the guidance note that was produced, which had resulted in clearer recommendations. If members felt that recommendations were not clear or had general concerns these would be investigated.
- There was a commitment to complete risk and project management training but this would not be possible within the original timeframe. This was due to capacity issues within the Learning and Development Team and explained the two seemingly, conflicting statements in R16 and R20. The module for risk management had been written and was currently being tested by Officers before it was rolled out across the council.
- Internal audit had done a large amount of work on this matter and as such, KPMG would need to do less, which would reduce the associated costs. KPMG would start testing soon, with a view to being able to report back to the committee in June 2011.
- SLT had discussed closing the risk relating to the council's ability to respond to the public interest report but had agreed that it should remain open until KPMG had completed their review. KPMG confirmed that the signs were good.

Upon a vote it was unanimously

RESOLVED that the committee considered the information set out in Appendix 1 and reviewed progress against actions.

10. INTERNAL AUDIT PARTNERSHIP QUARTERLY PERFORMANCE

The Audit Partnership Manager introduced the report as circulated with the agenda.

The report formed part of changes being introduced in order that the Audit Committee could monitor performance over the year, so that there would be no surprises at the time of the Annual Internal Audit Report.

He confirmed that the partnership had expanded to include West Oxfordshire with effect from the 1 November 2010 and was now called Audit Cotswolds.

Members were referred to item 3.2 of the covering report, a summary of the audit reviews concluded in the last quarter, from which there were no limited or low assurances.

He highlighted the audit of 'Environment and Sustainability Management', for which he had invited the Assistant Director Operations to provide more detail later in the meeting.

Item 3.4 detailed some of the other work Audit Cotswolds had undertaken in that time.

Appendix 1 (page 97 onwards), the Internal Audit Monitoring Report itself, contained a lot of detail, which he was hoping to reduce over time.

In relation to Performance Management (pages 98 and 99), he advised that this would ordinarily be measured against the national indicators, but these had been abandoned by the coalition government.

The KPMG Public Interest Report follow-up had been subject to substantial internal audit and there were no areas of concern with the exception of 'risk management and related training', given that very little had been achieved. It was established that risk management at CBC was undergoing some necessary changes, which had been compounded by budget restraints and staffing shortages.

Councillor Massey commented that he felt the monitoring report contained the right amount of detail and would disagree that this needed to be scaled down.

The following responses were given to questions from members of the committee;

- The last paragraph of item 4.2 on page 95 did end abruptly, this was a mistake that had been rectified on the website and should have concluded…manage maternity absence.
- There was no assurance for the Depot Rationalization audit as this had been a mid point health check with no issues arising.
- The comments by Audit to SLT in response to the management response to the result of the Performance Management audit had been agreed. SLT accepted that they had been fair comments and that performance data would need to be robust.

The Assistant Director Operations was not sure of the reasons behind the Audit Committee requesting the audit of 'Environmental and Sustainability Management' but was glad that they had. He had found the process challenging but at the same time invigorating, it was approached in a constructive way and had involved a range of Officers and Members.

It had highlighted the authorities progress in carbon reduction and Member engagement and involvement with the Internal Carbon Reduction Group and an Overview and Scrutiny Working Group having been established.

Some areas requiring more work, were, the various strategies which referred to sustainability and needed to be reviewed and joined up.

Longer term sustainable measures were another issue. In recent years the focus had been on short term gains, for which he felt he couldn't apologise but accepted that there was a need to consider long term measures too.

Also raised, were questions about how sustainability linked with commissioning. The Climate Change and Sustainability Officer, had done some really good work in creating the 'Commissioning for the Council's Community Objectives and Equalities assessment tool'. The purpose of the assessment tool was to ensure that services were delivered in a way in which maximised the positive contribution and didn't have a detrimental effect on the community objectives and outcomes, of which, enhancing and protecting the environment was one.

Moving forward, he accepted that consideration needed to be given to the membership of the Internal Carbon Reduction Group, which currently included CBH, but would need to be widened.

The following responses were given to questions from members of the committee;

- The budget would take account of projects with a longer term payback, the period had not been redefined, though, Officers were yet to resolve the issue of projects with a payback period longer than 10 years.
- The Climate Change and Green Space Strategies remained relevant documents, the issues were the action plans associated with those documents. These needed to more realistic, with reduced numbers of actions, rather than discounting the strategies.

11. DRAFT BUDGET 2011/12 - GOVERNANCE ISSUES

The Chief Finance Officer introduced the report as circulated with the agenda.

Members were referred to the draft budget which was agreed for consultation by Cabinet on the 21 December 2010. The budget contained a significant number of proposals to either reduce services or cut expenditure, to address the funding gap of £2.9m.

The committee were asked to consider the budget proposals and whether there were any areas of concern in respect of governance arrangements for the council. These would be bought to the attention of Cabinet as part of the consultation process.

The following responses were given to questions from members of the committee;

- KPMG's recommendation16 did involve risk management and related training. Admittedly there were cuts to the corporate training and the professional training budgets totalling almost £75k, but project and risk management training would remain a priority for the authority. Training across the board would be approached differently.

- Changed or shared services were automatically flagged with Audit. One Legal was currently being reviewed to establish whether the proposed benefits were being realised and to monitor performance. In relation to the 'GO' Programme the Audit Partnership Manager would look for one audit to be undertaken rather than four separate audit processes, which would also generate efficiency savings.
- The Audit workload did increase as more services were shared, but equally the workload was then shared between the authorities to avoid duplication.
- Shared Services was a growing trend at local authorities, given the flexibilities it offered. It allowed for resources to be moved where and when needed and scope for specialisation, which would reduce the demand for external advice. Auditing a shared service offered access to call upon the Internal Audit of the other authority.

Upon a vote it was unanimously

RESOLVED that having considered the draft budget 2011/12, the Audit Committee response to Cabinet be, that Project and Risk Management be treated as priorities in relation to training.

12. WORK PROGRAMME

The Chairman referred members to the work programme as circulated with the agenda.

As agreed earlier in the meeting, the KPMG feedback on the Public Interest Report – follow up would be scheduled for June 2011.

Consideration of the governance issues arising from commissioning would be scheduled for March 2011.

Cabinet Member Corporate Services suggested that the committee may want to consider the Corporate Strategy at some stage. Members of the committee stressed that this would need to be in respect of governance and not a scrutiny role. Officers would consider how this would be presented and when.

Discussions were still ongoing at a national level about the appointment of external auditors and the process for doing so, when the Audit Commission was dissolved.

The date of the September meeting would be scheduled for earlier in the month. Alternative dates would be sent to KPMG for agreement.

13. ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION

There were no urgent items for discussion.

14. DATE OF NEXT MEETING

The next meeting of the committee was scheduled for the 23 March 2011.

Andrew Wall
Chairman

Cheltenham Borough Council
Audit Committee – 23rd March 2011
Monitoring of Action Plans approved by the Council

Accountable officer	**Andrew North, Chief Executive**
Accountable scrutiny committee	**Economy and business improvement**
Ward(s) affected	**None directly**
Executive summary	On 22nd March 2010, the Council approved Action Plans in response to recommendations made by the Council's Auditors, KPMG in a report in the Public Interest relating to the Council's decision making processes and to recommendations made by a Member Working Group set up to review employment and dispute resolution processes. The Council delegated responsibility to the Audit Committee to monitor implementation of the Action Plans. Monitoring reports have been considered by the Committee in June and September 2010 and in January 2011. At its last meeting, the Committee noted that the majority of the actions approved by the Council (23 out of 26 KPMG recommendations and 11 out of 13 Working Group recommendations) had been completed. The remaining actions were either partially completed or in the process of completion. A table has been produced at Appendix 1 which contains only those actions which had not been fully completed when the Action Plan was last reviewed by the Committee in January 2011. The table indicates the progress which has been made since January in respect of those outstanding actions.
Recommendations	**The Committee considers the information set out in Appendix 1 and reviews progress against the actions.**

Financial implications	There are no financial implications arising directly from this report. **Contact officer: Paul Jones, paul.jones@cheltenham.gov.uk, 01242 775154**
Legal implications	There are no legal implications arising directly from this report. **Contact officer: Sara Freckleton, sara.freckleton@tewkesbury.gov.uk, 01684 272011**
HR implications (including learning and organisational development)	There are no HR implications arising directly from this report. **Contact officer: Amanda Attfield, amanda.attfield@cheltenham.gov.uk 01242 264186**
Key risks	See attached report risk template.

Corporate and community plan Implications	Producing an action plan that is monitored by the Audit Committee meets the Council's corporate commitment to comply with KPMG and Review Working Group recommendations. A corporate risk has been identified and placed on the Corporate Risk Register (Appendix 2). The actions described within the action plan will minimise the risk to the Council's reputation and financial resources.

1. Background

1.1 On 22nd March 2010, the Council considered a report in the Public Interest (PIR) which was issued by KPMG regarding the Council's decision making processes arising from a review of the Council's decision making processes for the High Court litigation against its former Managing Director. At the same meeting, the Council received a report from a Member Working Group which was set up to review the KPMG report, recruitment and appointment processes and the internal processes for dispute resolution.

1.2 The Council accepted the recommendations made by KPMG in the PIR and by the Working Group and approved Action Plans in response to each.

1.3 Responsibility was delegated to the Audit Committee to monitor the implementation of the Action Plans which were approved by the Council. This Committee has now reviewed progress against the Action plans on three occasions, in June and September 2010 and in January 2011.

2. Progress against Action Plans

2.1 In January 2011 it was reported to the Committee that the majority of the actions approved by the Council had been completed, with the remainder having been partially completed or in the course of completion. Of the actions approved by the Council, 23 out of 26 of the KPMG recommendations and 11 of the 13 Working Group recommendations had been fully completed / implemented.

2.2 The table attached as Appendix 1 contains only those actions which were yet to be fully completed/implemented at the time of the Committee's last review in January 2011. The table is divided into Part A (actions in response to KPMG recommendations) and Part B (actions in response to Review Working Group recommendations) and indicates the progress made to date against each of the individual action points.

2.3 It is clear from Appendix 1 that there are now only three actions which have yet to be fully completed. One relates to KPMG recommendation 8 (centralised log of decisions) as further consideration needs to be given to whether or not the Council's Committee management system can be used to record and monitor decisions taken by Committees/ Cabinet, before this action can be completed. As far as the implementation of the training programme, KPMG recommendation 16, is concerned, this is being implemented on a slightly delayed timescale to reflect the Council's current budgetary constraints. The remaining outstanding action relates to the Review Working Group recommendation 10 (deputising for statutory officers in extended periods of absence) which will be concluded as part of the current review of the Council's Constitution.

3. Reasons for recommendations

3.1 To comply with the decision of the Council that the Audit Committee should monitor the approved Action Plans

4. Alternative options considered

4.1 None

5. Consultation and feedback

5.1 None

Report author	**Contact officer: Sara Freckleton, sara.freckleton@tewkesbury.gov.uk,** **01684 272011**
Appendices	1. Extract from KPMG/Review Working Group Action Plans Table 2. Risk Template
Background information	1. Reports to and Minutes of Extraordinary Council Meeting held on the 22nd March 2010

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Actions outstanding as at January 2011 to implement KPMG and Review Working Group Recommendations

As agreed at
Council 22nd March 2010
and
Reviewed at Audit committee;

23rd June 2010
29th September 2010
9th January 2011
23rd March 2011

Part A - Action Plan in response to KPMG RECOMMENDATIONS

RECOMMENDATIONS			
Objectives and Option Appraisal			
R8 Review the process for taking forward, and reporting back on, decisions made by committees to ensure agreed actions are delivered (or explanations provided as to why they are not).			
Recommended Action	**Progress report**	**Due Date**	**Lead officer**
1. Implement a centralised log of decisions taken with mechanisms for recording and monitoring actions taken in accordance with those decisions. 2. Devise a mechanism whereby Committees review progress of implementation of decisions which they have made.	**1. Modern.gov has now been implemented and within the system decisions can be reviewed by date, decision maker and decision status, and the system also enables the decision to be linked to issues so that anyone can see associated decisions. The system can record whether a decision is awaiting implementation or it has been has been implemented, although at the moment this feature is not being used. Consideration is being given as to how this feature could be used in the future. A brief review of the modern.gov sites from other councils indicate that they do not use this feature but we will continue to seek best practice from elsewhere to see whether it would be beneficial to use.** **2. Completed** **A new report template has been devised which includes a section on how the recommendations will be monitored and reviewed. Training has been undertaken with report authors and the new template is to be used for the meetings in September onwards**	30th June 2010	Assistant Chief Executive

RECOMMENDATIONS			
Risk Management			
R16 Undertake mandatory risk management training to appropriate officers and Members. This should include Directors, Assistant Directors and Service Managers. The training should be specific to Cheltenham's own risk management process.			
Recommended Action	**Progress report**	**Due Date**	**Lead officer**
1. Consider the needs of Members and Officers for risk management training. 2. Develop a training programme for Members and Officers.	**1 and 2 completed**	1 & 2 - 30th September 2010	AD Human Resources
3. Implement the training programme.	**3. Budget reductions mean there is no funding for any external support in current year, and for 2011-12. The e-learning module is under development in-house. Capacity for this development is limited due to competing priorities. Regarding Audit and Treasury management members, only one member has not yet had the risk management training; this is being addressed as an additional learning requirement. Target for completion of the e-learning risk module is end of March 2011. It will be rolled out to ADs & service managers during April 2011. Module will be rolled out to members and the remaining workforce by the end of September 2011.**	3 & 4 - October 2010-March 2011	
4. That risk management training be a pre-requisite for Members who serve on the Audit Committee and the Treasury Management Panel.	**4. Completed** **All members will be automatically added to risk training via the cbc learning gateway.**		

Recommended Action	Progress report	Due Date	Lead officer
R21 The Council should review the project management skills base within its workforce, and seek to train more people if necessary, or to find ways of sharing the resource among different projects.			
1. Draw up a list of those officers with project management qualifications. 2. Prepare a report on the project management resource available to specifically include details of external spend. 3. Prepare a forward plan as to how the project management skills will be utilised. 4. Identify whether there are any deficiencies in project management resource. 5. Report on proposals as to how any deficiencies may be addressed.	**1 2 & 3 completed** **4 & 5 completed. In line with budget cuts, skills gaps for managers will be addressed by completion of the project management e-learning module and use of experienced project managers as coaches, plus using project training (Prince) where needed and securing the high ££ investment in skills through requiring payback if the employee should leave the council.** **The project management group will continue to assist all those involved in managing projects, ensuring that project management is pitched at the right level for the complexity of each project. A summary report was prepared for the Senior Leadership Team in February 2011 recommending how project management skills will be developed and deployed.**	1. 30th June 2010 2. 30th September 2010 3. 31st December 2010 4. 30th September 2010 5. 31st January 2011	Assistant Director of Human Resources / Assistant Director Customer Access and Service Transformation

Part B - ACTION PLAN - IMPLEMENTATION OF REVIEW WORKING GROUP RECOMMENDATIONS

RECOMMENDATIONS			
Recommendation 10 That the Council introduces a procedure whereby nominated Officers deputise for Chief Officers / Statutory Officers during any extended absence e.g. sickness, and are given full authority to act in that capacity.			
Recommended Action	**Progress report**	**Due Date**	**Lead Officer**
Introduce a formal procedure for the nomination of deputies to act for Chief and Statutory Officers during any extended absence and measures to ensure that the deputies are provided with the necessary authority to act in that capacity.	**Nominated deputies are in place for the Chief Executive, Chief Finance Officer (s.151.) and Monitoring Officer. Regarding the necessary authority to act in the event of extended absence, this will be picked up as part of the review of the Constitution**	30th September 2010	Borough Solicitor /Assistant Director Human Resources
Recommendation 12 That the Council makes an appropriate amendment to the Employees Code of Conduct to ensure that Officers who have an interest in any matter which would, in the case of any Member of the Council, amount to a "prejudicial interest", should not participate in or seek to influence the outcome of that matter.			
Recommended Action	**Progress report**	**Due Date**	**Lead Officer**
Prepare a report for the Standards Committee/Council to suggest revisions to the Employees Code of Conduct to clarify the requirements regarding personal interests, as identified in the recommendation.	**Completed.** **The Standards Committee has reviewed the Employees Code of Conduct and following consultation as appropriate has recommended amendments to the Code pf Conduct for adoption by the Council at its meeting on the 28th March 2011**	31st December 2010	Borough Solicitor / Assistant Director Human Resources

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Action Plan to implement
KPMG and Review Working Group Recommendations
Risk template

Appendix 2

The risk				**Original risk score (impact x likelihood)**			**Managing risk**				
Risk ref.	**Risk description**	**Risk Owner**	**Date raised**	**I**	**L**	**Score**	**Control**	**Action**	**Deadline**	**Responsible officer**	**Transferred to risk register**
CR1	If the council does not implement the recommendations and action plan arising from the public interest report and working group report and put in place preventative measures based on lessons learnt then there is a potential local and national reputation risk and potential adverse audit assessment.	Chief Executive Andrew North	10th March 2010	3	2	**6**	Reduce	All recommendations agreed by council. Action plan has been developed following discussions with officers and has been incorporated within the council's corporate strategy and will be reported through the corporate performance management system. Monitoring of the action plan is to be undertaken by	Deadlines as per the action plan. First monitoring report June 2010. Audit committee September 2010, January and March 2011 3/2011	Assistant Chief Executive Jane Griffiths	Third monitoring report has been drafted for audit committee and actions are on track for completion. Internal audit have undertaken a review of the action plan. **Suggest that this risk is closed following the final update report to audit committee on the 23rd**

								the audit committee on a quarterly basis. Internal audit have set time aside in their audit plan. KPMG will review progress as part of the annual audit of accounts.			**March 2011.**
CR2	If councillors and officers do not "draw a line" under the review and move forward as recommended by both the judge and KPMG there is a reputation risk, as well as a risk that further resource both financially and time could be incurred	Chief Executive Andrew North	10 March 2010	3	3	9	reduce	CEX has discussed the matter with the group leaders. Clear action plan developed on lessons learnt. Letter of apology signed by CEX and Group leaders. CEX to discuss with group leaders should any further issues arise.	May 2010 March 2011	Chief Executive Andrew North	Corporate Risk Register. It would appear that councillors have responded constructively in learning lessons from the review without blame. However, points of tension may still arise and continued vigilance is required.

Guidance

Types of risks could include the following:

- Potential reputation risks from the decision in terms of bad publicity, impact on the community or on partners;
- Financial risks associated with the decision;
- Political risks that the decision might not have cross-party support;
- Environmental risks associated with the decision;
- Potential adverse equality impacts from the decision;
- Capacity risks in terms of the ability of the organisation to ensure the effective delivery of the decision
- Legal risks arising from the decision

Remember to highlight risks which may impact on the strategy and actions which are being followed to deliver the objectives, so that members can identify the need to review objectives, options and decisions on a timely basis should these risks arise.

Risk ref
If the risk is already recorded, note either the corporate risk register or TEN reference

Risk Description
Please use "If xx happens then xx will be the consequence" (cause and effect). For example "If the council's business continuity planning does not deliver effective responses to the predicted flu pandemic then council services will be significantly impacted."

Risk owner
Please identify the lead officer who has identified the risk and will be responsible for it.

Risk score
Impact on a scale from 1 to 4 multiplied by likelihood on a scale from 1 to 6. Please see risk scorecard for more information on how to score a risk

Control
Either: Reduce / Accept / Transfer to 3rd party / Close

Action
There are usually things the council can do to reduce either the likelihood or impact of the risk. Controls may already be in place, such as budget monitoring or new controls or actions may also be needed.

Responsible officer
Please identify the lead officer who will be responsible for the action to control the risk.
For further guidance, please refer to the risk management policy

Transferred to risk register
Please ensure that the risk is transferred to a live risk register. This could be a team, divisional or corporate risk register depending on the nature of the risk and what level of objective it is impacting on.

Cheltenham Borough Council

Audit Committee – 23 March 2011

Revised risk management process and policy

Accountable member	**Cabinet Member Corporate Services, Councillor Colin Hay**
Accountable officer	**Jane Griffiths, Assistant Chief Executive**
Accountable scrutiny committee	**Economy and business improvement**
Ward(s) affected	**None**
Key Decision	**No**
Executive summary	Audit Committee is responsible for overseeing the council's risk management process and policy, and at least annually, monitoring and reviewing the effectiveness of risk management systems and their contribution to corporate governance arrangements. This report reviews issues that affected risk management in the last 12 months and presents a revised draft risk management policy and process (Appendix 1). It is brought to Audit Committee so that elected members have the opportunity to comment on content and to make further suggestions. It is proposed that the final policy will go to Cabinet on 19th April 2011 for approval.
Recommendation	Audit Committee is asked to provide feedback about the revised policy and process and consider if there are further amendments that would further improve the management of risk**.**

Financial implications	None identified as a result of this report. **Contact officer: Paul Jones, Head of Financial Services, paul.jones@cheltenham.gov.uk, 01242 775154**
Legal implications	Adoption and implementation of a robust risk management policy and processes should assist in protecting the Council from unwelcome legal challenge and liabilities. **Contact officer: Peter Lewis,** **Email; *peter.lewis@tewkesbury.gov.uk*,** **Tel.no. 01684 272012**

HR implications (including learning and organisational development)	Managers and employees will need to be made aware of the refreshed risk policy and any significant changes. Amendments are being factored into the risk management e-learning material on the learning gateway for officers and members. **Contact officer: Amanda Attfield ,** **Email; amanda.attfield @cheltenham.gov.uk,** **Tel. No. 01242 264186**
Key risks	If a consistent approach to risk management is not adhered to across the organisation based upon a sound policy, then key risks maybe missed, assets lost, important information misinterpreted and ultimately, the continuous improvement and quality of service delivery will suffer.
Corporate and community plan Implications	Risk management is an essential and integral part of management and as such, the consistent and correct assessment, mitigation and monitoring of risks is imperative.
Environmental and climate change implications	None

1. Background

1.1 The current Risk Management Policy was approved by Cabinet in January 2009

1.2 There have been three issues during 2010/11 that effect the way that risk is managed both at a divisional level and corporately which now need to be incorporated into the policy.

1. Recommendations made in the KPMG Public Interest report (PIR).

2. The senior officer management structure has been revised and therefore the roles and responsibilities within the policy have been up dated to reflect these changes.

3. Amendments made to the corporate risk register and the way that it is reported to Economy and Business Improvement Overview and Scrutiny Committee and Cabinet.

Issue 1.

1.3 The KPMG PIR recommendations R11, R15, R16 and R17 concerned Risk Management and resulted in the following actions;

1.4 *R11 - that the Council should, in all instances, take decisions based on a balanced range of success factors including service needs, legal issues, financial implications and risk. Decisions should be informed by appropriate risk scenarios or possible outcomes.*

This recommendation has resulted in a new report template which requires report owners to ensure that a balanced range of success factors, legal and financial implications and risks are fully considered within each report.

1.5 *R15 - Strategic Directors, Assistant Directors and Service Managers should immediately review all major service and corporate issues that they are individually dealing with, and check whether they are being managed properly and reported through the appropriate channels . There should be an on-going process to ensure that significant issues are escalated to the right people.*

All corporate risks are reviewed by the Senior Leadership Team (SLT) on a monthly basis.

Divisional risks are reviewed at least quarterly at divisional team meetings and any that score over 16 are escalated to SLT for inclusion on the Corporate Risk Register.

The project and programme management guidance has been updated to ensure that it is clear how project risks can be escalated to either programme or corporate level.

1.6 *R16 - the council consider the needs of Members and officers for risk management training and develop and introduce a training programme. That risk management training is a pre-requisite for Members who serve on the Audit Committee and the Treasury Management Panel.*

An on-line risk management training module has been developed and will be made available to staff and elected members from the beginning of April 2011. Members of the Audit Committee and Treasury Management panel will be contacted to ensure that they undertake the training.

1.7 *R17 - Immediately review all risks on the corporate and service risk registers to ensure that they are complete, appropriate and that the descriptions and risk assessments continue to reflect the current state. Any high scoring service risks should be transferred to the corporate risk register where appropriate. The updated corporate risk register should be presented to Members for consideration.*

1.8 All of the risks on the Corporate Risk Register are reviewed on a monthly basis at SLT to ensure that they are up to date and relevant. Any divisional risks that score over 16 are escalated to the Corporate Risk Register. The Corporate Risk Register is reported to Economy and Business Improvement overview and scrutiny committee and Cabinet on a quarterly basis.

Issue 2.

1.9 The senior management structure review resulted in changes to the job titles of those officers and their roles and responsibilities. The Risk Management Policy has been updated to reflect these changes.

Issue 3.

1.10 At the E&BI overview and scrutiny meeting on the 29th November it was requested that the corporate register should in future highlight exceptions and provide more focus on the risks where the mitigating actions are below target.

1.11 These changes were made and reported back to E&BI overview and scrutiny on the 7th March and Cabinet on the 14th March 2011.

2. Reasons for recommendations

2.1 The Risk Management Policy will be presented to Cabinet on the 19th April for formal approval and Audit Committee's opinion and suggestions for further improvement are sought to ensure that the policy is reflective of members' needs.

3. Alternative options considered

3.1 None

4. Consultation and feedback

4.1 The Senior Management Team and the Corporate Governance Group have been consulted on the revised Risk Management policy and E&BI have been consulted on the revisions to the Corporate Risk Register.

5. Performance management –monitoring and review

5.1 Cabinet leads discuss risks with their respective assistant directors at one to one meetings. The senior leadership team consider the risk register on a monthly basis, and challenge how risks are being managed and monitored.

Report author	**Contact officer: Bryan Parsons** **Email; bryan,parsons@cheltenham.gov.uk,** **01242 264189**
Appendices	1. Revised risk management process and policy
Background information	1. None

April 2011

Risk management policy

CHELTENHAM
BOROUGH COUNCIL

www.cheltenham.gov.uk

Document control

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Review Period **Annual**

Reviewed by **Audit Committee and Corporate Governance Group**

Version Number	**Version Date**	**Summary of Changes**
1.0	14/02/2009	New Policy
1.2	19/04/2011	revised policy

This document has been distributed to;	
All CBC staff, Public website, Audit committee and Cabinet	1.0
All CBC staff, Public website, Audit Committee and Cabinet	1.2 Aril 2011

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Introduction to risk management cut out and keep section

The council believes that risks need to be managed, rather than avoided and that a rigorous approach to all aspects of risk management is an integral part of good management practice. Through having a sound risk management process we will ensure:

- That the council continues to achieve its objectives and outcomes and sustainable improvement in services;
- That the council is developing and maintaining a safe and healthy environment for the public, and for its employees; and
- That the council reduces the number and cost of insurance claims.
- That by mitigating risk we will make processes safer and more effective which in turn will reduce costs and make us more efficient.

Risk is defined as

"An uncertain event or set of events which, should it occur, will have an effect upon the achievement of objectives, within it's lifetime."

Risk can be both negative and positive, and we need to be alert to opportunities to improve on desired outcomes whenever possible - but it tends to be the negative side that we must be methodical in identifying and managing risk in order to avoid putting lives at risk or incurring cost to an individual or the organisation in financial terms

Negative risk therefore represents potential events that could harm the project. In general, these risks are to be avoided or mitigated and can be measured in terms of impact and likelihood. Positive risk, on the other hand, represents a potential opportunity which (if taken advantage of) may enhance a project or activity.

Risk management is

"The activities required to identify and control exposure (negative risk) to uncertainty which may impact on the achievement of objectives". or/and to use Positive risks to help us opportunity to exceed original objectives.

Everyone has a role to play in our risk management policy. Combining shared leadership with a team approach will help contribute to the success of integrated risk management.

Our expectations / commitments

- Senior Leadership team will own and maintain the corporate risk register which will be updated on a monthly basis.
- Directors will ensure that there is an up to date divisional risk register for their divisions using the template attached in this policy (Appendix 1). This should be reviewed at least quarterly at the divisional management team meetings. **Any divisional risk that has a score of 16 or greater will be referred to SLT** for consideration for inclusion on the Corporate Risk Register
- Service Managers will document risks to meeting their team objectives.
- All committee reports that require a decision should be accompanied by a risk assessment
- All project and programme mangers will assess the strategic and operational risks associated with the programme or project objectives.
- We will ensure that partnership working is part of our risk management approach; partnerships should identify the risks to achieving their objectives and the council will document the risks to working in partnerships.

Part One – Our approach to risk

1. Introduction

1.1 The aim of this policy is to set out Cheltenham Borough Council's approach to risk and the management of risk. It is presented in three parts; the first is our approach to risk management; the second outlines the process for risk management and the third part sets out roles and responsibilities.

1.2 The council believes that risk needs to be managed, rather than avoided and that a rigorous approach to all aspects of risk management is an integral part of good management practice. Through having a sound risk management process we will ensure:

- That the council continues to achieve its objectives and outcomes and sustainable improvement in services;
- That the council is developing and maintaining a safe and healthy environment for the public, and for its employees; and
- That the council reduces the number and cost of insurance claims.

1.3 Risk is defined as

"An uncertain event or set of events which, should it occur, will have an effect upon the achievement of objectives, within the lifetime of the objective."

1.4 Risk can be both negative and positive, but it tends to be the negative side that we focus on and score . This is because some things can be dangerous, such as putting lives at risk or a cost to an individual or the organisation in financial terms

1.5 Negative risk is represented by potential events that could harm the project. In general, these risks are to be avoided and can be measured in terms of impact and likelihood. Positive risk, on the other hand, refers to risk that we initiate because we see a potential opportunity, along with a potential for failure.

1.6 There are two examples of positive risks. The risk could either be a positive experience, or the reason for taking the risk has rewards that are well worth it. For example the risk could make us feel better, or by taking a different option we could improve efficiency, reduce costs or improve income by a greater amount than was originally identified. See also section 8 about monitoring and managing risk.

1.7 Risk management is

"The activities required to identify and control exposure (negative risk) to uncertainty which may impact on the achievement of objectives". or/and to use Positive risks to help us exceed our objectives.

1.8 From these two definitions, we can see that risk management is focused on the risk to meeting our objectives.

1.9 Given the definitions above, the council will assess, monitor and manage risks to the achievement of its objectives, including:

- Our corporate objectives – as set out in our corporate strategy;
- Divisional objectives;
- Service team objectives;

- Project and programme objectives; and

1.10 This policy sets out how we will identify, assess and manage risks, how we will report risk and how we will support risk management.

1.11 Everyone has a role to play in our risk management policy. Combining shared leadership with a team approach will help contribute to the success of integrated risk management. More information on roles and responsibilities is given in part 3.

2. Identifying, assessing and managing risks

2.1 The council will take a rounded view on what constitutes a risk. The starting point is that a risk could be anything, from an internal or external source, that poses a threat to the achievement of our objectives.

2.2 In terms of external sources, changing circumstances can have a significant impact on our ability to deliver our objectives. The environment we operate in is not stable and is in constant flux. Good risk management is about trying to anticipate these changes and put in place actions to respond to the resulting risks by minimising the likelihood and/or impact. Our view of the source of external risks could include the following:

- Local and national political change
- Local and national economic circumstance
- Social change
- Technological change
- Climate change
- Legislative change
- Environment
- Complying with equality considerations
- Change in the organisational structure for local government
- Changing expectations/needs from customer/citizens
- Change in how we are resourced
- Recommendations from assessment or review

2.3 In terms of internal source of risks, the ability of the council to continue to deliver its objectives is dependent on the following:

- Finance - sufficient finances in place to deliver service;
- Human resource - enough skilled, competent, experienced, healthy, motivated staff in the right place at the right time to deliver the service;
- Premises - the most appropriate environment from which to deliver the service;
- Technology – the most appropriate form of technology to support service delivery;
- Procurement – the most appropriate service/resource provider in place to deliver the service objectives (if service out-sourced);
- Legal/Contractual – the most appropriate form of contract to guide service delivery;
- Partners – commitment from appropriate other partners (both internal and external) to deliver the service;

- Changing priorities – a stable environment in terms of organisation priorities, clear objectives and manageable level of complexity;
- Information – an exchange of reliable information (internal and external) that is accurate and timely on which decisions can be fairly and correctly based.
- Safety and security of assets.

2.4 It is also worthwhile noting that as we gradually adopt a commissioning approach whereby the council may deliver services through different organisational models, then we must ensure that these arrangements are included within our risk management processes. These risks can then be included in the same register as all other risks to the delivery of the objective. When it is necessary to the achievement of an objective to procure products and services, the risk/s to the objective if the procurement process fails should also be identified and managed.

2.5 In addition we would expect all programme and project managers to assess the strategic and operational risks associated with the programme or project objectives before the project is selected and approved. Risks should be reviewed as the project proceeds and included within the Corporate Risk Register if the risk is likely to impact upon the authority as a whole.

2.6 All committee reports that require a decision should contain a risk assessment. These risks are to the objectives of the report topic.

2.7 Risk management should not be seen as a separate management function; it is a core part of good management.

2.8 The council have separate and detailed Health and Safety policies that provide advice about how this type of risks should be identified and managed. They can be found at safety policies and guidance | corporate pages on CBCi

2.9 Defining and scoring risk

2.10 Once risks have been identified using the information given above, the council would like risks to be defined in a consistent way using the "cause and effect" approach (see Part 2, 5.3 for more information). Risks will be then scored for impact and likelihood using the risk scorecard. (The risk score is the multiplication of impact and likelihood.)

2.11 The initial score will be based on current circumstances and referred to as the 'original' score. After controls have been actioned, the risk will be scored again. This score will be referred to as the 'current' score.

2.12 Tolerance and controls

2.13 The scored risk can then be assessed against the council's tolerance levels. Currently we have three levels which set out the council's attitude to that particular risk. The three tolerance levels are coloured red, amber and green. Risks that are scored in the red and amber areas (7 and above) will require action.

2.14 The council then has four options on how to control the risk;

- Reduce the risk
- Accept the risk
- Transfer the risk to a third party
- Close the risk

2.15 The decision on how to control the risk will be made by the risk owner or an appropriate senior officer depending on where the score falls in the tolerance areas and the costs associated with the control.

2.16 Monitoring and managing risk

2.17 As risk management is an integral part of good management all identified risks should be recorded and managed through either the Divisional Risk Register or the Corporate Risk Register. Corporate Risks are monitored monthly and Divisional Risk Registers will be monitored quarterly at routine Divisional Team meetings. **Any divisional risk that has a score of 16 or greater will be referred to SLT** for consideration for inclusion on the Corporate Risk Register

2.18 The Corporate Risk register is held on the S: Drive and is collectively monitored and managed by the Senior Leadership Team.

2.19 Recording risk

2.20 The risk registers should be used to inform decision making and resource allocation and should be updated as required to meet agreed monitoring arrangements.

2.21 Divisional Risk Registers are the responsibility of Directors with the individual risks being assigned to officers within the division (or across divisions where appropriate.)

2.22 The Corporate Risk Register is held on the s drive. Any new risk must be agreed by SLT before being added to the register. Risks cannot be deleted from the register unless they have agreed that it can be closed. Mitigating actions and deadlines can be updated by the risk owner at anytime prior to the monthly review at SLT.

3. Risk registers & reporting risk

3.1 The corporate risk register

3.2 The 'corporate risk register' contains strategic risks to the organisation

- The longer-term risks to the delivery of outcomes (ambitions) are described within the Corporate Strategy. The outcomes are linked directly to specific improvement actions which again are described within the Corporate Strategy but are individually risk assessed and managed within the Corporate Risk Register.
- Headline risks associated with exceptional circumstances.

3.3 Senior Leadership team will own and maintain the corporate risk register and associated actions which will be updated on a monthly basis. The owner of the objective (or outcome) is the owner of its associated risk/s.

3.4 The corporate risk register will provide the necessary assurance for the annual governance statement.

3.5 Divisional, service area and team risk registers

3.6 Each division needs to take a proactive approach to risk management making sure that it is embedded as a part of the good management of the division. Each division should compile and maintain a divisional risk register that captures the risks to the delivery of its objectives.

3.7 Each service team, project/programme may also have a risk register which capture risks to their respective objectives. The important issue is to make sure that risk is discussed and debated at management teams and that risks are then identified and managed.

3.8 It is also important to note that those particularly high scoring divisional risks will not necessarily have a place on the corporate risk register unless it has a direct impact on our corporate objectives. In this case, the cause or effect may be different and the impact and likelihood scores must be scored appropriately.

3.9 It is possible that the same risk will appear in more than one register. The impact or likelihood may be different against the different objectives and should therefore be scored accordingly. Where actions to control a risk fall to another division, it is that division's responsibility to implement that action and the risk owner's responsibility to remain updated and manage the risk accordingly.

3.10 Reporting risks

3.11 Monthly risk monitoring reports will be presented to the Senior Leadership Team and then Quarterly to Economy and Business Improvement Overview and Scrutiny committee and Cabinet which will include:

- The most significant corporate risks faced by the council;
- The associated management actions which are considered urgent;
- The resource implications of any management actions; and
- An overview of how significant risks may affect the Council's ability to meet its ambitions.

Risk management reporting should be co-ordinated with continuous routine performance monitoring; the ESP system links objectives, risks, activities and performance indicators.

4. Supporting risk management

4.1 Risk management co-ordination

4.2 The risk management policy, including any guidance notes, will be reviewed once a year by the Audit Committee and the responsible Director and when necessary, updated to incorporate further development in risk management processes and/or organisational change.

4.3 Where the council has established groups who have responsibility for risk, they should include detail about their role in the terms of reference or constitution for the group.

4.4 Training

4.5 The requirement for risk management training which will ensure that elected members and officers have the skills required to identify, evaluate, control and monitor the risks associated with the services they provide, or govern should be identified through the appraisal process.

4.6 Risk Management training for staff and elected Members will be delivered through an elearning tool on the learning gateway

4.7 Where required, training in corporate governance, of which risk management is a part, should be identified through the induction process for all new employees and members.

4.8 Communication

4.9 Risk should be considered at least quarterly by management team and service team meetings as part of good management practice. When necessary, new and emerging risks, significant change and where control actions are significantly succeeding or failing should be discussed.

4.10 It is the responsibility of the risk owner to communicate and discuss risk and control actions with other relevant officers, including those from other divisions.

4.11 If the cause of a risk or the failure of an objective or activity has the potential to impact on another objective or activity, it is the duty of the responsible officer to communicate that cause or failure to the owner of the effected objective or action.

4.12 Information and guidance on risk management will be available to all employees with computer access via the intranet and shared drive. Employees without computer access should speak to their manager for a printed copy.

4.13 Employees will be kept up to date on risk management progress and good practice through management meetings, team briefings and the intranet.

Part 2 - Process & Guidance

5. How to identify and define risks

5.1 Identifying risks is about asking:

- what could happen that would impact on the objective?
- when and where could it happen?
- how and why could it happen?
- how can we prevent or minimise the impact or likelihood of this happening?

5.2 What risks are identified and who you involve in the process will depend on whether you are looking at a specific team area or at a more strategic, organisational level. It is best practice to involve others in identifying risk as this gives you different perspectives on the same situation. Those involved must be clear about what objective is being risk assessed. Approaches to identify risks can include:

- Brainstorming on possible risks in a facilitated session;
- Mapping out the processes and procedures; asking staff to identify risks at each stage;
- Drawing up a checklist of risks and asking for feedback.

5.3 Risks should then be defined using the **'if ….. then** ….' (or the cause and effect or likelihood and impact) approach and given a reference number.

5.4 Risks should be specific and worded carefully and concisely and should not consist of a single word.

5.5 Risks should be outcome based and if one cause creates several impacts, each impact should be identified separately. This is because each might result in a different score and control.

6. How to score risk

6.1 The council has produced a scorecard to help risk owners score the risk by assessing impact and likelihood (effect & cause).

Impact

6.2 To help assess the impact (effect), we have identified a scale of impact from 1 to 4;

1) Negligible
2) Marginal
3) Major
4) Critical

6.3 Risk owners are encouraged to decide the scale of the impact by considering what type of impact the risk has on the objective, using the following risk types. The scale increases as the type worsens; e.g. 0-10% impact on budget = score 1 / >90% impact = score 4:

Type of impact	
Cost	% of budget; % resource cost; Value for money; Cost of legal action, Personal health & safety, Morale.
Quality	Interruption of service provision; Negative assessments/intervention from Government; Breakdown of joint working.
Outcomes	Reputation (media coverage & complaints); Missed targets; Poor governance; Impact on delivering customer needs.
Time	Schedule slippage; Capacity; Staff time

6.4 A full description of impact type and scoring is detailed in the 'impact scorecard' which should be used when assessing risk.

Likelihood

6.5 To help the risk owner assess the likelihood score (cause), we have identified 6 categories of likelihood that the risk will occur during the lifetime of the objective. These are:

Score	*Likelihood*	*Probability*	*Action*
1	Almost impossible	0-5%	Awareness of risk, no action
2	Very low	6-15%	Action to ensure likelihood does not increase
3	Low	16-30%	Preventative action required
4	Significant	31-60%	Minimise probability and/or impact
5	High	61-90%	Minimise probability and/or impact immediately
6	Very high	>90%	Plans made in advance must be carried out.

Risk score

6.6 The risk score is a multiplication of impact and likelihood.

6.7 On occasion it is possible to have a risk that proposes more than one score of impact, e.g. a single cause that could have minimal cost implications, maximum cost implications or anywhere in between. In this instance, we advise that you score and manage the risk according to the most likely scenario. Using the areas of tolerance may also help.

7. Selecting a risk control and understanding tolerance

7.1 The scored risk can then be assessed against the council's tolerance levels. Currently we have three levels which set out the council's attitude to that particular risk. The three tolerance levels are coloured red, amber and green. Risks that are scored in the red and amber areas (above 7) will require action.

Score	*Colour*	*Action/need to apply control*	*Responsibility*
1-6	Green	Acceptable, subject to monitoring.	Risk owner
7-15	Amber	Needs active management	Risk owner
16-24	Red	Requires urgent attention	Manager

7.2 The decision on how to control the risk will be made by the risk owner or an appropriate senior officer depending on where the score falls in the tolerance areas and the costs associated with the control.

7.3 The council has four options on how to control the risk;

Control	*Description*	*Tolerance area*
Reduce	The impact and/or likelihood needs to be reduced.	Amber or red
Accept	Impact and/or likelihood is at an acceptable level, it is impossible to reduce or is more cost effective to take the risk in not treating.	Amber or green
Transfer	Some of the risk is better controlled by an external partner. However some of the risk will remain (e.g. reputation) and that needs to be managed.	Any
Close	The risk has been terminated or is exceptionally low.	Green

8. Monitoring and managing risk

8.1 As risk management is a an integral part of good management our view is that risks should be reviewed at least quarterly and revised as and when actions prove to be successful or unsuccessful and when new information becomes available.

Progress of action	*Further action*
Positive but by a small margin	Current action not as effective as first hoped. Make changes or think of new action.
Positive by a significant margin	Current action successful – redirect resources.
Negative	Current action unsuccessful. Need new action.

8.2 The identification of risk may raise the question not to pursue a course of action. If this decision is made, it must be clearly documented.

8.3 The identification of risk may raise a success or positive learning point. This should be communicated to those who may benefit.

9. Risk registers

9.1 Risks will be recorded in either a Divisional Risk Register or a Corporate Risk register .

9.2 A risk register will record:

- Risks identified - to an objective, including a reference code and specified using "if…& then…";
- Original risk assessment and score based on impact and likelihood;
- Risk owner;
- Date raised;
- Control applied;
- Actions to control the risk;
- The officer responsible for the action;
- An indication as to whether the mitigating actions are on target
- The action status including progress notes;
- Current risk assessment and score once the action has been implemented.
- The date the risk was last reviewed

Part 3 - Roles and Responsibilities

Everyone has a role to play in our risk management policy. Combining shared leadership with a team approach will help contribute to the success of integrated risk management.

10. Elected members

10.1 All elected members have risk management responsibility; they should promote the desired culture essential for successful risk management, acknowledging risk management as a strategic and operational tool to further the council's objectives. All should feel secure that, by identifying risk in their area, they are doing so within a corporate framework that is robust and easily understood.

10.2 The risk assessment included in all reports, that require a decision, that are brought to council, cabinet and committees should be used to inform decision making and should be revisited to ensure the risks are being managed.

10.3 They will also participate in training workshops to maintain an up-to-date understanding of how CBC manages risk.

10.4 Audit Committee

10.5 Audit Committee will endorse the council's corporate risk management policy, and at least annually, monitor and review the effectiveness of risk management systems and its contribution to corporate governance arrangements.

10.6 Audit Committee will also seek assurance from the internal audit team that risks are being managed in an appropriate manner and by the terms of this policy.

10.7 Economy & Business Improvement Overview & Scrutiny Committee

10.8 Economy & Business Improvement Overview & Scrutiny Committee will monitor the corporate risk register quarterly when reviewing the council's performance to ensure that a control has been identified and that effective action is being taken and is being used to inform service delivery and improvement.

10.9 Cabinet and council

10.10 The Cabinet will approve the Risk management policy.

10.11 Cabinet and Council, as decision-making bodies, will be made aware of risks associated with any decision taken to them. They will have the responsibility to ensure that any risks to a report or project they sign off are managed and should request a revision of previously identified risks as and when necessary.

10.12 The Corporate Risk Register will be reported to Cabinet on a quarterly basis so that they can monitor the progress of mitigating action.

10.13 The Leader has risk management identified as part of their portfolio. They will have responsibility to ensure that their cabinet colleagues consider risk when setting policy and making decisions. These risks should be revisited to identify how they are being managed.

10.14 Individual cabinet members should seek assurance that the risk management process is being met in reference to their respective portfolios through discussions with Directors.

10.15 **The Corporate Governance Group**

10.16 The Corporate governance Group are consulted on proposed amendments to the Risk management policy and the Corporate Risk Register.

11. Officer responsibilities

11.1 The **Chief Executive** and **Executive Board** have strategic responsibility for the risk management policy and collectively oversee the council's effective management of risk. In their role as 'coach', they will advise and support senior managers to ensure that risk is managed consistently and in line with this policy.

11.2 The Executive Board are responsible for setting tolerance levels. The risk owner is empowered by Executive Board to make decisions about the control of the risk, depending on the risk score and what tolerance area it falls within.

11.3 They will consider corporate risk as part of developing and implementing the council business plan and corporate strategies, projects and programmes.

11.4 The **senior leadership team** are collectively responsible for risks recorded on the Corporate Risk Register

11.5 Directors are responsible for managing risks to the delivery of the objectives of their own division, jointly with their service managers. These risks will be managed in accordance with this policy, using the risk register template attached.

11.6 The **Director of Resources** is responsible for minimising the overall cost of insurance claims which do arise and supporting the risk management programme by supplying any advice and data to the Board.

11.7 The **Director of Resources** is responsible for monitoring the implementation and effectiveness of this risk management policy and for reviewing compliance with controls introduced by assistant directors to manage risks. Any responsibilities delegated to internal audit will be covered in the annual internal audit programme.

12. Service managers

12.1 **Service managers** are responsible for identifying and managing risks to the objectives of their service team in line with this policy. The council encourages managers to identify, understand and manage risk, and learn how to accept risk within the applicable tolerance level.

12.2 They should ensure that their teams carry out risk assessment, where appropriate, as a routine part of service planning and project management, including reporting to members.

13. All council employees

13.1 The identification of risk relies on input from teams and individuals.

13.2 A 'Risk Owner' is the owner of a risk and will manage that risk accordingly. This will involve maintaining awareness of how control actions are progressing.

13.3 All actions identified to control a risk will be assigned to an individual officer who will be called the action ‘Responsible Officer’.

Part 4 – Scorecards & Register Template

14. Impact scorecard

Risk Category	Impacts	Impact	Score
Resources	<10% financial cost impact due to legal issues,	1	1
Resources	<10% of objective's budget,	1	1
Resources	<10% resource cost,	1	1
Resources	Low morale is contained within team and managed.	1	1
Resources	Minimal negative impact on value for money,	1	1
Resources	Risk to personal health & safety is no more serious than a sticking plaster,	1	1
Quality	Brief interruption of non-core service provision,	1	1
Quality	Minor breakdown of joint services or contracts.	1	1
Quality	Negative assessments that do not impact on overall outcome,	1	1
Outcomes	Minimal impact on delivering customer needs.	1	1
Outcomes	No media coverage/minor complaints,	1	1
Outcomes	Poor governance but zero impact on outcomes,	1	1
Outcomes	Targets are missed but only marginally with no impact on other targets or objectives.	1	1
Time	10% or less reduction in capacity with minimal impact on overall outcomes,	1	1
Time	<10% delay in schedule with no impact on other targets,	1	1
Time	<10% staff time with minimal impact on service delivery,	1	1

Risk Category	Impacts	Impact	Score
Resources	11-30% financial cost impact due to legal issues,	2	2
Resources	11-30% of objective's budget,	2	2
Resources	11-30% resource cost,	2	2
Resources	Risk to personal health & safety may result in broken bones/illness,	2	2
Resources	Some hostility from staff and minor non-cooperation.	2	2
Resources	Some negative impact on value for money,	2	2
Quality	Poor assessments with marginal impact on overall outcome,	2	2
Quality	Slightly reduced service provision with marginal disruption,	2	2
Quality	Some breakdown of joint services or contracts with disruption to progress,	2	2
Outcomes	Adverse local media/negative local opinion/formal complaints,	2	2
Outcomes	Governance has been missed/misunderstood/not up-to-date with marginal impact on improvement,	2	2
Outcomes	Some customer needs or expectations may not be met either in time or quality.	2	2
Outcomes	Targets are missed with marginal impact on other targets or objectives and resources,	2	2

Time	11-30% delay in schedule with marginal impact on other targets,	2	2
Time	11-30% reduction in capacity with some disruption to overall outcomes,	2	2
Time	11-30% staff time with marginal impact on service delivery,	2	2

Risk Category	Impacts	Impact	Score
Resources	31-60% financial cost impact due to legal issues,	3	3
Resources	31-60% of budget,	3	3
Resources	31-60% resource cost,	3	3
Resources	Industrial action in the short term/staff leaving.	3	3
Resources	Risk to personal health & safety includes sustained or major illness of 1 or more people,	3	3
Resources	Severe negative impact on value for money inc. risk to reputation & external intervention,	3	3
Quality	Collapse of at least one aspect of joint service or contract with significant disruption or temporary suspended service.	3	3
Quality	Negative assessment require temporary intervention into service service/qualified audit opinions,	3	3
Quality	Service suspended in short term with noticeable disruption,	3	3
Outcomes	Adverse local & national media/member's/senior staff position threatened,	3	3
Outcomes	Governance arrangements have failed with some reputation/legal implication and cost to recover	3	3
Outcomes	Key customer needs or expectations may not be significantly met either in time or quality.	3	3
Outcomes	Targets are missed with significant reputation/legal implication and cost to recover,	3	3
Time	31-60% delay in schedule with significant impact on other targets,	3	3
Time	31-60% reduction in capacity with temporary suspension of services or questionable to proceed,	3	3
Time	31-60% staff time with significant impact on service delivery.	3	3

Risk Category	Impacts	Impact	Score
Resources	61-100% financial cost impact due to legal issues,	4	4
Resources	61-100% of budget,	4	4
Resources	61-100% resource cost,	4	4
Resources	Failure to provide value for money with major risk to reputation & external intervention,	4	4
Resources	Prolonged industrial action.	4	4
Resources	Risk to personal health & safety includes loss of life/large scale illness,	4	4
Quality	Joint service or contract delivery fails, is suspended long term or is a non-starter with major disruption.	4	4
Quality	Negative assessment require long term and high level intervention into service,	4	4
Quality	Service suspended for long term with major disruption,	4	4
Outcomes	Customer needs or expectations are not met.	4	4
Outcomes	Governance arrangements have failed with major reputation/legal implication and cost to recover,	4	4
Outcomes	Situation is remembered for years/members and/or senior staff resign,	4	4

Outcomes	Targets are missed continuously/data is unreliable; major impact on reputation/legal implication and cost to recover,	4	4
Time	61-100% delay in schedule with cancellation of other targets,	4	4
Time	61-100% reduction in capacity with long term suspension or cancellation of services,	4	4
Time	61-100% staff time with major delay or cancellation of other activities.	4	4

15. Likelihood scorecard

Probability	Likelihood Description	Likelihood	Score
0% - 5%	Almost impossible	1	1
5% - 15%	Very low	2	2
15% - 30%	Low	3	3
30% - 60%	Significant	4	4
60% - 90%	High	5	5
> 90%	Very high	6	6

Appendix 1.

Summary of Residual Risks – (Name of Division) – (Year)

Ref	Risk Title (by impact not cause)	Current Residual Risk Rating			Managing risk		
		(Impact x Likelihood = Score)			Responsible officer	Mitigating action	Target Date
1. (Name of Service area)							
2. (Name of Service Area)							
3. (Name of Service Area)							

Ref	Risk Title (by impact not cause)	Current Residual Risk Rating			Managing risk		
		(Impact x Likelihood = Score)			Responsible officer	Mitigating action	Target Date
4. (Name of Service Area)							
5. Divisional Risks							

Code	*Risk score*	*Risk Management view*
Red	16 – 24	Must be managed down to reduce risk scores as soon as possible, or agree a contingency plan
Amber	7 – 15	Seek to improve the risk score in the short/medium term or develop a contingency plan
Green	0 – 6	Tolerate and monitor within the division

Further information

This policy and process document, the full impact scorecard and registers are all available via the Intranet.

Information/Discussion Paper

Audit committee - 23 March 2011

Commissioning and governance issues

1. Why has this come to audit committee?

1.1 At the previous meeting of the committee, members asked whether the role of the audit committee may change and also how governance issues may be impacted by the council's ambition to become a commissioning council by 2012.

1.2 A small cross party working group has been established which is looking at the role of members and presentations have been made to each of the overview and scrutiny committee. This paper sets out some thoughts about the role of the audit committee but also some of the wider governance issues.

2. Summary of the Issue

2.1 Since the council first agreed to explore the concept of commissioning, the coalition government have set out a number of policy statements which redefine the role of the state and the underlying principle of decentralisation, which include:

- Lifting the burden of bureaucracy
- Empowering communities to do things their way
- Increasing local control of public finance
- Diversifying the supply of public services
- Opening up government to public scrutiny
- Strengthening accountability to local people.

3. Governance issues in a commissioning environment

3.1 The council already has a code of corporate governance and produces an annual governance statement. This picks up a number of issues which support good commissioning but we will need to consider whether as the commissioning framework develops, the elements of the code need to be updated and amended.

3.2 The matter has already been considered by the Corporate Governance Group at their last meeting and it was agreed that the key policies which underpin good governance such as anti fraud and corruption, whistle blowing, codes of conduct will need to be reviewed and updated accordingly and determine what elements we would want to build into contracts with third parties.

3.3 Contracts and service level agreements already contain sections to ensure good governance arrangements but as the scale of service provision changes then it will be important that these elements are fully covered as appropriate depending on the relationship with the third party supplier e.g. contract, trust, social enterprise.

3.4 In developing a commissioning framework and in conducting reviews there will need to be a clear and transparent process. Any decisions will need to be based on robust and evidenced business cases which highlight risks and opportunities to the organisation, so that members are able to make informed decisions. They will also need to clearly demonstrate how outcomes will be monitored and what governance arrangements will be in place.

4. The role of the audit committee.

4.1 The audit committee will need to satisfy themselves that there is a robust process to ensure that risks are being properly managed and that the council, although not risk adverse, is not exposed to undue risk over the lifetime of a commissioned service.

4.2 They will also need to satisfy themselves that the annual governance statement fully reflects those services which are delivered directly by the council, and those outcomes which may be delivered by others for us.

4.3 The committee may also want to periodically review the governance arrangements for jointly commissioned services and such reviews may be jointly undertaken with audit committees from partner organisations.

4.4 Consideration may also be given as to whether the committee would want to look to some independent members, in the same way as standards committee have councillor and non councillor members, to offer a degree of challenge in the commissioning process.

Background Papers	
Contact Officer	Jane Griffiths, Assistant chief executive, 01242 264126, jane.griffiths@cheltenham.gov.uk
Accountability	Councillor Colin Hay, cabinet member corporate services
Scrutiny Function	Economy and business improvement

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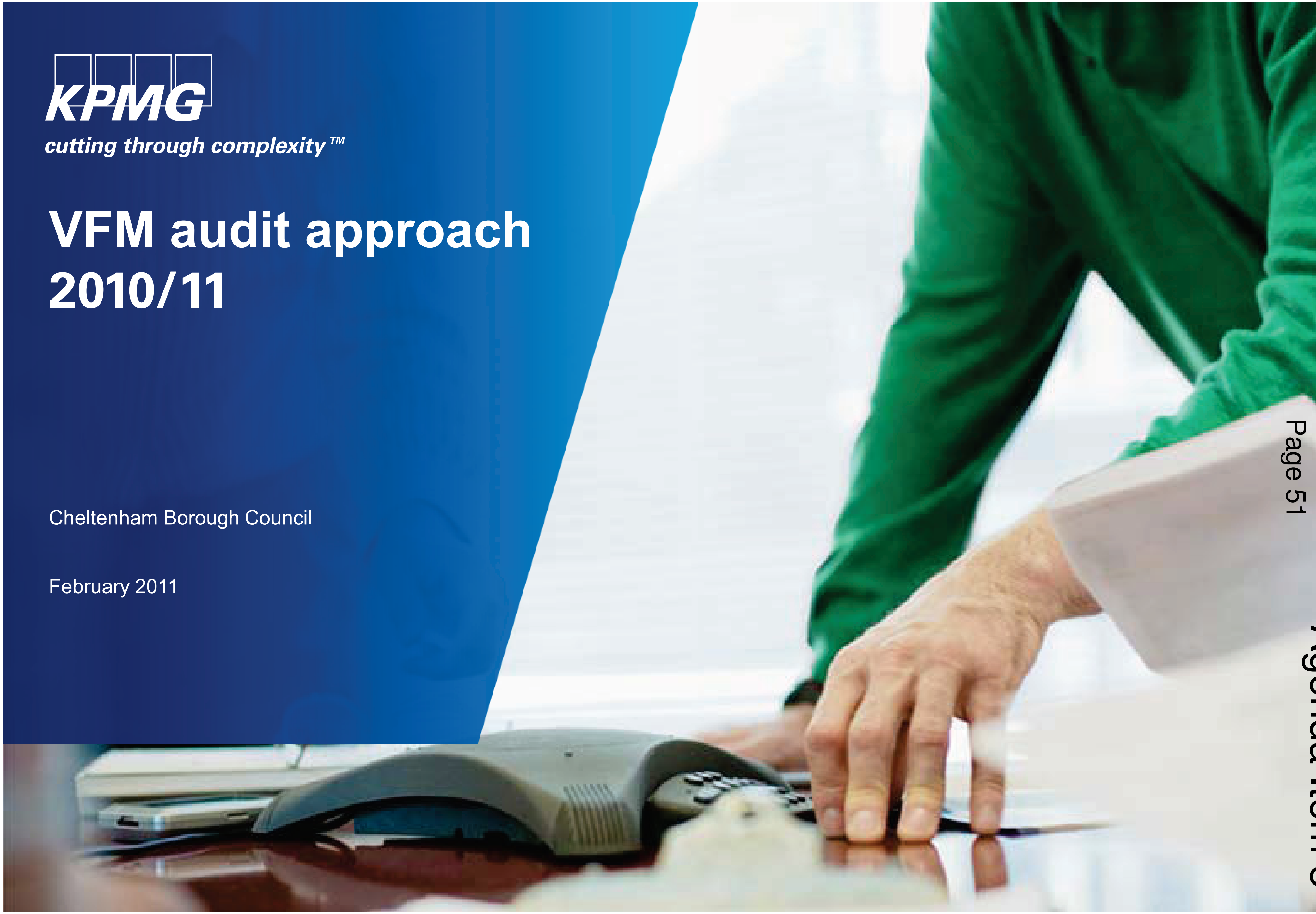
VFM audit approach 2010/11

Cheltenham Borough Council

February 2011



Contents

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This report is addressed to Cheltenham Borough Council (the Council) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the Council. We draw your attention to this document.

External auditors do not act as a substitute for the Council's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington, who is the engagement lead to the Council (telephone 029 2046 8087 or email ian.pennington@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (0161 246 4000 or trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Introduction

Our audit is divided into:

- **Use of resources; and**
- **Financial statements.**

This document describes how the new VFM audit approach will operate to fulfil our use of resources responsibilities.

Our responsibilities

Our statutory responsibilities and powers are set out in the Audit Commission Act 1998 (the Act) and the Commission's *Code of Audit Practice* (the Code). The Code summarises our responsibilities into two objectives, requiring us to review and report on your:

- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money (VFM) conclusion); and
- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts.

We have already provided information on our detailed financial statements audit approach in our separate Financial Statements Audit Plan 2010/11. This document focuses on our use of resources (UoR) audit and in particular highlights the key changes to the new approach introduced this year by the Audit Commission compared to the previous UoR auditor's scored judgements regime. It does not repeat any other aspects of the Financial Statements Audit Plan (e.g. independence declarations, fee disclosures etc).

Summary of new VFM audit approach

Although the purpose of the VFM audit remains the same – to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources – and there are many similarities in the new approach, there are also some notable differences. These are summarised in the table below.

Previous UoR audit regime	New VFM audit regime
Three themes (managing finances, governing the business and managing resources) covering ten key lines of enquiry (KLOE).	Reduced to two themes (financial resilience and securing VFM) with five sub-themes. There remains considerable overlap in coverage, but some aspects (e.g. natural resources) are not now considered.
Scored judgements overall, for each of the three themes and each KLOE. These scores informed the VFM conclusion.	No scored judgements. The VFM conclusion is the only output, which remains a 'pass / fail' style assessment.
Detailed guidance available for each KLOE describing the standards and performance required to achieve levels 2 and 3.	More summarised characteristics replace the previous KLOEs. These have an austerity flavour and are more concerned with the current focus on issues such as savings and efficiencies.
Strong emphasis on the need to demonstrate impact and positive outcomes to achieve higher scores.	Focus is on the adequacy of the arrangements to deliver economy, efficiency and effectiveness in the use of resources.
Some cyclical variation each year, but UoR audits were applied in the same way at every audited body.	Risk-based approach with the level of audit work varying at each audited body.

Section two

Summary of VFM audit approach

Our work this year on your use of resources arrangements will follow a new approach introduced by the Audit Commission.

Background to new approach to local VFM work

The financial environment in which public sector audited bodies operate has changed significantly in the last two years. In particular, the recession, the state of the UK's public finances, and the scale of funding cuts have led to increased pressure on public spending.

In response to the changing financial environment, the Audit Commission has introduced a new approach to local VFM work at those bodies previously subject to a UoR assessment. The new, more focused approach will focus the work auditors do on areas of identified audit risk to meet their statutory VFM responsibilities.

The principles the Commission has used to develop the new approach to local VFM audit work are that it should:

- enable auditors to fulfil their responsibility under the Act and the Code, relating to an audited body's arrangements to secure economy, efficiency and effectiveness;
- be sharper and more focused than the UoR assessment, enabling a reduction in audit work and audit fees (although this will vary at individual bodies, so the actual level of work and fees may reduce, stay the same or even increase depending on the auditor's risk assessment) and allow for greater linkages to our financial statements audit work; and
- apply proportionately to reflect the size, capacity and performance of different types of audited body and, as far as possible, operate consistently across all sectors of the Commission's regime.

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's Code requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

The new approach is structured under two themes, as summarised below.

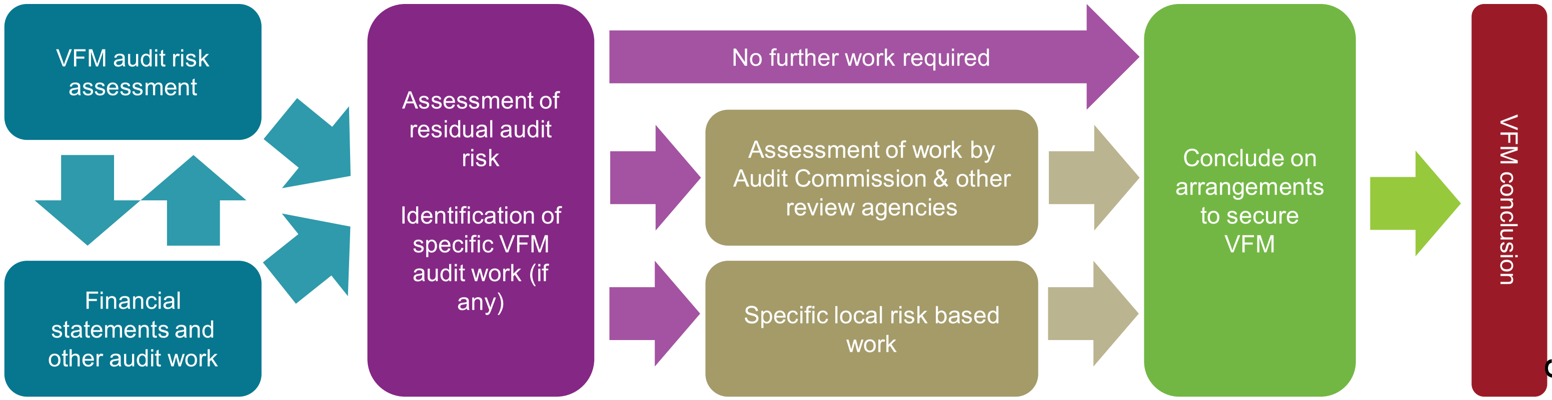
Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing **financial resilience**.	The organisation has robust systems and processes to: ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future.	■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it **secures economy, efficiency and effectiveness**.	The organisation is prioritising its resources within tighter budgets, for example by: ■ achieving cost reductions; and ■ improving efficiency and productivity.	■ Prioritising resources ■ Improving efficiency and productivity

Summary of VFM audit approach (continued)

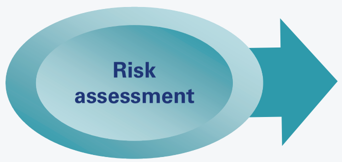
We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
	**VFM audit risk assessment** We will consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Council. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the Code. In doing so we will consider: ▪ the Council's own assessment of the risks it faces, and its arrangements to manage and address its risks; ▪ Information from the Audit Commission's VFM profile tool and financial ratios tool; ▪ evidence gained from previous audit work, including the response to that work; and ▪ the work of the Audit Commission, other inspectorates and review agencies (where relevant to our VFM audit responsibilities).

Section two

Summary of VFM audit approach (continued)

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit .

We will then form an assessment of residual audit risk to identify the areas where more detailed VFM audit work is required.

Overview of the VFM audit approach (continued)

VFM audit stage	Audit approach
Financial statements audit	**Linkages with financial statements and other audit work** There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Council's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit. In practice, this work will involve a range of interviews with relevant officers, review of documents such as policies, plans and minutes, and testing of certain controls. We will make use of any self assessment the Council undertakes against the detailed characteristics. We will also have regard to the results of previous VFM audit work and any other relevant audit work undertaken in the year.
Residual audit risk	**Assessment of residual audit risk** It is possible that our financial statements audit and previous VFM audit work may provide the assurance we need for the VFM audit. However, it is likely that further audit work will be necessary in some areas to ensure comprehensive coverage of the two VFM criteria. To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion. In doing so, we will identify the most appropriate approach to address each residual audit risk that has been identified. At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. However, the range of options open to auditors are summarised on the next page.

Summary of VFM audit approach (continued)

We will identify what additional VFM audit work is required and, where relevant, draw upon the range of audit tools and review guides developed by the Audit Commission.

Overview of the VFM audit approach (continued)

VFM audit stage	Audit approach
Identifying further work	**Identification of specific VFM audit work** It is possible that we may not identify any residual audit risks and instead have obtained all the evidence and assurance required from our financial statements and other audit work. If so, no further work will be necessary prior to issuing the VFM conclusion. If we do identify residual audit risks, then we will consider the most appropriate audit response in each case, including: ▪ highlighting the risk to the Council; ▪ deferring any work because of current or planned work by the body or the Audit Commission, other inspectorates and review agencies (and/or considering the results of such work); or ▪ carrying out local risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
Local risk-based work	**Delivery of local risk based work** Depending on the nature of the residual audit risk identified, we will be able to draw on the following audit tools and sources of guidance when undertaking specific local risk-based audit work: ▪ local savings review guides based on selected previous Audit Commission national studies; and ▪ update briefings for previous Audit Commission studies. These are discussed in further detail in Appendix A. Any detailed work will also make reference to the detailed VFM characteristics, as appropriate, and any self assessment the Council may prepare against the characteristics. The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information. We will also consider the results of our follow up audit work on last year's Public Interest Report.

Summary of VFM audit approach (continued)

The output of the VFM audit is our opinion on the arrangements in place to deliver VFM, known as the VFM conclusion.

Overview of the VFM audit approach (continued)

VFM audit stage	Audit approach
Conclude on arrangements	**Concluding on VFM arrangements** At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	**Reporting** We do not plan to produce a separate report on the VFM audit, either overall or for any local savings reviews that we may undertake. Instead, we will report on the results of the VFM audit through our Interim Audit Report and our Report to those charged with governance. These reports will summarise our progress in delivering the VFM audit, the results and any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Council's arrangements for securing VFM). This will be delivered through the audit report that we issue on the Council's financial statements. The VFM conclusion will be one of the following: ▪ unqualified – meaning we are happy that in all significant respects the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of its resources; or ▪ except for qualification – meaning we are generally satisfied with the adequacy of the arrangements in place, except for one or more specific issues highlighted during the audit that relate to specific VFM criteria; or ▪ meaning we conclude that the Council does not have adequate arrangements in place. In practical terms, issues that would have led to a level 1 score under the previous UoR regime will continue to require auditors to consider the need for some form of qualification of the VFM conclusion.

Appendix A: Audit Commission VFM tools and review guides

The Audit Commission has developed a range of VFM tools and review guides that we can draw upon when undertaking VFM audit work on any detailed risk areas.

The local savings reviews are light-touch guides, with comparative data where available. Use of the tools and review guides is not mandatory and auditors are not therefore required to undertake work on the topics covered as a matter of course. The tools and guides will support auditors' work where we have identified a local risk through the risk assessment. Also, they can be applied flexibly so we may decide to only use them in part rather than fully, depending on the nature of the residual audit risk to be addressed.

Local savings review guides

The Audit Commission has developed the following local savings review guides which auditors can use to inform local VFM work on appropriate residual audit risks.

Review Guide	Description
Back to front: efficiency of back office functions in local government Link	The original 2008 national study found there were still opportunities for back office savings. The savings review guide focuses on arrangements to deliver savings including delivery arrangements, governance processes, plans and good information. The results of work on this topic may provide evidence for the VFM conclusion criterion on how organisations are challenging the way they secure economy, efficiency and effectiveness.
The efficiency challenge: the administration costs of revenues and benefits Link	The 2005 national study identified potential efficiency savings of £140 million. The savings review guide focuses on the arrangements needed to deliver these potential savings, including: ▪ delivery arrangements (for example in-house, contracted out or shared); ▪ governance; and ▪ good information. The results of work on this topic may provide evidence for the VFM conclusion criterion on how organisations are challenging the way they secure economy, efficiency and effectiveness.

Audit Commission national study update briefings

The Audit Commission has developed the following national study update briefings which auditors can use to inform local VFM work on appropriate residual audit risks:

- Room for improvement: A review of strategic asset management; and
- Positively charged: maximising the benefits of local public service charges.

If used, these update briefings will be useful when considering whether the Council is using sources of good practice to challenge arrangements for securing VFM (see securing economy, efficiency and effectiveness criterion). The *Positively charged* update briefing may also be relevant to the financial resilience criterion.

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Cheltenham Borough Council

Audit Committee – 23 March 2011

Internal Audit Annual Plan

Accountable member	**Cabinet member corporate services - Councillor Colin Hay**
Accountable officer	**Audit Partnership Manager – Robert Milford**
Accountable scrutiny committee	**Economy and business improvement**
Ward(s) affected	**All**
Executive summary	The Council must ensure that it has sound systems of internal control which facilitate effective management of all the Council's functions. The work planned by Audit Cotswolds, the Council's internal audit service, is one of the control assurance sources to the Audit Committee and Senior Leadership Team and which supports the work of the external auditor. The work is also a key component of the Council's governance framework and an assurance source supporting the Annual Governance Statement, which forms part of the statutory accounting standards. Following CIPFA's guidance on Audit Committees the Committee this evening should "*formally approve (but not direct) the internal audit plan*."
Recommendations	**The Audit Committee approves the Internal Audit Plan for 2011/12**

Financial implications	There are no financial implications arising from this report. **Contact officer: Mark Sheldon, Chief Finance Officer** **mark.sheldon@cheltenham.gov.uk,** **01242 264123**
Legal implications	None specific arising from the report recommendation. **Contact officer: Peter Lewis, peter.lewis@tewkesbury.gov.uk, 01684 272012**
HR implications (including learning and organisational development)	No additional HR implications arising from this report. **Contact officer: Julie McCarthy, HR Operations Manager** **julie.mccarthy@cheltenham.gov.uk,** **01242 26 4355**

Key risks	The audit plan has been derived from consultation with the Senior Leadership Team and through the reference to relevant policy, strategy and protocol documents including the risk register. The plan is designed to capture key and emerging risks that this Council faces over the year and therefore the plan will remain as flexible as possible to ensure internal audit resources remain focused and valued. Internal audit activity is needed each year to satisfy assurance requirements. For example, internal audit review key financial systems annually because the external auditors rely on this in their own work on final accounts under the Joint Working Agreement. In addition, the requirement for the Council to review its system of internal control and governance procedures means that assurance is required on systems and procedures relating to the compilation of the Annual Governance Statement. If this work is not completed by the Internal Audit additional fees from external audit may be incurred. Furthermore Internal Audit is a statutory function under the Accounts and Audit (Amendment)(England) Regulations 2006, in that a relevant body must: "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control." The risk of failure to deliver core elements of the plan will be mitigated through the Partnership Board monitoring process. The representative from Cheltenham BC is Mark Sheldon (Director of Resources). The Partnership Board's terms of reference were noted by Audit Committee on the 30th September 2009. Furthermore Audit Committee will continue to receive quarterly reports through 2011/2012 from Internal Audit detailing the work undertaken in relation to the plan.
Corporate and community plan Implications	The delivery of an effective internal audit service supports the control arrangement across the Council's priority areas. This is identified in the audit plan

1. Introduction

1.1 The environment in which Cheltenham BC and other Local Authorities now operates has presented significant drivers for change. The continual effort to meet the organisational objectives within a constrained budget has resulted in core systems coming under review for change e.g. the Go Programme impacting on core financial systems, Shared Services impacting on core governance arrangements, etc.

1.2 Therefore Internal Audit needs to be responding to the changing environment and the areas where the organisation now requires assurances. This reinforces the requirement for Internal Audit to follow a more flexible and risk based plan.

1.3 It should also be recognised that the service is now a three-way partnership so coordinating resources across multiple organisations is critical to the success of the partnership

2. Annual Plan

2.1 The development of the annual plan has been aligned with the corporate and service risks facing the Council as identified in consultation with the Senior Leadership Team and supported by such systems as the risk registers. At the time of preparing the 2011/12 internal audit plan, the Councils Corporate Strategy 2010-2015 was being updated and, as internal audit is there to help the organisation to achieve objectives, part of the plan has been aligned to elements of this strategy. However, to inform the audit plan we have also reviewed other key documents, such as the Medium Term Financial Strategy and change programme agendas.

2.2 There is also a requirement to support the work of the External Auditor (KPMG). This is in the form of financial audits governed by the Joint Working Agreement, and the governance audits to support such activities as Use of Resources.

2.3 The audit plan also needs to consider risks that may evolve during the year. The consultation process has sought to identify these areas considering where internal audit could support and add value to the risk control process.

2.4 The economic climate is expected to continue to impact on the work of audit in the following ways; the increasing risk of fraud, the impact on discretionary income areas (car parks, leisure, tourism), the increase in benefit claims and pressure on claim processing times and accuracy and the risk to collection rates for Council Tax and NNDR.

2.5 In-year processes:

The plan outlines a preferred programme of work, but it is not ‘set in stone’. Following on from the risk based theme the assessments made at the planning stage may well differ during the year. With this in mind the Audit Partnership Manager will rely on feedback from SLT, the Programme / Project Boards on new and evolving risk areas, and areas where the control environment will change as a result of changes in management arrangements, working practice and externally driven change. This is particularly relevant in 2011/2012 with the projects driven by the multiple change programmes including, for example, the GO Programme and Strategic Commissioning. Significant variance from the plan will be identified to Audit Committee through the quarterly monitoring reports.

2.6 Value for Money (VFM):

VFM is an important feature of internal audit work and exploring opportunities for improving VFM is a feature of all audits undertaken. Specific provision has been made in the plan to continue to provide input to the Council’s ‘Bridging the Gap’ work streams and any other work linked to service reviews.

2.7 Audit partnership working (update):

During 2010/11 the partnership audit service with Cotswold District Council expanded to include West Oxfordshire District Council. The most significant operational change in the short term has been the inclusion of new auditors from the third partner and newly recruited staff to replace those already leaving (retirement). Given the outline proposals for partnership working over the coming year I do not anticipate a significant reduction in available audit resource.

2.8 Another significant change to the structure of the Internal Audit Service is that the Director of Resources is now the representative for Cheltenham Borough Council the Audit Partnership Board. The Audit Partnership Manager is now the Head of Internal Audit for Cheltenham Borough Council. The quarterly reports to Audit Committee will continue to be used assist the Audit Committee in the monitoring of the audit partnership and its activities.

2.9 Appendix 1 shows the annual audit plan for 2011/2012 and is broken down into three categories:

- Core Financial Audits (CFAs)
- Core Governance Audits (CGAs)
- Risk Based Audits (RBAs)

2.10 The CFA work is fundamental to the work requirements of the Joint Working Agreement with the External Auditor (KPMG) and, as such, this work must be delivered annually. CGA work is key to supporting the organisation as a public body and the requirements of such reports as the Annual Governance Statement. RBA work is where flexibility is expected. Currently RBA reflects the key risks identified for 2011/2012, however, it will remain subject to review to ensure it continues to reflect the risk and enables assurances to be given over the controls in place to mitigate these risks. Finally, Health Checks days are available as part of a contingency for capturing short or responsive work by Internal Audit that does not necessarily go to the depth required to gain a formal opinion.

3. Possible changes to the Annual Audit Plan & Resources

3.1 There are no additional changes to report to the Audit Committee at this time. However, the Audit Committee will continue to receive a monitoring report that will notify the committee of any significant variance in resources or changes to the plan.

4. Conclusion

4.1 Audit Cotswolds has been established, with effect from 1st November 2010, as a three-way audit partnership. The annual plan is to be delivered by the Audit Partnership.

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Appendices : 1. Internal Audit Monitoring Report

Background information:

Appendix A

Cheltenham Borough Council Annual Audit Plan 2011/12

	Core Financial & Core Governance Audits	**Risk Based Audits**	**Risk Based Audits**
Apr	Governance Compliance	Museum	Commissioning (overview)
May	AGS Review Risk Management	VFM Study	Environmental Protection and Enforcement
June	Performance Indicators	Information Technology	
July	Cash Receipting	Development Control Planning Applications (fees)	Commissioning (specific projects)
Aug	Capital Expenditure	Business Continuity Management	Health and Safety
Sept	Council Tax	Garden waste	GO Programme Implementation
Oct	National Non Domestic Rates	Bridging the gap	Information Management & Data Security
Nov	Housing and Council Tax Benefits	Partnership Working	
Dec	Payroll	Equalities	Change Programme
Jan	Debtors Creditors		GO Programme Implementation
Feb	Main Accounting Systems and Treasury Management	Environmental audit – follow-up	
Mar	Performance Indicators	Petty Cash RIPA	National Fraud Initiatives

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Audit Committee – Work Programme 2011-12

23 March 2011			
Date of meeting: 23 March 2011	**Agree agenda by:** w/c 14 Feb 2011	**Complete reports:** 11 March 2011	**Despatch:** 15 March 2011
Review of Corporate Risk process and a revised Risk Management Policy			Bryan Parsons
Internal audit plan – outline plan for internal audit activity for year ahead			Rob Milford
Public Interest Report action plan monitoring report – update on progress on action plan.			Sara Freckleton
Consider any governance issues arising from commissioning			Jane Griffiths
Value for Money – audit plan			KPMG
22 June 2011			
Date of Meeting: 22 June 2011	**Agree agenda by:** w/c 16 May 2011	**Complete reports:** 10 June 2011	**Despatch:** 14 June 2011
Review of Annual Statement of Accounts			Mark Sheldon
Annual governance report – conclusion and analysis of work collated in arriving art the annual governance statement supporting the Statement of Accounts.			Jane Griffiths
Annual internal audit report – conclusion from annual work of internal audit division.			Rob Milford
KPMG Interim audit report 2011/12 – summarises the results of KPMG's interim audit testing, including testing of financial and other controls.			KPMG
KPMG feedback on Public Interest Report – follow up			KPMG
Audit fee letter 2011/12 – sets out high level audit strategy and fee for 2011/12 audit (NB: depending on timing this may go to June)			KPMG
21 September 2011			
Date of meeting: 21 September 2011	**Agree agenda by:** w/c 08 August 2011	**Complete reports:** 09 September 2011	**Despatch:** 13 September 2011
Year end – Audit Committee reporting			KPMG
11 January 2012			
Date of meeting: 11 January 2012	**Agree agenda by:** w/c 28 November 2011	**Complete reports:** 30 December 2011	**Despatch:** 03 January 2012

21 March 2012			
Date of meeting: 21 March 2012	**Agree agenda by:** w/c 06 February 2012	**Complete reports:** 9 March 2012	**Despatch:** 13 March 2012
20 June 2012			
Date of meeting: 20 June 2012	**Agree agenda by:** w/c 7 May 2012	**Complete reports:** 8 June 2012	**Despatch:** 12 June 2012
Future items			
Changes to the appointment process for an external auditor (abolition of the Audit Commission)			
Corporate Strategy 2011/12 – consideration of governance issues			

Briefing Notes

Committee name: Audit Committee

Date 23rd March 2011

Responsible officer: Bryan Parsons

Corporate Governance Group

This briefing paper contains information to keep Members informed of matters relating to the work of the Committee, no decisions are required but members can make comments on the work of the group or suggestions for additional action.

1. Why has this come to Audit Committee?

1.1 To update the Committee on the work of the Corporate Governance Group (CGG).

2. Summary

2.1 The council has a statutory duty to prepare an annual governance statement (AGS) to be approved as part of the annual statement of accounts. The AGS includes a Significant Issues Action Plan (SIAP); this is approved by the Audit Committee and indicates how the council is complying with the code of corporate governance including internal control arrangements. The audit committee need to satisfy itself that the AGS fairly reflects the arrangements within the council.

2.2 The CGG which is chaired by the Chief Executive and routinely meets to;

- monitor and challenge the internal controls (Annual Certificates of Assurance checklist),
- monitor progress against any recommendations that arise from external audit assessments,
- consider progress against the SIAP; and
- monitor the risk management procedures.

The minutes of the CGG since the last the last Audit Committee are being provided to the Audit Committee so that they will have a more informed view of the issues when the AGS is presented to it for approval.

3. Conclusion

The CGG have agreed terms of reference and considers information from a range of internal control sources and assurance checks. These issues and the outcomes from the checks are placed within appropriate action plans, discussed and monitored. The CGG would welcome any comment or input from the audit committee on progress against the action plan or items recorded within the CGG minutes.

4. Summary of supporting information

- Appendix 1 minutes of the Corporate Governance Group meeting on the 3rd February 2011

5. Further information

5.1 If you require any further information on any of these issues please contact

Bryan Parsons - Policy officer - governance on 01242 264189 or

bryan.parsons@cheltenham.gov.uk

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Corporate Governance Group
Minutes
3rd February 2011
2.00 pm Sherbourne Room

Item	Subject	Notes
1	Apologies;	Apologies from Sarah Freckleton and Amanda Attfield Julie McCarthy attended in AA absence.
2	Minutes of the last meeting 9th December 2010	The minutes were agreed Under matters arising MS said that he still need to contact Councillor. It was agreed that the following be carried forward. *JG said that MS was now the councils rep on the Audit Partnership board and that she had been asked how the portfolio member could become more engaged in what was taking place. MS said that he would discus that matter with the councillor Hay to see the request and involvement.*
3	Assurance Certificates -- Timetable	BP circulated draft timetable for the annual assurance process and RM requested that an action be added for the assurance review by Internal Audit. BP agreed
4	Significant Issues Action Plan	The significant issues action plan was considered and it was noted that the Risk management training tool had been completed and should be online by April. JM updated the group with regard to capacity issues within the payroll section these were still ongoing and likely to remain an issue until the Go partnership goes live.
5	RIPA - Interception of Communications Commissioner - request for information - SPoC	BP updated the group with regard to guidance that had been circulated with regard to a government report on the use of RIPA. It suggested that RIPA should only be used where serious crime is suspected and that if proven could result in a minimal jail term of 6 months. Guidance had been circulated to trained staff advising them of this. BP advised that the ICC had written requesting data and a return had been made indicating that the SPoC powers had never been used. Following discussion it was agreed that a trained SPoC officer was not required and that the matter would be reviewed in 12 months or if a need arose.

6	Corporate Risk - Policy review - Intranet info	It was agreed that the Risk Management Policy should be reviewed and taken to the next Audit Committee BP to action. The group noted that the intranet pages on risk management had been updated to reflect the new Corporate Risk Register AN led a discussion on RISK management/ governance and the new senior management structure. JG and MS to arrange a meeting with RM and BP
7	CCG – Terms of reference Localism Bill Chapter 3 Governance arrangements - New structure - Audit committee - Shared services - Commissioning - partnership arrangements	RM led a discussion took place with regard to the ongoing review of the constitution, commissioning, shared services and the draft localism Bill. It was agree that Onelegal should be asked to consider producing some form of aide memoir to help staff understand what was being done to update the constitution and what is required in respect of governance arrangements for partnerships and shared services. AN asked that Onelegal be reminded that the Borough Solicitor or a deputy should attend CGG meetings so that guidance and input on constitutional and legal matters could be advised upon
8	Transparency - Current position - Organogram - What's next	BP advised that the Transparency group had published information on spending and salaries in-line with government guidance. The next step was to publish information on contracts and tenders and a meeting had taken place put steps in place to facilitate this. However that because of maternity leave and planned sick leave there was a capacity issue and it was unlikely that the publication of this information would take place before August. The group considered the draft Organogram was a good means of pulling together all of the information required to support publication of divisional structures and job descriptions. BP will discus further with JM and take to SLT.
9	AOB	None
10	Date of next meeting 3rd March 2011	