



INFRASTRUCTURE, GOVERNMENT AND
HEALTHCARE

External Audit Progress Report

Royal Borough of Windsor
and Maidenhead

18 February 2010

AUDIT

External Audit - Audit & Performance Review Panel Progress Report

<p>Summary of work performed in the last quarter</p>	<p>Since the last meeting of the Audit and Performance Review Panel, we have undertaken the following elements of the Audit Plan:</p> <ul style="list-style-type: none"> • Risk Management Review: We have finalised the report and obtained management responses ;and • 2009/10 External Audit Plan: We have finalised our audit plan to cover the 2009/10 programme of work. We have undertaken the initial planning work to inform this. 		
<p>Risk management review summary</p>	<p>The revisions that have been made to your Risk Management Framework have further strengthened your arrangements. We identified five recommendations, none of which were high risk and three have been actioned. Those outstanding include:</p> <ul style="list-style-type: none"> • Links to Borough Strategic Plan: a better defined link between the risk management process and the strategic plan should be demonstrated to provide both Cabinet and the APRP with assurance that all strategic risks have been identified and are being managed (Insurance and Risk Manager – August 2010) • Capturing opportunities: At present only downside risks are captured in the risk management process, rather than opportunities and risks that need to be managed going forwards. Management should ensure training is provided to risk owners on how to capture opportunities. Guidance has been developed and it is being considered how to take this forward at the Authority (Insurance and Risk Manager – September 2010) 		
<p>Summary of work planned for the next quarter</p>	<p>Our work over the next quarter will focus upon:</p> <ul style="list-style-type: none"> • Undertaking the interim audit, as part of our 2009/10 accounts audit; and • Starting our Use of Resources work for 2009/10 to update our findings from 2008/09 and obtaining the information where Key Lines of Enquiry have changed from the prior year. 		
<p>Performance Improvement Observations</p>	<ul style="list-style-type: none"> • No new performance improvement observations have been raised since the last meeting. 		
<p>Actions</p>	<p>The Audit Panel is asked to</p> <ul style="list-style-type: none"> • Note the progress outlined above; and • Approve the 2009/10 external audit plan. 		
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LOCAL GOVERNMENT

Royal Borough of Windsor and Maidenhead

Financial Statements Audit Plan

January 2010

PUBLIC SECTOR AUDIT

Contents

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in connection with this
report are:**

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to 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 audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body'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 Neil Thomas, who is the engagement director to the Authority, telephone 0207 311 1379, email neil.thomas@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email 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 Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

Summary

Our audit is divided into:

- use of resources; and
- financial statements.

This document describes how we will deliver our audit work for the Royal Borough of Windsor and Maidenhead.

Our statutory responsibilities and powers are set out in the Audit Commission Act 1998, The Local Government Act 1999 and the Audit Commission's *Code of Audit Practice (the Code)*.

The Audit Commission's Code summarises our responsibilities into two objectives, requiring us to review and report on your:

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

The Audit Commission's Statement of Responsibilities of Auditors and Audited Bodies sets out the respective responsibilities of the auditor and the Council. The table below summarises the work will do in response to the risks identified this year.

Our Responsibility	Risks, Proposed work and output
Financial Statements and Annual Governance Statement (page 6)	<p>Key risks identified are as follows:</p> <ul style="list-style-type: none"> • Valuation of the authority's assets, especially in light of the continuing economic uncertainty. • Work towards full implementation of IFRS for the 2010/11 accounts. <p>Our work will encompass:</p> <ul style="list-style-type: none"> • Review of the controls over the completion of the accounts. We will rely on Internal Audit wherever possible to avoid duplication. • A detailed audit of the financial statements, associated disclosure notes and the Annual Governance Statement. • Review of property valuations undertaken in the year and scrutiny over the assumptions underlying any impairment of assets. • Review of your IFRS transition balance sheet, already underway, on which we will provide feedback to inform your eventual full transition to IFRS reporting. <p>The findings of this work support the audit opinion that we issue on your financial statements.</p>
Use of Resources (page 8)	<ul style="list-style-type: none"> • Use of Resources Assessment of managing finances, governing the business and managing resources. These judgements are combined to give an overall use of resources score. Last year the Council scored 3 from a maximum of 4. • We have maintained dialogue with officers and have kept up to date with developments at the Council. Our use of resources work has been adapted to respond to the changing risk environment within which the Council Operates. Based upon our local risk assessment and discussions with staff we have identified we will undertake a review on Safeguarding Children at the Authority. <p>The conclusions of this work will inform our value for money conclusion and will also feed into the Audit Commission's Corporate Area Assessment.</p>

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. The remainder of this document provides details of our risk assessment, proposed work and fees for our work on the financial statements audit. It supplements the high level audit plan presented earlier in the year.

We will outline the scope and approach of our Use of Resources work in separate reports during the year.

Audit overview

We undertake our work on your financial statements and Annual Governance Statement (AGS) in four key stages.

Our work results in our audit opinion on your financial statements.

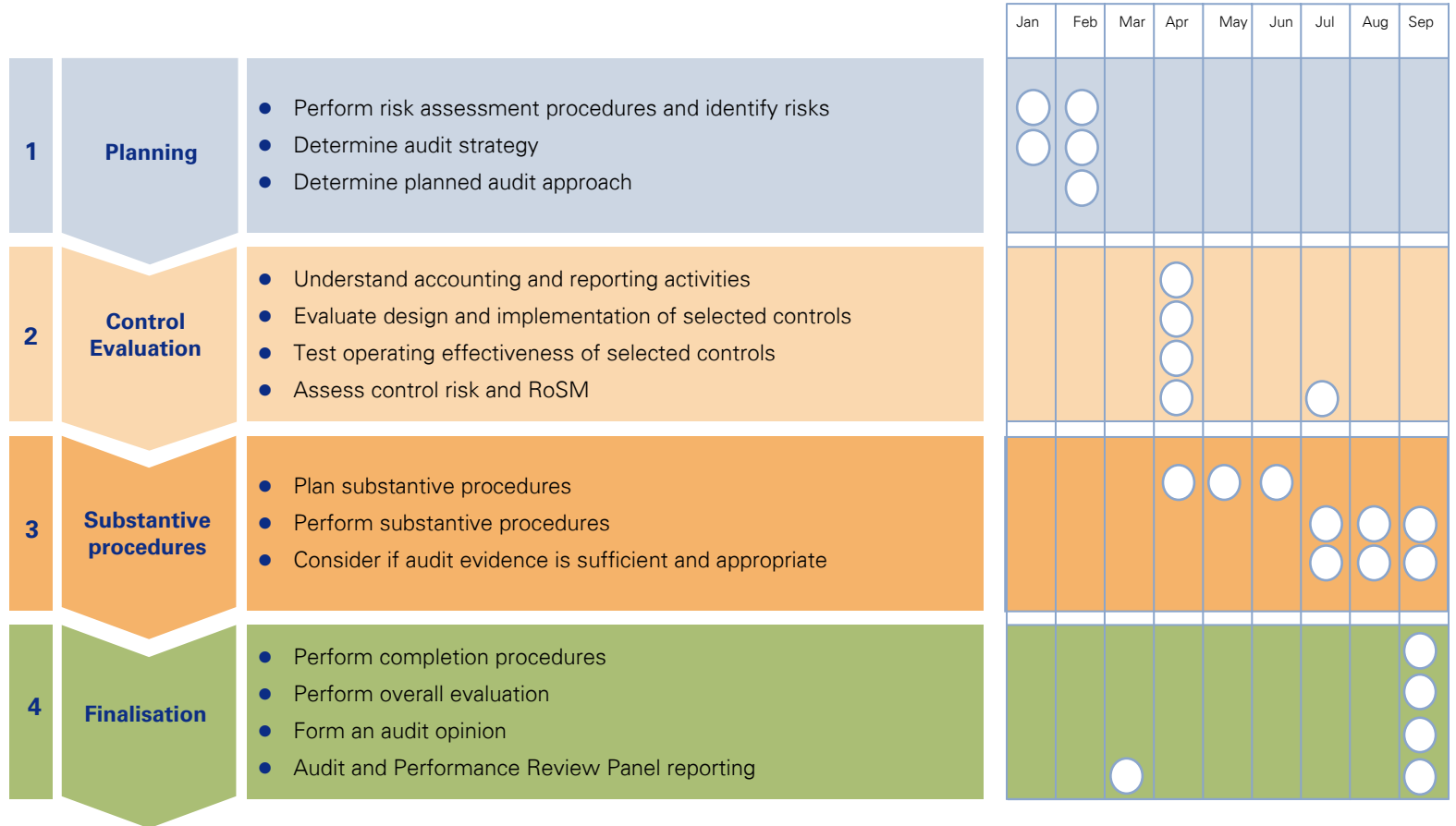
We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We are required to provide an audit opinion on the accounts.

We are also required to satisfy ourselves that your AGS is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this opinion.

In addition to the Council's financial statements, we are also required to audit and provide an opinion on the Whole of Government Accounts.

Our Audit Process

We have summarised the four key stages of our financial statements audit process for you below:



We work with your finance team and internal audit team to enhance the efficiency of the accounts audit.

Our Audit Process (continued)

As part of our audit process, we will work closely with the finance team to understand and continually improve the accounts production process. At the planning stage of our audit we will issue the Council with a 'prepared by client' list which will include a detailed schedule of information requests to support the financial statements.

Our audit procedures also include an assessment of your arrangements to deliver your responsibilities to prevent and detect fraud. The auditing standard for fraud, ISA240 (revised), responds to the increased sensitivity to fraud and the importance given to auditors' work on fraud. Additionally, the Fraud Act 2006 and the Government Review of Fraud 2006 may impact on your responsibilities to manage fraud.

Liaising with internal audit

We will continue to work closely with Internal Audit to maximise the effectiveness of their work on core financial systems and governance at the Council.

Determining materiality

- We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures.
- Materiality is calculated as a proportion of total revenues or total assets.

Reporting to Audit and Performance Review Panel

- To comply with auditing standards, the following three types of audit differences will be presented to the Audit and Performance Review Panel:
 - summary of adjusted audit differences;
 - summary of unadjusted audit differences; and
 - summary of disclosure differences (adjusted and unadjusted).

We work with your finance team and internal audit team to enhance the efficiency of the accounts audit.

Whole of government accounts (WGA)

KPMG are required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. The 2009/10 WGA consolidated pack will need to be produced in accordance with the International Financial Reporting Standards (IFRS).

National Fraud Initiative

The Council participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. During our audit we will review the Council's progress and actions in following up the matches identified.

Certification of grant claims and returns

KPMG will continue to certify the Council's claims and returns on the following basis:

- claims below £100,000 will not be subject to certification;
- claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
- claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

Elector Challenge

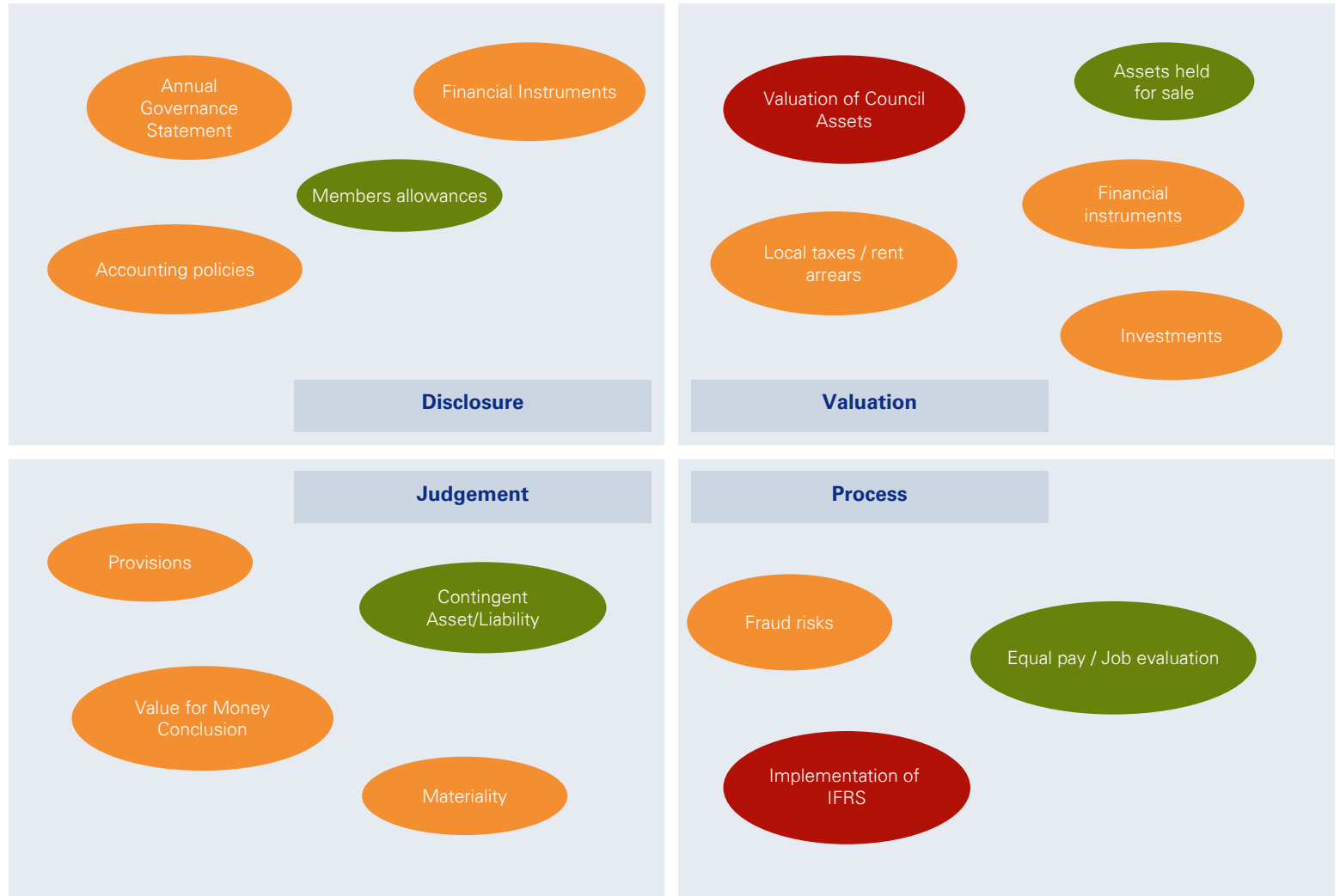
The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised. The costs incurred in responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Key financial statement audit risks

These are the key financial statement risks identified for 2009/10. We seek to tailor our audit approach to reflect this.






■ High ■ Medium ■ Low

Some of the key issues highlighted above are discussed overleaf

Key financial statement audit risk

For each key risk audit area we have outlined the impact on our audit plan.

We will provide an update to the Audit and Performance Review Panel on these risk issues.

KEY audit risks	Impact on audit plan
 <p>Valuation of Council Assets</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> • Tangible fixed assets 	<p>Valuation of Council Assets</p> <ul style="list-style-type: none"> • We will review third party valuations obtained by the Council to ensure that asset values have been correctly recorded in asset registers and the financial statements. • We will assess valuation assumptions for appropriateness. • We will review the Council's processes for identifying assets which may require impairment and consider whether these impairments have been accounted for correctly within the financial statements.
 <p>Local taxes / rent arrears</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> • Debtors • Collection fund 	<p>Local taxes / rent arrears</p> <ul style="list-style-type: none"> • We will critically review the level of bad debt write offs and bad debt provisioning at the year end. • We will perform a trend analysis of the level of balances over the last financial year and compare the Council's performance to similar organisations.
 <p>Implementation of IFRS</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> • Financial statement presentation 	<p>Implementation of IFRS</p> <ul style="list-style-type: none"> • We will review the Council's progress on implementing IFRS against its detailed convergence plan. In particular we will consider the steps taken to restate opening balances. • We will hold regular discussions with officers to identify areas of pressure where difficulties are being experienced. We will offer support and guidance during the convergence process. We are currently reviewing the restated balance sheet and will provide feedback on this.

Our use of resources work will involve assessing the Council against managing finances, governing the business and managing resources. These judgements are combined to give an overall use of resources score.

This work will inform our value for money conclusion on your arrangements for securing economy, efficiency and effectiveness.

We have a responsibility to assess the extent to which you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We give a positive conclusion on whether or not arrangements are satisfactory. To fulfil this responsibility we are required to review your corporate performance management and financial management arrangements. We will also follow up recommendations from previous years to assess progress.

Use of Resources

Use of resources is an Audit Commission assessment of how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people. 2009/10 is the second year that the Council will be assessed under the Use of Resources.

The assessment forms part of the comprehensive area assessment (CAA) framework as well as other relevant performance assessment frameworks. It is carried out yearly by appointed auditors as part of the external audit.

Auditors produce a judgement for each of the following three themes:

- managing finances - focusing on sound and strategic financial management;
- governing the business - focusing on strategic commissioning and good governance;
- managing resources - focusing on the effective management of natural resources, assets and people

Auditors reach judgements on these themes by considering specified key lines of enquiry (KLOE).

Approach for 2009/10

The Audit Commission has made a commitment that auditors' work on the 2009/10 use of resources assessment will be proportionate and build on existing evidence.

To ensure continuity for year 2 of the assessment, the use of resources framework, including the key lines of enquiry (KLOE), has not changed. However, the Commission expects auditors to take a risk-based approach that builds on the baseline established in 2008/09, against which auditors will assess progress.

For KLOE assessed in 2008/09, auditors need to address two simple questions:

- what has changed in 2009/10?; and
- what difference have those changes made in practice?

Our work on Use of Resources also includes that data quality work which was previously undertaken as a separate exercise within the Authority.

Other specific work

In addition to the above work we have also proposed to undertake a specific locally tailored review of the safeguarding children cost pressures at the Authority. We are currently working with senior officers to scope this assignment.

Audit Team

As you are aware, there have been some changes to our audit team from last year. Contact details are shown on page 1.

The audit team will be assisted by other specialist KPMG staff as necessary.



Neil Thomas
Engagement Lead

My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit and Performance Review Panel and the Chief Executive.



Nick Rolfe
Audit Manager

I will direct and help coordinate the audit and will work closely with Neil to ensure we add value. I will be the main contact for the Head or Finance and other executive directors.



John Lester
Audit Assistant Manager

I will be your day to day contact and will work closely with Nick to deliver a coordinated and efficient audit.

Audit Fees

The audit fee has been prepared to reflect an estimated low than that suggested by the Audit Commission. It also presents a reduction in the overall fee charged to the Council when compared to 2008-09

Our fee is calculated with reference to a number of factors including your turnover and our assessment of audit risk and control environment. The increase over 2008/09 is 3.4%.

Element of the audit	2009/10	2008/09
Audit of Financial Statements		
Accounts (Systems and Final)	£125,000	£108,000
Use of Resources		
Use of Resources assessment	£55,000	£61,500
Risk-based work supporting the VFM conclusion	£25,000	£30,000
Certification of claims and returns (estimate)	£37,000	£45,000
Whole of Government Accounts	£3,000	£4,500
Pension fund audit	£65,000	£65,000
TOTAL	£310,000	£314,000

To enable you to benchmark our fee proposal we provide below some comparative information. Please note that the nature of the locally determined work changes each year so that direct comparison between years may not be valid. Also note that the figures below do not include the estimated fee for grants work.

Source of fee comparative / benchmark	RBWM Accounts	Pension Fund
Audit Commission suggested fee	£227,248	£70,900
2009/10 audit fee	£208,000	£65,000

Audit Fees (continued)

Our audit fee is indicative and based on you meeting our expectations of your support as outlined in Appendix 1.

Meeting these expectations will help to the delivery of our audit within the proposed audit fee.

Audit fee assumptions

The audit fee indicative and is based on you meeting our agreed expectations as outlined in Appendix 2. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the CIPFA SORP within your 2009/10 financial statements;
- your financial statements are made available for audit in line with the agreed timescales;
- good quality working papers and records will be provided at the start of the final accounts audit;
- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Head of Finance.

Audit Timeline & Deliverables

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agreed each report with the Council's officers prior to publication.

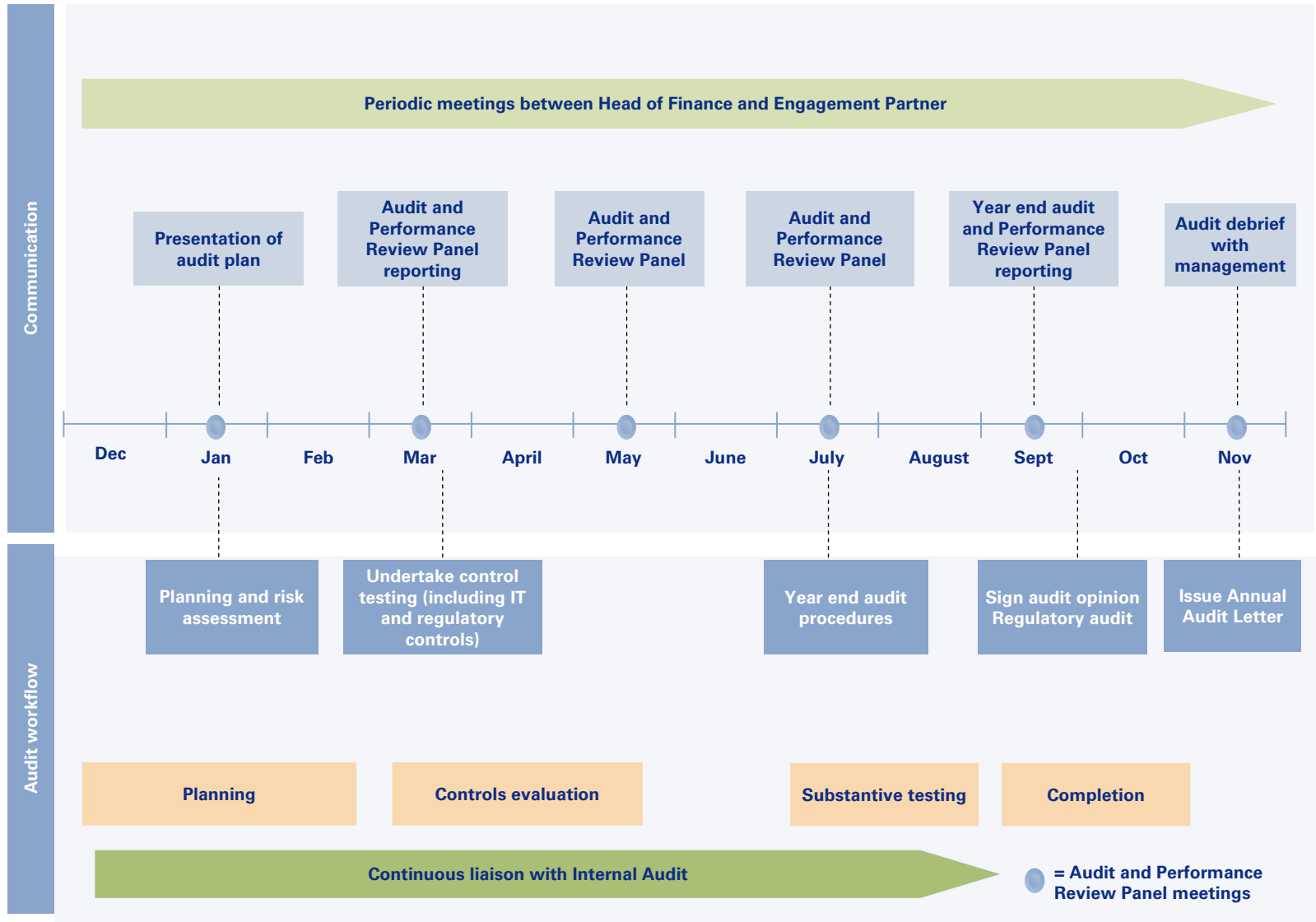
Deliverable	Purpose	Timing
Planning		
Audit plan	<ul style="list-style-type: none"> Outline audit approach 	January 2010
	<ul style="list-style-type: none"> Identify areas of audit focus and planned procedures Confirm plan with Audit and Performance Review Panel 	February 2010
Interim		
Interim findings	<ul style="list-style-type: none"> Details and resolution of control and process issues 	April 2010
Year end audit		
Report to those charged with governance (ISA 260)	<ul style="list-style-type: none"> Auditor's report on RBWM's financial statements Auditor's report on RBWM's value for money Auditor's report on RBWM's use of resources Detail the resolution of key audit issues Communication of adjusted and unadjusted audit differences Performance improvement recommendations identified during our audit 	September 2010
Opinion on financial statements	<ul style="list-style-type: none"> To provide assurance the financial statements are free from material misstatement 	September 2010
Annual audit letter	To bring together our findings from our work in a report to be published and available to the public	December 2010
Use of Resources		
ISA 260	<ul style="list-style-type: none"> As above 	
Safeguarding children	<ul style="list-style-type: none"> Specific risk based audit to support our value for money conclusion 	

Audit Timeline & Deliverables (continued)

Key formal interactions with the Audit and Performance Review Panel are:

- Jan/Feb: Audit plan
- March: Interim issues
- September: Year end conclusions

We will be in continuous dialogue with you throughout the audit.



Appendix 1: Meeting your expectations

How we will conduct ourselves

Communications

- We will be proactive in developing relationships with your staff where our audit work requires their input.
- We will ensure that all letters and emails are answered within five working days of receipt. All telephone messages received will receive a response within 24 hours, either by the individual concerned or Nick Rolfe.
- We will ensure that all recommendations, and in particular those relating to our performance management work, are included within our Annual Audit Letter only after having been agreed with relevant Directors.
- Neil Thomas or Nick Rolfe will attend all Audit and Performance Review Panel meetings and ensure that other relevant KPMG staff are invited as appropriate.

Working together

- We will ensure that the Director of Finance, Chief Accountant and other key members of staff are kept informed of the progress of our audit work throughout the year.
- We will liaise with staff at all levels of the Council to ensure that our work is appropriately planned and completed and where recommendations are made these are agreed with the likely responsible officer.

Cooperating with the Council

- We will continue to coordinate our work with that of internal audit and ensure that we provide appropriate proactive commentary to the finance function on issues that affect the Council's accounts.
- We will respond promptly to requests for comment on aspects of the Council's operations, where appropriate.

Our expectations of your support

Audit Plan

- Brief our staff on key issues affecting the Council.
- Review and agree the draft plan.

Interim Audit

- Facilitate the completion of internal audit's work (particularly on core financial systems) to timetable.
- Ensure that key officers are available for the duration of our audit.
- Respond to and agree our draft reports in good time.

Accounts Audit

- Ensure that a full draft of the accounts is available at least one week prior to the agreed start date of our audit, and that only agreed adjustments are put into the accounts following receipt of this draft.
- Produce the documents listed within our prepared by client request by the agreed start date of our audit.
- Ensure that the mandatory content of the Annual Report is available at the agreed time of our final account audit.

Annual Audit Letter

- Discuss and agree our draft Annual Audit Letter in good time for the Audit and Performance Review Panel.
- Ensure that all action plans are agreed and followed up in due course.

Other work

- Agree a key Council contact as a focal point for the study or work.
- Discuss and review our findings so that action plans can be fully completed and implemented.

Appendix 2: Independence and objectivity requirements

This appendix summarises the auditor's responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.
- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Appendix 3: Sustainability

This appendix summarises the auditor's commitment to sustainability.

Sustainability

The Audit Commission is committed to promoting sustainability in working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate;
- reducing travel; and
- other initiatives.

KPMG are also taking steps to improve our environmental performance. Achievements to date include:

- all offices certified ISO14001, the leading international standard for environmental management systems;
- our Responsible Consumption programme enables our people to actively contribute to the firm being environmentally responsible;
- more than 40 percent of paper purchased is recycled paper;
- over 90 percent of the electricity used in buildings is now from renewable sources; and
- some 1.8 million travel miles have been saved through car sharing schemes and 1.5 million miles have been saved through audio and video conferencing.



INFRASTRUCTURE, GOVERNMENT &
HEALTHCARE

Risk Management Review

Royal Borough of Windsor
and Maidenhead

18 February 2010

AUDIT

Content

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Distribution

To (for action):

Steve Mappley – Insurance and Risk
Manager

cc (for information)

Catherine Hickman – Head of Audit
and Review

This report is provided pursuant to the terms and conditions of our engagement. The disclosure and review of this document should be made in line with the agreements that we have already reached with Royal Borough of Windsor and Maidenhead within our engagement letter.

Executive Summary

Conclusion

The revisions you have made to your Risk Management Framework have further strengthened your arrangements. We have identified additional enhancements for you to consider, such as ensuring appropriate cross-reference between other risk related processes and documents (such as business continuity, for example) and your Risk Management Strategy and Policy. There should also be greater clarity over the links between strategic objectives and related risks, and the sources of assurance over how these are being appropriately managed. Our review of your risk management arrangements at an operational level has identified inconsistencies in the embeddedness of arrangements, and a need for risk consideration and management to be incorporated at an earlier point in the planning stages for new projects or team structures.

Context

Past performance is not necessarily a reliable pointer to the future. Risk management is a vital tool which organisations can use in forecasting and understanding their future. Furthermore, good risk management procedures are essential to ensure organisations are able to achieve strategic and operational objectives. As part of the Comprehensive Area Assessment (CAA), there is also an expectation that risk management arrangements are robust and embedded across the whole organisation.

In recent years The Royal Borough of Windsor and Maidenhead ('the Council') have undertaken a significant amount of work in developing its risk management framework, including the appointment of senior officers as Risk Champions, and formalising member responsibility for risk management. In addition, as of 1 April 2008, risk management training has been mandated within the staff induction process and a programme of member training was implemented. Our work will confirm that risk management systems and processes are operating in accordance with the Risk Management Strategy. As an organisation, you recognise that further work is required to ensure that your processes are embedded and fully understood by staff throughout the Council,.

Embedding risk management is an evolutionary process and we will ascertain the Council's "risk maturity" through assessment of the extent to which your risk management framework is linked to strategic and operational management and is used proactively as a management tool. Our work will also review your risk management arrangements against leading practice and compare the consistency of approaches, to risk management, that have been adopted within the four directorates, thereby assessing the level to which risk management is embedded across the organisation.

Objectives

The objectives of our work, as agreed with you in the terms of reference are outlined in the table below:

Objective	Summary of aims
Objective one: Systems and processes	We have reviewed: <ul style="list-style-type: none"> • The processes that you have in place for identifying key risks at a strategic and operational level (both general risks and those arising as a result of specific circumstances) and that the completeness and appropriateness of these risks is reviewed on a regular basis; • Whether appropriate mitigating controls/strategies have been identified for each risk, and whether sources of assurance over the successful application of these are in place and regularly reviewed; • Risks and mitigating controls to assess whether they are properly recorded and reported in order that Cabinet has assurance that risks are not materialising; • Reporting of risk at different levels of the organisation to ensure appropriateness; • Whether risk management is linked to strategic and operational management and is used as a proactive management tool; • The extent to which performance monitoring and risk management are linked; and • Whether overall governance structures surrounding risk management are appropriate.
Objective two: Embeddedness and compliance	We have considered the extent to which your risk management processes are embedded across the whole organisation, and that risk is being managed on a consistent and robust basis at all levels of operations

Executive Summary (cont)

Areas of Good Practice

We have identified the following areas of good practice during our review:

- ✓ A formally defined Risk Management Strategy and Policy is in place, that has been reviewed by Cabinet and the Audit and Performance Review Panel. This sets out how risks are identified, assessed and graded as well as roles and responsibilities of members and officers;
- ✓ Members are engaged in all aspects of the risk management process, with the Audit and Performance Review Panel being defined as having overall responsibility for Risk Management;
- ✓ Twelve key strategic risks have been identified and reviewed by Cabinet and the Audit and Performance Review Panel. For each risk, impacts and probability have been considered, and a risk owner and responsible member identified; and
- ✓ Operational risks are considered at service level and are reviewed at quarterly Department Management Team meetings, which has a link through to strategic risks via the Risk Owner (relevant Director/Head of Service) and is cascaded down to operational staff by the Head of Service or Service Managers.

Areas for Further Consideration

We have summarised below the key areas that require further consideration:

- There are no formal links between risk related processes such as business continuity and the Risk Management Strategy and Policy; and
- Greater clarity is also required over the links between strategic objectives, their related risks, and sources of assurance that they are being appropriately managed; and

Recommendations Raised

We summarise below the number of recommendations raised as a result of our review (priority one represents the most urgent and high risk category):

	Priority 1	Priority 2	Priority 3	Total
Made	-	2	3	5
Accepted	-	2	3	5

Acknowledgment

We would like to take this opportunity to thank your staff for their assistance during this review.

Detailed findings – systems and process

In this section, in response to objective one, we have sought to assess your arrangements against best practice, specifically considering whether your risk management arrangements are robust and embedded across the whole organisation.

Systems and processes

In this section we have summarised our assessment of the design of your overall risk management arrangements and have sought to identify both areas of good practice and areas for development against best practice.

Good practice	Areas for further consideration
Risk Management policy	
<ul style="list-style-type: none"> ✓ A formally defined Risk Management Strategy and Policy is in place and was presented to the Audit Performance and Review Panel (APRP) on 25 September 2008. This policy provides a description of risk management, including risk identification, analysis, control and monitoring and is updated on annual basis; ✓ The policy sets out: how risks are identified, assessed and graded; the roles and responsibilities of management, staff and members; and the reporting requirements; ✓ The Risk Management Strategy and Policy is supported by practical guidance to integrating risk management into the business process, in the format of the 'Risk, Managed Toolkit', which is available to all staff on the intranet; ✓ The Risk Management Strategy and Policy considers both opportunities (positive risks) and threats (negative risks), through encouraging SWOT analysis to be undertaken in relation to business objectives and related actions. This avoids focusing risk management on risk prevention and promotes consideration of how risks can be exploited (providing this is in a controlled manner) to maximise potential opportunities; ✓ The three categories of risk assessment (uncontrolled, current and controlled) used to assess likelihood and impact of each identified risk, are clearly explained within the policy. This allows risk owners to accurately assess the risks that they have identified. ✓ The policy has been updated to include specific consideration of data quality. 	<ul style="list-style-type: none"> • There is no clear link between contingency, business continuity and/or disaster recovery plans and the Risk Management Strategy and Policy. This means that staff may not be aware of these plans or the need to consider them in managing operational risks. (appendix one, recommendation one)
Strategic risks	
<ul style="list-style-type: none"> ✓ RBWM has identified twelve key risks, which it faces over the next twelve months and these have been reviewed at Corporate Management Team (CMT), APRP and Cabinet level. These risks are high level and strategic in nature. The risks have then been documented in two separate ways: the risk log and the risk register; ✓ For each key risk, risk assessment has been performed in terms of the impact on finance, legislation, reputation and service delivery. Within the risk log these impact assessments are repeated under the three categories of uncontrolled, current and controlled. Each category is then graded as high, medium or low in terms of significance and probability; ✓ Treatment measures identified for each key risk and progress against these is documented within the risk log. Any modifications to the treatment measures following last review are also recorded within the log; ✓ Risk owners and responsible Members have been identified for each key risk and frequency of review established. The date of last officer and Member review is also documented within the risk log. At the time of our review, the log recorded that all key risks had been officer and Member reviewed within the previous three months; 	<ul style="list-style-type: none"> • Whilst informal links are in place between the Council's strategic priorities and the risk management process, this link is not explicit. Each of the three strategic priorities and the core values contained within the Borough Strategic Plan should be considered in detail to identify the risks which, if realised, could prevent RBWM from delivering its vision. Whilst many of these risks are covered, a better defined link should be demonstrated to provide both Cabinet and the APRP with assurance that all strategic risks have been identified and are being managed. (appendix one, recommendation two); • There is currently no scope in the risk management processes to assess the likelihood and therefore impact of two different risks occurring simultaneously. It is possible that the severity of impact may be greater than the sum of the outcomes of the risks being realised independently. Each risk should be considered in respect of its links/reliance on other risks and controls, and where these links exist, the risk grading considered of these multiple risks (appendix one, recommendation three);

Detailed findings – systems and process (continued)

Good practice	Areas for further consideration
Strategic risks (continued)	
<ul style="list-style-type: none"> ✓ Within the risk log, success factors for measuring whether the risk has been appropriately controlled have been identified. These include performance measures within the organisation's Balanced Scorecard and other local performance measures; ✓ The risk register contains an audit trail of the current score for each key risk, if and when the risks have been reviewed, by whom and what changes have been made as a result; ✓ The risks are considered to be fluid, with the provision for risks to be added and deleted throughout the year, as required; ✓ Formal Horizon scanning is undertaken at a corporate level, as part of the strategic risk review by CMT. Any significant risks identified through this process are fed through to the risk register directly by CMT; ✓ Risk Owners are responsible for putting appropriate processes in place to monitor, manage and respond to strategic risks providing updates to the APRP four times a year on the current status of those risks; ✓ APRP reviews the Key Strategic and Operational Risks four times a year and provides challenge to risk owners in order to satisfy itself that risk management procedures are robust and gain assurance that mitigating controls are operating effectively; and ✓ Members are responsible for challenging Risk Owners on the completeness and appropriateness of the performance measures put in place. Review of APRP minutes demonstrates scrutiny over risk management processes and actions. 	
Risk Management guidance and procedures	
<ul style="list-style-type: none"> ✓ The 'Risk, Managed' toolkit provides step by step guidance to the process of managing risk and includes tools that can be used to develop robust procedures. For example a risk mapping template and risk criteria for both impact/severity and likelihood/probability; ✓ The toolkit separately identifies and defines strategic and operational risks, providing sources of risk and risk examples for both categories. By separating these types of risk clearer definition of the responsibility for managing, monitoring and reporting risk is provided; ✓ An electronic risk register is in place, using JCAD risk management software, which ensures that for each risk identified, risk assessment is performed in terms of impact and likelihood and that control measures are identified and applied; and ✓ Separate guidance is available to Risk Owners on how to use the JCAD risk register as well as on-line help for each screen within the system. 	<ul style="list-style-type: none"> • There is no guidance in place on how to capture opportunities within the risk register. However, we note that a protocol is currently being devised by ALARM South East, to ensure that the assessment of opportunities within risk management processes is consistent across all its members. (appendix one, recommendation four).

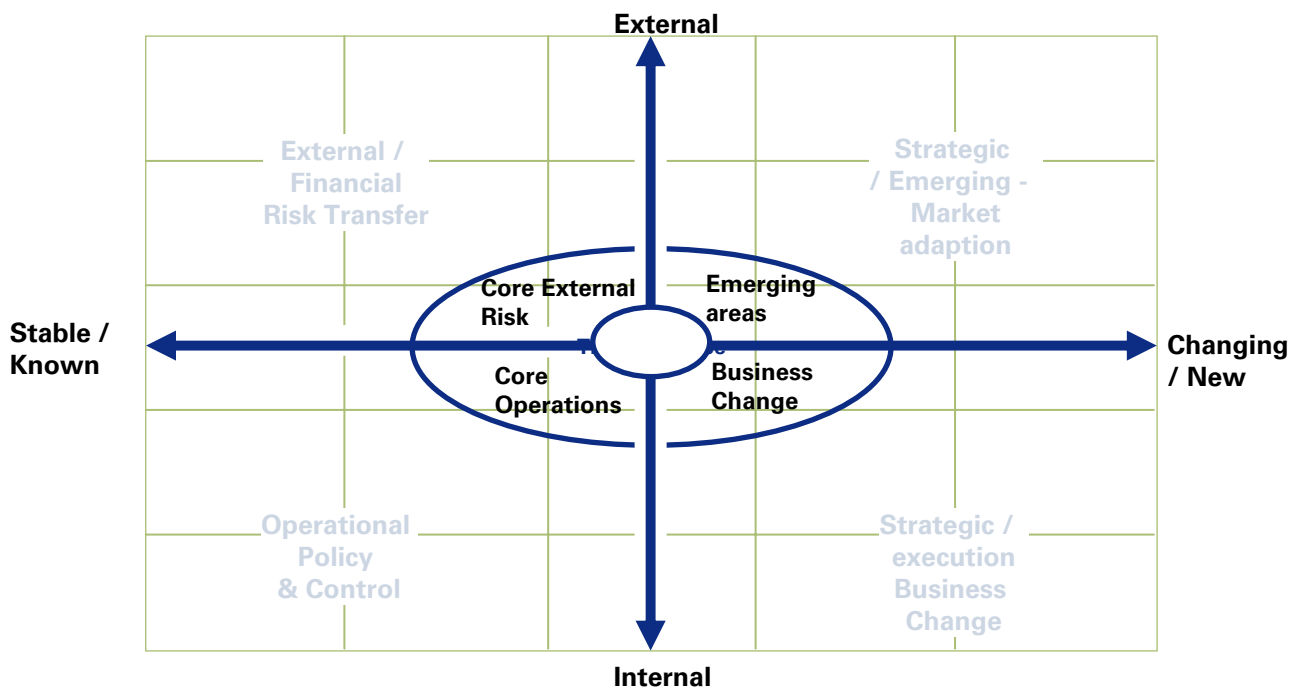
Detailed findings – systems and process (continued)

Risk prioritisation

Currently, RBWM assess risks in terms of likelihood and impact, measuring these on a four-by-four matrix to arrive at a 'risk score' between 1 and 16. Risk scores are graded as low, medium or high. Prompts have been provided to help assess likelihood and impact, in terms of whether the risk is non-threatening, housekeeping (not high impact), contingency (high impact, but low probability) and primary (high likelihood, high impact). This is a system that is common to many local authority and other public sector organisations.

More recently, organisations are starting to consider more sophisticated ways of managing risk, particularly focusing on how risks are monitored and managed, and whether this is being done at the right level of the organisation. This allows consideration of both efficiency (such as allowing more senior staff to focus on strategic or high impact risks) as well as appropriateness of review (ensuring that risk management and monitoring is not delegated too far down the organisation).

We have provided below an alternative way of grouping risks to the traditional likelihood/impact model, which considers whether the risks are core and routine, or whether they are new and strategic:



By grouping risks in the above quadrants, responsibility for monitoring and managing the groups can be assigned. For example, operational managers may be responsible for the bottom left quadrant and more senior management for the top left risks. Its is likely that CMT/Cabinet (or formally delegated) responsibility would be expected for the right had columns.

Risks from the left had side would only be reported up to CMT/Cabinet on an exception basis, where risks have been realised or the risk profile has been significant raised and this will impact on strategic level risks. This ensures that the most senior officers and members focus only on the strategic direction and performance of the Authority, and not on day to day operations.

We have not raised any recommendations in relation to this area, as we consider this an area for the Authority to consider as an enhancement to current arrangements.

Detailed findings – embeddedness and compliance

We have reviewed the degree to which risk management is embedded within the organisation, both at the corporate level and operational level. We have completed this work through interviews with key officers and review of documentation.

Corporate Level

We have reviewed risk management procedures for four service areas. We have also considered the extent to which risk management processes are embedded and undertaken in accordance with internal guidance. We have looked at risk management in the following areas:

Area reviewed	Risk Owner
Finance	Andrew Brooker
Children's Services	Cliff Turner
Adult & Community Services	Alan Brown
Policy & Performance	Andrew Elkington

We have summarised below the following areas of good practice, where risk management was seen to be operating in practice as designed in the strategy and toolkit. We have also highlighted areas where further development could be made to fully embed the process:

Areas of good practice	Areas where further development is required
<ul style="list-style-type: none"> ✓ The Departmental Management Teams (DMT) attend workshops with the Insurance and Risk Manager to identify risk areas, sources of assurance and mitigating controls; ✓ The DMTs formally review the operational risk registers on a quarterly basis. These meetings consider changes in risk ratings, identification of new risks and whether mitigation actions have been addressed; ✓ The operational risk matrices give a risk grading for the impact and likelihood of each risk, as well as identifying a Risk Owner; ✓ The Risk Owner attends the DMT meetings and reports to the lead member on a quarterly basis on risk management issues. The Heads of Service take responsibility for cascading relevant risk management issues down to operational staff. This ensures a link between the operational and strategic risk processes; ✓ The operational risk registers records issues that have already occurred and includes forward planning, for example changes in legislation that may impact upon service delivery in the future; ✓ The JCAD risk management software automatically populates the 'diaries' of Risk Owners with target dates for review of risks and controls and flags up when these review dates have been missed to both the Risk Owner and the Insurance and Risk Manager; and ✓ We have seen the operational risk registers to be updated on an ongoing basis by the Risk Owners with progress against control measures, new risks identified and if necessary risk re-assessments. 	<ul style="list-style-type: none"> • The operational risk registers tend to record only downside risks which might impact negatively upon the organisation, rather than also capturing opportunities that need to be managed going forwards. (appendix one, recommendation four). • There is currently no formal review process to ensure completeness of the risk register in terms of treatment measures and performance measures. Whilst we note that the key strategic and operational risks are subject to ongoing review by DMT, the Senior Management Team (SMT), CMT and APRP, our review identified instances where success factors in mitigating risks were being monitored locally but the performance measure had not been included within the risk register or reported in the risk log. (appendix one, recommendation five)

Detailed findings – embededness and compliance (continued)

Operational Level

We have spoken to a number of risk owners at the operational level of the Authority, to assess the extent to which risk management processes are embedded at a departmental level. We have focused on the updating of risk information, monitoring of risks and controls, consideration of risk in day to day operations, and the escalation of risks to senior management.

We have also sought to gain an understanding of the perceived importance of risk management, and the value added to the department by the arrangements. We chose a sample of officers across a range of directorates. Note that the table below represents only a cross section of risk owners and is not necessarily reflective of the whole directorate.

Area of Risk Management	Directorate (Position of Interviewee)				
	Adult & Community	Policy & Performance	Children Services (Building Schools for the Future)	Environment	Planning & Development
Updating of risk register	<ul style="list-style-type: none"> The risk register has recently created with assistance of the Risk and Insurance Officer, due to team's recent formation. This follows the restructuring of directorates at the Authority 	<ul style="list-style-type: none"> The risk register was recently changed due to a new directorate structure. Managers, with no other team members, were involved in the process. 	<ul style="list-style-type: none"> The Building Schools for the Future (BSF) risk register has only recently been produced and was created solely by the risk owner. 	<ul style="list-style-type: none"> ✓The risk register is updated on a quarterly basis. ✓Operational officers as well as managers are involved in the process. 	<ul style="list-style-type: none"> The risk register is formally updated yearly, plus any ad hoc updates that are required during the year. ✓All levels of officers are involved in identifying risks.
Escalation and downward communication of risks	<ul style="list-style-type: none"> ✓Risks escalated via 'staff supervision' sessions with significant issues fed up to line managers. ✓These are also used to cascade risk issues downwards to staff. 	<ul style="list-style-type: none"> ✓Risks will be escalated to the DMT where necessary. ✓All levels of officers have been made aware of their responsibilities for risk management via team meetings. 	<ul style="list-style-type: none"> Risk management is not currently agenda item for the BSF Project Board, so escalation of risks has not yet been required. Once the risk register has been considered by the project board, delegation of risks will be considered. 	<ul style="list-style-type: none"> ✓Escalation is to the DMT, as necessary, and can also be discussed with the Lead Member at quarterly meetings. ✓Control issues are cascaded to staff responsible for implementing the specific control. 	<ul style="list-style-type: none"> ✓Risks are considered at weekly meetings of the DMT where serious issues will be escalated. ✓All staff have access to the register and can review as necessary.
Monitoring of mitigating controls	<ul style="list-style-type: none"> Due to the recent creation of the risk register, little monitoring has occurred to date. Staff supervision meetings will form the basis for such monitoring. 	<ul style="list-style-type: none"> Control monitoring will form part of the annual update to the risk register. ✓Staff are made aware of the importance of controls through team meetings. 	<ul style="list-style-type: none"> As the BSF project is still in its early stages, controls have not yet undergone full assessment. This will occur once the BSF Board becomes more involved with risk matters. 	<ul style="list-style-type: none"> ✓Controls are monitored on an ongoing basis, and at least monthly. ✓Junior staff update the risk owner on sources of assurance that they have established to ensure that risks are being mitigated and controlled. 	<ul style="list-style-type: none"> Risk controls are reviewed on an annual basis at the same time as the register. ✓Team meetings are used as a tool for ensuring controls are operating as required.

Detailed findings – embeddedness and compliance (continued)

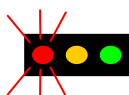
Area of Risk Management (cont)	Directorate (Position of Interviewee)				
	Adult & Community	Policy & Performance	Children	Environment	Planning & Development
Consideration of control adequacy	<ul style="list-style-type: none"> The JCAD risk management software is used for checking risk tolerance. The process is generally carried out at a senior staff level. 	<ul style="list-style-type: none"> ✓ DMT discusses risk tolerance. Weaknesses are fed into an action plan to facilitate resolution. 	<ul style="list-style-type: none"> Risk tolerance will be considered by the BSF Projects Board at subsequent meetings but has not yet been formally considered. 	<ul style="list-style-type: none"> ✓ Adequacy of controls is considered on a quarterly basis. ✓ This involves the DMT and Lead Member if necessary. 	<ul style="list-style-type: none"> ✓ Acceptability of mitigating controls is considered at meetings of the Planning & Development Management Team (PDMT).
Consideration of risk management in meetings	<ul style="list-style-type: none"> ✓ Risk is considered in supervision meetings, and meetings of the Adult Services Management Team. 	<ul style="list-style-type: none"> • Risk management is discussed regularly at meetings although does not form a standing item on agendas. 	<ul style="list-style-type: none"> • Risk management will become a standing item on the agenda of the BSF Project Board but has not been to date (for the first two meetings of the Board). 	<ul style="list-style-type: none"> ✓ Risk management is a standing item at meetings and is a compulsory section of reports. 	<ul style="list-style-type: none"> ✓ Risk management is a standing item at meetings of the PDMT, helping to ensure that risk is considered on an ongoing basis.
Perceived importance of risk management	<ul style="list-style-type: none"> ✓ Recent production of the risk register was cited as useful, as the process identified an area where further controls were required, which have since been implemented. 	<ul style="list-style-type: none"> ✓ The recent review and update of the register was considered as a way to focus approach. Risks were streamlined, enabling concentration on the most relevant risks. 	<ul style="list-style-type: none"> ✓ Process is perceived as useful, especially for this project as the BSF bid will require a detailed risk management analysis before submission. 	<ul style="list-style-type: none"> ✓ The risk owner sees risk management as an important process in the service area and one which is facilitated by tools such as the risk matrix. 	<ul style="list-style-type: none"> ✓ Perceived as being a good tool for identifying previously unknown risks.
Conclusions	<ul style="list-style-type: none"> • This team structure is relatively new, so risk management has not yet become fully embedded, and processes need to be further developed. 	<ul style="list-style-type: none"> ✓ Risk management appears to be partially embedded in the service area. • Involvement of more junior members of staff in risk identification could improve embeddedness. 	<ul style="list-style-type: none"> • Risk management has not yet become embedded in this area, although there has been consideration of risk and knowledge of risk issues appears robust. 	<ul style="list-style-type: none"> ✓ Risk management appears to be embedded in this directorate area. All levels of staff are involved in the processes and risk is considered on an ongoing basis. 	<ul style="list-style-type: none"> ✓ Risk management is adequately embedded in this directorate area, with risks being considered by a range of staff on a regular basis.

We found from the above testing that the level of embeddedness varies. In general, weaker areas were those for which teams or projects had only recently been set up. Although we note that risk management processes are likely to develop over time here, it is imperative that robust procedures are in place right from the start, as risks need to be identified and managed immediately to avoid realisation.

Appendix 1: Performance improvement observations

Priority rating for recommendations raised

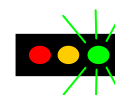
Priority one: a significant weakness in the system or process which is putting you at serious risk of not achieving its strategic aims and objectives. In particular: significant adverse impact on reputation; non-compliance with key statutory requirements; or substantially raising the likelihood that any of your strategic risks will occur. Any recommendations in this category would require immediate attention.



Priority two: a potentially significant or medium level weakness in the system or process which could put you at risk of not achieving its strategic aims and objectives. In particular, having the potential for adverse impact on your reputation or for raising the likelihood of your strategic risks occurring.



Priority three: recommendations which could improve the efficiency and/or effectiveness of the system or process but which are not vital to achieving your strategic aims and objectives. These are generally issues of good practice that the auditors consider would achieve better outcomes.



#	Risk	Issue and recommendation	Management response	Officer and due date
1	● (two)	<p>Link to Business Continuity Planning</p> <p>There is no clear link between contingency, business continuity and/or disaster recovery plans and the Risk Management Strategy and Policy. This means that staff may not be aware of these plans or the need to consider them in managing operational risks</p> <p>Management should include information on how other risk related processes and documents relate to the Risk Management process.</p>	<p>Agreed. This has been actioned. There's a separate exercise informing one of the main controls on KSR3 "Business Continuity Planning failure" re: link to Risk Management Strategy and Policy.</p>	<p>Already completed.</p>
2	● (two)	<p>Links to Borough Strategic Plan</p> <p>Whilst informal links are in place between the Council's strategic priorities and the risk management process, this link is not explicit. Each of the three strategic priorities and the core values contained within the Borough Strategic Plan should be considered in detail to identify the risks which, if realised, could prevent RBWM from delivering its vision.</p> <p>Whilst many of these risks are covered, a better defined link should be demonstrated to provide both Cabinet and the APRP with assurance that all strategic risks have been identified and are being managed.</p>	<p>All the risks on the CRR are linked to the Strategic or Operational Plan when it contained the themes: (1) Equipping Ourselves For The Future, (2) Focusing On The Customer and (3) Living Within Our Means. It's now (or at least in the 2007-10 Plan) (1) Equipping Ourselves for the Future, (2) Residents First and (3) Value for Money.</p> <p>Secondly on this point, strategic risks have been managed by the creation by CMT of a suite of corporate risks to the Council (as distinct from Key Strategic Risks) which have their own quarterly review process. Some of these can be escalated to Key Risks but only when that criteria is met.</p>	<p>Insurance and Risk Manager.</p> <p>End of August 2010</p>
3	● (three)	<p>Multiple risk occurrence</p> <p>There is currently no scope in the risk management processes to assess the likelihood and therefore impact of two different risks occurring simultaneously. It is possible that the severity of impact may be greater than the sum of the outcomes of the risks being realised independently.</p> <p>Each risk should be considered in respect of its links/reliance on other risks and controls, and where these links exist, the risk grading considered of these multiple risks</p>	<p>Agreed. The Insurance and Risk Manager sought views from other Risk Managers regarding this. They were generally unclear on how this proposal could be actioned but were keen on seeing any examples from Local Authorities where this had been put into practice. However, one officer did make a good suggestion of using Business Continuity plans to illustrate multiple impacts as these deal with a multitude of things happening at the same time. Similarly the Key Risks frequently arise from a wide range of failures rather than one distinct problem</p>	<p>Already completed.</p>

Appendix 1: Performance improvement observations (cont.)

#	Risk	Issue and recommendation	Management response	Officer and due date
		<p>Capturing opportunities</p> <p>There is currently no guidance in place on how to capture opportunities within the risk register. However, we note that a protocol is currently being devised by ALARM South East to ensure that the assessment of opportunities within risk management processes is consistent across all its members.</p>	<p>Agreed. This guidance now exists although we have yet to gather thoughts on how to immediately apply it with benefits above and beyond what is already captured on a risk basis. It will be considered how to take this forward.</p>	<p>Insurance and Risk Manager. 30th September 2010</p>
4	● (three)	<p>In addition we have noted that the operational risk registers tend to record only downside risks which might impact negatively upon the organisation, rather than also capturing any opportunities that need to be managed going forwards.</p> <p>Management should ensure that training and/or guidance is provided to Risk Owners on how to capture and record opportunities within the risk management process.</p>		
		<p>Completeness of operational risk registers</p> <p>There is currently no formal mechanism in place to ensure that all relevant control and performance measures are being captured for each risk identified.</p>	<p>Agreed. The format for this is in place by way of the Audit Board although we have yet to actually take such a report at the time of writing (the first such report is scheduled for the Audit Board meeting 26th Jan but as the initial implications of the restructure and the Risk Register Corporate structure will need a substantial revision. The process is in place anyway for once the new structure has become embedded.</p>	<p>Already completed.</p>
5	● (three)	<p>The Authority should consider putting in place a formal review process through which there is ongoing challenge of the completeness of operational risk registers, for example by random checks by Heads of Service or Internal Audit.</p>		