

# **Audit and Pensions Committee**

## **Supporting Documentation**

Thursday 30 June 2011

7.00 pm

Committee Room 1 - Hammersmith Town Hall - King Street, London W6  
9JU

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**At its meeting on 9 December 2010, the Committee agreed that limited and nil assurance audit reports, and the appendices for the items on risk management and internal audit, be circulated to members separately to the main agenda. The relevant papers are attached, and are also available with the main agenda online.**

Date Issued: 20 June 2011


# **Audit and Pensions Committee Agenda**

**30 June 2011**


<b><u>Item</u></b>		<b><u>Pages</u></b>
<b>13.</b>	<b>RISK MANAGEMENT PROGRESS REPORT</b>	<b>1 - 41</b>
	This report informs the Committee on the overall arrangements for, and performance of, risk management across the Council.	
<b>18.</b>	<b>INTERNAL AUDIT QUARTERLY REPORT</b>	<b>42 - 70</b>
	This report summarises internal audit activity in respect of audit reports issued during the period 1 January to 31 March 2011 as well as reporting on the performance of the Internal Audit service.	

CORPORATE RISK REGISTER APPENDIX 1


Key Risks (refer to note 1)

No.	Corporate Priorities	Risk	Consequence	Identified Control	Assurance	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer – Group	Review
1.	Delivering high quality, value for money public services	<p><b>Business Resilience – Sub-risk</b></p> <p>IT resilience</p> <ul style="list-style-type: none"> <li>• Systems not joined up and connected</li> <li>• Strategic Information technology framework not implemented effectively</li> <li>• Electronic information storage capacity</li> <li>• Lack of top tier response plans</li> <li>• ISP version update to the infrastructure of the internet will have to move over to a new system, IPv6 previous versions not being compatible</li> </ul> <p>2012 Olympics delivery risks to H &amp; F</p>	<p><b>If an event occurs</b></p> <ul style="list-style-type: none"> <li>• Customers face delays in service provision</li> <li>• Time to recover power and IT Services could be between 6 &amp; 8 weeks</li> <li>• Loss of information</li> <li>• Service interruption</li> <li>• Loss of productivity</li> <li>• Non compliance with statutory duties - indirectly</li> <li>• Increased cost of resurrecting services ( only partially insurable)</li> <li>• Threat to life - indirectly</li> <li>• Wasted resources &amp; staff duplication in recovery phase</li> <li>• Cost of additional data storage capacity</li> <li>• Impact on service delivery due to potential of a local outbreak affecting staff and the public</li> <li>• Delays/ interruption to public transport system due to investment programmes in infrastructure</li> <li>• Skills and resource shortage leading to commencement of the games</li> <li>• Potential threat of a terrorist attack</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate Incident Management Procedures incorporate Business Continuity</li> <li>• Training has been delivered to local service plan leaders</li> <li>• A corporate service resilience group has been formed and meet periodically</li> <li>• Assistant Directors of Resources have been appointed as Departmental contact leads</li> <li>• Local Service Plans have been compiled, reviewed and refreshed and quality checked by Emergency Services</li> <li>• H &amp; F Bridge Partnership have submitted a Local Service Recovery Plan and has worked with the council to undertake a formal risk assessment, a major incident process has been established by HFBP as part of the Service Desk Manual</li> <li>• Data recovery is insured under the councils corporate insurance package ( but limited )</li> <li>• Terrorism insurance cover</li> <li>• A threat assessment has been compiled</li> <li>• Some ITC service has been moved to East London</li> </ul>	<p>Business Continuity Audit report 2008/09 ( Limited Assurance ) in, ICT Disaster recovery provisions Audit report 2009/10 ( Nil Assurance ) Data storage &amp; back up audit Audit report 2009/10 ( Substantial assurance )</p> <p>EMT, Audit and Pension Committee</p>	3	4	12	Medium 	Jane West ( Insurance & H F Bridge Partnership contract monitoring ) Lyn Carpenter ( Corporate Business Continuity )	Review April 2011


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		Terrorist attack	<ul style="list-style-type: none"> <li>Service interruption</li> <li>Property loss or damage</li> <li>Injury or harm</li> </ul>	<ul style="list-style-type: none"> <li>The Business Continuity (BC) project involves provision of IT BC for approximately 30 First Order applications as identified by H&amp;F. The data will be replicated from the primary data centre at East London to the secondary site at HTH. Additionally, there will be local network switch resilience within HTH; resilience for the infrastructure elements such as profiles, home folders and printing; plus annual tests of parts of the BC solution.</li> <li>User acceptance testing of the business continuity arrangements will take place over Jan – Feb 2011</li> </ul> <p><b>NOTE</b> Please refer to BCP Risk Assessment for highlighted risks and controls</p>							
Page 2	Delivering high quality, value for money public services	<p><b>Managing projects</b></p> <p>Sub-risks</p> <ul style="list-style-type: none"> <li>Projects do not consider enough time to mobilise in the event services are awarded to the private sector</li> <li>Project implementation is delayed due to protracted discussions regarding pensions transfer</li> <li>The risk of challenge to contract awards may increase during the harsher economic climate</li> <li>Large scale high risk high return projects are not led by a qualified or experienced project manager.</li> <li>Too many projects are</li> </ul>	<ul style="list-style-type: none"> <li>Customers needs and expectations are not fully met when projects are delivered</li> <li>Benefits of investment in creating toolkit not realised</li> <li>Threat of overspend on projects</li> <li>Benefits are not fully realised</li> <li>Delays in mobilisation of services through revised contracts</li> </ul>	<ul style="list-style-type: none"> <li>Project Management toolkit</li> <li>Training of Officers has being delivered and is ongoing</li> <li>Transformation Office in Finance &amp; Corporate Services Department acts as a repository for project information and reports to EMT but does not ensure compliance with any toolkit</li> <li>Senior Managers have all been briefed about the Project Toolkit</li> <li>Toolkit is available on desktop PC's</li> <li>Monthly transformation reporting to EMT (dashboard)</li> <li>Competition Board monitor aspects of project</li> </ul>	<p>Corporate Programme &amp; project management audited in 2009 draft report issued ( Limited Assurance )</p> <p>Competition Board</p> <p>Audit Commission review of selected contract management scheduled 2010</p>	3	3	9	Low 	Jane West lead – All Directors	Review May 2011


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		undertaken with unrealistic or unachievable targets • Successful delivery of the World Class Financial Management Programme		management compliance • Procedures for TUPE transfer have been included in project management instructions • Programme and Portfolio governance arrangements are being formalised • Lessons learned report	Internal Audit review of specific contracts under 2009/10 Audit Plan and of Use of Consultants ( Nil Assurance ) EMT, Pension and Audit Committee						
3.	Delivering high quality, value for money public services, Providing a top quality education for all, Tackling crime & anti-social behaviour, A cleaner greener borough, Promoting home ownership.	<b>Managing statutory duty</b>  <b>Sub-risks</b> Non-compliance with laws and regulations  Breach of duty of care  Departmental assurances	<ul style="list-style-type: none"> <li>• Non compliance may result in prosecution or a Corporate Manslaughter charge</li> <li>• Financial compensation may be claimed</li> <li>• Injury or death to a member of the public or employee</li> <li>• A breach of information security protocols may result in fines, harm to reputation and personal liability of Directors</li> <li>• Inadequate level of service</li> <li>• Poor satisfaction with statutory services</li> <li>• Potential claims involving failures in Social Care ( Stamford House )</li> </ul>	<ul style="list-style-type: none"> <li>• Nigel Pallace appointed lead Sponsor on EMT for Health &amp; Safety</li> <li>• Pro-active Health, Safety and Welfare culture across the council</li> <li>• Contractors are managed within CHAS regime</li> <li>• Insurance cover is in place in the event of a claim for breach of duty of care and in respect of financial claims</li> <li>• Legislative changes are adopted and reflected in amendment to the council's constitution, budget allocation through MTFS ( Now unified business &amp; financial planning process )</li> <li>• Training and guidance packages</li> <li>• Corporate Safety Committee</li> <li>• Briefings for Senior Managers on Corporate Manslaughter have been undertaken</li> <li>• Health &amp; Safety week promoted the theme of risk</li> </ul>	Internal Audit undertook an Audit of this in 2008/09 and a follow up is planned  Health & Safety Internal Audit undertaken 2009/10 demonstrated improvements and substantial assurance  Annual Assurance process  Assurance required that actions are being taken to ensure compliance with the law and	4	4	16	High  	Geoff Alltimes	Review  May 2011



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		Corporate Parenting		assessment • Health & Safety guidelines have been reviewed, refreshed and communicated  • Local Safeguarding Childrens Board, Unannounced Safeguarding Inspection, Ofsted , Local and London Child Protection Procedures	regulations  EMT, Audit and Pension Committee						
5.	Delivering value for money	<b>Managing budgets</b>  <b>Sub-risks</b> <ul style="list-style-type: none"> <li>• Austere financial settlement from government is not favourable. The council is seen as a floor authority.</li> <li>• Impact of a double dip recession and cascade effect on social budgets * link to revenue forecast</li> <li>• Demand led services may occur mid year resulting in unanticipated additional costs</li> <li>• HMRC VAT claims regarding partnering activities</li> <li>• Grant application is incorrectly calculated</li> <li>• Unplanned growth</li> <li>• Failure to achieve VFM</li> <li>• Accruals &amp; reconciliations</li> <li>• Planned savings not implemented</li> <li>• Creditworthiness of some contractors may be downgraded as a result of the economic downturn</li> </ul>	<ul style="list-style-type: none"> <li>• Pressure on the authority to manage overspends</li> <li>• Departments have to manage cost pressures</li> <li>• Pressure to meet target savings and Administrations commitment to cut Council Tax</li> <li>• HMRC recover VAT from the council affecting cash flow</li> <li>• Repayment of Grants</li> <li>• CEDAR 5.1 will no longer be supported by the product supplier</li> </ul>	<ul style="list-style-type: none"> <li>• Medium Term Financial Strategy and Business Planning Processes have been combined and is re-modelled</li> <li>• MTFS Officer &amp; Member Challenge</li> <li>• Efficiency programme management in place identifying statutory v discretionary services</li> <li>• Leader's monthly monitoring reports</li> <li>• Financial Strategy Board (FSB) periodically evaluates the effectiveness of the financial management arrangements</li> <li>• Partnership activity now includes a VAT trace and has been raised at FSB</li> <li>• Grant Claims &amp; returns record is tracked at FSB</li> <li>• Monthly corporate revenue &amp; capital monitoring to cabinet</li> <li>• Reports to the Leader identify where spend levels exceed a</li> </ul>	Annual Audit Letter  Select Committees are given the opportunity to fully scrutinise budgets during January.  Assurance required that complete and accurate accounting records are being maintained *  EMT, Audit and Pension Committee	4	4	16	High 	Jane West lead – All Directors	Review  April 2011

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		<ul style="list-style-type: none"> <li>• Increase in social welfare services as a result of the economic downturn may impact on projected spend.</li> <li>• Insufficient budgetary provision and/or budgetary under/overspend *</li> <li>• Incomplete/inaccurate accounting records linked to the World Class Financial Management Programme</li> <li>• Upgrade of CEDAR Financial System to Version 5.3 from 5.1</li> </ul>		tolerable level during the year <ul style="list-style-type: none"> <li>• Credit check of contractors is being undertaken through the Competition Board</li> <li>• Disposal of Assets</li> <li>• CEDAR Planning and preparation work will begin 7 months before the start of the actual implementation, so as to ensure that there is sufficient time to carry out work thoroughly. This timescale also includes slippage time of two months, in case of unforeseen complications.</li> </ul>	Cabinet Members Decision report on CEDAR upgrade						
6.	Putting residents first, Setting the framework for a healthy borough	<b>Successful partnerships &amp; Major Contracts</b> <b>Sub-risks</b> <ul style="list-style-type: none"> <li>• Area based grant has been clawed back</li> <li>• Partnering activity with other boroughs and the NHS may blur the lines of responsibility, accountability or liability in the event of service failure</li> <li>• Plans to remodel the PCT's and delivery of health services through GP's as per the White Paper – Liberating the NHS</li> <li>• Re-integration of H &amp; F Homes</li> </ul>	<ul style="list-style-type: none"> <li>• Joint objectives are not met</li> <li>• Community expectations are not met</li> <li>• Relationship deteriorates</li> <li>• Threat of overspends and underspend</li> </ul>	<ul style="list-style-type: none"> <li>• Governance arrangements are in place</li> <li>• Performance monitoring reports reported to Select Cttee's</li> <li>• Area based grant exit strategy is funded short term through contingency / reserves</li> <li>• H &amp; F Bridge Performance Monitoring</li> </ul>	H & F Bridge Partnership Assurance process H & F Homes Assurance process PCT are Audited by the Audit Commission Audit of H & F Homes Contract Management undertaken in 2008/09 EMT, Audit and Pension Committee	4	3	12	Medium 	Geoff Alltimes	Review  April 2011
7.	Delivering value for	<b>Maintaining reputation and service standards</b>	<ul style="list-style-type: none"> <li>• Threat to the status of the council</li> </ul>	<ul style="list-style-type: none"> <li>• Combined Business Planning &amp; MTFS processes</li> </ul>	Cabinet Ofsted, Care	4	3	12	Medium	All Directors	Review

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Page 6	money	<b>Sub-risks</b> <ul style="list-style-type: none"> <li>• Multiplicity of external forces and initiatives</li> <li>• Breach of Officer or Member code of conduct</li> <li>• Inappropriate Data released</li> <li>• Poor data quality internally or from third parties, breaches of information protocols, information erroneously sent to third parties.</li> <li>• Auto forwarding of information ( Information control and threat of leakage )</li> </ul>	<ul style="list-style-type: none"> <li>• Failure to deliver plans &amp; savings.</li> <li>• Ability to effectively lead and resource the transformation agenda is diminished</li> <li>• Service delivery deteriorates</li> <li>• Potential adverse media reporting</li> <li>• Potential adverse media reporting</li> <li>• Quality and integrity of data held in support of Performance Management &amp; Financial systems leads to under or over estimation</li> </ul>	<ul style="list-style-type: none"> <li>• Business Planning is part of the performance management competencies</li> <li>• Risk registers have been developed for all departments and divisions</li> <li>• Annual review of corporate governance arrangements conducted by Internal Audit</li> <li>• Performance statistics are scrutinised by Select Committee's, EMT &amp; DMT's</li> <li>• Corvu Performance Management System is able to pick up anomalies</li> <li>• Data Quality Training</li> </ul>	Quality Commission, Annual Audit letter  EMT, Audit and Pension Committee						April 2011
	8.	Delivering value for money	<b>Managing fraud ( Internal &amp; External)</b>  <b>Sub-risks</b> Misappropriation of assets *	<ul style="list-style-type: none"> <li>• Loss of reputation</li> <li>• Financial loss</li> <li>• Adverse regulatory /audit report</li> <li>• Inadequately resourced fraud unit</li> </ul>	<ul style="list-style-type: none"> <li>• Literature and training has been delivered to all levels of the authority</li> <li>• Information and guidance has been published on the corporate intranet</li> <li>• Awareness survey has been undertaken</li> <li>• A Corporate Fraud Service has been established</li> </ul>	Audit Committee receive quarterly reports on Fraud  Deloitte Fraud Survey 2008  Assurance required that	2	3	6	Low 	Jane West lead – All Directors



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				<ul style="list-style-type: none"> <li>Level of fraud is being tracked through FSB</li> <li>Close working relationship is established with the Police</li> <li>Fraud risks being integrated into risk registers</li> <li>CAFS team now use a risk assessment to assist in targeting and workload prioritisation</li> <li>Revised risk &amp; assurance register produced May 2011</li> </ul>	assets are safeguarded  EMT, Audit and Pension Committee						
Page 7	Delivering value for money	<b>Successful cultural change</b> <ul style="list-style-type: none"> <li>Right staff not available for this work due to increasing workloads while also downsizing and restructuring.</li> </ul>	<ul style="list-style-type: none"> <li>Potential internal uncertainty re: staff morale</li> <li>Change consumes more resource than VFM/efficiency gains realise</li> <li>Uncertainty leads to low staff morale and lower productivity.</li> </ul>	<ul style="list-style-type: none"> <li>Effective communications programme</li> <li>Staff Survey undertaken in 2009 and follow up actions are being delivered</li> <li>Career development discussions</li> <li>Revised sections in Business Planning document inc. Equalities &amp; Diversity and</li> <li>Smartworking</li> </ul>	Staff survey, Corporate Workforce Group  EMT, Audit and Pension Committee	3	3	12	Low 	Jane West	Review  April 2011
	Putting residents first	<b>Managing the Business Objectives (publics needs and expectations)</b> <p><b>Sub-risks</b></p> <ul style="list-style-type: none"> <li>A successor integrated financial and business planning process is not delivered</li> </ul>	<ul style="list-style-type: none"> <li>The Public or section of the public may not receive the service that they need or to the quality they expect</li> <li>Reputation of the service may be affected</li> <li>Regeneration of Shepherds Bush Market and Former Library and wider Regen</li> <li>Services are delivered in an unplanned way</li> <li>Services start to do their own thing</li> <li>Maverick decisions</li> <li>Inconsistencies in service delivery start to emerge</li> <li>Lack of transparency</li> <li>Duplication of effort</li> </ul>	<ul style="list-style-type: none"> <li>Robust Business Planning regime revised for 10-12 incorporating fully the Medium Term Financial Strategy</li> <li>Performance monitoring and feedback through local media</li> <li>Customer experience and satisfaction surveys</li> </ul> <p>Organisational Development in conjunction with Deloitte's have undertaken a review of the Business Planning process</p>	Cabinet Members and Scrutiny Cttee review performance Ofsted, Care Quality Commission	3	3	9	Low 	All Directors	Review  April 2011


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			<ul style="list-style-type: none"> <li>Communication of objectives and values is lost</li> <li>Target and Objective setting is diminished reducing the effectiveness of the performance management regime for officers</li> </ul>								
11.	Delivering value for money	<b>Market Testing of Services ( refer to Competition Board Roadmap )</b>	<ul style="list-style-type: none"> <li>Increase in threat of legal challenge on contract awards</li> <li>Officers time away from other projects</li> <li>Timescale of project is tight</li> <li>Insufficient numbers of Officers designated to the project</li> <li>Benefits are not realised</li> <li>Data Quality ( Accuracy, timeliness of information ) results in variation to original contract spec</li> </ul>	<ul style="list-style-type: none"> <li>Consultation with other boroughs</li> <li>Project managing the process</li> <li>Separation or joining of projects to maximise benefit potential</li> <li>Realistic timetables agreed and reviewed at Competition Board</li> <li>Market Testing progress report to EMT</li> <li>Programme &amp; Project Management – Risk Logs being maintained, periodic risk reviews</li> </ul>	Competition Board, Transformation Board, EMT, Audit review conducted for Use of Contractors	3	3	9	Low 	All Directors	Review April 2011
		<b>Scrutiny of Public Health Service</b>	<ul style="list-style-type: none"> <li>Department of Health is creating a governing body ( Public Health England ) where a joint appointment of a Director with the Council – would be necessary. Currently the appointment is jointly with the NHS trust</li> <li>Maintaining an audit trail of financial expenditure</li> <li>Monitoring of financial spend against performance targets to achieve financial credit or top ups</li> <li>Mayor of London seeks increased responsibility for some Public Health work areas in competition to Local Authorities that could reduce the amount allocated to the Council</li> </ul>	<ul style="list-style-type: none"> <li>Director of Public Health attends Housing, Health and Adult Social Care Select Committee</li> <li>Dedicated officers implementing the setting up of a Health &amp; Well Being Board</li> <li>Pilot council before full delivery which is due ( start April 1<sup>st</sup> 2013)</li> <li>HM Government Healthy Lives Healthy People Nov 2010</li> <li>Joint meetings with K &amp; C &amp; Westminster</li> <li>Officer meetings with Department of Health</li> </ul>	EMT	3	3	9	Low 	Geoff Alltimes	Review April 2011


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
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			<ul style="list-style-type: none"> <li>• Setting up a Health and Wellbeing Board attendees would need to include Councillors and managing their time demands</li> <li>• Three Boroughs merged services may result in functions being delivered to support the new responsibilities jointly</li> <li>• LBHF currently jointly fund the Director of Public Health post, RBKC don't fund Westminster to jointly fund</li> <li>• Deprivation statistics could affect the distribution of financial settlement unevenly</li> <li>• Public Health budgets will be ring fenced however local authorities seek unringfencing of the monies</li> <li>• Commissioning of services responsibilities for some health inequalities ( healthy eating, smoking cessation, immunisation, screening, air pollution, drugs and alcohol, teenage pregnancy)</li> <li>• Provision of audit and resilience services i.e. managing environmental hazards and emergency planning</li> </ul>								
<b>OPPORTUNITY RISKS</b>											
1.	Delivering high quality, value for money public services	Managing Human Resources  Sub-risks Integration of services with NHS Hammersmith & Fulham	<ul style="list-style-type: none"> <li>• Key staff retention</li> <li>• HR protocol has been agreed for officers who work with the PCT</li> </ul>	<ul style="list-style-type: none"> <li>• HR team has been centralised and self service is being rolled out</li> <li>• Performance reports are</li> </ul>	Business Planning, Corporate Workforce Group	3	3	9	Low 	Geoff Alltimes lead—All Directors	Review July 2010



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				provided on staffing to FSB, EMT and are reported to Scrutiny Committees							
Page 10	Delivering high quality, value for money public services	<b>Merging of education services with Westminster Council</b>	<b>Savings due to removal of duplication across the councils</b>	<p>Report to Cabinet 10-01-2011 updated members on progress including the establishment of</p> <p>1. A joint commissioning unit and the establishment of an arm's length delivery unit for education services across the three LAs by September 2012, with an interim merged service in place for the new academic year in September 2011.</p> <p>2. For the exploration, in the second phase, of possible different models for the delivery of services - options may include market testing or a social enterprise.</p> <p>3. That agreement be given for the development of shared provision for the Local Children's Safeguarding Board, Fostering and Adoption services and Youth Offending services by September 2011, subject to agreement by WCC and RBKC Councils.</p> <p>4. With a view to the implementation in line with these timescales, that the Director of Children's Services be authorised to :</p> <p>i) reach agreement with fellow Directors of Children's Services on reorganisation proposals on a service by service or part service basis, with a view to agreeing the future scope of such services; management arrangements; the staffing</p>	Cabinet	2	4	8	Low 	Andrew Christie	Review  April 2011


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Page 11				<p>structures for such services; the advisability of harmonising terms and conditions across boroughs; and the implementation of a joint commissioning strategy;</p> <p>ii) consult with affected staff and unions on the basis that any sharing of services will initially take place by affected staff either being seconded to work with staff at other boroughs or will be transferred to the employment of a host borough depending on the detail of the agreement to be reached with other boroughs on a service by service or part service basis;</p> <p>iii) implement the sharing of the services</p> <p>to agree the terms of any secondment either to or from the Council; to agree any necessary changes to staffing structures; and to authorise any resulting redundancies in accordance with the Council's usual procedures and to do everything necessary to give effect to the above.</p> <p>5. That it is agreed that the implementation of these proposals and any future proposals in relation to Children's Services be aligned with the requirements and timescales for the wider development of shared services across the three LAs.</p>							
	2.	Delivering high quality, value for money public services	<b>Merging of services with Westminster &amp; RB Kensington and Chelsea</b>	<b>Savings due to removal of duplication across the council</b>	<p>Review of corporate and back office functions</p> <p>Review of opportunities with contracts</p> <p>Risk Register compiled and is being presented to the Programme Board</p>	Cabinet	2	4	8	Low 	All Directors

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3.	Delivering high quality, value for money public services	<b>Regeneration of Shepherds Bush Market and former Shepherds Bush Library</b>	<b>Community benefits through improved market area, social housing and use of buildings</b>	Section 106 possible funding and partnering with developer over scheme	Cabinet	2	4	8	Low 		April 2011
4.	Delivering high quality, value for money public services	<b>Re-integration of H &amp; F Homes</b>  <b>Sub-risks</b>  There is an increased risk that staff will continue to apply procedures from the ALMO.  Where the HF Homes risk management framework is not effectively integrated into the Council's framework, this may lead to key risks being lost in the integration or duplication of effort where the same risk appears on multiple registers or against multiple risk owners.	<b>Savings due to the removal of duplication in back office functions</b>  There will be some immediate savings of circa £700k that flow from the integration of the ALMO as a result of the deletion of vacant posts, which would otherwise be duplicated in the new structure, and the elimination of agency workers and contractors to whom TUPE does not apply.  This may lead to key management tasks not being undertaken due to confusion over responsibilities  A formal action plan for integrating the HF Homes risk management framework within the Council's framework should be established.  The plan should include but not be limited to: <ul style="list-style-type: none"><li>• Adapting risk register templates;</li><li>• Identification of risk owners within the Housing and Regeneration Department ;</li></ul>	Consultation exercise has demonstrated public opinion to re-integrate and a report recommending re-integration presented to Cabinet 10-01-2011  Briefings or training sessions are provided to line managers	Cabinet Internal Audit review of Integration April 2011 Draft Substantial Assurance	2	4	8	Low 		April 2011

CORPORATE RISK REGISTER APPENDIX 1

No.	Corporate Priorities	Risk	Consequence	Identified Control	Assurance	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer – Group	Review
Page 13			<ul style="list-style-type: none"> <li>Reporting procedure for risks and their mitigation;</li> <li>Ensuring that risks are not lost or duplicated; and</li> <li>Appointing a Risk Management representative for the department.</li> </ul> <p>The Housing and Regeneration Department should also appoint a representative to the Corporate Performance Group.</p> <p>Where a post integration communication strategy and channels of communication are not established, there is an increased risk that staff will not fully engage in the integration process. This may impact on the morale of staff from both HF Homes and the Council.</p>	<p>Representative of the department has been invited to attend future Corporate Performance Group Meetings</p> <p>Formal post-integration communication channels should be established to secure staff buy-in into the integration.</p> <p>The communication channels should enable staff to express concerns and seek advice on any issues in respect of them adapting the Council's working practices and culture.</p>							
	5.	Delivering high quality, value for money public services	<b>Regeneration of King Street and Civic Offices</b>	<p>The Town Hall extension has come to the end of its life and needs to either be demolished or refurbished. An estimated cost of around £18m in temporarily accommodating staff through a relocation to facilitate repairs</p> <p>New office accommodation at no cost is being provided in exchange for land</p> <p>A new modern building is also expected to save around £150,000 in energy costs</p>	<p>Planning Committee and team independence</p> <p>Public consultation</p> <p>The council's advisers, Cushman &amp; Wakefield, ran a competition for development of the existing site – which also includes the council car park on Nigel Playfair Avenue. The competition was based on which scheme delivers the best value for money to the borough's taxpayers, the best opportunity to regenerate this run-down part of King Street and the least disruption to local residents.</p>	Cabinet	3	5	15	Medium	

## CORPORATE RISK REGISTER APPENDIX 1

No.	Corporate Priorities	Risk	Consequence	Identified Control	Assurance	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer – Group	Review
Page 14			<p>Jobs will be created in King Street</p> <p>A new community-sized supermarket and a range of new restaurants and other retailers, alongside a council 'One Stop Shop', will draw more people down King Street and encourage more investment in the area</p> <p>Successful redevelopment would enable the council to terminate contracts for various costly leased buildings around the borough savings around £2 million a year.</p>	<p>Public exhibition</p> <p>Planning documents are available to view on the council's website</p> <p>A planning application to redevelop the area around Hammersmith Town Hall was submitted to Hammersmith &amp; Fulham (H&amp;F) Council on Friday (29 October). The application from King Street Developments Ltd (KSD) will trigger a new round of consultation as the council, now acting as local planning authority, consults extensively with residents, amenity groups and other interested parties.</p> <p>Information from local amenity groups has been passed to planning officers. The Leader of the Council has attended a Save or Skyline meeting</p> <p>The Leader of the Council wrote to prominent amenity societies to make the case for regeneration following concerns from some groups</p> <p>An independent financial assessment from PricewaterhouseCoopers (PwC) on the viability of the proposals</p>							

Note 1. All key risks have been extracted from( but not limited to) a number of sources for analysis by the Corporate Management Team. The sources include;

- i. Previous Corporate Risk Register
- ii. Benchmarking with other Local Authorities on Identified Risks
- iii. Information identified from Departmental Risk Registers
- iv. Officers Knowledge and experience
- v. The Office of Government Commerce Project Risk Management Handbook

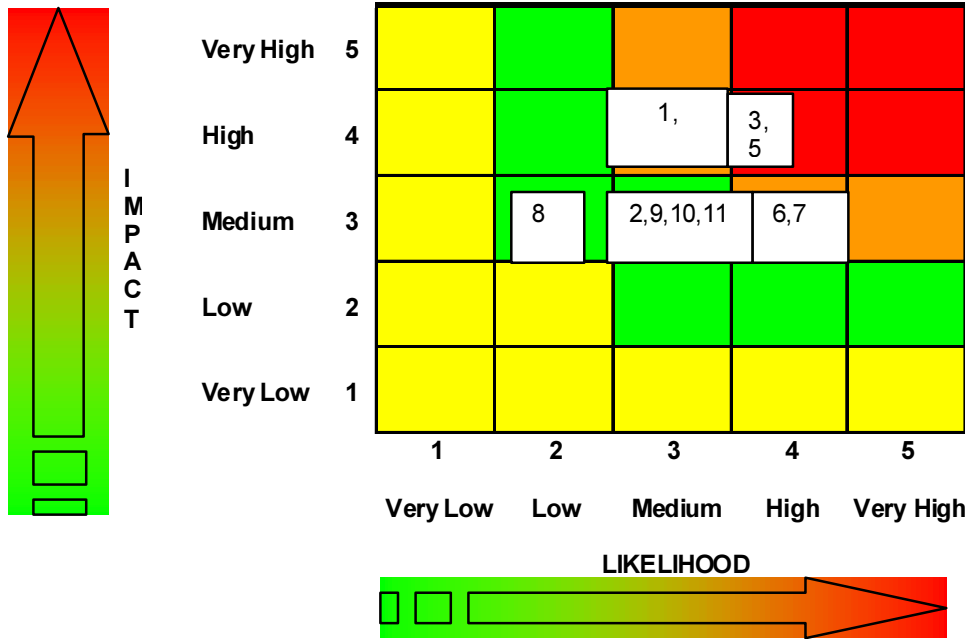


# CORPORATE RISK REGISTER APPENDIX 1

- vi. Procurement exercises
- vii. Significant Weaknesses established from the Annual Assurance process
- viii. Audit Reports
- ix. Knowledge and experience of public sector risks from the Principal Risk Consultant
- x. Data Quality and Integrity
- xi. Programme Management Office monthly report

Residual

## CORPORATE RISK REGISTER



Note 2. Categorised under the PESTLE methodology as published in the Hammersmith & Fulham Risk Standard. Compliant with Audit Commission/ ALARM/IRM/CIPFA best practice.  
 \* Derived from Deloitte's Assurance Framework 2007/2008

CORPORATE RISK REGISTER APPENDIX 1

Score	Key
16-25	RED - High and very high risk - immediate management action required
11-15	AMBER - Medium risk - review of controls
6-10	GREEN - Low risk - monitor and if escalates quickly check controls
1-5	YELLOW - Very low risk - monitor periodically



APPENDIX 2



# **The London Borough of Hammersmith & Fulham**

## **Risk Management Standard And Policy**

**2011 - 2014**

**Version 3 (2011 review)**

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## **London Borough of Hammersmith & Fulham**

### **Risk Management Standard**

#### **1. Introduction**

The council has adopted a risk management standard to help departments relate to the risk management process in a clearer and simpler way. Using the standard will help you to;

- bring consistency in understanding what risks the council and services face.
- eliminate issues from the risk & assurance registers and slim down the process for departments.
- benchmark risks across services and departments highlighting common problems and possible solutions.
- identify risks and help you to prepare improvements.

Risk Management is a process that is designed to help improve services by preparing for future events. It is a tool to help you make decisions about services and if done well can reduce the need to audit areas where risk is managed effectively.

The approach that Hammersmith & Fulham in managing risk is summed up by the following risk management goal and objective.

#### **Goal**

Managing Risk Effectively

#### **Objective**

To demonstrate that risks are managed within a clearly defined structure that is beneficial to the organisation, the community, environment its stakeholders and partners.

#### **Definition**

**The London Borough of Hammersmith & Fulham defines risk as:**

**‘the chance of something happening that would have an impact on the achievement of Hammersmith & Fulham’s Objectives’**

## **Risk Management Policy 2011 - 2014**

Hammersmith & Fulham Council provides a diverse range of services to the community and visitors to the area. In order to secure these services some amount of risk taking is inevitable. However the Council recognises that effective Risk Management will improve strategic, operational and financial management by helping to maximise opportunities, minimise losses and maximise resources for the services it provides.

It is the Policy of the Council to adopt a risk based process that has a series of well defined steps to support better decision making through understanding of risks, whether a positive opportunity or negative threat and their likely impact.

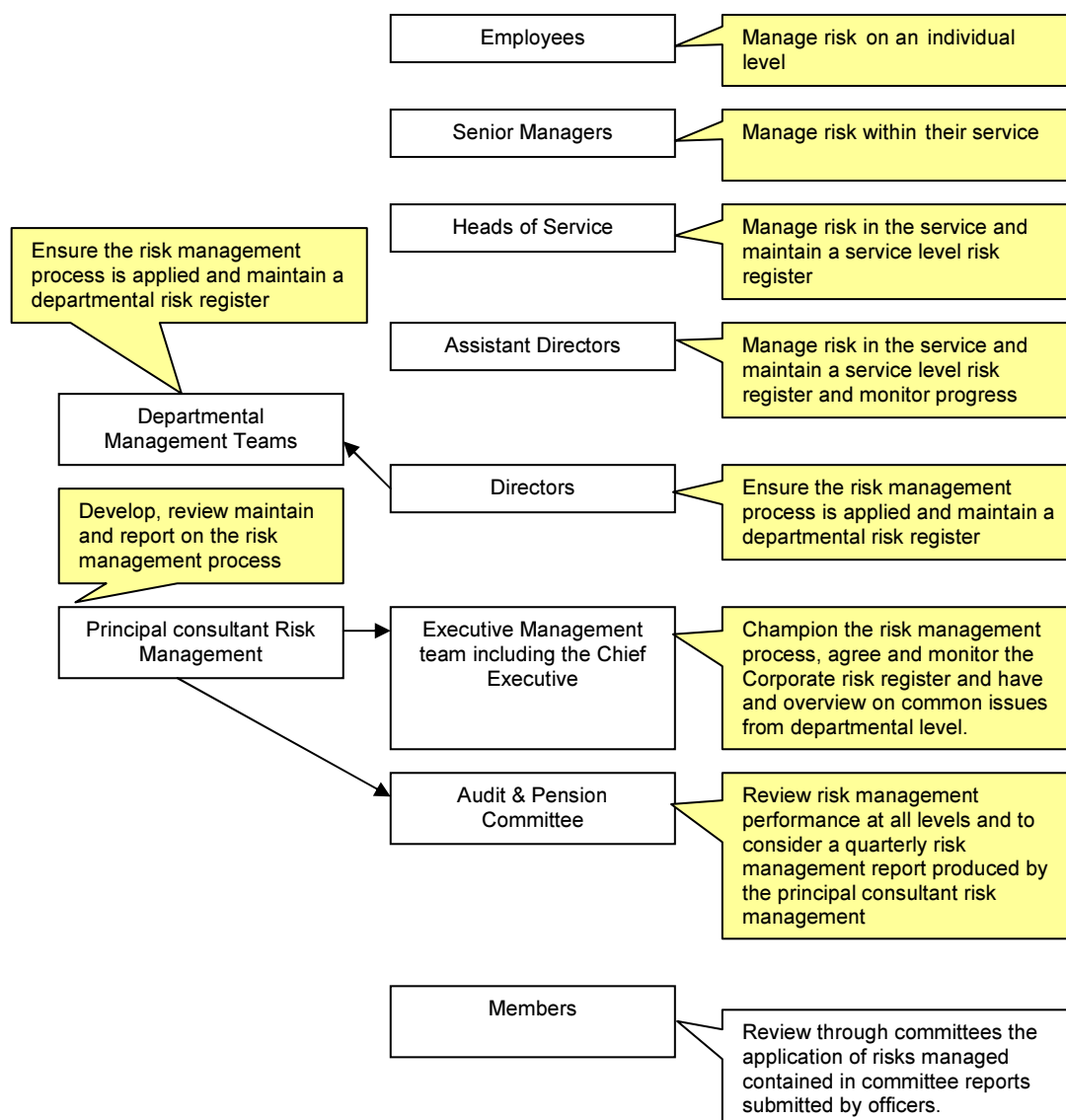
This Policy seeks to enforce the commitment shown by the Council and Executive Management Team to a risk managed culture by ensuring that every Member and employee has regard for the management of risks in order to:

- Achieve its Corporate Aims, Objectives and Values
- Ensure compliance with its statutory obligations
- Safeguard its employees, Members, service users and all other persons to whom the Council has a duty of care
- Protect its assets, including property, equipment, vehicles and other resources and reduce undesirable associated losses
- Improve performance and service delivery and provide resilient services
- Prudently manage the councils finances through effective Treasury Management and control of income and debtors
- Manage information securely through good data quality and information management protocols
- Minimise waste, fraud and poor value for money
- Support better project management
- Protect the reputation of the Council

This Policy statement has the support of the Council, which recognises that achievement of these identified risk management objectives will benefit the whole community.

## 2. Roles and responsibilities

Defining responsibilities for risk management is part of the organisations commitment to ensure that there is absolute clarity about what part an individual plays in the process. Risk management covers a vast area of the council's operations however in summary the chart below serves to identify the principal roles that officers and members fulfil.





## **The role of individuals**

All individuals within the organization have a responsibility for contributing to the management of risk, uncertainty and opportunity. Embedding risk management within the organization involves incorporating risk management into each individual's job description, so that they;

- understand the risks that relate to their roles and their activities;
- understand how the management of risk relates to the success of the organization;
- understand their accountability for particular risks and how they can manage them
- understand how they can contribute to continuous improvement of risk management;
- understand that risk management is a key part of the organization's culture; and
- report systematically and promptly to senior management any perceived new risks or failures of existing control measures.

### **The role of the risk owner**

The risk management process is likely to identify a number of risks that need to be actively managed. These should be assigned a risk owner who is accountable for:

- owning the risk;
- overseeing the development and maintenance of an appropriate control environment;
- monitoring the risk where there is material change in its status; and
- reporting on the risk.

While the risk owner has overall accountability for the risk and its management, they might not own or operate the control(s) which relates to the risk. In this case, the role of the risk owner is to oversee that the control(s) is(are) owned, fit for purpose and operating effectively.

## **3. Risk Identification**

The Council has taken the positive step of integrating the systematic identification and management of risks into its Service and Financial Planning process. This ensures that risk management is embedded into the Council's planning cycle and is an operational responsibility, not the exclusive domain of a specialist officer or division. It also recognises that the value of the Council is generated through service delivery and so the strategy for managing risks stems from that.

Directors and Heads of Service are required to identify the threats to achieving corporate or service objectives. Guidance on risk management is provided during the service and financial planning process. The Principal

Consultant, Risk Management is charged with providing active support and involvement in this process by;

- Providing advice to officers on risk management.
- Helping officers to understand what risk is and reinforcing the opportunities that risk management can present.
- Facilitating risk identification, assessment and mitigation.
- Ensuring that a consistent approach to risk management is applied, including a common understanding of terminology and definitions.
- Linking risk assessments carried out in other divisions and departments to help in identifying potential crosscutting risks.

#### 4. Risk Classification

**The tables below set out the main categories of risk the Council is likely to encounter. It provides the starting point for officers in the risk identification process.**

##### *Strategic Risks*

Risks that need to be taken into account in judgements about the medium to long term goals and objectives of the council.

These include;

<b>Political</b>	Failure to deliver either local or central government policy or to meet local manifesto commitments.
<b>Economic</b>	Those affecting the ability of the council to meet its financial commitments. Investments and management of debt.
<b>Social</b>	Changes in demographic, residential or socio-economic trends.
<b>Technological</b>	Capacity or ability of the council to deal with the pace/scale of technological change including the consequences of internal technological failures.
<b>Legislative</b>	Current or potential changes in national or European law.
<b>Environmental</b>	Ecological consequences of progressing the council's strategic objectives.
<b>Competitive</b>	Cost or quality issues in respect of the ability to deliver Best Value.
<b>Customer/Citizen</b>	Failure to meet the current and changing needs and expectations of customers and citizens.

# **This is known as PESTLEcc. and is an accepted method by which risk is classified.**

## *Operational Risks*

Risks that managers and staff will encounter in the daily course of their work.

These include;

<b>Professional</b>	Risks associated with the nature of the profession such as social work service concerns over children at risk, housing service concerns as to the welfare of tenants.
<b>Financial</b>	Those associated with financial planning and control.
<b>Legal</b>	Those related to possible breaches of legislation.
<b>Physical</b>	Fire, security, accident prevention and health & safety.
<b>Contractual</b>	Failure of contractors to deliver services or products at agreed cost and specification
<b>Technological</b>	Reliance on operational equipment, ITC systems or machinery
<b>Environmental</b>	Pollution, noise or energy efficiency of ongoing service operations

## 5. Risk Measurement

Risks are assessed on their impact and likelihood of occurrence.

All risks should be quantified by using a standard form of measurement. The use of a basic 5 by 5 calculation is the approved method. Where exposure to risk is measured based on the multiplication of likelihood and associated impact.

i.e. If a risk has a very high likelihood and a very high impact it will receive a combined rating of 25.

In order to help with risk measurement a standard consolidated form of look up tables has been designed to assist those tasked with risk assessment. These are expressed in the following set of tables;

### Look up tables

#### Likelihood/Probability

Risk	Score	Probability
Very Low	1	Virtually impossible to occur 0 to 5% chance of occurrence.
Low	2	Very unlikely to occur 6 to 20% chance of occurrence
Medium	3	Likely to occur 21 to 50% chance of occurrence
High	4	More likely to occur than not 51% to 80% chance of occurrence
Very High	5	Almost certain to occur 81% to 100% chance of occurrence

#### Impact/Magnitude

##### Consolidated Risk Impact/Magnitude Guide

Impact Description	Category	Description
1 Very Low	Cost/Budgetary Impact	£0 to £25,000
	Impact on life	Temporary disability or slight injury or illness less than 4 weeks (internal) or affecting 0-10 people (external)
	Environment	Minor short term damage to local area of work.
	Reputation	Decrease in perception of service internally only – no local media attention
	Service Delivery	Failure to meet individual operational target – Integrity of data is corrupt no significant effect
2 Low	Cost/Budgetary Impact	£25,001 to £100,000
	Impact on life	Temporary disability or slight injury or illness greater than 4 weeks recovery (internal) or greater than 10 people (external)
	Environment	Damage contained to immediate area of operation, road, area of park single building,

Impact Description	Category	Description
		short term harm to the immediate ecology or community
	Reputation	Localised decrease in perception within service area – limited local media attention, short term recovery
	Service Delivery	Failure to meet a series of operational targets – adverse local appraisals – Integrity of data is corrupt, negligible effect on indicator
3 Medium	Cost/Budgetary Impact	£100,001 to £400,000
	Impact on life	Permanent disability or injury or illness
	Environment	Damage contained to Ward or area inside the borough with medium term effect to immediate ecology or community
	Reputation	Decrease in perception of public standing at Local Level – media attention highlights failure and is front page news, short to medium term recovery
	Service Delivery	Failure to meet a critical target – impact on an individual performance indicator – adverse internal audit report prompting timed improvement/action plan - Integrity of data is corrupt, data falsely inflates or reduces outturn of indicator
4 High	Cost/Budgetary Impact	£400,001 to £800,000
	Impact on life	Individual Fatality
	Environment	Borough wide damage with medium or long term effect to local ecology or community
	Reputation	Decrease in perception of public standing at Regional level – regional media coverage, medium term recovery
	Service Delivery	Failure to meet a series of critical targets – impact on a number of performance indicators – adverse external audit report prompting immediate action - Integrity of data is corrupt, data falsely inflates or reduces outturn on a range of indicators
5 Very High	Cost/Budgetary Impact	£800,001 and over
	Impact on life	Mass Fatalities
	Environment	Major harm with long term effect to regional ecology or community
	Reputation	Decrease in perception of public standing nationally and at Central Government – national media coverage, long term recovery
	Service Delivery	Failure to meet a majority of local and national performance indicators – possibility of intervention/special measures – Integrity of data is corrupt over a long period, data

Impact Description	Category	Description
		falsely inflates or reduces outturn on a range of indicators

## 6. Risk Owners

Risk Owners are identified and empowered to manage risks based upon the action proposed in mitigation of the risk. The risk owner must be the person or group who has the responsibility for ensuring that action in response to risk is appropriate and who has the authority to ensure that action is taken. By assigning responsibility and management of risks to risk owners, the Council will be better placed to;

- Produce an Annual Assurance Statement
- Ensure that the identification of risks is an ongoing task
- Monitor and comment on how well risks are being managed
- Identify actions in progress to address risk issues

## 7. Departmental Risk & Assurance Registers and Corporate Risk Register

Once risks have been identified departmental risks are produced to capture relevant information. These should be maintained on an ongoing basis but as a minimum quarterly or in line with the agreed business planning process. A copy of the register should be retained by the department and a history of changes kept. Copies should be sent electronically to the Principal Consultant, Risk Management, Finance & Corporate Services Department ext. 2587.

Timetable for submission of departmental risk & assurance registers are

- 1<sup>st</sup> Quarter – June end
- 2<sup>nd</sup> Quarter – September end
- 3<sup>rd</sup> Quarter – December end
- 4<sup>th</sup> Quarter – March end

**The submissions should not be a complex process as many registers will require a few amendments only.**

### Corporate Risk Register

The key risks of the Council should be recorded on a separate register. Under the control of the Executive Management team the register should identify which risks affect its medium or long term objectives. A periodic review of risks should be established informed in part by findings from departmental registers and other sources including internal and external audit and reports from other regulators or inspectorates. The Corporate Risk Register should be shared with the Principal Consultant, Risk Management, Chief Internal

Auditors Members and the Executive Management Team. A periodic timetable is suggested as follows;

Timetable for review and update of the Corporate risk register.

- 1<sup>st</sup> Quarter – July end
- 2<sup>nd</sup> Quarter – October end
- 3<sup>rd</sup> Quarter – January end
- 4<sup>th</sup> Quarter – April end

## **8. Risk prioritisation and escalation**

Risks are prioritised within risk registers by their exposure rating. The higher the exposure the greater the risk. A traffic light system is employed to distinguish risks that require intervention, red risks, risks that require management amber risks and risks that require monitoring, green risks. Where it becomes apparent that a risk or group of risks remains high after controls are in place then the matter should be referred to management for action.

## **9. Risk Tolerance and Appetite**

The amount of risk acceptable is a judgement of the potential frequency that an incident may occur or indeed the size of the impact that may result from a single or chain of events or a combination of both. Both scenarios are dependant on the range of controls available and their effectiveness. Where a risk or number of risks are in the red area they should be at the point of intervention and clarification from management sought as regards the appropriateness of any mitigating action planned to reduce the exposure.

## **10. Controls**

The quality and range of controls directly influence the amount of risk the council and its services are exposed to. It is therefore necessary that once risks have been identified that the controls in place are assessed to determine if they are effective. Where controls are identified these should be set against the risk and measured for their effectiveness. Doing this gives the service and the Council assurance that the business process is robust and less likely to fail. The allocation of controls to an individual or a group is necessary to provide focus and ownership of the risk area. Unallocated risk has the potential of drifting unchecked.

### **Definition of Internal Control:**

Internal control is the process, effected by management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- a. Reliability of financial reporting,
- b. Effectiveness and efficiency of operations, and

c. Compliance with applicable laws and regulations.

Types of Internal Controls:

1. Detective:

Designed to detect errors or irregularities that may have occurred.

2. Corrective:

Designed to correct errors or irregularities that have been detected.

3. Preventive:

Designed to keep errors or irregularities from occurring in the first place.

### **Limitations of Internal Controls:**

No matter how well internal controls are designed, they can only provide reasonable assurance that objectives have been achieved. Some limitations are inherent in all internal control systems. These include:

1. Judgement:

The effectiveness of controls will be limited by decisions made with human judgment under pressures to conduct business based on the information at hand.

2. Breakdowns:

Even well designed internal controls can break down. Employees sometimes misunderstand instructions or simply make mistakes. Errors may also result from new technology and the complexity of computerized information systems.

3. Management Override:

High level personnel may be able to override prescribed policies and procedures for personal gain or advantage. This should not be confused with management intervention, which represents management actions to depart from prescribed policies and procedures for legitimate purposes.

4. Collusion:

Control systems can be circumvented by employee collusion. Individuals acting collectively can alter financial data or other management information in a manner that cannot be identified by control systems.



## **Internal Control Objectives:**

Internal Control objectives are desired goals or conditions for a specific event cycle which, if achieved, minimize the potential that waste, loss, unauthorized use or misappropriation will occur. They are conditions which management want the system of internal control to satisfy. For a control objective to be effective, compliance with it must be measurable and observable.

Internal Audit evaluates system of internal control by accessing the ability of individual process controls to achieve seven pre-defined control objectives. The control objectives include authorization, completeness, accuracy, validity, physical safeguards and security, error handling and segregation of duties.

### **Authorization**

The objective is to ensure that all transactions are approved by responsible personnel in accordance with specific or general authority before the transaction is recorded.

### **Completeness**

The objective is to ensure that no valid transactions have been omitted from the accounting records.

### **Accuracy**

The objective is to ensure that all valid transactions are accurate, consistent with the originating transaction data and information is recorded in a timely manner.

### **Validity**

The objective is to ensure that all recorded transactions fairly represent the economic events that actually occurred, are lawful in nature, and have been executed in accordance with management's general authorization.

### **Physical Safeguards & Security**

The objective is to ensure that access to physical assets and information systems are controlled and properly restricted to authorized personnel.

## Error handling

The objective is to ensure that errors detected at any stage of processing receive prompt corrective action and are reported to the appropriate level of management.

## Segregation of Duties

The objective is to ensure that duties are assigned to individuals in a manner that ensures that no one individual can control both the recording function and the procedures relative to processing the transaction.

A well designed process with appropriate internal controls should meet most, if not all of these control objectives.

## Major Components:

### 1. Control environment:

Factors that set the tone of the council, influencing the control consciousness of its people. The seven factors are (ICHAMPDO):

- I - Integrity and ethical values,
- C - Commitment to competence,
- H - Human resource policies and practices,
- A - Assignment of authority and responsibility,
- M - Management's philosophy and operating style,
- D - Director's and Audit & Pension Committee participation, and
- O - Organizational structure.

### 2. Risk Assessment

Risks that may affect the council's ability to properly record, process, summarize and report financial data:

#### Changes in the Operating Environment

New Personnel

New Information Systems

Rapid Growth or reduced demand

New Technology

New Lines, Products, or Activities

Corporate Restructuring

Accounting rule changes

### 3. Control Activities

Various policies and procedures that help ensure those necessary actions are taken to address risks affecting achievement of entity's objectives (PIPS):

- P - Performance reviews (review of actual against budgets, forecasts)

- I - Information processing (checks for accuracy, completeness, authorization)
- P - Physical controls (physical security)
- S - Segregation of duties

#### 4. Information and communication

Methods and records established to record, process, summarize, and report transactions and to maintain accountability of related assets and liabilities.

Must accomplish:

- a. Identify and record all valid transactions.
- b. Describe on a timely basis.
- c. Measure the value properly.
- d. Record in the proper time period.
- e. Properly present and disclose.
- f. Communicate responsibilities to employees.

#### 5. Monitoring

Assessment of the quality of internal control performance over time.

What can happen when Internal Controls are weak or non-existent?

When Internal Audit recommends improving controls within a department, there are often three basic arguments for not implementing our recommendations:

1. There is not enough staff to have adequate segregation of duties.
2. It is too expensive.
3. The employees are trusted and controls are not necessary.

These arguments represent pitfalls to unsuspecting management. Each argument is in itself a problem that needs to be resolved.

1. The problem of not having enough staff or other resources should be discussed with management. In most cases, compensating controls can be implemented in situations where one person has to do all of the business-related transactions for a department.
2. If implementing a recommended control seems too expensive, be sure to consider the full cost of a fraud that could occur because of the missing control. In addition to any funds that may be lost, consider the cost of time that would have been spent by the department during the time of an investigation of the matter, and the cost of hiring a new employee. Fraud is always expensive and the prevention of fraud is worth the cost.
3. Finally consider the issue of trust. Most employees are trustworthy and responsible, which is an important factor in employee relations and departmental operations. However, it is also the responsibility of

administrators to remain objective. Experience shows that it is often the most trusted employees who are involved in committing frauds.

### **11. Dealing with risks**

Having identified and measured risks one of the following proportionate actions can be selected;

- Treat the risk – agree an action to manage the risk to an acceptable level
- Transfer the risk – possibly by purchasing additional insurance or bonds
- Terminate the risk – stop the current system or process and introduce a new system
- Tolerate the risk – if nothing reasonable can be done to control the risk because it may be out of the service or the council's sphere of influence
- Take the opportunity – after an exercise that measures the risk and reward a decision may be made to proceed with an initiative or project that brings benefit to the organisation, community or the environment.

### **12. Raw and residual risk**

Most of the Council's risks are already subject to some degree of management. The actions listed above will therefore include existing and additional activities within the purview of the risk owner. The effectiveness of the action is judged on the basis of its success in reducing the likelihood of the risk and / or minimising the impact should it occur.

The risks are then re-evaluated in light of the suggested mitigation. These risks are then called residual risks and are to be entered onto the risk register.

Risk owners are encouraged to pro-actively share information relating to risks with colleagues in other divisions and departments to ensure that shared risks are identified and joint controls implemented.

### **13. Monitoring Arrangements**

The ongoing requirement to monitor the risk management process and ensure the validity of risk ratings is satisfied by identifying risk owners who must regularly review their divisional risk logs together with the corporate risk register, make any necessary changes and report to senior management annually.

Members and the Executive Management team must take a strategic view of risks by assessing the highest priority risks against the Council's top objectives and priorities.

This responsibility includes the identification of the top risks, i.e. those that have the highest threat to the Council's objectives and which therefore require regular strategic input.

Members must satisfy themselves that the risk management system is functioning effectively and in a manner that they have approved. On-going review and an annual assessment can achieve this.

On-going review will be achieved through consideration of risks outlined in committee reports. In this way no decisions are taken without an analysis of the associated risks. This is effectively a process of continuous assessment to ensure that all significant aspects of the Council's business have been addressed.

The annual assessment will consider issues identified through the service and financial planning process, the work of Internal Audit and other assurance providers and any changes since the last assessment in the way the Council identifies and manages risks.

The on-going review and annual assessment will be instrumental in establishing the risk appetite and tolerances that Members require within the Council.

#### **14. Audit & Pension Committee**

The role of the Audit & Pension Committee is to receive information from officers that highlight the effectiveness of the control regime, management of risk, compliance with accounting practices and protocols and the performance of the authority more generally. Quarterly reports on risk management are submitted by the Principal Consultant Risk Management based in Internal Audit, Corporate Finance Division. Information from the departmental risk registers and other relevant sources will be used to communicate to members any relevant movement or variance in the risk profile.

#### **15. Performance Management**

The collation of Performance Data enables the organisation and services through transparency of information and monitoring against indicators. These indicators range from those which are required by statute and those which are set locally. It is important therefore that the quality of information that is collected by officers is consistent and accurate. A key risk for the council therefore is the validity of information. Comparison of the risk registers against performance indicators reveals commonalities in some cases. Appropriate risk treatment should be applied where indicators show that performance is deteriorating or failing to improve any necessary re-allocation of resources should be made balanced against the size of the risk. Regular testing of the quality of data captured is the responsibility of the departments and will be potentially be considered as part of the analysis of the Statement of Internal Control process.

#### **16. Partnerships**

Partnerships come in a number of forms, some are managed through firm contractual agreements others through Service Level Agreements and multi-

agency forums that see the council participating where community objectives are key. Significant partnerships, whether by value or by the nature of the desired outcome, should be risk assessed. It is the responsibility of the Department to ensure that where partnerships are formed that appropriate governance arrangement in place including the responsibility for risk management, assessment and reporting.<sup>6</sup>

## **17. Annual Assurance Statement**

The Annual Assurance Statement is a legal requirement and is published each year along with the financial accounts. Departments contribute to this process by maintaining their risk & assurance registers throughout the year. Identified risks should be actively managed and the registers tabled for discussion quarterly at departmental management team meetings. The registers also assess assurance of the controls against risk. These assurances are independent reviews external to the core service area and can be identified through review bodies such as external audit, internal audit, regulators and inspectors. A panel of officers analyses the quality of information held in the registers and summarises the main control weaknesses of the authority for action. These control weaknesses are then assessed by a high level group, the Assurance Statement Panel comprising the Leader of the Council, Chief Executive and Director of Finance and Corporate Services. Once these are agreed they are then submitted to the Audit & Pension Committee for ratification and subsequent publishing along with the annual accounts.

### **Model Directors Annual Assurance Statement**

#### **HEAD OF DEPARTMENT ANNUAL ASSURANCE STATEMENT**

**Department:**

**Period: 2010/11**

#### **Purpose**

The Council is responsible for ensuring that its 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. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

#### **Accountability**

As a Head of Department and member of the Executive Management Team, I am accountable for maintaining a sound system of assurance, risk management and internal control within my Department that supports the achievement of the Corporate and Department's objectives and principal

statutory obligations, and for reviewing their effectiveness at least annually. The system of internal control is based on an ongoing process designed to identify the risks to the achievement of these objectives, to evaluate the nature and extent of those risks, to manage them efficiently, effectively and economically, and to gain assurances that the controls in place are working effectively.

### **Assurance**

As a Head of Department I have responsibility for reviewing the effectiveness of the systems of risk management, internal control, and assurance. My review of their effectiveness has taken into account the following and is based on operating lines of defence:-

- ◆ Operational Management Internal Controls
- ◆ Risk Management Compliance
- ◆ Internal Audit and outcomes from reviews of services by other bodies including Inspectorates, external auditors etc.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

**I am satisfied that a sound system of internal control has been in place throughout the period and is ongoing. This is evidenced through the departments risk and assurance registers that are maintained throughout the year and reviewed by the Departmental Management Team**

**OR INCLUDE THE BELOW STATEMENT IF ANY SIGNIFICANT RISKS ARE TO BE DECLARED**

*(I propose to take steps to address the matters identified in the attached risk & assurance register in order to enhance the adequacy of the directorate's internal controls. I am satisfied that these steps will enhance the system of internal controls and I will be monitoring to ensure their implementation and operation.)\**

**Signed:**

Director of

**Date**

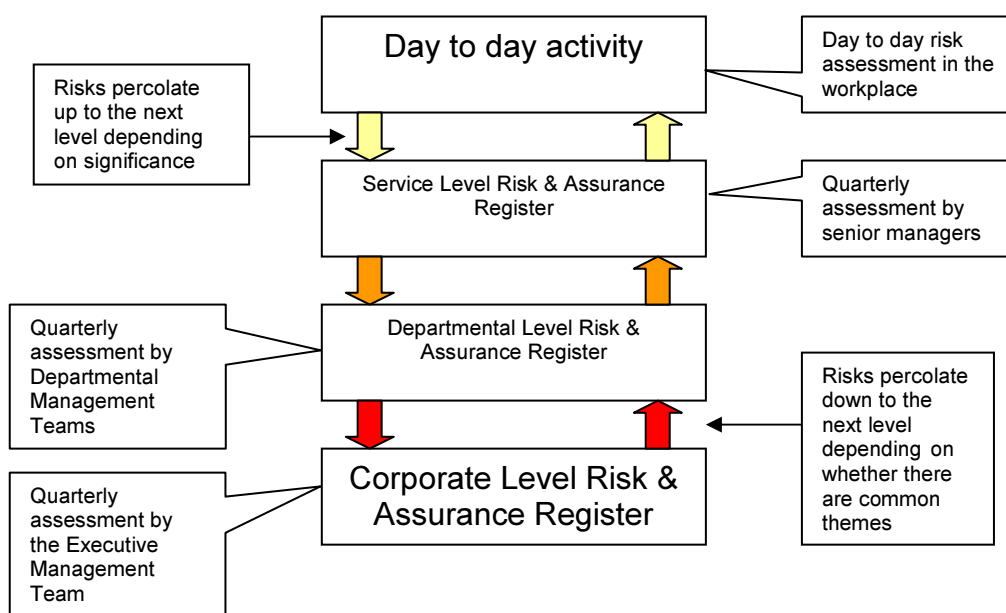
## 18. Risk & Assurance Register

There are certain must haves in a risk register and the process of maintaining it also fits within a framework. A copy of the template for H & F risk registers can be accessed through the following link also attached as **Appendix A**.



\\LBHF\Root1\  
FCS-Risk-Manager

In the risk management hierarchy the process of maintaining register is outlined as follows;



## 19. Projects

Projects undertaken should comply with the Project Management toolkits guidance and procedures. The toolkit has separate risk monitoring arrangements designed to maintain transparency of the project in line with PRINCE 2 methodology. It is expected that Project Managers will maintain an appropriate risk register throughout the lifespan of the project. These may be subject to audit and inspection at any time by audit or the council's appointed risk consultant. Significant projects or issues that become apparent as the project develops may be required to be identified on the departmental or Corporate risk register.

## 20. Proximity of risk

Quite simply consider when the risk is likely to occur. For example in a construction project the risk of a contractor failing to deliver tiles for a roof on a new building would probably come fairly late in the timeline of the



entire lifespan of the project, however planning permission and securing sufficient finance for the scheme would emerge as risks fairly early in project planning. It is always important to prioritise risks in logical order. Not all risks occur at the same time and this is inextricably linked to fluctuations in the likelihood and sometimes the impact of risks occurring. Risk Registers should therefore not remain static and be a dynamic tool for decision making in management. A history of risk & assurance registers should be maintained by the responsible officer accordingly.

## 21. Risk Assessment models

A variety of acceptable risk assessment tools can be and are widely used in the council. These assist with the identification, assessment and response to risk.

Tools	Identification	Assessment	Response
Risk Questionnaires	✓		
Risk Checklists / Prompt Lists	✓		
Risk Identification Workshop	✓	✓	
Nominal Group Technique	✓	✓	
Risk Breakdown Structure	✓	✓	
Delphi Technique	✓	✓	
Process Mapping	✓	✓	
Cause and Effect Diagrams	✓	✓	
Risk Mapping / Risk Profiling	✓	✓	
Risk Indicators	✓		
Brainstorming / " thought shower" events	✓		
Interviews and focus groups	✓		
"What if ?" workshops	✓		
Scenario analysis / scenario planning / horizon scanning	✓	✓	✓
Hazard and Operability Study ( HAZOPs)	✓	✓	✓
PESTLE ( Political, Economic, Sociological, Technological, Legislative, Environmental) Analysis	✓	✓	✓
SWOT ( Strengths, Weaknesses, Opportunities, Threats ) Analysis	✓	✓	✓
Stakeholder Engagement Matrices	✓		✓
Risk Register / Database	✓	✓	✓
Project Profile Model (PPM)	✓		✓
Risk Taxonomy	✓		
GAP Analysis: Pareto Analysis	✓	✓	

Probability and Impact Grid/Diagrams (PIDs) Boston Grid	✓	✓	
CRAMM	✓	✓	✓
Probability Trees		✓	
Expected Value Method		✓	
Risk Modelling / Risk Simulation (Monte Carlo/ Latin Hypercube)		✓	
Flow charts, process maps and documentation		✓	
Fault and event tree modelling; Failure Mode Effects Analysis		✓	
Stress Testing	✓	✓	
Critical Path Analysis (CPA) or Critical Path Method (CPM)		✓	
Sensitivity Analysis		✓	
Cash Flow Analysis		✓	
Portfolio Analysis		✓	
Cost-Benefit Analysis		✓	✓
Utility theory		✓	
Visualization techniques, heat maps, RAG status reports, Waterfall charts, Profile graphs, 3D Graphs, Radar chart, Scatter diagram		✓	✓

APPENDIX A

Risk & Assurance register for xxxxxx																							
STRATEGIC / OPERATIONAL	PESTLEcc	Risk Number	Council Priorities	Objectives (no more than 10)	Principal Statutory Obligations	Key risks	Consequences	Inherent risk			Residual Risk			Risk Monitoring	Responsible Officer	Existing controls	Gaps in Controls	Assurances (What tells you that the controls are effective)	Gaps in Assurance	Proposed action to remedy gaps in control or assurance	Date of implementation of additional control or date of next review of risk	Open / closed	Residual / Inherent Diff
								Impact	Likelihood	Total	Impact	Likelihood	Total										
						<i>What could prevent this objective being achieved?</i>		5	6	25	5	5	25	ADDITIONAL CONTROLS DESIRABLE			Y/N		Y/N			Open	0
								4	4	16	4	4	16	ADDITIONAL CONTROLS DESIRABLE								Open	0
								3	3	9	3	3	9	Keep under review								Open	0
								2	2	4	2	2	4	Keep under review								Open	0
								1	1	1	1	1	1	Keep under review								Open	0
								0	0	0	0	0	0	Keep under review								Open	0

**Final Internal Audit Report 2009/10  
London Borough of Hammersmith &  
Fulham**

**Parking (Pay & Display)  
February 2011**

This report has been prepared on the basis of the limitations set out on page 20.

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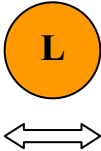
## Page No

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## Executive Summary

<b>Introduction</b>	<p>As part of the 2009/10 Internal Audit Plan, agreed by the Audit Committee on 11 March 2009, we have undertaken an internal audit of Parking (Pay &amp; Display).</p> <p>This report sets out our findings from the internal audit and raises recommendations to address areas of control weakness and / or potential areas of improvement.</p> <p>The agreed objective and scope of our work is set out at Appendix B.</p>
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<b>Audit Opinion</b> (defined at Appendix A)	<b>None</b>	<b>Limited</b>	<b>Substantial</b>	<b>Full</b>
				

<b>Rationale Supporting Award of Opinion and Direction of Travel</b>	<p>The audit work carried out by Internal Audit (the scope of which is detailed in Appendix B) indicated that weaknesses in the system of internal controls are such as to put the client's objectives at risk and the level of non-compliance puts the client's objectives at risk.</p> <p>Weaknesses in control were identified in relation to procedural guidance not being in place; issues not being raised with RBKC such as pay machines not being emptied in line with the contract and the level of foreign coins not being investigated; reconciliations between RBKC income reports and the Council's financial system and meter readings not being regularly undertaken and there was no evidence available that variances identified have been investigated. Furthermore, management reporting was limited to the amount of income collected; the risk register did not include risks relating to parking pay &amp; display and the 'Service Area Continuity Plan for Parking Services' had not been updated since September 2008.</p> <p>The Direction of Travel provides a comparison to the previous audit visit. In this case we have indicated, using the arrow above, that there has been no change compared to our previous audit (undertaken in 2006/07), for which limited assurance was given.</p>
--	---

**Priority 1  
Recommendations**

We have raised four priority 1 recommendations as a result of this internal audit. These are as follows:

- Procedures in relation to parking pay & display services should be established;
- The level of foreign coins received should be monitored;
- Reconciliations between income collected by RBKC and CedAr Financials should be undertaken on a monthly basis and be subject to independent review; and
- All variances identified between the income collected by RBKC and the income recorded as per the 'Metric' reports should be investigated.

## Detailed Findings

### Background

The Road Traffic Regulation Act 1984 defines the objectives for which parking regulations can be introduced. These can be summarised as:

- Safety;
- Maintenance of access to premises;
- Congestion reduction; and
- Management of the kerb space where demand for parking exceeds supply;

The Environment Services Department is responsible for operation and monitoring of the pay & display parking meters within the Borough. A partnership agreement with Royal Borough of Kensington and Chelsea (RBKC) sets out that RBKC collect the cash from pay & display meters in the Borough and provide reports to Hammersmith and Fulham on the actual income collected. The current contract runs from September 2009 to August 2010 and the cost is £432,660 per annum. The expected income to be collected for 2009/10 is £11.117 million.

Banking of the collected cash is outsourced to a cash transit security company. Income received at the bank is recorded on the Council's financial system, CedAr Financials. The following reconciliations are undertaken by the Environmental Department's finance team:

- Daily reconciliations between what the ASLAN meter reading system is reporting as income (per parking machine) and a report from RBKC as to income collected are undertaken.
- Monthly reconciliations between what has been recorded as banked in CedAr Financials and reports from RBKC as to what has been collected are also undertaken.



Area Summary	Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
				Priority 1	Priority 2	Priority 3
	<b>Council and Service Objectives</b>			1	0	0
	<b>Partnership with Royal Borough of Kensington and Chelsea</b>			0	1	0
	<b>Meter Setting</b>			0	0	0
	<b>Meter Emptying</b>			0	1	0
	<b>Income and Banking</b>			1	0	0
	<b>System Reconciliations</b>			2	0	0
	<b>Public Notices and Enforcement*</b>			0	0	0
	<b>Management Information</b>			0	1	0
	<b>Risk Management and Business Continuity Management</b>			0	1	0

\* The detection and enforcement of expired or non display of tickets will be covered within the Parking PCNs 2009/10 audit.

**Summary of Findings**

In this section we set out a summary of our findings under each area of scope. This is a balanced summary where possible. Where weaknesses are identified, full details of these are included in the recommendations raised.

**Council and Service Objectives**

The Road Traffic Regulation Act 1984 defines the objectives for which parking regulations can be introduced. The Local Authority is not permitted to raise parking charges to generate revenue – only as part of an overall policy decision. The general practice is to raise charges in line with inflation.

It was identified that policies or procedures had not been documented relating to the administration of income received from pay & display machines. In addition, during the audit fieldwork, direct enquiries of staff identified a lack of clarity with regard to roles and responsibilities.

We have raised one recommendation as a result of our work in this area.

**Partnership with Royal Borough of Kensington and Chelsea (RBKC)**

There is a contract in place between the Council and RBKC, a copy of which was obtained. This Contract states the terms and conditions of the agreement between the two Councils with regards to the collection, counting and banking of income from LBHF's pay & display machines. Negotiations on updating the contract are currently being undertaken.

Quarterly meetings are held between the Council and RBKC in order to discuss matters associated with pay & display machines. Meeting minutes in relation to the last three meetings were obtained. In these three meetings, at least two representatives from each Local Authority had attended. However, action plans are not documented and monitored following these meetings.

We have raised one recommendation as a result of our work in this area.

**Meter Setting**

We obtained evidence from Council meeting minutes that pay & display tariffs were frozen in 2007/08 and that they increased by 12.5% for the 2008/09 financial year. Through examination of the Cleaner and Greener Scrutiny Committee meeting minutes, it was identified that there had been no change to parking charges since 2008/09 and that none were intended for next financial year.

We have made no recommendations as a result of our work in this area.

**Meter Emptying**

Guidelines for the emptying of pay & display machines are contained within the Contract between the Council and RBKC. This document states that, "Each machine shall be emptied once per week, the day of collection being scheduled through the Contractor's Proposals or Work plan subsequently agreed by the Authorised Officer. Where a collection is missed, that pay & display machine should be emptied within five working days of the missed collection date".

The contract requires that machines are emptied on a weekly basis. We were informed that machines are generally emptied on a weekly or fortnightly basis although this may vary according to need. A spreadsheet is maintained which details when the parking meters were emptied and how much was collected from each machine. It was identified that in the period between 17 November and the 14 December 2009, two machines had not been emptied and another 41 machines has only need emptied once.

No explanation could be provided as to why these machines had not been emptied within this period and we were unable to establish if this issue had been identified or raised with RBKC.

We have raised one recommendation as a result of our work in this area.

**Income and Banking**

The Council receives income reports from RBKC on a daily basis. It was identified that on the 13 November 2009, machine numbers 159, 163, 164, 165, 166, 168, 169 and 170 contained a total of 582 foreign coins. No explanation could be provided as to why this had occurred or what action had been taken in response to this.

An electronic report is generated listing the income taken from each machine across the borough. This 'Metric Report' lists which machines have been emptied, the date and time they were emptied, and the amount of income taken in by that machine since the last collection as per the meter reading. A Parking Officer generates these reports and posts them onto the shared folder, where the finance team can access them.

Income collected from the pay & display machines by RBKC is banked and recorded on CedAr – the Council's General Ledger. RBKC only bank full bags of coins and any excess income is held in RBKC's vault and periodically banked into the Council's account by RBKC.

We have raised one recommendation as a result of our work in this area.

**System Reconciliations**

Reconciliations are undertaken between the income collected by RBKC and the amount recorded in Cedar financials. It was identified that monthly reconciliations had not been undertaken promptly and that reconciliation spreadsheets had not been updated each month.

A daily reconciliation is undertaken between the amount of income recorded on RBKC's income reports and the amount stated as per the 'Metric Reports' (the amount of income recorded by the pay & display machine). Variances were identified between these amounts in each of the ten dates selected for testing. On the 20 November, a variance of £31,514.35 was identified between the two values. An explanation could not be provided as to why this variance had occurred.

We were informed that variances of £25 or more between the amount collected by RBKC and the amount recorded in the Pay & Display machine are investigated. Although a 'Discrepancy Log Book' is maintained recording these variances, no follow-up action or investigations are undertaken to identify the reasons for the variances. Direct enquiries of staff identified a lack of clarity with regard to responsibility for investigating variances. The shortages recorded since July 2007, discounting incorrect machine readings, totalled £426,388.99.

We have raised two recommendations as a result of our work in this area.

**Public Notices and Enforcement**

We were provided with a Quality Plan which is used to create and amend public notices. This is used as a guide for staff undertaking projects on controlled parking zones. It provides staff with details with regards to which applications must be made and which approvals are needed.

Amendments to public notices need to be submitted to and approved by the Department for Transport. We identified from LBHF's 'Controlled Parking Zones and Tariffs' map that zones CC and G were due for amendment in December 2009. We were informed that approval for Zone CC has not yet been finalised and that approval for Zone G had been received. A signed letter from the Department for Transport was provided.

LBHF's 'Controlled Parking Zones and Tariffs' map is maintained and updated by the Highways and Engineering Team. It illustrates control times and the pay & display tariffs for each zone and is updated when any relevant amendments to the controlled parking zones are made.

We have made no recommendations as a result of our work in this area.

**Management Information**

We identified that information on income collected from pay & display machines is reported to Corporate Revenue Monitoring on a monthly basis. However no further information is provided to management such as variances between machine readings and income received and the level of use of foreign coins.

We have raised one recommendation as a result of our work in this area.

**Risk Management and Business Continuity Management**

The Environment Services Department has a departmental risk register in place which is available to staff via the Council's intranet and was last updated in January 2009. A Highways & Engineering divisional risk register was also obtained but this had not been updated since October 2007. It was also identified that the Highways and Engineering divisional risk register makes no reference to any risks relating to parking pay & display income.

A 'Service Area Continuity Plan For Parking Services' was also found and provided; however this had not been updated since September 2008.

We have raised one recommendation as a result of our work in this area.

**Acknowledgement**

We would like to thank the management and staff of Parking and Highways & Engineering for their time and co-operation during the course of the internal audit.

All staff consulted are included at Appendix C.

## Recommendations

### Council and Service Objectives

#### 1. Procedures for Administration of Pay & Display Income

(Priority 1)

Recommendation		Rationale	
<p>Procedures in relation to parking pay &amp; display services should be established. This should include guidance on:</p> <ul style="list-style-type: none"> <li>• Reconciliations between income collected by RBKC and income recorded on CedAr Financials;</li> <li>• Reconciliations between income collected by RBKC and income recorded by the pay &amp; display machines;</li> <li>• Investigation of identified variances in income;</li> <li>• Level of foreign coins received and banking of foreign coins; and</li> <li>• Information to be reported to senior management.</li> </ul>		<p>Having a formalised set of procedures helps to ensure that staff are aware of the processes required to complete key tasks such as reconciliations and investigation of discrepancies.</p> <p>It was identified that no policies or procedures have been documented relating to the administration of income received from pay &amp; display machines.</p> <p>In addition, during the audit fieldwork, direct enquiries of staff identified a lack of clarity with regard to roles and responsibilities.</p> <p>Where policies and procedures are not documented and circulated to staff, there is an increased risk that the service will be inappropriately delivered as staff will be unaware of how to complete key tasks such as reconciliations and investigation of discrepancies in income collected. This may lead to the Council not receiving all the income that it is due.</p>	
Management Response			
Agreed.			
Responsibility	Trainee Accountant	Deadline	Implemented

## Partnership with Royal Borough of Kensington & Chelsea

### 2. Action Points in Meeting Minutes

(Priority 2)

Recommendation		Rationale	
Meeting minutes taken at the 'Parking Liaison Group' should clearly identify the responsible officer and deadline for any follow-up action.		<p>Recording the decisions made and action points arising from Parking Liaison Group meetings helps ensure accountability and that any actions can be monitored and followed up.</p> <p>It was also identified that meeting minutes from the 'Parking Liaison Group' do not clearly identify action points, responsible officers or deadlines.</p> <p>Where the decisions made and action points arising from parking Liaison Group meetings are not adequately documented, there is an increased risk that failure to implement any agreed actions will not be identified. This may lead to performance issues not being addressed.</p>	
Management Response			
Agreed.			
Responsibility	Principal Parking Control Officer	Deadline	Implemented

## Meter Emptying

### 3. Emptying Pay & Display Machines

(Priority 2)

Recommendation	Rationale
<p>The Council should formally raise the issue of delays in collection from machines with RBKC to establish why these machines were not emptied on a weekly basis as per the contract.</p> <p>Where it is considered that these machines should have been emptied on a weekly basis, management should determine whether financial penalties should be issued against RBKC.</p> <p>Where weekly collection is considered excessive in relation to the level of income received from particular machines, consideration should be given to amending this clause through a contract variation.</p>	<p>Schedule 1, Section 13.1 of the 'Agreement for the collection, counting and banking of monies from Pay and Display machines' states that; "Each machine shall be emptied once per week, the day of collection being scheduled through the Contractor's Proposals or Work plan subsequently agreed by the Authorised Officer". In addition, Section 17 of the 'Agreement for the collection, counting and banking of monies from Pay and Display machines' states that; "For every pay and display machine not emptied within 5 Working Days of the relevant collection date the Contractor shall pay to the Council the sum of £9.64". The contract further states that "The Contractor shall not be liable to the Council for any liquidated damages where the total amount of liquidated damages for the relevant calendar month does not exceed £500".</p> <p>It was identified that two parking meters had not been emptied for four consecutive weeks between 17 November 2009 and 14 December 2009 (meter numbers 47U and 40V) and a further 41 meters had only been emptied once during this period.</p> <p>No financial penalties had been levied against RBKC when these delays occurred.</p> <p>Where meters are not emptied in a timely manner and this is not identified or addressed, there is an increased risk that income held in the meters may be subject to theft. There is an additional opportunity cost as the Council will not earn interest on the income until it is banked.</p>



**Management Response**

The revised agreement with RBKC was that not all machines need to be collected weekly, with agreement to carry out certain routes fortnightly and a few monthly and therefore reduce the cost to the Council of the contract. This will be reflected in the revised contract. The 41 machines collected once within the period stated, were collected fortnightly as agreed with RBKC.

**Responsibility**

Head of Parking

**Deadline**

Implemented

## Income & Banking

### 4. Investigation of Foreign Coins

(Priority 1)

Recommendation		Rationale	
<p>The level of foreign coins received should be monitored. Where the amount of foreign coins received is in excess of an acceptable threshold this should be raised with the contractor.</p>		<p>Monitoring the number of foreign coins received and investigating pay &amp; display machines with an excess of foreign coins will help to ensure that misuse of pay &amp; display machines is promptly identified and appropriate follow-up action is taken.</p> <p>It was identified that, on the 13th November 2009, machine numbers 159; 163; 164; 165; 166; 168; 169; and 170 contained a total of 582 foreign coins. We were not provided with an explanation as to whether collection of excessive levels of foreign coins is raised with RBKC.</p> <p>Where fraudulent use of foreign coins and weighted disks is not identified and queried with RBKC, there is an increased risk that the Council will suffer continued financial loss, and potential reputational damage should this information be released into the public domain.</p>	
Management Response			
Agreed.			
Responsibility	Head of Parking Services	Deadline	Implemented

## System Reconciliations

### 5. Monthly Reconciliations between income collected by RBKC and income recorded on CedAr Financials (Priority 1)

Recommendation		Rationale	
<p>Reconciliations between income collected by RBKC and CedAr Financials should be undertaken on a monthly basis. The reconciliations should be certified for correctness by the preparer and a second officer as evidence of independent review.</p>		<p>Undertaking monthly reconciliations between income collected by RBKC and income recorded on CedAr Financials will help to ensure any differences are promptly identified and investigated.</p> <p>It was identified that reconciliations between income collected by RBKC and CedAr Financials had not been undertaken on a monthly basis. At the time of the audit (January 2009), the most recent reconciliation undertaken was completed on the 13<sup>th</sup> November 2009. We were informed that the officer responsible was in the process of undertaking the January reconciliation. In addition, there was also no evidence to demonstrate that these reconciliations had been checked for accuracy and completeness by a second officer.</p> <p>Where reconciliations between income collected by RBKC and CedAr Financials are not undertaken on a monthly basis, there is an increased risk that errors and anomalies will not be identified in time for effective action to be taken. Furthermore, if reconciliations are not certified for correctness by a second officer, there is an increased risk the reconciliations may not be conducted promptly or correctly and this not being identified.</p>	
Management Response			
Agreed.			
Responsibility	Assistant Director of Finance and Resources	Deadline	Implemented

**6. Investigation of Variances**

**(Priority 1)**

Recommendation	Rationale
<p>All variances identified between the income collected by RBKC and the income recorded as per the 'Metric' reports should be investigated.</p> <p>Responsibility for investigating shortages and surpluses over £25 should be clearly defined and records of investigations conducted should be retained.</p> <p>Consideration should also be given to defining a threshold above which variances are reported to management.</p>	<p>A 'Metric Report' is generated for each Pay &amp; Display machine showing the amount of income received. Investigating variances between the RBKC income reports and Metric Reports will help to ensure any discrepancies in income collected are promptly investigated and resolved.</p> <p>From a sample of ten collection dates selected, variances between the income collected by RBKC and the income recorded as per the 'Metric' reports were identified on all ten days. On one of these days (20<sup>th</sup> November 2009) a variance of £31,514.35 was identified which was assumed to be a meter reading error. No explanation could be provided as to why these variances had occurred.</p> <p>We were also informed that, where discrepancies are identified, these are reported to the engineers responsible for maintaining the machines and a log book is maintained as a record of these variances. The total shortages recorded in the log book since July 2007 were £700,651.39 and surpluses totalled £9,801.95. Discounting incorrect meter readings of £274,262.40 during this period gave total shortages of £426,388.99.</p> <p>No evidence was provided to demonstrate that these variances had been sufficiently investigated and we were also unable to clarify who is ultimately responsible for investigating these variances and taking any corrective action required.</p> <p>Where variances between the income collected by RBKC and the income recorded on Metric Reports are not investigated, there is an increased risk that fraud or misappropriation of</p>

		income will remain unidentified and will continue to result in financial loss to the Council.	
<b>Management Response</b>			
<b>Actions now in place</b>			
All variances greater than £25 are fully investigated and reported to Parking by Finance.			
All records of investigation and follow up are detailed on a shared file so that actions can be recorded and reviewed.			
<b>Discrepancies between Metric reports and Cash coin count</b>			
Readings are sometimes received either side of the collection day for a particular route, resulting in a surplus on the day that can be explained by a corresponding shortage. The discrepancy of £31,514.35 reported on 20 <sup>th</sup> November is partly explained by readings for routes 52 and 69 being received on 19 <sup>th</sup> November (totalling £25,879.10), with an additional £1,877.30 of collections on these routes from machines that were not communicating. The rest of the difference would be due to other machines that were not communicating.			
The log book used to extract the figures shown here overstates the shortage amount and understates the surplus. In the 3 years from April 2007 – March 2010, there was an overall surplus of £1.7m.			
<b>Mitigating Actions</b>			
A new log book system is now in use, which will match the total overall discrepancy to avoid confusion over the discrepancy amount. Daily discrepancies and investigations are included as an agenda item at the monthly meeting with RBKC, and any current investigations are discussed.			
<b>Policies and Procedures document</b>			
Responsibilities are outlined in a policies and procedures document produced in February 2007, which is being updated to reflect changes in procedures. A shared folder between Environment Finance and Parking Services is in use to log investigation progress.			
<b>Responsibility</b>	AD Finance and Resources / Head of Parking	<b>Deadline</b>	Implemented (See Mitigating actions)

## Management Information

### 7. Management Reporting

(Priority 2)

Recommendation		Rationale	
<p>Information in relation to income received from RBKC should be reported to management on a monthly basis. This information should include:</p> <ul style="list-style-type: none"> <li>• Trend analysis, both borough wide by and by locality;</li> <li>• The level of variances between machine readings and income received; and</li> <li>• The amount of foreign coins/weighted disks collected from pay&amp; display machines.</li> </ul>		<p>Producing and presenting sufficient information to management will help to ensure appropriate management decisions are made, based on accurate, complete and timely information.</p> <p>We identified that information on income collected from pay &amp; display machines is reported to Corporate Revenue Monitoring on a monthly basis. However, no further information is provided to management such as discrepancies between machine readings and income received and the level of use of foreign coins.</p> <p>Where senior management are not provided with sufficient management information, there is an increased risk that management may not be aware of issues related to the collection of pay &amp; display income and that incorrect decisions may be made or corrective action not taken.</p>	
Management Response			
Report now produced monthly for management.			
Responsibility	Finance Team	Deadline	Implemented

## Risk Management and Business Continuity

### 8. Highways and Engineering Risk Register and Service Area Continuity Plan for Parking Services (Priority 2)

Recommendation	Rationale
<p>The Highways and Engineering divisional risk register should be reviewed on an annual basis. The risk register should be updated to include risks associated with pay &amp; display income.</p> <p>Furthermore, the 'Service Area Continuity Plan for Parking Services' should also be reviewed and updated on an annual basis.</p>	<p>Updating the divisional risk register on a regular basis will help to ensure any emerging risks pertinent to the organisation are promptly identified and mitigating actions put in place. Including risks related to parking pay &amp; display income into the divisional risk register will help to ensure that appropriate management action is taken to manage these risks. Reviewing the 'Service Area Continuity Plan for Parking Services' on an annual basis helps ensure that the Council is adequately prepared for business interruptions.</p> <p>It was identified that the Highways &amp; Engineering divisional risk register had not been updated since October 2007 and did not include and any risks related to parking pay &amp; display income.</p> <p>In addition, we were unable to obtain evidence that the 'Service Area Continuity Plan for Parking Services' had been updated since September 2008.</p> <p>Where the Highways and Engineering divisional risk register is not updated on a regular basis and does not include risks relating to parking pay &amp; display income, there is an increased risk that risks pertinent to the service will materialise, impacting on service delivery. Furthermore, where the 'Service Area Continuity Plan for Parking Services' is not reviewed and updated on a regular basis, there is an increased risk that avoidable business interruptions will occur.</p>

<b>Management Response</b>			
Agreed.			
<b>Responsibility</b>	Head of Parking Services	<b>Deadline</b>	Implemented



## Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

### **Deloitte & Touche Public Sector Internal Audit Limited**

**London**

**February 2011**

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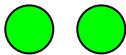



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## Appendix A – Definition of Audit Opinions, Direction of Travel, Adequacy and Effectiveness Assessments, and Recommendation Priorities

### Audit Opinions




We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

	<b>Full</b>	<p>There is a sound system of internal control designed to achieve the client's objectives.</p> <p>The control processes tested are being consistently applied.</p>
	<b>Substantial</b>	<p>While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk.</p> <p>There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.</p>
	<b>Limited</b>	<p>Weaknesses in the system of internal controls are such as to put the client's objectives at risk.</p> <p>The level of non-compliance puts the client's objectives at risk.</p>
	<b>None</b>	<p>Control processes are generally weak leaving the processes/systems open to significant error or abuse.</p> <p>Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.</p>

The assurance gradings provided above are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated objectives.

## Direction of Travel

The Direction of Travel assessment provides a comparison between the current assurance opinion and that of any previous internal audit for which the scope and objectives of the work were the same.

	Improved since the last audit visit. Position of the arrow indicates previous status.
	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
	Unchanged since the last audit report.
No arrow	Not previously visited by Internal Audit.

## Adequacy and Effectiveness Assessments

Please note that adequacy and effectiveness are not connected. The adequacy assessment is made prior to the control effectiveness being tested.

The controls may be adequate but not operating effectively, or they may be partly adequate / inadequate and yet those that are in place may be operating effectively.

In general, partly adequate / inadequate controls can be considered to be of greater significance than when adequate controls are in place but not operating fully effectively, i.e. control gaps are a bigger issue than controls not being fully complied with.

	<b>Adequacy</b>	<b>Effectiveness</b>
	Existing controls are adequate to manage the risks in this area	Operation of existing controls is effective
	Existing controls are partly adequate to manage the risks in this area	Operation of existing controls is partly effective
	Existing controls are inadequate to manage the risks in this area	Operation of existing controls is ineffective

## Recommendation Priorities

In order to assist management in using out internal audit reports, we categorise our recommendations according to their level of priority as follows:

<b>Priority 1</b>	Major issues for the attention of senior management and the audit committee.
<b>Priority 2</b>	Important issues to be addressed by management in their areas of responsibility.
<b>Priority 3</b>	Minor issues resolved on site with local management.

## Appendix B – Audit Objectives & Scope

### Internal Audit Objective and Scope

The overall objective of this internal audit was to provide the Members, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls relating to the following management objectives:

#### **Council and Service Objectives**

The business objectives are identifiably linked to key priorities of the Council and this is documented (including the consideration of moving to a credit card system against issues of exclusion)

Clear and measurable progress and performance targets are established (parking charges have been set in accordance with trends analysis and income targets that have been benchmarked against other authorities; these have been submitted and approved)

Policies and procedures are established for complying with legislation and business objectives.

#### **Partnership with Royal Borough of Kensington and Chelsea**

Contractual arrangements exist to formalise the relationship between LBHF and RBKC.

Regular meetings are held to discuss the performance delivered under the contract.

Actions are agreed on and followed-up on to resolve any issues arising in respect of performance.

#### **Meter Setting**

The setting of tariffs within meters is accurate, complete and undertaken timely in accordance with approved changes

#### **Meter Emptying**

Meters are regularly emptied, and income is appropriately safeguarded.

#### **Income and Banking**

Parking meter income is completely, accurately, validly and timely collected, allocated and recorded in the authority's accounts and banked in compliance with management requirements.

**Internal Audit  
Objective and  
Scope****System Reconciliations**

Reconciliations are undertaken to identify any difference between income collected by Kensington & Chelsea and that recorded in Cedar Financials and received in the bank.

What the ASLAN meter reading system is reporting as income (by individual parking machine) equals the actual amount being reported as counted by Kensington & Chelsea (minus valid exclusions such as forged coins / metal weights).

**Public Notices and Enforcement**

Public notices are appropriately displayed in compliance with regulatory requirements, and instances of expired or non display of tickets are detected and enforced in a timely manner.

**Management Information**

Periodically, the service is reviewed for effectiveness taking into account primary legislative requirements and policy drivers, (for instance, differential charging to encourage turnaround of available places)

Information on income from RBKC (including coverage of aged debt analysis, trends analysis corporately, by area and by location; with further sub-analysis of income reduction and fraudulent use of foreign coins/similar weighted objects) is completely, accurately, validly and timely produced and secured to allow for effective monitoring and decision making as part of the setting, levying, collecting and recovery of parking meter income (including setting of check points for review/evaluation of success (set dates plus maximum variance / tolerance to trigger review)

**Risk Management and Business Continuity Management**

A current risk register is in place that has been approved by the service head.

A current business continuity plan is in place that has been approved by the service head.

The business continuity plan is tested on at least an annual basis.

**Internal Audit Approach and Methodology**

The internal audit approach is developed through an assessment of risks and management controls operating within the agreed scope.

The following procedures were adopted:



- Identification of the role and objectives of each area;
- Identification of risks within each area which threaten the achievement of objectives;
- Identification of controls in existence within each area to manage the risks identified;
- Assessment of the adequacy of controls in existence to manage the risks and identification of additional proposed controls where appropriate; and
- Testing of the effectiveness of key controls in existence within each area.

Management should be aware that our internal audit work was performed in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Our internal audit testing was performed on a judgemental sample basis and focused on the key controls mitigating risks. Internal audit testing was designed to assess the adequacy and effectiveness of key controls in operation at the time of the audit.

Please note that, in relation to the agreed scope, whilst our internal audit assessed the efficiency and effectiveness of key controls from an operational perspective, it was not within our remit as internal auditors to assess the efficiency and effectiveness of policy decisions.

## Appendix C – Audit Team & Staff Consulted

AUDIT TEAM	STAFF CONSULTED
General Manager	Assistant Director of Finance
Deputy Sector Manager	Head of Parking Services
Audit Manager	Parking Projects Manager
Auditor	Trainee Accountant
<b>Contact Details:</b>	
 Ext 2550	
 Ext 2590	

## Appendix D – Audit Timetable

	DATES
Planning Meeting	25/01/2010
Fieldwork Start	25/01/2010
Exit Meeting	12/03/2010
Draft report issued	12/04/2010 and 20/07/2010
Final report issued	16/02/2011