

# Internal Audit Report

## GMITA: Capital Programme Monitoring

**Report To:**

Stephen Clark – Head of Transport

**Report Status:**

**DRAFT**

**Additional Report Distribution:**

Simon Warburton – GMITA Policy Team Manager  
Sylvia Welsh – Principal Committee Officer

**Auditor:**

Richard Stringer

**Fieldwork Commenced:**

24 August 2009

**Draft Report Issued:**

2 October 2009

**Management Responses Requested By:**

19 October 2009

**Final Report Issued:**

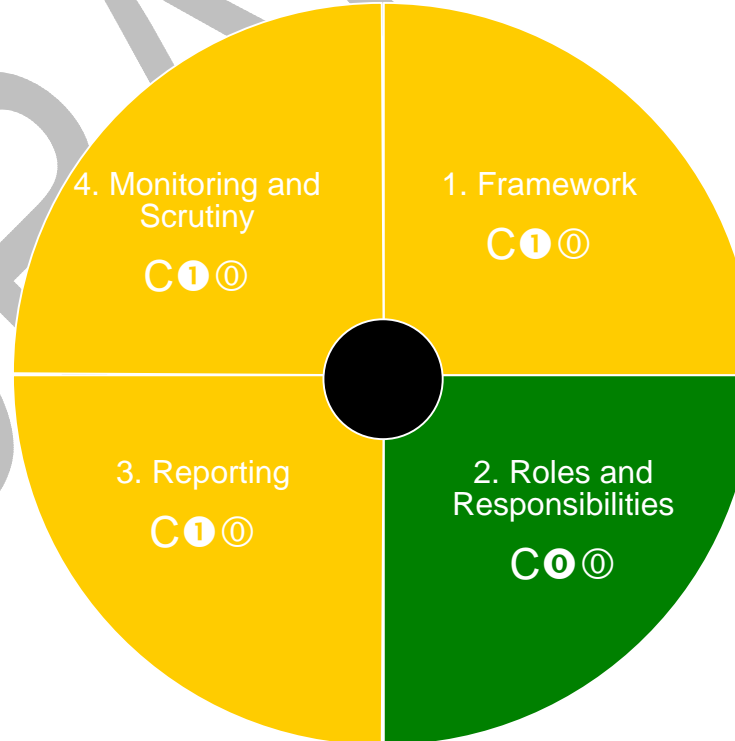
# 1. Executive Summary

<p><b>Overall Assurance Opinion</b> (See Appendix 1)</p> <p>FULL <span style="color: green;">●</span></p> <p>SUBSTANTIAL <span style="color: lightgreen;">●</span></p> <p><b>MODERATE</b> <span style="color: yellow;">●</span> ✓</p> <p>LIMITED <span style="color: orange;">●</span></p> <p>NO <span style="color: red;">●</span></p>	<p><b>Capacity to Improve</b></p> <p><i>This assessment will be informed by the management response to recommendations raised in this report.</i></p>	<p><b>Number of control issues identified</b></p> <p>① Critical</p> <p>① Major</p> <p>③ Significant</p> <p>① Moderate</p> <p>① Minor</p>	<p><b>Number of compliance issues identified</b></p> <p>① Critical</p> <p>① Major</p> <p>① Significant</p> <p>① Moderate</p> <p>① Minor</p>
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## Audit Objective

To provide assurance that the Authority has effective arrangements for monitoring the capital programme:

1. There is a framework for capital programme monitoring.
2. Roles and responsibilities are clear, codified and discharged effectively.
3. Progress in the delivery of the capital programme is regularly and accurately reported to support effective decision making.
4. Monitoring and scrutiny provides challenge to performance against the approved programme.



Each of the objectives for this review is shown as a segment of the wheel. The colours on the wheel represent an assessment of the risk for each audit objective based on the issues identified in the review

A	No or Minor
B	Moderate
C	Significant
D	Major
E	Critical

**Context:**

Greater Manchester Integrated Transport Authority (the Authority) provides approval and oversight of the Greater Manchester Passenger Transport Executive's (the Executive) capital programme, which includes the Minor Works Programme and Metrolink renewals. The approved 2008/09 budget was £693 million and for 2009/10 is £265 million. Effective monitoring of the programme is necessary to identify and address potential under-performance, budget over-spend and project overruns and to ensure delivery of work streams and services in accordance with the Authority's priorities and objectives.

**Limitations:**

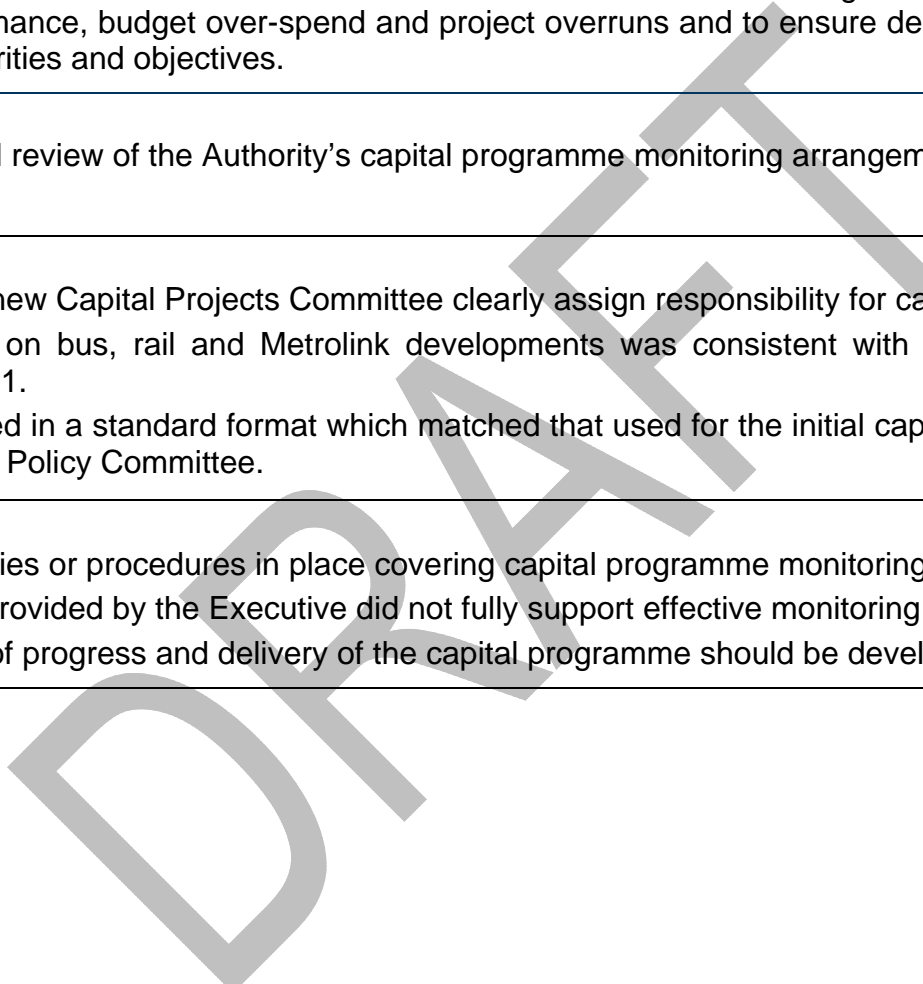
Testing was restricted to a high level review of the Authority's capital programme monitoring arrangements, and Policy Committee and Authority papers.

**Areas of Good Practice:**

- The Terms of Reference for the new Capital Projects Committee clearly assign responsibility for capital programme monitoring.
- The capital programme's focus on bus, rail and Metrolink developments was consistent with the objectives identified within Local Transport Plan 2006/07 – 2010/11.
- Monitoring reports were presented in a standard format which matched that used for the initial capital programme submission, and were submitted to each meeting of the Policy Committee.

**Areas for Improvement:**

- There were no documented policies or procedures in place covering capital programme monitoring arrangements.
- Capital programme information provided by the Executive did not fully support effective monitoring and scrutiny.
- Member scrutiny and challenge of progress and delivery of the capital programme should be developed.



## 2. Detailed Findings Recommendations and Action Plan

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
<b>Audit Objective 1: There is a framework for capital programme monitoring.</b>					
1	<p>Whilst a capital programme monitoring report written by the Executive was submitted to each meeting of the Authority's Policy Committee, it was not clear whether the information contained in the reports was adequate or how it might be used to support active Authority arrangements over the monitoring and scrutiny of the programme.</p>	<p>Sufficient, timely information is essential to enable the Authority to obtain assurance over the effectiveness of capital program monitoring arrangements and to ensure that roles and responsibilities are fully understood and support effective monitoring activity.</p>	<p>The Deputy Clerk to the Authority, in conjunction with the Chair of the new Capital Projects Committee, should develop capital programme monitoring arrangements to define:</p> <ul style="list-style-type: none"> <li>• The purpose of capital programme monitoring;</li> <li>• Expected tasks and responsibilities for them, for example who should review monitoring reports and what should this involve;</li> <li>• The content, level of detail, format and frequency of monitoring reports; and</li> <li>• Arrangements for the provision of additional reports and information as the Authority sees fit.</li> </ul>	<p style="text-align: center;">● Significant (Control)</p>	<p><b>Agreed:</b> Yes – scope for further improvement recognised.</p> <p><b>Action to be taken:</b> As per the recommendations, the shape of these reports has been reviewed in consultation with the Chair of the Capital Projects Committee, which is now providing a clear forum for consideration of detailed Capital Programme matters. Report structures will be reviewed again towards the end of the 2009/10 Authority year.</p> <p><b>Additional Resources Required for implementation:</b> No</p> <p><b>Responsible Officer:</b> Simon Warburton</p> <p><b>Target Date:</b> From start 2009/10</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
<b>Audit Objective 3: Progress in the delivery of the capital programme is regularly and accurately reported to support effective decision making.</b>					
2	<p>We did not consider capital programme information provided by the Executive sufficient to support effective monitoring and scrutiny. Whilst reports contained information related to budget, expenditure and projected outturn figures, they did not identify any changes to the capital programme itself, or indicate whether planned completion dates or desired outcomes would be met.</p> <p>Additional narrative was supplied for some specific schemes but this was inconsistent and did not give detailed information such as start/end dates, budget variances, project milestones and performance against schedule. Given the role of the Authority in supporting the delivery of LTP2 it would be helpful for Members and Officers to understand how completion of the capital programme contributes to the achievement of strategic objectives.</p>	<p>Insufficient information relating to progress of the capital programme will have an adverse impact on Members ability to provide effective monitoring and scrutiny or take effective decisions.</p> <p>It also means that Members may be left to interpret reports provided by the Executive and this may not be an effective use of their time.</p>	<p>The Deputy Clerk to the Authority, in conjunction with the Chair of the new Capital Projects Committee, should liaise with the Executive to ensure reporting arrangements provide Members with the information needed to hold the Executive to account for capital programme spending and progress. Reporting arrangements could include:</p> <ul style="list-style-type: none"> <li>Standardised reports for the monitoring of high risk or high priority projects. These should be reported using R/A/G ratings for set criteria such as priority works, performance against schedule and budget.</li> <li>An executive summary describing overall progress, including blockers; and</li> <li>Links between individual capital programme projects, the Authority's</li> </ul>	<p style="text-align: center;">●</p> <p>Significant (Control)</p>	<p><b>Agreed:</b> Yes – scope for further improvement recognised.</p> <p><b>Action to be taken:</b> Prime focus in the creation of the new Capital Projects Committee. Regular reporting to Capital Projects Committee on high priority projects (e.g. Metrolink investment projects) has been established since start of 2009/10 Authority year.</p> <p>Policy &amp; Resources Committee 2009/10 revised remit to consider performance alongside capital programming will provide scope for closer linkage between programme and strategic objectives.</p> <p><b>Additional Resources Required for implementation:</b> No</p> <p><b>Responsible Officer:</b> Simon Warburton</p> <p><b>Target Date:</b> From start</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
			priorities and the LTP2.		2009/10
<b>Audit Objective 4: Monitoring and scrutiny provides challenge to performance against the approved programme.</b>					
3	<p>Minutes of the Authority's Policy Committee meetings did not provide evidence of Member challenge with regard to the progress and delivery of the capital programme, or the nature and quality of information contained in capital programme monitoring reports received from the Executive.</p> <p>We support the Authority's decision to delegate responsibility for capital programme monitoring to the newly formed Capital Projects Committee (the first meeting of which was due to take place in September 2009) and consider this provided a good opportunity to identify training needs in respect of scrutiny and challenge of monitoring information.</p>	<p>Inadequate levels of Authority challenge could adversely affect the delivery of the capital programme to time and cost.</p>	<p>The Deputy Clerk to the Authority, in conjunction with the Chair of the new Capital Projects Committee, should establish the most effective way of monitoring the capital programme. Considerations should include:</p> <ul style="list-style-type: none"> <li>Identifying alternative sources of assurance over capital works, for example obtaining information from the Executive's Internal Audit function or other internal management information;</li> <li>Developing Member expertise with regard to scrutiny and challenge using training sessions focusing on their role and responsibilities; and</li> <li>Recording Member challenge in meeting minutes.</li> </ul>	<p style="text-align: center;">●</p> <p>Significant (Control)</p>	<p><b>Agreed:</b> Yes – scope for further improvement recognised.</p> <p><b>Action to be taken:</b> Recommendations incorporated into revised reporting arrangements to Capital Projects Committee as discussed above.</p> <p><b>Additional Resources Required for implementation:</b> No</p> <p><b>Responsible Officer:</b> Simon Warburton</p> <p><b>Target Date:</b> From start 2009/10.</p>

## Appendix 1. Basis of our opinion and level of assurance

Level of assurance	Description
<b>Full</b> ●	<b>Full assurance</b> – there is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be Advice and Best Practice.
<b>Substantial</b> ●	<b>Substantial assurance</b> – whilst there is basically a sound system of control, there are some areas for improvement, which may put the system/process objectives at risk. There are Moderate recommendations but these do not undermine the system's overall integrity. Any Major or Significant recommendations relating to part of the system would need to be mitigated by strengths elsewhere. Any Critical recommendations will prevent this assessment.
<b>Moderate</b> ●	<b>Moderate assurance</b> – there are some areas for improvement in the system of internal control, which may put the system/process objectives at risk. There are a small number of Major recommendations or a number of Significant recommendations. Any Critical recommendations would need to be mitigated by significant strengths elsewhere. A number of Critical recommendations would prevent this assessment.
<b>Limited</b> ●	<b>Limited assurance</b> – there are significant areas for improvement in key areas of the systems of control, which put the system/process objectives at risk. There are Major recommendations and any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
<b>No</b> ●	<b>No assurance</b> – an absence of effective internal control is leaving the system/process open to significant error or abuse. There are Critical recommendations indicating major risks requiring mitigating actions.

Capacity to improve	Description
<b>High</b> ↑	The assessment will be based on a number of factors including: Recommendations progressed since the start of the audit; timescales for the implementation of agreed recommendations; levels of resources / capacity to effect implementation; focus and clarity of ownership within directorate / service for implementation; directorate / service track record in implementation of agreed recommendations; professional auditor judgement.
<b>Medium</b> ←	
<b>Low</b> ↓	

Risk Type	Description
<b>Control</b>	There are areas for development and improvement in the design of the system of internal control
<b>Compliance</b>	There is need to improve compliance with the existing system of internal of control, processes or procedures

Risk	Assessment rationale
<p style="text-align: center;"><span style="color: red;">●</span></p> <p>E. Critical</p>	<p>Life threatening / multiple serious injuries or prolonged work place stress. Severe impact on morale and service performance. Intense political and media scrutiny i.e. national media coverage / prolonged local media coverage. Possible criminal, or high profile, civil action against the Council, members or officers. Cessation of core activities, Strategies not consistent with government's agenda, trends show service is degraded. Failure of major Projects – elected Members &amp; SMT required to intervene. Large increase on project budget/cost: (Greater of <b>£1.0M</b> of the total budget or more than <b>15 to 30%</b> of the departmental / service area / school budget). Statutory intervention triggered. Impact on the whole council</p>
<p style="text-align: center;"><span style="color: orange;">●</span></p> <p>D. Major</p>	<p>Serious injuries or stress requiring medical treatment with many workdays lost. Major impact on morale and performance. Scrutiny required by external agencies, external audit etc. Unfavourable national or prolonged local external media coverage. Noticeable impact on public opinion. Major impact on the effectiveness of governance for the Council. Significant disruption of core activities / performance. Key targets missed, some services compromised. Senior Management action required. Major increase on project budget/cost: (Greater of <b>£0.5M</b> of the total Budget or more than <b>6 to 15%</b> of the departmental budget).</p>
<p style="text-align: center;"><span style="color: yellow;">●</span></p> <p>C. Significant</p>	<p>Injuries or stress requiring some medical treatment with workdays lost. Some impact on morale and performance. Scrutiny likely to be exercised by external agencies, internal committees or internal audit to prevent escalation. Probable limited unfavourable local media coverage. Significant short-term disruption of non-core activities / service performance. Standing Orders / Financial Regulations not complied with. Impact on the effectiveness of governance at the Council or service level. Services unlikely to meet needs. Service action will be required. Significant increase on project budget/cost: (Greater of <b>£0.3M</b> of the total Budget or more than <b>3 to 6%</b> of the departmental budget). Handled within the team</p>
<p style="text-align: center;"><span style="color: lightgreen;">●</span></p> <p>B. Moderate</p>	<p>Injuries / stress requiring some medical treatment, potentially some workdays lost. Some impact on morale and performance. Additional scrutiny required by management and internal committees to prevent escalation. Possible limited unfavourable local media coverage. Short-term disruption of non-core activities / service performance. Standing Orders / Financial Regulations occasionally not complied with. Minor impact on the effectiveness of governance at the Council or moderate impact at service level. Services do not fully meet needs. Service action will be required. Small increase on project budget/cost: (Greater of <b>£0.1M</b> of the total Budget or up to <b>3%</b> of the departmental budget). Handled within the team</p>
<p style="text-align: center;"><span style="color: green;">●</span></p> <p>A. Minor</p>	<p>Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale. Internal Review, unlikely to have impact on the corporate image. Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines. Some impact on the effectiveness of governance at service level. Minimal financial loss – Minimal effect on project budget/cost: Negligible effect on total Budget or departmental budget).</p>

# Internal Audit Report

## GMITA: Performance Management

**Report To:**

Stephen Clark – Head of Transport

**Report Status:**

**DRAFT**

**Additional Report Distribution:**

Simon Warburton – GMITA Policy Team Manager

**Auditor:**

Emma Maddocks

**Fieldwork Commenced:**

24 March 2009

**Draft Report Issued:**

1 June 2009

**Management Responses Requested By:**

16 June 2009

**Final Report Issued:**

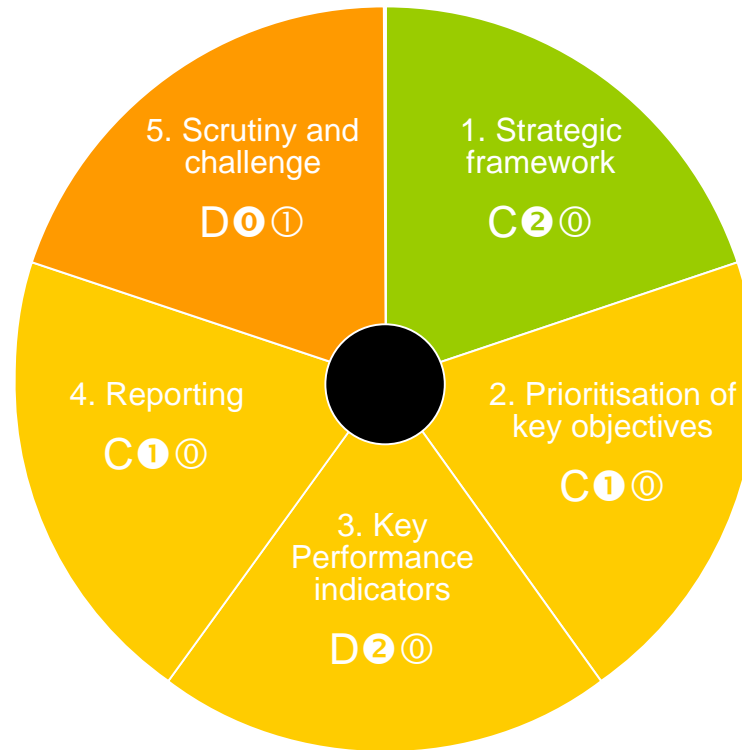
# 1. Executive Summary

<b>Overall Assurance Opinion</b> (See Appendix 1) FULL <span style="color: green;">●</span> SUBSTANTIAL <span style="color: lightgreen;">●</span> <b>MODERATE</b> <span style="color: yellow;">●</span> ✓ LIMITED <span style="color: orange;">●</span> NO <span style="color: red;">●</span>	<b>Capacity to Improve</b>  <i>This assessment will be informed by the management response to recommendations raised in this report.</i>	<b>Number of control issues identified</b> 0 Critical 0 Major 4 Significant 2 Moderate 0 Minor	<b>Number of compliance issues identified</b> 0 Critical 1 Major 0 Significant 0 Moderate 0 Minor
	This assessment will be informed by the management response to recommendations raised in this report.		

## Audit Objective

To provide assurance that the Authority has performance management arrangements that contribute to the achievement of key objectives, specifically that:

1. There is a strategy and framework that co-ordinates the Authority's approach to effective performance management;
2. The framework includes prioritisation of key objectives to help focus performance management activity;
3. Performance against key objectives is monitored against appropriate measures and performance indicators;
4. Reporting against measures and performance indicators supports effective decision making; and
5. monitoring and scrutiny provides challenge to performance against key measures and targets.



Each of the objectives for this review is shown as a segment of the wheel. The colours on the wheel represent an assessment of the risk for each audit objective based on the issues identified in the review

<b>A</b>	No or Minor
<b>B</b>	Moderate
<b>C</b>	Significant
<b>D</b>	Major
<b>E</b>	Critical

**Context:**

Effective performance management should be an essential component of the Greater Manchester Integrated Transport Authority's (the Authority) governance framework. Through it, effective accountability can be exercised over the delivery of the Authority's strategic aims and objectives through the setting and monitoring of targets and scrutiny and challenge of performance activity. Performance management has been a key area of focus in the Authority's annual Use of Resources Assessments.

**Limitations:**

Testing incorporated a review of the Authority's performance management framework including performance indicators and minutes of the Service Improvement Committee (SIC) and Performance Management Committee (PMC).

**Areas of Good Practice:**


- The PMC had agreed terms of reference and received regular performance reports from the Executive;
- Performance was reported to the PMC in a 'traffic light' format which highlighted for Members those areas where challenge would be best directed;

**Areas for Improvement:**

- The PMC's terms of reference should include responsibility for scrutinising Authority performance;
- Links between the Local Transport Plan (LTP) and the joint annual report should be clearer and longer term LTP objectives and priorities should be translated into annual Authority objectives;
- A suite of key performance indicators should be developed, drawn from those reported to the PMC by the Executive, LTP indicators and any other s considered necessary to demonstrate achievement of annual objectives;
- The PMC should seek assurance over the accuracy and completeness of annual performance information reported by the Executive to the Authority.
- Performance monitoring reports for the PMC should be further refined to include 'direction of travel' of key performance indicators and review and comment from Authority officers on performance information provided by the Executive.

## 2. Detailed Findings Recommendations and Action Plan

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
<b>Audit Objective 1: There is a strategy and framework that coordinates the Authority's approach to effective performance management.</b>					
1	<p>The Authority's performance management framework included the Performance Management Committee (PMC), which was charged with the scrutiny of performance. The PMC's agreed terms of reference included responsibility for scrutinising and commenting on the Executive's performance, and meeting minutes confirmed that this was the focus of performance monitoring activity. We agreed that the Committee should be predominantly focused on the work of the Executive but considered that its role should include oversight of the delivery of the Authority's key objectives and priorities, some but not all of which relate to Executive activity.</p> <p>Authority officers confirmed that a review of the Authority's committee structure was likely to lead to disestablishment of</p>	<p>Responsibility for challenging performance management activity should be appropriately allocated in order to ensure that activity is effectively monitored and controlled.</p> <p>Without such clarity there is an increased risk that the Authority will lack the assurance that arrangements are in place to ensure the achievement of its objectives.</p>	<p>The Deputy Clerk to the Authority, in conjunction with the Chair of the Authority, should ensure that the role of the Performance Management Committee (or other committee to which the responsibility may be laid) in scrutinising performance should explicitly include responsibility for monitoring of the achievement of the Authority's key objectives and priorities. This should be recorded in the Committee's terms of reference.</p>	<p style="text-align: center;">●</p> <p>Significant (control)</p>	<p><b>Agreed:</b> Yes – the ITA had concurrently reached the same conclusion as part of its Committee Improvement Project</p> <p><b>Action to be taken:</b> Performance monitoring and management duties to be managed collectively by the Policy &amp; Resources Committee, which has an explicit term of reference to monitor “the operation, impact and effectiveness of the Authority's policies”, alongside considering “the implications for future policies and budget priorities” of performance reports.</p> <p><b>Additional Resources Required for implementation:</b> No</p> <p><b>Responsible Officer:</b> Simon Warburton</p> <p><b>Target Date:</b> From start 2009/10.</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	the PMC, with responsibility for performance management ceded to Policy Committee. Proposals were to be taken to an emergency Board meeting in June 2009.				
2	<p>A jointly produced Annual Report included the Authority's annual priorities and the Executive's objectives and progress against key performance indicators. While it provided a useful position statement we considered it to be confusing in that it did not clearly distinguish between sections relevant only to the Authority or the Executive and those relevant to both. Respective priorities and objectives were therefore unclear and the report did not demonstrate a link to a long term strategic framework.</p> <p>The Greater Manchester Local Transport Plan 2006/07 – 2010/11 (LTP) set out longer term priorities and we would expect that this would inform a longer term Authority planning.</p>	<p>Short term objectives (against which performance is regularly monitored) should be explicitly linked to long term strategic aims to reduce the risk that activities are resourced which do not contribute to the strategic direction.</p> <p>There is a risk that publishing a joint annual report allows for insufficient distinction between the priorities and objectives of the two bodies, leading to lack of clarity over their respective roles.</p>	<p>The Deputy Clerk to the Authority, in conjunction with the Chair of the Authority, should review arrangements for reporting the Authority's activities. The review should include consideration of the publication of a separate annual report for the Authority, in place of the joint report of the Executive and the Authority that is currently published. The review should also consider the need to document links to any Executive annual report and the Local Transport Plan and set out objectives which support long term transport priorities. The current work to develop Local Transport Plan 3 provides a timely opportunity to undertake such a review.</p>	<p> Moderate (control)</p>	<p><b>Agreed:</b> Yes, in part – recognised need to more explicitly articulate links between shorter and longer term objectives and actions</p> <p><b>Action to be taken:</b> To be reviewed within the development process for the 3<sup>rd</sup> Local Transport Plan, which will be supervised by the ITA Policy &amp; Resources Committee</p> <p><b>Additional Resources Required for implementation:</b> Potential additional costs to be addressed through LTP3 development workstreams</p> <p><b>Responsible Officer:</b> Stephen Clark/Simon Warburton</p> <p><b>Target Date:</b> For completion by LTP3 submission in March</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
					2011.
<b>Audit Objective 2: The framework includes prioritisation of key objectives to help focus performance management activity</b>					
3	The joint Annual Report identified six broad Authority policy priority areas although no specific objectives supported these priorities. The Local Transport plan 2006/07 – 2010/11 contained long term objectives from which annual objectives for the Authority could be drawn.	Key transport strategies may not be achieved and funding may not be used effectively if policy priorities and longer term strategic objectives are not supported by short term objectives.	The Clerk to the Authority should lead the development of specific annual policy objectives for the Authority. Annual objectives could be drawn from the longer term objectives included in the Local Transport plan 2006/07 – 2010/11. Delivery of the objectives should be managed and monitored and objectives should be published in the annual report together with performance information.	● Significant (control)	<p><b>Agreed:</b> Yes, in part – recognise need to consider appropriate future reporting of LTP performance</p> <p><b>Action to be taken:</b> LTP performance regimes to be reviewed in preparation for LTP3 (see above).</p> <p><b>Additional Resources Required for implementation:</b> Potential additional costs to be addressed through LTP3 development workstreams</p> <p><b>Responsible Officer:</b> Stephen Clark/Simon Warburton</p> <p><b>Target Date:</b> For completion by LTP3 submission in March 2011.</p>
<b>Audit Objective 3: Performance against key objectives is monitored against appropriate measures and performance indicators.</b>					
4	A suite of 30 Executive key performance indicators (KPIs) were reported to the Performance Management Committee for monitoring purposes. These included a	Performance against key priorities is not challenged and therefore there is an increased risk that these priorities will not be achieved.	The Deputy Clerk to the Authority should lead the development of a suite of key performance indicators to enable performance against annual objectives to	● Significant (control)	<p><b>Agreed:</b> Yes</p> <p><b>Action to be taken:</b> Policy &amp; Resources Committee to supervise and agree a review of</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	<p>number that were not relevant to the Authority and the KPIs did not cover all of the Annual Plan priorities, such as free buses and train overcrowding. Some of the KPIs that were monitored closely by the Committee were relevant only to the Executive, including levels of sickness absence and equal opportunity indicators, and we could not determine why it was considered necessary to monitor such detailed indicators or the value that this added, in view of the Executive's own performance monitoring arrangements.</p>	<p>Poor performance that may impact on external assessments of the Authority may not be identified without adequate measurement against priorities.</p> <p>The performance management function is likely to be ineffective in its role if it is not challenging relevant performance measures that, if improved will, affect Authority performance.</p>	<p>be managed and monitored. Indicators could be drawn from the Executive indicators already monitored and longer term indicators from the Local Transport plan as well as any new indicators considered necessary. The indicators should be:</p> <ul style="list-style-type: none"> <li>• submitted to the Performance Management Committee for consideration and approval;</li> <li>• supported by progress reports from Authority officers to each Committee meeting; and</li> <li>• reviewed and re-approved annually.</li> </ul>		<p>KPIs as part of 2009/10 workplan.</p> <p><b>Additional Resources Required for implementation:</b> No</p> <p><b>Responsible Officer:</b> Simon Warburton</p> <p><b>Target Date:</b> Completion by April 2010.</p>
5	<p>The Performance Management Committee received regular reports on performance indicators from the Executive which were compiled by Executive officers using its data. There was no process by which the Committee could gain assurance on the accuracy and integrity of reported performance data. Some</p>	<p>The performance information provided may be inaccurate or based on poor quality data and therefore may not reflect actual performance.</p> <p>By challenging potentially inaccurate or poor quality performance information there is an increased risk of ineffective challenge and</p>	<p>The Deputy Clerk to the Authority should liaise with the Executive to establish a method by which the Authority could obtain periodic assurance over the accuracy and completeness of the Executive's performance data.</p> <p>An approach which could be considered is</p>	<p style="text-align: center;">●</p> <p>Moderate (control)</p>	<p><b>Agreed:</b> Yes, in part – PTE data is reviewed by the Audit Commission, however, there may be scope to develop further assurance</p> <p><b>Action to be taken:</b> Options for further data assurance methods to be reviewed by ITA officers and presented to Policy &amp; Resources Committee for</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	reliance was placed on the Authority's Finance Officer, who reported back issues raised at Executive Audit Committee meetings which were considered to be relevant. However, we would expect this to be supported by a formal means of gaining assurance over data quality.	therefore increased risk of poor performance not being identified or challenged.	submission by the Executive to the Authority of an annual assurance statement describing the Executive's process for assuring data quality and including any internal or external audit recommendations and action agreed by managers to implement them.		consideration. <b>Additional Resources Required for implementation:</b> Possibly <b>Responsible Officer:</b> Simon Warburton / Sylvia Welsh <b>Target Date:</b> January 2010
<b>Audit Objective 4: Reporting against measures and performance indicators supports effective decision making.</b>					
6	<p>Performance monitoring reports on KPIs were presented by Executive officers to each Performance Management Committee meeting. The reports were presented in a 'traffic light' format which allowed for easier identification by the Committee of those indicators that were performing inadequately.</p> <p>This format did not report the 'direction of travel' or the 'capacity to improve' of individual indicators. We considered that such an approach may allow the Committee to focus their attention more effectively by</p>	<p>Reports do not clearly identify those indicators which should be of concern and therefore should be challenged. Indicators highlighting decreasing performance may not be challenged as they remain slightly above target and may not be challenged until performance decreases further.</p> <p>Challenge may be less effective if targeted at performance areas where challenge will not affect performance.</p>	<p>The Deputy Clerk to the Authority should consider the following approach to performance reporting, to support reporting against the Authority's suite of indicators as recommended at 4. above:</p> <ul style="list-style-type: none"> <li>Authority officers should supplement Executive performance reports with written analysis and comment prior to submission to the Performance Management Committee;</li> <li>A combined Authority and Executive performance report should be produced for</li> </ul>	<p style="text-align: center;">●</p> <p>Significant (control)</p>	<p><b>Agreed:</b> Yes, in part - "direction of travel" reporting has been provided, however, "capacity to improve" commentary has not</p> <p><b>Action to be taken:</b> Options for improvement to be reviewed by ITA officers with GMPTE and reported to the Policy &amp; Resources Committee</p> <p><b>Additional Resources Required for implementation:</b> Not anticipated</p> <p><b>Responsible Officer:</b> Simon Warburton/Sylvia Welsh</p> <p><b>Target Date:</b> January</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	<p>providing valuable additional data. For example, an indicator that had constantly performed below target may be of less concern than one in which performance had decreased significantly but remained just above target. In this case, the current format would tend to focus concern on the indicator that was constantly below target rather than that with a significant downward trend.</p> <p>There was also no Authority analysis of the performance information other than through challenge by Committee Members.</p>		<p>submission to the Performance Management Committee in a similar 'traffic light' format as that currently adopted by the Executive; and</p> <ul style="list-style-type: none"> <li>This combined report could include the 'direction of travel' of indicators to highlight those showing any significant downward trends to support better targeted scrutiny.</li> </ul>		2010

**Audit Objective 5: Monitoring and scrutiny provides challenge to performance against key measures and targets.**

7	<p>Minutes of the Service Improvement Committee and subsequent Performance Management Committee demonstrated regular scrutiny by Members of performance reports covering the Executive KPIs. Despite recent improvement we considered that the level of challenge was limited and often did not address</p>	<p>The Performance Management Committee will be less effective in providing challenge and supporting Authority performance improvement if their challenge is not directed at performance targets with significant issues and those with significant implications for Authority.</p>	<p>The Deputy Clerk to the Authority, in conjunction with the Chair of the Performance Management Committee, should develop the way in which the Committee exercises its role in overseeing the management of Executive and Authority performance. Considerations should include:</p>	<p style="text-align: center;">● Major (Compliance)</p>	<p><b>Agreed:</b> Yes, scope for improvement has been recognised <b>Action to be taken:</b> Options for improvement to be reviewed by ITA officers with GMPTE and reported to the Policy &amp; Resources Committee <b>Additional Resources Required for implementation:</b> Not</p>
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	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	<p>expected areas of challenge such as high risks or consistently poor performance. The challenge seen was on indicators such as staff absence in the Executive, which was of minimal direct relevance to the Authority, and much challenge was of baseline figures rather of actual performance.</p>		<ul style="list-style-type: none"> <li>• Performance management training for Members on the theory and its application in the Authority and Executive;</li> <li>• Preparation of an annual performance report for submission to the Authority;</li> <li>• The development of Authority objectives and supporting indicators as described in this report; and</li> <li>• The need for improved reporting to each Performance Management Committee to better focus attention on the most significant performance issues.</li> </ul>		<p>anticipated  <b>Responsible Officer:</b>  Simon Warburton/Sylvia Welsh  <b>Target Date:</b> January 2010</p>

## Appendix 1. Basis of our opinion and level of assurance

Level of assurance	Description
<b>Full</b> ●	<b>Full assurance</b> – there is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be Advice and Best Practice.
<b>Substantial</b> ●	<b>Substantial assurance</b> – whilst there is basically a sound system of control, there are some areas for improvement, which may put the system/process objectives at risk. There are Moderate recommendations but these do not undermine the system's overall integrity. Any Major or Significant recommendations relating to part of the system would need to be mitigated by strengths elsewhere. Any Critical recommendations will prevent this assessment,
<b>Moderate</b> ●	<b>Moderate assurance</b> – there are some areas for improvement in the system of internal control, which may put the system/process objectives at risk. There are a small number of Major recommendations or a number of Significant recommendations. Any Critical recommendations would need to be mitigated by significant strengths elsewhere. A number of Critical recommendations would prevent this assessment.
<b>Limited</b> ●	<b>Limited assurance</b> – there are significant areas for improvement in key areas of the systems of control, which put the system/process objectives at risk. There are Major recommendations and any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
<b>No</b> ●	<b>No assurance</b> – an absence of effective internal control is leaving the system/process open to significant error or abuse. There are Critical recommendations indicating major risks requiring mitigating actions.

Capacity to improve	Description
<b>High</b> ↑	The assessment will be based on a number of factors including: Recommendations progressed since the start of the audit; timescales for the implementation of agreed recommendations; levels of resources / capacity to effect implementation; focus and clarity of ownership within directorate / service for implementation; directorate / service track record in implementation of agreed recommendations; professional auditor judgement.
<b>Medium</b> ←	
<b>Low</b> ↓	

Risk Type	Description
<b>Control</b>	There are areas for development and improvement in the design of the system of internal control.
<b>Compliance</b>	There is need to improve compliance with the existing system of internal of control, processes or procedures

Risk	Assessment rationale
<p style="text-align: center;"></p> <p>E. Critical</p>	<p>Life threatening / multiple serious injuries or prolonged work place stress. Severe impact on morale and service performance. Intense political and media scrutiny i.e. national media coverage / prolonged local media coverage. Possible criminal, or high profile, civil action against the Council, members or officers. Cessation of core activities, Strategies not consistent with government's agenda, trends show service is degraded. Failure of major Projects – elected Members &amp; SMT required to intervene. Large increase on project budget/cost: (Greater of <b>£1.0M</b> of the total budget or more than <b>15 to 30%</b> of the departmental / service area / school budget). Statutory intervention triggered. Impact on the whole council</p>
<p style="text-align: center;"></p> <p>D. Major</p>	<p>Serious injuries or stress requiring medical treatment with many workdays lost. Major impact on morale and performance. Scrutiny required by external agencies, external audit etc. Unfavourable national or prolonged local external media coverage. Noticeable impact on public opinion. Major impact on the effectiveness of governance for the Council. Significant disruption of core activities / performance. Key targets missed, some services compromised. Senior Management action required. Major increase on project budget/cost: (Greater of <b>£0.5M</b> of the total Budget or more than <b>6 to 15%</b> of the departmental budget).</p>
<p style="text-align: center;"></p> <p>C. Significant</p>	<p>Injuries or stress requiring some medical treatment with workdays lost. Some impact on morale and performance. Scrutiny likely to be exercised by external agencies, internal committees or internal audit to prevent escalation. Probable limited unfavourable local media coverage. Significant short-term disruption of non-core activities / service performance. Standing Orders / Financial Regulations not complied with. Impact on the effectiveness of governance at the Council or service level. Services unlikely to meet needs. Service action will be required. Significant increase on project budget/cost: (Greater of <b>£0.3M</b> of the total Budget or more than <b>3 to 6%</b> of the departmental budget). Handled within the team</p>
<p style="text-align: center;"></p> <p>B. Moderate</p>	<p>Injuries / stress requiring some medical treatment, potentially some workdays lost. Some impact on morale and performance. Additional scrutiny required by management and internal committees to prevent escalation. Possible limited unfavourable local media coverage. Short-term disruption of non-core activities / service performance. Standing Orders / Financial Regulations occasionally not complied with. Minor impact on the effectiveness of governance at the Council or moderate impact at service level. Services do not fully meet needs. Service action will be required. Small increase on project budget/cost: (Greater of <b>£0.1M</b> of the total Budget or up to <b>3%</b> of the departmental budget). Handled within the team</p>
<p style="text-align: center;"></p> <p>A. Minor</p>	<p>Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale. Internal Review, unlikely to have impact on the corporate image. Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines. Some impact on the effectiveness of governance at service level. Minimal financial loss – Minimal effect on project budget/cost: Negligible effect on total Budget or departmental budget).</p>

# Internal Audit Report

## GMITA: Risk Management

**Report To:**

Stephen Clark – Head of Transport

**Report Status:**

**DRAFT**

**Additional Report Distribution:**

Simon Warburton – GMITA Policy Team Manager

**Auditor:**

Helen Smith

**Fieldwork Commenced:**

7 April 2009

**Draft Report Issued:**

1 June 2009

**Management Responses Requested By:**

16 June 2009

**Final Report Issued:**

# 1. Executive Summary

<b>Overall Assurance Opinion</b> (See Appendix 1)	<b>Capacity to Improve</b>	<b>Number of control issues identified</b>	<b>Number of compliance issues identified</b>
	FULL <span style="color: green;">●</span> SUBSTANTIAL <span style="color: lightgreen;">●</span> <b>MODERATE</b> <span style="color: yellow;">●</span> ✓ LIMITED <span style="color: orange;">●</span> NO <span style="color: red;">●</span>	<i>This assessment will be informed by the management response to recommendations raised in this report.</i>	0 Critical 0 Major 7 Significant 1 Moderate 0 Minor

## Audit Objective

To provide assurance that the Authority has effective arrangements to manage risks to the achievement of its objectives. Specifically that:

1. There is a strategy framework for risk management.
2. There is clarity of roles and responsibilities to support effective risk management.
3. All key risks are identified, recorded and reviewed to ensure they are complete and of ongoing relevance.
4. Risks are monitored and reported to support effective decision making.
5. Scrutiny and challenge to actions taken in the mitigation of risks is effective.



Each of the objectives for this review is shown as a segment of the wheel. The colours on the wheel represent an assessment of the risk for each audit objective based on the issues identified in the review

A	No or Minor
B	Moderate
C	Significant
D	Major
E	Critical

**Context:**

Effective risk management is an integral part of a robust governance and performance framework. Managing identified risks and mitigating their potential negative impact helps to ensure the effective delivery of work-streams and services developed to deliver the Greater Manchester Integrated Transport Authority's (the Authority) priorities and objectives. Risk Management has been a key area of focus in the Authority's annual Use of Resources assessment.

**Limitations:**

Testing comprised a review of the Authority's risk management arrangements, risk register and Audit Committee papers. Whilst there were areas of good practice, this audit identified a number of areas for improvement within the Authority's risk management framework.

**Areas of Good Practice:**

- The Authority is actively seeking to improve and formalise its existing risk management arrangements.
- The risk register had been submitted to each Audit Committee meeting during 2008/09.
- There is some evidence of revision to the risk register to take account of legislative change and external drivers.

**Areas for Improvement:**

- There is no risk management strategy in place.
- Member scrutiny and challenge of the risks and controls listed in the risk register should be developed and the nature and extent of monitoring should be recorded in Audit Committee meeting minutes.
- Corporate risks should be reviewed to ensure that they reflect the most critical risks to delivery of the Authority's objectives.
- The risk management information provided by the Greater Manchester Passenger Transport Executive (the Executive) is not sufficient to enable the Authority to demonstrate that it fulfils its oversight responsibility effectively.
- The format of the risk register should be revised to support effective scrutiny, for example by ranking risks according to priority and allocating lead responsibility for day-to-day management of all risks to named individuals.
- Risk management training is required for Members and Officers.

## 2. Detailed Findings Recommendations and Action Plan


	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
<b>Audit Objective 1: There is a strategy and framework for risk management.</b>					
1	<p>While the Authority had arrangements in place to manage its risks no formal risk management strategy had been developed to set out objectives, develop policies and procedures to achieve them and allocate resources to implement them.</p>	<p>In the absence of an agreed risk management strategy, arrangements may not meet the Authority's needs, responsibilities may not be fully understood or resourced and risks may not be managed effectively.</p> <p>The absence of a formal, approved approach to risk management could impact adversely on the reputation of the Authority and attract adverse comment from external audit comment.</p>	<p>The Deputy Clerk to the Authority should develop a risk management strategy and submit to Audit Committee for consideration and approval. We would expect such a strategy to contain:</p> <ul style="list-style-type: none"> <li>• the nature of the risks to be managed;</li> <li>• risk management roles and responsibilities;</li> <li>• the level of risk the Authority will accept (risk appetite);</li> <li>• means of gaining assurance over the Executive's risk management framework;</li> <li>• reporting requirements for Audit Committee;</li> <li>• systems for identifying, evaluating, monitoring and reviewing risks.</li> </ul> <p>Appendix 1 contains an example risk management strategy which could be adapted to address the Authority's requirements.</p>	<p style="text-align: center;">●</p> <p>Significant (Control)</p>	<p><b>Agreed:</b> Yes</p> <p><b>Action to be taken:</b> ITA officers to establish appropriate proposed process for the Authority to consider its strategic risks</p> <p><b>Additional Resources Required for implementation:</b> Possible professional facilitation costs</p> <p><b>Responsible Officer:</b> Simon Warburton/Sylvia Welsh</p> <p><b>Target Date:</b> February 2010</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
2	<p>Whilst the period of tenure for the Authority's Members was 12 months no formal risk management training had been provided during the year. The assessment of need and subsequent provision of training would help ensure that Audit Committee Members sufficiently understand their responsibilities with regard to risk management.</p>	<p>Members may not fully understand their risk management role and responsibilities and may not effectively challenge or scrutinise risks and control system.</p>	<p>The Deputy Clerk to the Authority should ensure that basic risk management training is provided to all new Members as part of their induction programme, sufficient to allow them to perform their oversight role. Training should cover:</p> <ul style="list-style-type: none"> <li>the background and theory of public sector risk management; and</li> <li>the Authority's agreed risk management process, including Members' specific roles and responsibilities</li> </ul> <p>Consideration should also be given to the need for periodic refresher training.</p> <p>Internal Audit would be happy to contribute to the development and facilitation of such training.</p>	<p>● Significant (Control)</p>	<p><b>Agreed:</b> Yes  <b>Action to be taken:</b> ITA officers to arrange training in support of action 1 above  <b>Additional Resources Required for implementation:</b> Possible professional facilitation costs  <b>Responsible Officer:</b> Simon Warburton/Sylvia Welsh  <b>Target Date:</b> February 2010</p>
<p><b>Audit Objective 2: There is clarity of roles and responsibilities to support effective risk management.</b></p>					
3	<p>Audit Committee papers recorded that information regarding the effectiveness of the Executive's control environment had not been presented to Members for</p>	<p>Without regular and comprehensive reports on Executive risk management arrangements and activity the Authority's Audit Committee are unable to</p>	<p>The Deputy Clerk to the Authority, in conjunction with the Chair of the Audit Committee, should review and revise current arrangements for</p>	<p>● Significant (Control)</p>	<p><b>Agreed:</b> Yes, in part – ITA Treasurer is a member of PTE Audit Committee and can provide assurance as required</p>

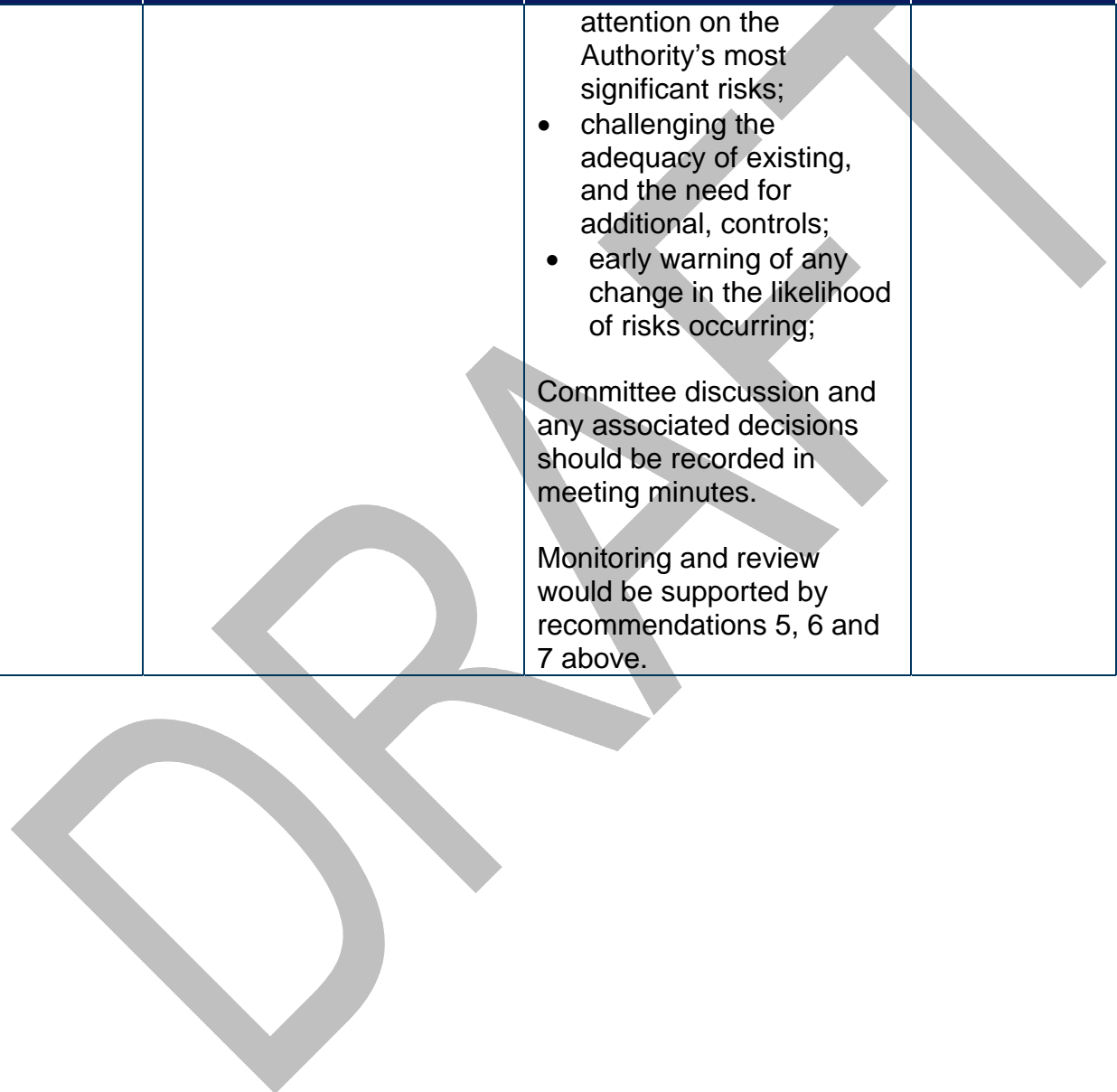
	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	<p>scrutiny during the financial year 2008/09. The Executive's Risk Manager had provided the Audit Committee with verbal updates but this was last undertaken in February 2008.</p> <p>We were concerned at this absence of regular, comprehensive information on the Executive's risk management arrangements. While the Authority's Finance Officer, as a Board Member of the Executive, provided a route for such information we considered that more formal arrangements were needed.</p>	<p>perform one of the key responsibilities assigned to them in their terms of reference.</p>	<p>overseeing the Executive's risk management framework. They should ensure that these arrangements provide the Committee with sufficient timely and relevant information to enable them to discharge their responsibilities. This should include the need for reports from the Executive's Risk Manager.</p>		<p><b>Action to be taken:</b> ITA officers and Chair of Audit Committee to revisit appropriateness of current arrangements and report recommendations to Audit Committee</p> <p><b>Additional Resources Required for implementation:</b> No</p> <p><b>Responsible Officer:</b> Richard Paver/Simon Warburton</p> <p><b>Target Date:</b> December 2009</p>
4	<p>Strategic ownership for each risk entered on the Authority's risk register had been assigned to either the:</p> <ul style="list-style-type: none"> <li>• Clerk to the Authority,</li> <li>• Chief Executive, GMPTE, or</li> <li>• Finance Officer.</li> </ul> <p>While we support the identification of strategic leads for individual risks we considered that there was also a need to allocate</p>	<p>The absence of a nominated officer who is responsible for exercising day-to-day management of specific risks may increase the likelihood of risks not being managed effectively.</p>	<p>The Deputy Clerk to the Authority should propose 'responsible officers' for each corporate risk to take day-to-day, operational responsibility for delivery of controls identified, reporting as necessary to the existing strategic lead (risk owner). Proposals should be submitted to Audit Committee for consideration and approval. This could be delivered</p>	<p style="text-align: center;">●</p> <p>Moderate (Control)</p>	<p><b>Agreed:</b> Yes</p> <p><b>Action to be taken:</b> Risk allocation to be considered as part of action 1 above</p> <p><b>Additional Resources Required for implementation:</b> As 1 above</p> <p><b>Responsible Officer:</b> As 1 above</p> <p><b>Target Date:</b> As 1 above</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	responsibility for day-to-day management of action identified to mitigate risks.		under the risk register review recommended at 7 below.		
<b>Audit Objective 3: All key risks are identified, recorded and reviewed to ensure they are complete and of ongoing relevance.</b>					
5	<p>The Authority's risk register was agreed by Audit Committee on 27 June 2008. 22 risks were included and in February 2009 the register was resubmitted to Audit Committee as a first step in a review process following the TIF referendum. We support this planned review as we consider that, in addition to amendment for post-TIF, the current Authority risks should be:</p> <ul style="list-style-type: none"> <li>• More clearly focussed on the Authority's objectives and the conduct of its assigned responsibilities;</li> <li>• Less concerned with Executive deliverables; and</li> <li>• Reduced in number to facilitate effective review.</li> </ul>	Effective risk identification, assessment and management is essential to ensure that the Authority's most critical risks are well controlled, reducing the likelihood of occurrence.	<p>The Deputy Clerk to the Authority, in conjunction with the Chair of the Audit Committee, should review all Authority risks to:</p> <ul style="list-style-type: none"> <li>• ensure they focus on the Authority's most critical objectives and responsibilities;</li> <li>• confirm whether all risks remain relevant;</li> <li>• review risk ratings;</li> <li>• reflect any changes in the risk and control environment; and</li> <li>• ensure they are not so numerous that monitoring and scrutiny is adversely affected.</li> </ul> <p>Risks should be reviewed annually.</p> <p>Internal Audit would be able to facilitate the planned review process.</p>	<p style="text-align: center;">●</p> <p>Significant (Control)</p>	<p><b>Agreed:</b> Yes</p> <p><b>Action to be taken:</b> Risk identification to be considered as part of action 1 above</p> <p><b>Additional Resources Required for implementation:</b> As 1 above</p> <p><b>Responsible Officer:</b> As 1 above</p> <p><b>Target Date:</b> As 1 above</p>
6	From our review of the format and structure of the Corporate Risk Register we established:	If those risks most critical to achievement of corporate objectives are not identified	The Deputy Clerk to the Authority should review and revise the structure and	<p style="text-align: center;">●</p> <p>Significant</p>	<p><b>Agreed:</b> Yes</p> <p><b>Action to be taken:</b> Risk</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	<ul style="list-style-type: none"> <li>• That while risks were scored they were not ranked according to priority. For example, risk 1 was rated as 'low' risk and risk 8 was 'high' risk;</li> <li>• The level of detail in the column 'Existing Controls' was insufficient to identify gaps or enable assessment of the adequacy and effectiveness of controls;</li> <li>• Actions required in relation to risks were not documented; and</li> <li>• Risks were not cross referenced to the Authority's policy priorities or corporate objectives.</li> </ul>	<p>and recorded Officers and Members may make inappropriate decisions regarding their effective management and there may be an increased likelihood of unforeseen risks occurring.</p> <p>Ranking risks according to priority allows Members to focus time and attention on the highest risks more effectively.</p>	<p>format of the Corporate Risk Register. This should include:</p> <ul style="list-style-type: none"> <li>• Ranking and listing of risks according to priority – a R/A/G rating system would make priorities clearer;</li> <li>• Cross referencing to business objectives;</li> <li>• A clearer description of existing controls; and</li> <li>• Mitigating actions identified to address control gaps.</li> </ul> <p>The attached example risk register format could be adapted to the Authority's needs (Appendix 2).</p>	(Control)	<p>ranking to be considered as part of action 1 above</p> <p><b>Additional Resources Required for implementation:</b> As 1 above</p> <p><b>Responsible Officer:</b> As 1 above</p> <p><b>Target Date:</b> As 1 above</p>
<b>Audit Objective 4: Risks are monitored and reported to support effective decision making.</b>					
7	<p>There was limited officer reporting on risk to Audit Committee, for example on the adequacy of existing controls or changing risk priorities. The reports submitted in 2008/09 were not detailed and lacked a narrative assessment which we could expect to cover such issues as progress with action to manage particular</p>	<p>Without regular reports from officers on issues such as control activity and the risk environment Members have insufficient information on which to reach an early judgement on whether risks are controlled effectively.</p>	<p>The Deputy Clerk to the Authority, in conjunction with the Chair of the Audit Committee, should introduce revised arrangements for Officer reporting to Committee on risk. Reports should be submitted with the risk register to each Audit Committee meeting and would be expected to</p>	<p>● Significant (Control)</p>	<p><b>Agreed:</b> Yes</p> <p><b>Action to be taken:</b> Future risk reporting to be considered as part of action 1 above</p> <p><b>Additional Resources Required for implementation:</b> As 1 above</p> <p><b>Responsible Officer:</b> As 1 above</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	risks or changes which had a material impact on risks. We acknowledge that the need for review and update of risks was reported to the Committee in February 2009.		include: <ul style="list-style-type: none"> <li>any change to the rating of key risks since the previous meeting;</li> <li>any significant control weaknesses or failures that have occurred, together with any action to address them;</li> <li>new or emerging risks;</li> <li>whether any risks are no longer relevant; and</li> <li>a view on whether mitigating controls are operating effectively.</li> </ul>		<b>Target Date:</b> As 1 above
<b>Audit Objective 5: Scrutiny and challenge to actions taken in the mitigation of risks is effective.</b>					
8	The risk register was submitted to Audit Committee in June 2008 for initial approval and was submitted to each subsequent meeting for consideration. However, we were unable to establish the nature and extent of any monitoring and review of corporate risks by Audit Committee as meeting minutes and supporting papers did not record or indicate any significant amount of discussion.	Lack of proper and effective monitoring of the Authority's risks and risk management arrangements may have an adverse affect on the Authority's ability to achieve its objectives and compromises the Authority's accountability.	The Deputy Clerk to the Authority, in conjunction with the Chair of the Audit Committee, should develop the way in which the Committee exercises its role in overseeing the management of the Authority's risks. Considerations should include: <ul style="list-style-type: none"> <li>regular monitoring (i.e. at each Committee meeting) of the risk register and supporting reports;</li> <li>focussing Committee</li> </ul>	 Significant (Control)	<b>Agreed:</b> Yes <b>Action to be taken:</b> The role and activity of the Audit Committee to be considered as part of actions 1 and 2 above <b>Additional Resources Required for implementation:</b> As 1 and 2 above <b>Responsible Officer:</b> As 1 and 2 above <b>Target Date:</b> As 1 and 2 above

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
			<p>attention on the Authority's most significant risks;</p> <ul style="list-style-type: none"> <li>• challenging the adequacy of existing, and the need for additional, controls;</li> <li>• early warning of any change in the likelihood of risks occurring;</li> </ul> <p>Committee discussion and any associated decisions should be recorded in meeting minutes.</p> <p>Monitoring and review would be supported by recommendations 5, 6 and 7 above.</p>		



## APPENDIX 1: EXAMPLE RISK MANAGEMENT STRATEGY

### PURPOSE

- 1 The Authority recognises that effective risk management is an important element of a robust corporate governance framework and is therefore committed to:
- Developing and maintaining a systematic approach for the identification, evaluation and cost effective control of the risks that threaten the achievement of the Authority's corporate objectives.
  - Working co-operatively with key partners, particularly the Passenger Transport Executive (PTE), in the identification and management of risks.
  - Ensuring that effective risk management is embedded in the business processes.

### OBJECTIVES

- 2 The objectives of this strategy are to:
- Ensure that the risks to the achievement of the Authority's corporate objectives are eliminated or reduced to an acceptable level.
  - Ensure other risks to reputation, assets, finances and people are appropriately managed.
  - Raise awareness of, and integrate risk management into the culture of the Authority's Members and Officers.
  - Manage risk in accordance with best practice by identifying roles and responsibilities.
  - Maintain effective stewardship of the Authority's funds and demonstrate good corporate governance.

### IMPLEMENTATION

- 3 The Authority will achieve these objectives by:
- Approving this strategy.
  - By the Clerk and Treasurer establishing and maintaining the risk management review framework identified in this strategy.
  - Including risk management as a standing agenda item at each Audit Committee meeting and appropriate meetings of the Authority, supported by reports from Officers.
  - Continuing to demonstrate the application of risk management principles in practice.
  - Members and Officers undertaking risk management training.
  - Maintaining documented procedures for the control of risk.
  - Monitoring risk management arrangements on an ongoing basis and periodically reviewing risks.
  - Embedding risk management into business processes.

### DEFINITION AND CATEGORIES

#### 4.1 Definitions

- **Risk** is a combination of the likelihood of something happening and the consequence for business objectives.
- **Risk Management** is the process by which risks and potential opportunities are identified, evaluated and controlled.

#### 4.2 Categories of Risk

The Audit Commission and CIPFA identify 2 categories of risk, namely strategic and operational. Strategic are those risks to the medium and long term goals and objectives affecting Chief Officers and Members. Operational are those risks and hazards encountered in the daily course of work affecting managers and staff.

Examples of both strategic and operation risks are given below:

- Reputation – affecting the reputation and public perception, including efficiently and effectiveness.
- Financial – strategic financial issues.
- Legislative/political – current or potential changes to UK and European Law, breaches of legislation and failure to deliver local and central government policy.
- Service provision – strategic issues, including Chief Officer appointments.
- Human Welfare – loss of life, large scale major illness.
- Projects – non delivery to time/cost, outcomes and outputs not achieved.
- Environment – long/short term effects on the environment or social impact or works.
- Stakeholder - the pursuance of rights or entitlements.

Strategic and operational risks can arise from not making the most of opportunities to deliver better and more cost effective services.

#### 4.2 Risk Appetite

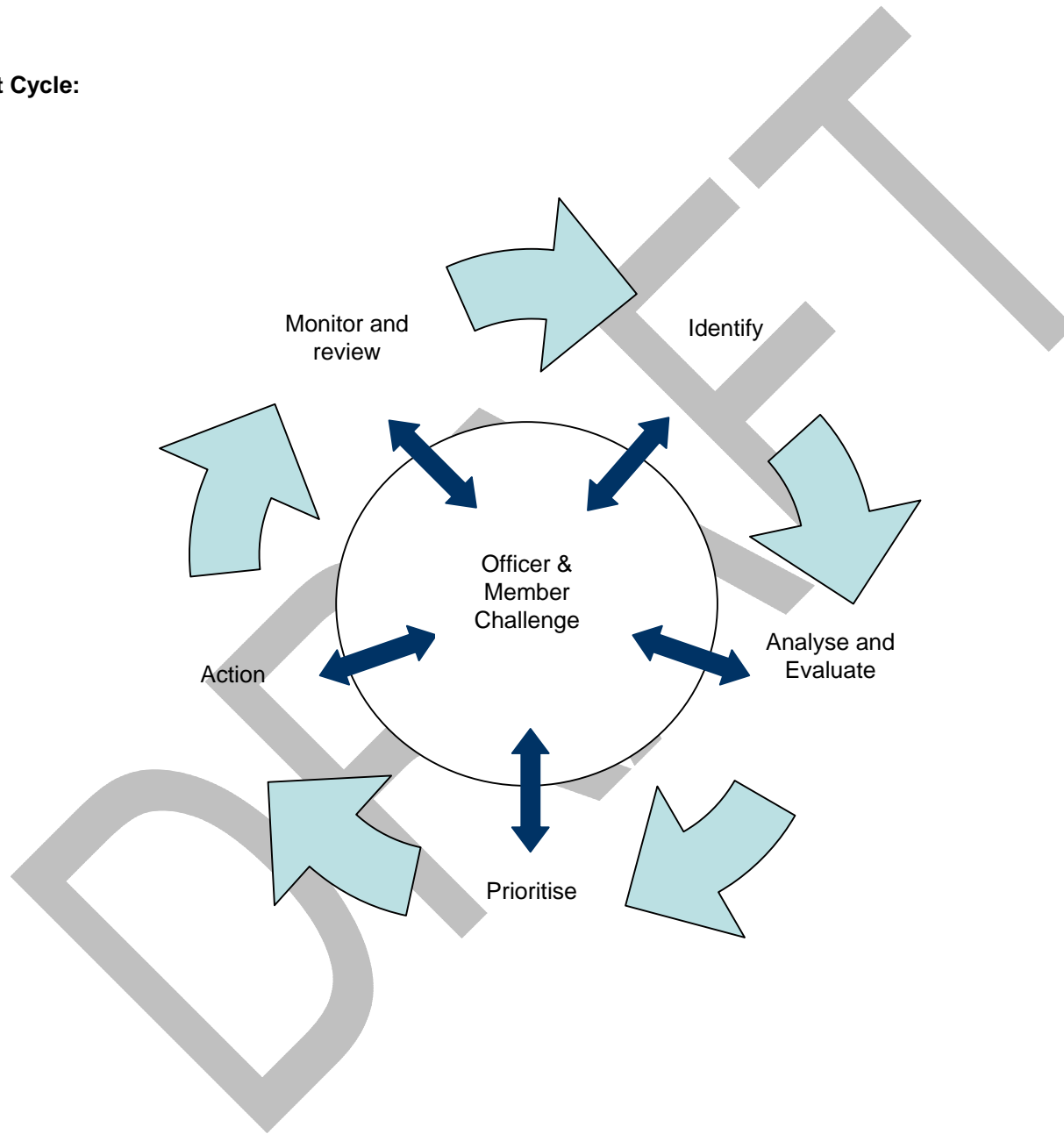
[The level of risk which an organisation or individual is prepared to tolerate without putting in place further risk mitigation or controls. The point where the Authority accepts that a risk exists and that to put in place further measures to reduce that risk is either not possible, practical or cost effective. Decisions whether or not to accept the risk at its given level should take into account the wider context of the risk and include consideration of the tolerability of the risk borne by other parties. This includes members of the public and other stakeholders.]

### **RISK MANAGEMENT PROCESS**

5.1 The cycle overleaf illustrates the steps taken in the risk assessment process which in its simplistic form, answers the following:

- What can go wrong?
- What is the likelihood of it going wrong?
- What is the impact should it go wrong?
- What can be done to eliminate the threat?
- What should be done to reduce the threat's likelihood or impact?

**The Risk Management Cycle:**



- 5.3 Risks will be identified using a facilitated risk identification workshop. The process will include:
- Agreeing objectives and participants (Members and Officers) beforehand;
  - Issuing objectives to participants prior to the workshop to ensure a common understanding of what is to be achieved;
  - Agreeing the objectives against which risk is to be identified;
  - Using a risk management expert to facilitate the event; and
  - Adopt a brainstorming approach to identify the most critical risks.

5.3 The risk prioritisation is based on a scoring system, shown overleaf.

**Risk Matrix**

		Consequence				
		5	4	3	2	1
Likelihood	5	25	20	15	10	5
	4	20	16	12	8	4
	3	15	12	9	6	3
	2	10	8	6	4	2
	1	5	4	3	2	1

**Legend:**

Score of 25 equates to **Extreme Risk**: Immediate escalation to relevant Strategic Director for urgent consideration by SMT.

Scores of 20-15- **High Risk**: Risk to be escalated to SMT with mitigating action plan. Risk to be actively managed by Sub Group.

Scores of 12-6- **Medium Risk**: Risk to be captured on Corporate Risk Register and progress with mitigation to be tracked by Sub Group.

Scores of 5 and below- **Low Risk**: Risk to be removed from register and managed within appropriate services.

## Risk Impact Details

Name	Description
Immaterial	Loss of up to £20k; little effect of service delivery; no health and safety impact; no damage to reputation.
Minor	Loss of £20k to £100k; minor disruption to effective service delivery i.e. staff in unplanned absence for up to one week; minor injury; no requirement for professional medical treatment; slight damage to reputation.
Moderate	Loss of £100k to £500k; delays in effective service delivery i.e. adjustments to work programmes in up to one week or staff long term absence; injury to an individual(s) requiring professional medical treatments; reputation damage is localised and minor.
Significant	Loss of £50k to £1m; effective service delivery is disrupted in specific areas of the business; multiple serious injuries requiring professional medical treatment; reputation damage occurs with key stakeholders.
Major	Loss of £1m +; effective service delivery is no longer achievable, fatality of staff, visitor or public; reputation damage is irrecoverable i.e. regulatory body intervention.

## Likelihood

Description	Probability	Indicators
<b>5. Highly Probable</b>	> 80%.	<ul style="list-style-type: none"> <li>Is expected to occur in most circumstances</li> <li>Circumstances frequently encountered – daily/weekly/monthly/annually</li> <li>Imminent/near miss</li> </ul>
<b>4. Probable Likely</b>	> 60% - 80%	<ul style="list-style-type: none"> <li>Will probably occur in many circumstances</li> <li>Circumstances occasionally encountered but not a persistent issue (e.g. once every couple/few years)</li> </ul>

		<ul style="list-style-type: none"> <li>• Has happened in the past or elsewhere</li> </ul>
3. Possible	> 40% - 60%	<ul style="list-style-type: none"> <li>• Not expected to happen, but is possible (once in 3 or more years)</li> <li>• Not known in this activity</li> </ul>
2. Unlikely	> 20% - 40%	<ul style="list-style-type: none"> <li>• May occur only in exceptional circumstances</li> <li>• Has rarely / never happened before</li> <li>• Force majeure</li> </ul>
1. Remote	< 20%	<ul style="list-style-type: none"> <li>• The risk will not emerge in any foreseeable circumstance</li> </ul>

5.4 The evaluation process will highlight the key risks that require urgent attention. However, all the risks need to be considered and action agreed, even if this is to take no action at the current time. The options are either to: Tolerate, Treat, Terminate or Transfer each risk.

- **Tolerate the risk (accept it)** – some low scoring risks may be considered as acceptable, but these need to be reviewed on a regular basis to confirm that the circumstances have not changed.
- **Treat the risk (reduce by control procedures)** – the risk can be considered acceptable provided the control mechanisms work.
- **Terminate the risk (cease or modify the method of delivery)** – where risks are unacceptable and control mechanisms will not provide adequate security, the activity or the method of delivery must be modified.
- **Transfer the risk** – through insurance or financial contingency provision.

5.5 The risk register will be monitored and reviewed by the GMITA Policy Team. New risks will be added to the register where appropriate and assigned an individual risk owner. An updated risk register will be provided as a standard report on the ITA Audit Committee.

5.6 **Link to the PTE** – It is important that the main strategic and operational risks identified for the Authority are linked to the PTE risk management processes. This is achieved through the Clerk and Treasurers attendance of the PTE Audit and Risk Committee and the relationship between the Head of Internal Audit and Risk Management for ITA and Head of Internal Audit and Risk Manager at the PTE.

## RISK MANAGEMENT ROLES AND RESPONSIBILITIES

### 6.1 The Authority

The roles and responsibilities of the Authority are:

- To ensure that a comprehensive approach to risk management is developed and implemented by the Authority and the Executive.
- To oversee the effective management of the Authority's risks managed by the Clerk to the Authority and Treasurer.
- To obtain assurance over the effective management of those risks managed by the Director General.

### 6.2 The Clerk and Treasurer

- To support and develop the risk management culture of the Authority's Policy Team. The Policy Team in partnership with the PTE support the Authority's strategic leadership and corporate governance roles.
- To develop and maintain a risk management framework within the Policy Team.

- To maintain effective links with the PTE on risk management and to report as appropriate to the Authority. The Clerk and Treasurer is a non-executive director of the PTE and is the Chair of the PTE Audit and Risk Committee.

### 6.3 Policy Team

The risk management framework established by the Clerk and Treasurer allocates the following responsibilities to the Policy Team:

- Initial identification and evaluation of risks;
- Registration of risks;
- Evaluation of effectiveness of controls;
- Action planning to mitigate the impact of risks on the achievement of the Authority's objectives;
- Reporting to Audit Committee;
- Preparing changes to this policy; and
- Providing guidance and training for staff on risk awareness.

## **MONITORING AND REVIEW**

- 7 The Authority will monitor the effectiveness of this policy and will receive a copy of the latest risk register and a report from the Clerk and Treasurer at each Audit Committee meeting.

APPENDIX 2: EXAMPLE RISK REGISTER

Risk No	Risk Description	Risk Ranking	Risk Owner	Controls In Place	Action to Address			Review Date
					Action Required	Responsible Officer	Date Required	
<b>Reputation:</b> affecting the Authority's reputation and public perception, including efficiency and effectiveness								
<b>Financial:</b> strategic financial issues								
<b>Legislative/Political:</b> current or potential changes, failure to deliver central and local policy								
<b>Human Welfare:</b> loss of life, large scale major illness								
<b>Environment:</b> long/short term effects on the environment or social impact or works.								
<b>Stakeholder:</b> the pursuance of rights or entitlements								

## Appendix 1. Basis of our opinion and level of assurance

Level of assurance	Description
<b>Full</b> ●	<b>Full assurance</b> – there is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be Advice and Best Practice.
<b>Substantial</b> ●	<b>Substantial assurance</b> – whilst there is basically a sound system of control, there are some areas for improvement, which may put the system/process objectives at risk. There are Moderate recommendations but these do not undermine the system's overall integrity. Any Major or Significant recommendations relating to part of the system would need to be mitigated by strengths elsewhere. Any Critical recommendations will prevent this assessment,
<b>Moderate</b> ●	<b>Moderate assurance</b> – there are some areas for improvement in the system of internal control, which may put the system/process objectives at risk. There are a small number of Major recommendations or a number of Significant recommendations. Any Critical recommendations would need to be mitigated by significant strengths elsewhere. A number of Critical recommendations would prevent this assessment.
<b>Limited</b> ●	<b>Limited assurance</b> – there are significant areas for improvement in key areas of the systems of control, which put the system/process objectives at risk. There are Major recommendations and any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
<b>No</b> ●	<b>No assurance</b> – an absence of effective internal control is leaving the system/process open to significant error or abuse. There are Critical recommendations indicating major risks requiring mitigating actions.

Capacity to improve	Description
<b>High</b> ↑	The assessment will be based on a number of factors including: Recommendations progressed since the start of the audit; timescales for the implementation of agreed recommendations; levels of resources / capacity to effect implementation; focus and clarity of ownership within directorate / service for implementation; directorate / service track record in implementation of agreed recommendations; professional auditor judgement.
<b>Medium</b> ←	
<b>Low</b> ↓	

Risk Type	Description
<b>Control</b>	There are areas for development and improvement in the design of the system of internal control.
<b>Compliance</b>	There is need to improve compliance with the existing system of internal of control, processes or procedures

Risk	Assessment rationale
<p style="text-align: center;"><span style="color: red;">●</span></p> <p>E. Critical</p>	<p>Life threatening / multiple serious injuries or prolonged work place stress. Severe impact on morale and service performance. Intense political and media scrutiny i.e. national media coverage / prolonged local media coverage. Possible criminal, or high profile, civil action against the Council, members or officers. Cessation of core activities, Strategies not consistent with government's agenda, trends show service is degraded. Failure of major Projects – elected Members &amp; SMT required to intervene. Large increase on project budget/cost: (Greater of <b>£1.0M</b> of the total budget or more than <b>15 to 30%</b> of the departmental / service area / school budget). Statutory intervention triggered. Impact on the whole council</p>
<p style="text-align: center;"><span style="color: orange;">●</span></p> <p>D. Major</p>	<p>Serious injuries or stress requiring medical treatment with many workdays lost. Major impact on morale and performance. Scrutiny required by external agencies, external audit etc. Unfavourable national or prolonged local external media coverage. Noticeable impact on public opinion. Major impact on the effectiveness of governance for the Council. Significant disruption of core activities / performance. Key targets missed, some services compromised. Senior Management action required. Major increase on project budget/cost: (Greater of <b>£0.5M</b> of the total Budget or more than <b>6 to 15%</b> of the departmental budget).</p>
<p style="text-align: center;"><span style="color: yellow;">●</span></p> <p>C. Significant</p>	<p>Injuries or stress requiring some medical treatment with workdays lost. Some impact on morale and performance. Scrutiny likely to be exercised by external agencies, internal committees or internal audit to prevent escalation. Probable limited unfavourable local media coverage. Significant short-term disruption of non-core activities / service performance. Standing Orders / Financial Regulations not complied with. Impact on the effectiveness of governance at the Council or service level. Services unlikely to meet needs. Service action will be required. Significant increase on project budget/cost: (Greater of <b>£0.3M</b> of the total Budget or more than <b>3 to 6%</b> of the departmental budget). Handled within the team</p>
<p style="text-align: center;"><span style="color: lightgreen;">●</span></p> <p>B. Moderate</p>	<p>Injuries / stress requiring some medical treatment, potentially some workdays lost. Some impact on morale and performance. Additional scrutiny required by management and internal committees to prevent escalation. Possible limited unfavourable local media coverage. Short-term disruption of non-core activities / service performance. Standing Orders / Financial Regulations occasionally not complied with. Minor impact on the effectiveness of governance at the Council or moderate impact at service level. Services do not fully meet needs. Service action will be required. Small increase on project budget/cost: (Greater of <b>£0.1M</b> of the total Budget or up to <b>3%</b> of the departmental budget). Handled within the team</p>
<p style="text-align: center;"><span style="color: green;">●</span></p> <p>A. Minor</p>	<p>Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale Internal Review, unlikely to have impact on the corporate image. Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines. Some impact on the effectiveness of governance at service level. Minimal financial loss – Minimal effect on project budget/cost: Negligible effect on total Budget or departmental budget).</p>