

<b>TITLE</b>	<b>Business Assurance Progress Report: August 2012</b>
<b>FOR CONSIDERATION BY</b>	Audit Committee on 26 September 2012
<b>WARD</b>	None Specific
<b>STRATEGIC DIRECTOR</b>	Muir Laurie, Director of Business Assurance & Democratic Services

#### **OUTCOME / BENEFITS TO THE COMMUNITY**

The Business Assurance Progress Report details the Business Assurance activity between the period 1 April to 22 August 2012. It:

- presents an update on the progress towards the formation of the Head of Internal Audit Opinion which forms part of the Annual Governance Statement;
- provides assurance through the Audit Committee to Council and the wider public that the authority is managing its key risks and identifying any weaknesses in the internal control, risk management and governance arrangements; and
- supports the Council in the achievement of its vision, priorities and objectives and provides for better and improved outcomes for our residents.

#### **RECOMMENDATION**

The Audit Committee is asked to note the Business Assurance Progress report as at 22 August 2012 (attached).

#### **SUMMARY OF REPORT**

The report summarises the work completed by the Internal Audit and Investigations during the period and enables the Audit Committee to discharge its oversight function in relation to these activities.

The report provides the opportunity for the Head of Internal Audit to provide details of the work of undertaken to date this financial year and highlight any areas of weakness the committee should be aware of.

#### **Background**

The BA plans provide details of the planned Internal Audit and Investigations activity each quarter. This progress report enables CLT and the Audit Committee to hold the Head of Internal Audit to account and facilitates the Audit Committee in holding management to account for managing weaknesses identified during the course of Internal Audit and Investigations activities.

## Analysis of Issues

The Business Assurance Progress report provides the Audit Committee with assurance over the key governance, risk management and internal controls operating in the Council. The Audit Committee should ensure that the coverage, performance and results of Business Assurance activity are clearly communicated and also that any additional assurances required are identified by the Audit Committee.

## FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	N/A	Yes	N/A
Next Financial Year (Year 2)	N/A	Yes	N/A
Following Financial Year (Year 3)	N/A	Yes	N/A

### Other financial information relevant to the Recommendation/Decision

Not applicable.

### Cross-Council Implications (how does this decision impact on other Council services and priorities?)

Not applicable.

### Reasons for considering the report in Part 2

Not applicable.

### List of Background Papers

None.

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<b>Date</b> 11 September 2012	<b>Version No.</b> 3



**WOKINGHAM  
BOROUGH COUNCIL**

◆ **Business Assurance**  
Successfully Improving Governance

**BUSINESS ASSURANCE**

**PROGRESS REPORT**

**22 August 2012**

**Wokingham Borough Council**

**11 September 2012**

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## 1. INTRODUCTION

- 1.1 This report summarises the main findings arising from the work of Business Assurance (BA) work completed in the period 1 April to 22 August 2012. There are two main strands to this work: Internal Audit (IA) and Investigations.
- 1.2 IA provides an independent appraisal and consultancy service that underpins good governance, which is essential in helping the council achieve its strategic objectives and realise its vision for the borough of Wokingham. It is also a requirement of the Accounts and Audit (England) Regulations 2011 that the council undertakes an adequate and effective IA of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
- 1.3 Investigations are responsible for providing a comprehensive range of investigation services to all key stakeholders. Our primary objective is to meet the Chief Finance Officer's statutory obligation to prevent and detect fraud and corruption against the council. This includes benefit fraud, whistleblowing allegations and other types of corporate fraud such as illegal tenancy sub-letting.
- 1.4 The Investigations team also helps to drive improvements in performance across the council by investigating any serious breaches of the council's policies including the staff code of conduct. Other main areas of their work include delivery of the Audit Commission's National Fraud Initiative (NFI) and providing anti-fraud and anti-corruption awareness training to staff and Members.
- 1.5 BA would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the management and staff of the council during the year to date.

### 1.2 Purpose of the Business Assurance Progress Report

- 1.2.1 This report presents the council's Chief Executive, Directors and Audit Committee with information on all BA work covered and assurance in this respect during the period 1 April to 22 August 2012. It also provides an opportunity for the Director of BA and Democratic Services to highlight to the council's Corporate Leadership Team (CLT) and Audit Committee any significant issues that they need be aware of.

## 2. EXECUTIVE SUMMARY

- 2.1 The loss of two senior BA staff has had a significant impact on the completion of BA reviews during the period. However, BA has **recruited two replacement staff** and overall the team has been strengthened as a consequence with an improved skills mix to help deliver value to the council.
- 2.2 Capacity has also been reduced during the period as a consequence of BA continuing to successfully sell IA and Investigation days to other councils from its contingency. There have also been several requests for additional work by management which have been accommodated via the deferral of some other lower priority IA work. Nevertheless, **16 residual 2011/12 IA reviews were completed to final report stage** during the period and work is well progressed in a number of 2012/13 assurance and consultancy reviews as highlighted at [Appendix A](#).
- 2.3 Proactive fraud work in relation to **blue badge** usage has lead to the **detection of one alleged case of fraud**. This involved joint working between the BA Investigation team, the blue badge team, the highways team, the Police and a neighbouring authority. The feedback from residents on this has been very positive

2.4 There have been a small number of corporate investigations which has enabled a focus on **Benefits Fraud** during the period. BA remains **on track to achieve its key targets for the year** including the amount of benefit fraud detected.

### 3. ANALYSIS OF BUSINESS ASSURANCE ACTIVITY - 1 APRIL to 22 AUGUST 2012

#### 3.1 Update on 2011/12 IA Reports

3.1.1 At the Audit Committee meeting on 28 June 2012 it was reported that two 2011/12 IA reports had, at that stage, not yet been issued as final reports. These reports were Corporate Governance and Payment Kiosk and although testing had been completed and the findings were included in the Head of Internal Audit Opinion for 2011/12, the overall assurance opinions had not been finalised. Further to this, these audits have now been completed to final report stage and both **Corporate Governance** and **Payment Kiosk** received '**Reasonable**' assurance.

#### 3.2 2012/13 IA Work

3.2.1 The individual IA reviews carried out in 1 April to 22 August 2012 are listed at [Appendix A](#), which details the assurance levels achieved and provides an analysis of recommendations made (in accordance with the recommendation priorities outlined at [Appendix C](#)).

#### 3.3 2012/13 Benefits Fraud Investigations

3.3.1 In the period to 22 August 2012 there has been one successful prosecution for benefit fraud completed:

- Ms Bertoux pleaded guilty to two separate charges of dishonestly failing to declare changes in her circumstances as she had been working and her partner's benefit had changed. £7,691.15 of fraudulently claimed housing benefit was identified. At Reading Magistrates Court, after Bertoux was given credit for an early guilty plea, she was awarded a conditional discharge for 12 months and ordered to pay a £250 contribution to prosecution costs. Bertoux was also ordered to repay the fraudulent benefit overpayment.

#### 3.4 2012/13 Corporate Investigations

3.4.1 There have been five corporate investigation referrals during the period:

- One case related to alleged blue badge fraud. The BA Investigations team worked closely with Thames Valley Police and this case is now being progressed through the courts. An update on the court action will be included in a future BA progress report;
- One case was risk assessed and no further action has been taken by the BA Investigations team and the allegation passed back to Management for them to investigate;
- One case was investigated which concluded in no further management action being taken; and
- Two cases are ongoing.

#### 3.5 Deferred IA Reviews

3.5.1 The Chief Executive (Interim) requested a delay to the **2012/13 Corporate Governance review**, partly so that the timing could be aligned to the council's new performance management framework. Instead, IA has provided support to the Joint Board in strengthening its governance arrangements by providing a self assessment survey of its own effectiveness. The Corporate Governance audit is now scheduled to be carried out in quarter 4 and will, in part, follow up on the Joint Board effectiveness self assessment.

3.5.2 The follow-up IA review of **Shared Legal Solutions (SLS)**, which was originally planned for quarter 1, has been deferred. This is to enable the Director of Legal and Electoral Services sufficient time to progress the management action required following a number of restructures within SLS. It is also against the back drop of SLS only being formed fifteen months ago and having already been the subject of an audit of the project implementation in August 2011 and more recently the subject of a Scrutiny review. It is anticipated that this audit will now commence in quarter 3.

3.5.3 The **Personal Budgets** IA review has been deferred until quarter 4 due to the delay to the implementation of Framework-i which will have a significant impact on the process and controls around personal budgets. **Grounds Maintenance** has also been deferred due to staff shortages in that area and a subsequent delay in introducing new ways of working.

### 3.6 Key Performance Indicators

3.6.1 BA's Key Performance Indicators (KPIs) were last subject to a major review in 2008. Since the introduction of joint IA and Investigations reporting, the number of KPIs had increased and it became apparent that some of the KPIs were not delivering sufficient value to the Audit Committee and other key stakeholders. Therefore, following the feedback from CLT and the Audit Committee, BA has carried out a fundamental review of its KPIs.

3.6.2 As a result, with effect from 1 April 2012 **six new BA KPIs** have been introduced that provide a high level view of the performance of BA. These KPIs are more in line with the council's underlying principle of increasing the focus on outcomes rather than outputs/activities. Further to this, subject to further comments from CLT and the Audit Committee, the new six KPI areas are:

- I. Client Satisfaction Score;
- II. Improvements to the Control Environment;
- III. Where the work of the BA team is focused;
- IV. The Delivery of Internal Audit days;
- V. The Value of Benefit Overpayments identified; and
- VI. The Number of Sanctions Applied.

3.6.3 These KPIs will be reported to CLT and Audit Committee regularly as part of each BA progress report. BA also has a range of internal KPIs which it considers as part of its monthly management meetings.

#### 3.6.4 KPI 1 - Client Satisfaction Score

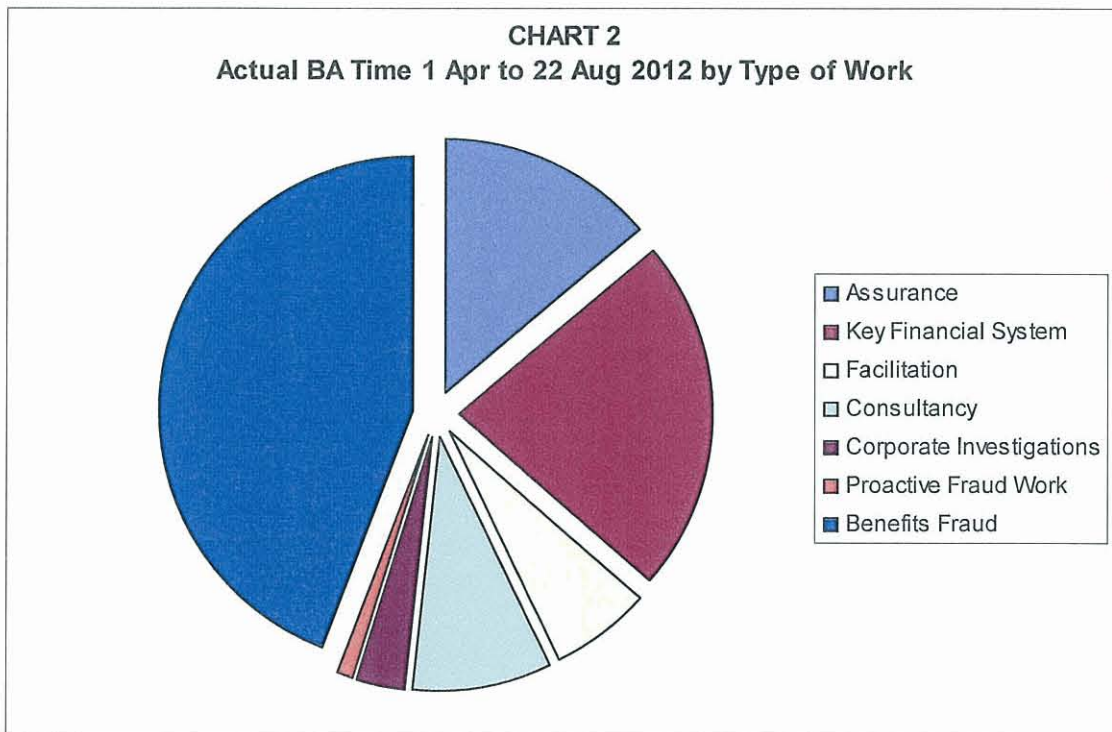
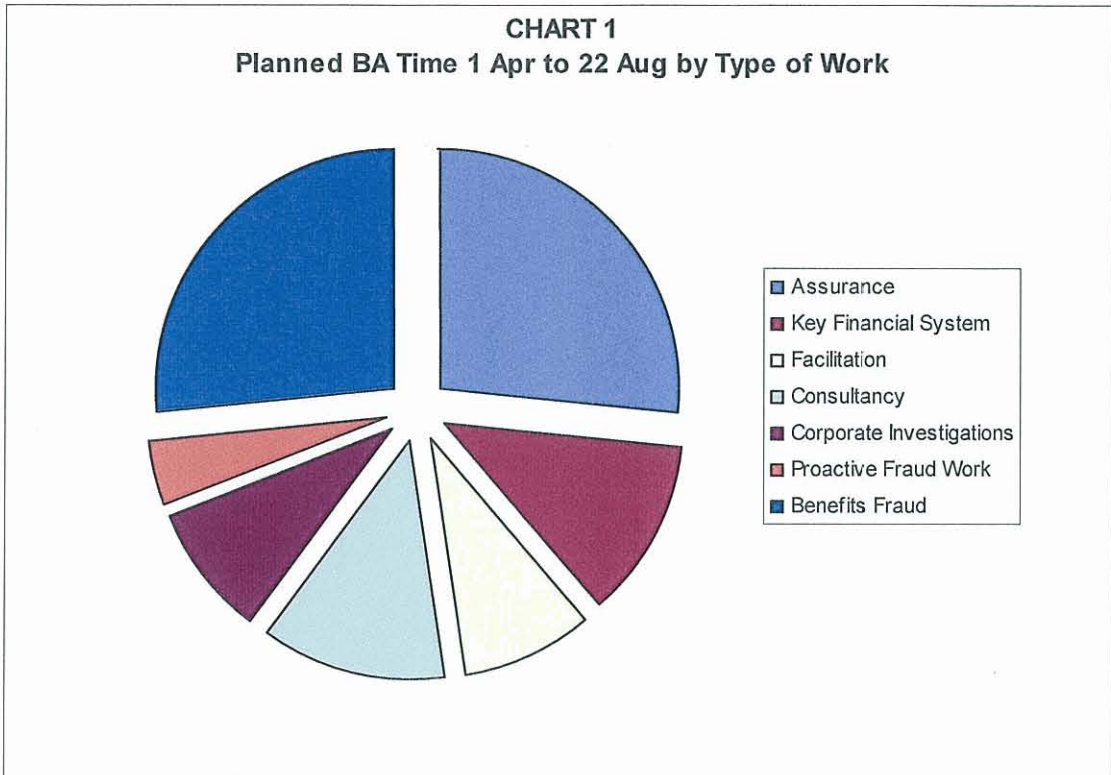
- Score out of 100% based on client feedback from post engagement questionnaires.
- There have only been four post engagement questionnaires in this period that have not previously been reported on. The overall client satisfaction is **76.2%**. This compares favourably to the target of **66%** because of outstanding feedback on the Main Accounting system audit.

#### 3.6.5 KPI 2 – Improvements to the Control Environment

- Internal control and risk management improvements recommended to management not accepted or implemented.
- There were 103 recommendations made in reports that were finalised in the period from 1 April to 22 August 2012. **100%** of these recommendations were accepted by management. There was no follow up activity completed against 2011/12 or 2012/13 recommendations so there is no IA data available this period on the implementation of recommendations.

### 3.6.6 KPI 3 - Where the work of the Business Assurance team is focused

- Comparison of planned and actual focus of the BA team by type of work undertaken.

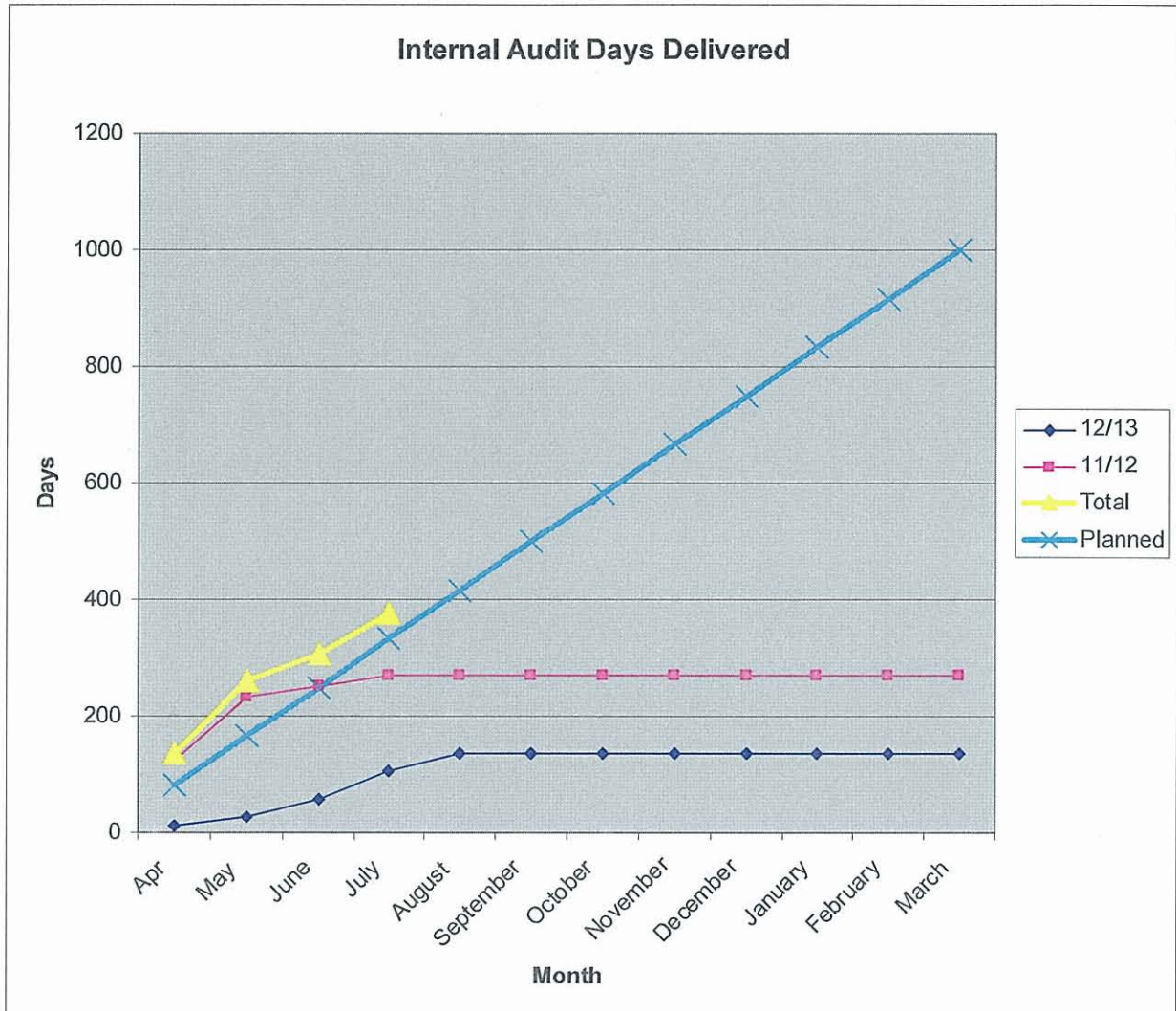


3.6.7 These two pie charts detail the distribution of days by type of BA work. This enables CLT and the Audit Committee to maintain an overview of where resources are being used. Both pie charts detail BA work at WBC and exclude work provided to other local authorities.



3.6.8 There was more time spent on Benefits Fraud than planned in the period. This had a negative impact on the time spent on Corporate Investigations and Proactive Fraud work. This was mainly due to a Senior Investigator vacancy, as well as work provided to another local authority. In addition, more key financial system work than assurance work was completed against the plan. This was a result of key financial system work being completed for the 2011/12 year over running into the first part of quarter 1.

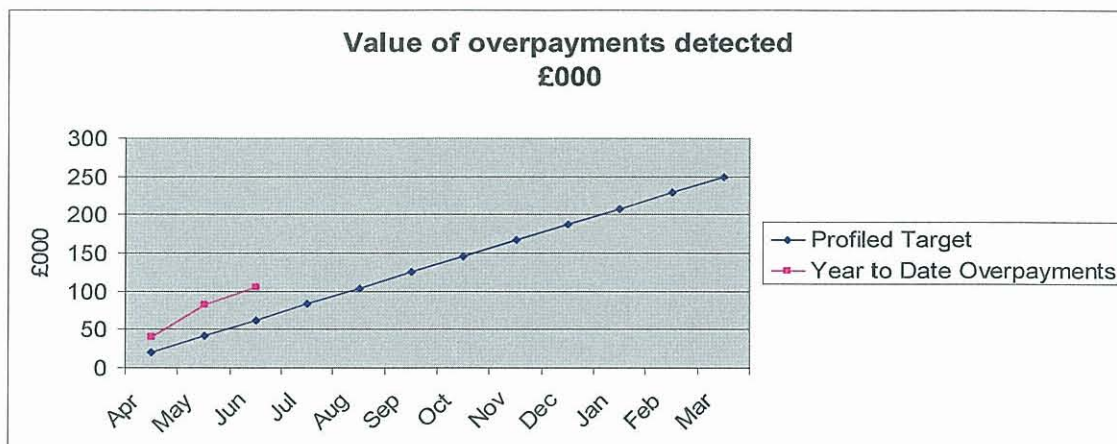
### 3.6.9 KPI 4 – Delivery of Internal Audit Days



3.6.10 BA has a target to deliver 1,000 IA days. 800 of these days are required for planned IA activity and 200 days are 'contingency' to be used on emerging risks during the course of the year. A significant amount of the contingency has already been used in the period up to 22 August 2012.

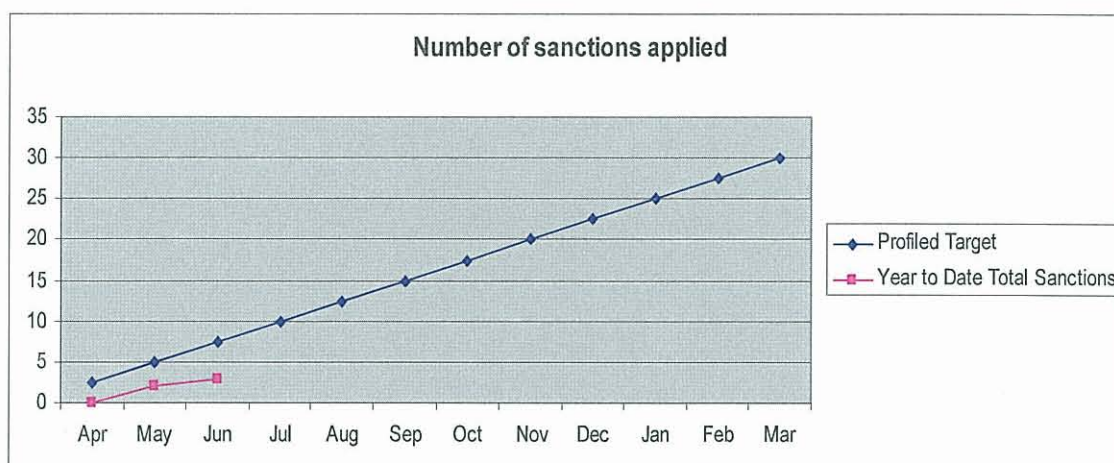
### 3.6.11 KPI 5 - Benefit Overpayments

- The annual target of identifying overpaid benefits (which can be due to either fraud or error) is **£250,000 for 2012/13**.
- For the period from 1 April through to 22 August the BA Investigations team has exceeded its target and is well on track to achieve its overall target for the year. The following graph highlights this:



### 3.6.12 KPI 6 - Sanctions Applied

- Where evidence indicates an offence has been committed in benefit fraud investigations, the offender can be offered:
  - a formal caution (a warning, but the offence must be admitted); or
  - an administrative penalty (which is a 30% fine on top of any overpaid benefit identified); or
  - the Council will prosecute (for more serious cases).
- These are referred to as 'sanctions' and BA has a target of achieving **30 sanctions/yr.**



3.6.13 As at 22 August, BA is **slightly below its target for sanctions**. This was as a result of reduced BA staff resources being available during the period due to a combination of a staff vacancy and work done on behalf of Oxfordshire County Council (30 days). However, the staff vacancy was successfully filled in July 2012 and Zac O'Neil has joined the team as a Senior Investigator. His role will be predominantly focused on benefit fraud investigations which will have a positive impact on this target for the rest of the financial year.

### 3.7 Additional BA Work

3.7.1 BA has been involved in a **review of Support Horizons** (one of the council's suppliers of social care; a local community interest company). IA has conducted a review of the finances and governance of the company and reported back to Management accordingly. The feedback on this IA review was that it was a very helpful piece of work to help inform a difficult management decision.

- 3.7.2 The Chief Executive commissioned BA to facilitate a **post implementation review of the April 2012 changes to the Waste Scheme**. The main purpose of this work was to enable those involved in the project and the council has a whole to identify lessons learnt for future major change projects. As part of this work, BA has produced some criteria for identifying major projects for CLT to assist them in their thinking about the level of project governance that is applicable. Despite the BA report delivering some difficult findings for CLT to consider, overall feedback to BA on this piece of work has been very positive.
- 3.7.3 The **Organisational Change Programme Board governance has been strengthened**. IA supports these changes and given the reduction in risk the role of IA on the Programme Board is consequently being reduced. These IA resources will be instead be redeployed to individual constitute projects.
- 3.8 Business Assurance Key Developments**
- 3.8.1 BA has had the opportunity to strength the team following the departure of two members of the team. The **two new members of the team** bring extensive knowledge and expertise in some areas that the team lack, including commercial experience. They have brought a fresh and challenging approach and are serving as catalysts to continue to improve the performance of the BA team.
- 3.8.2 IA is in the planning stage for a **major upgrade to the Audit Automation Software** that it uses as part of its paperless audit process. This will bring several advantages and enable IA to enhance its ability to generate key information for managers on outstanding recommendations.
- 3.8.3 The BA Investigations team has conducted **work at Oxfordshire County Council** during the period which has been well received. Dialogue is ongoing regarding establishing a more formal arrangement for 2013/14. The BA IA team continues to **work with Bracknell Forest Borough Council** for 2012/13 and is in dialogue with several other public sector organisations regarding potentially partnership working with them.

#### 4. FORWARD LOOK

- 4.1 Looking ahead, the **Risk Management Strategy and Policy** will be refreshed during October and presented to the Audit Committee for approval at its November meeting.
- 4.2 As at 22 August 2012, BA was close to completing its IA review of the Project Management of the **Town Centre Regeneration Project**. The key findings from this report will be presented to the Audit Committee at its November meeting.
- 4.3 The **Business Assurance Strategy 2013 to 2018** is in the process of being produced and the Audit Committee will be consulted on an advanced draft of this at its November meeting.
- 4.4 There are **no other matters** that the Director of Business Assurance and Democratic Services needs to bring to CLT or the Audit Committee's attention at this time.

**Muir Laurie, ACCA, CMIIA, MAAT**  
**Director of Business Assurance and Democratic Services (& Head of Internal Audit)**

**11 September 2012**

**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2012/13****Residual 2011/12 IA Reviews (completed after 31 March 2012)**

IA Ref.	IA Review Area	Timing	Status as at 22 August 2012	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
064	Cashiers	Q4	Final report issued 3 April 2012	Good	-	1	-	-	-	Yes
047	Debtors	Q3	Final report issued 5 April 2012	Reasonable	-	1	4	-	1	Yes
063	Bank Reconciliations	Q4	Final report issued 16 April 2012	Good	-	-	-	1	-	Yes
075	Schools - Financial Management (including Internal Control)	Q4	Final report issued 20 April 2012	Reasonable	-	5	9	1	-	Yes
014	Governance Arrangements for Local Authority Trading Companies: WEL	Q1	Final report issued 4 May 2012	Reasonable	-	2	4	6	-	Yes
014a	Governance Arrangements for Local Authority Trading Companies: Optalis	Q1	Final report issued 4 May 2012	Reasonable	-	1	7	6	1	Yes
038	Governance Arrangements for Local Authority Trading Companies: WHL	Q2	Final report issued 4 May 2012	Reasonable	-	2	7	6	-	Yes
058	Performance Management	Q4	Final memo issued 4 May 2012	N/A	-	-	-	-	-	N/A
068	Treasury Management	Q4	Final report issued 16 May 2012	Good	-	-	3	1	-	Yes
082	Council Tax and NNDR	Q4	Final report issued 16 May 2012	Good	-	-	1	-	1	Yes
062	BACS	Q4	Final report issued 28 May 2012	Good	-	-	1	-	-	Yes
065	Budgetary Control	Q4	Final report issued 29 May 2012	Good	-	-	-	4	-	Yes
033	Information Governance	Q2	Final report issued 18 June 2012	Reasonable	-	-	6	1	2	Yes
066	Capital Accounting and Fixed Asset Register (including Capital Planning and Allocations)	Q4	Final report issued 19 June 2012	Reasonable	-	-	5	3	-	Yes

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**Residual 2011/12 IA Reviews (completed after 31 March 2012)**

IA Ref.	IA Review Area	Timing	Status as at 22 August 2012	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
061	Corporate Governance	Q4	Final report issued 31 July 2012	Reasonable	-	4	7	2	-	Not yet
027	Payments Kiosk	Q2	Draft report issued 15 March 2012 but Management response delayed; Final report issued 17 August 2012	Reasonable	-	2	-	-	1	Yes

**2012/13 Planned IA Reviews**

IA Ref.	IA Review Area	Timing	Status as at 22 August 2012	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
001	Property Services	Q1	Fieldwork delayed due to other BA priorities; now due for completion in Q3							
002	Town Centre Regeneration – Project Management	Q1	Fieldwork completed; draft report in progress							
003	Corporate Governance	Q1	Deferred by CEO to link into new performance management framework. Consultancy work on Effectiveness of Joint Board completed instead. Now due for completion in Q4							
004	Organisational Change	Q1	Project Board role discharged	N/A	-	-	-	-	-	N/A
005	Housing Rents	Q1	Fieldwork completed; draft report in progress							
006	Main Accounting	Q1	Draft report issued 8 August 2012							
007	Legal Shared Services	Q1	Deferred by Management until Q3 due to Scrutiny review							
008	S106 Infrastructure Delivery	Q1	Terms of reference currently being drafted							

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IA Ref.	IA Review Area	Timing	Status as at 22 August 2012	Assurance Level	Priority					PAQ Received?
					VH	H	M	L	NP	
009	Third Sector Commissioning	Q1	Final consultancy report issued 22 August 2012	N/A	-	-	-	-	-	N/A
010	Appraisals	Q1	Fieldwork completed; draft report in progress							
011	Facilitation – Risk Management Group	Q1	RM Group meeting held on 22 May 2012	N/A	-	-	-	-	-	N/A
012	Facilitation – Corporate Risk Register	Q1	Corporate Risk Register presented to June Audit Committee	N/A	-	-	-	-	-	N/A
013	Facilitation – Annual Governance Statement	Q1	AGS presented to Audit Committee at its meeting of 28 June 2012	N/A	-	-	-	-	-	N/A
INV01	Corporate Investigations	Q1	Details at para 3.4	N/A	-	-	-	-	-	N/A
INV02	Benefits Fraud	Q1	Details at para 3.3	N/A	-	-	-	-	-	N/A
INV03	Proactive Fraud Prevention	Q1	Blue Badge Fraud – details at para 3.5	N/A	-	-	-	-	-	N/A

Total 2012/13 IA recommendations raised as at 22 August 2012

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**INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS**

In our professional opinion the IA assurance levels and definitions are:

<b>Assurance Level</b>	<b>Definition</b>
<b>Outstanding</b>	There is outstanding management of the key risks to the council objectives. There is significant innovation or high levels of user satisfaction. There are examples of best practice. There is an appropriate control environment with due regard to the Council's risk appetite. There is positive assurance that objectives will be achieved.
<b>Good</b>	There is a good level of assurance over the management of the key risks to the council objectives. The control environment <sup>1</sup> is robust with no major weaknesses in design or operation. There is good assurance that objectives will be achieved.
<b>Reasonable</b>	There is a reasonable level of assurance over the management of the key risks to the council objectives. The control environment <sup>1</sup> is in need of improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains a risk that objectives will not be achieved.
<b>Limited</b>	There is a limited level of assurance over the management of the key risks to the council objectives. The control environment <sup>1</sup> has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a significant risk that objectives will not be achieved.
<b>No</b>	There is no assurance to be derived from the management of key risks to the council objectives. There is an absence of several key elements of the control environment <sup>1</sup> in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite <sup>2</sup> and the residual risk <sup>3</sup> to objectives. There is a high risk that objectives will not be achieved.

1. **Control Environment** - The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:






- establishing and monitoring the achievement of the authority's objectives;
- the facilitation of policy and decision-making;
- ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
- ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty;
- the financial management of the authority and the reporting of financial management; and
- the performance management of the authority and the reporting of performance management.

2. **Risk Appetite** - The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.

3. **Residual Risk** - The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

INTERNAL AUDIT RECOMMENDATION PRIORITY RATINGS AND DEFINITIONS

In our professional opinion the priority ratings and definitions of IA recommendations are:

Priority	Definition
<b>Very High</b> 	The recommendation relates to a highly significant threat or opportunity that impacts directly on the council's corporate objectives. The action required is to mitigate a serious risk to the council. In particular it has a critical impact on the council's reputation, statutory compliance, finances or strategic priorities. The risk requires immediate senior management attention.
<b>High</b> 	The recommendation relates to a significant threat or opportunity that impacts the council's corporate objectives. The action required is to mitigate a substantial risk to the council. In particular it has an impact on the council's reputation, statutory compliance, finances or key corporate objectives. The risk requires senior management attention.
<b>Medium</b> 	The recommendation relates to a potentially significant threat or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the council. In particular an adverse impact on the department's reputation, adherence to council policy, the departmental budget or service plan objectives. The risk requires management attention.
<b>Low</b> 	The recommendation relates to a minor threat or opportunity that impacts on operational objectives. The action required is to mitigate a minor risk to the council as a whole. This may be compliance with best practice or minimal impacts on the service's reputation, adherence to local procedures, local budget or Section objectives. The risk maybe tolerable in the medium to short term.
<b>Notable Practice</b> 	The activity reflects current best management practice or is an innovative response to the management of risk within the council. The practice should be shared with others.