

# Public Document Pack



## **Democratic Services**

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Date: 20 May 2019

Dear Councillor

### **AUDIT COMMITTEE - TUESDAY 28 MAY 2019**

I am now able to enclose the following reports for the agenda of the Audit Committee due to take place on Tuesday 28 May 2019

<b>Agenda No</b>	<b>Item</b>
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- |    |   |
|----|---|
| 7. | <b><u>Annual Internal Audit Report 2018/19</u> (Pages 3 - 18)</b>       |
| 8. | <b><u>Draft Annual Governance Statement 2018/19</u> (Pages 19 - 28)</b> |

Yours sincerely

Democratic Services  
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**Subject: Annual Internal Audit Report 2018/19**

**Date: 28 May 2019**

**Author: Chris Williams – Head of Internal Audit (RSM)**

## **1. Purpose of the Report**

1.1 To report on the activities of Internal Audit during the 2018/19 financial year that includes, amongst other matters, an opinion on the overall adequacy and effectiveness of the Council's internal control environment.

### **Recommendations:**

#### **That Members:**

- receive and accept the Report as presented

## **2. Background**

### **The role of Internal Audit**

2.1 The role of Internal Audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal Audit is therefore a key part of Gedling Borough Council's assurance cycle, and if used properly, can help to inform and update the organisation's risk profile. Internal audit is just one of the sources of assurance available to the Council and the Audit Governance Statement

2.2 Under Regulation 6(1) of the Accounts and Audit (England) Regulations 2015, which amended the 2011 Regulations, authorities are required to publish an Annual Governance Statement in line with the CIPFA/SOLACE Framework "*Delivering Good Governance in Local Government*", to meet with that statutory requirement.

2.3 The Council's 2018/19 Internal audit plan was delivered by RSM Risk Assurance Services LLP on an outsourced basis.

## **Annual Internal Audit Report**

2.4 The report summarises the work undertaken by Internal Audit during the financial year 2018/19 to formulate that opinion.

2.5 The overall opinion issued to Gedling Borough Council for 2018/19 is as follows:

*“Internal Audit are satisfied that sufficient internal audit activity has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of Gedling Borough Council’s risk management, governance and control processes.*

*It is Internal Audit’s opinion that, for the 12 months ending 31 March 2019, Gedling Borough Council has adequate and effective risk management, governance and internal control processes to manage and achieve the organisation’s objectives. However, our work has identified further enhancements to the framework of risk managements, governance and internal control to ensure that it remains adequate and effective.”*

2.6 Our risk management opinion is informed by our observation of risk management systems and processes throughout the course of all audits within the Audit Plan. The Corporate Risk Register contains those risks which may impact achievement of the Council’s strategic objectives, whereas the Service Risk Register documents risks identified at an operational level for each service area. The risks are discussed and reviewed quarterly by the Senior Leadership Team and a quarterly report is presented to Audit Committee. An audit of Risk Management was undertaken during 2018/19, which concluded that the Council could take substantial assurance.

2.7 We have taken into consideration the governance and oversight related elements of each of the reviews undertaken as part of the 2018/19 internal audit plan. There is a sound governance framework in place and we have observed that the Audit Committee is effective in monitoring and challenging management and holding them to account. An audit of Corporate Governance, with a specific focus on the Council’s constitution provided continued assurance over key areas of governance including the Council’s effectiveness and ability to react to and reach informed decisions. Our review concluded that the Council could take substantial assurance.

2.8 In total, 22 internal audit reviews were undertaken during 2018/19. These comprised of 17 assurance reviews, two follow-up reviews and three Advisory reviews where no opinion is given. Of the assurance reviews, the Council and take substantial assurance for 13 reviews and take reasonable assurance four reviews. For the follow-up reviews, Reasonable Progress was made on implementing the management actions raised on the first review and Poor Progress was made on the second review. One internal audit review is currently at the draft report stage.

2.9 In conclusion, the Council has maintained progress within the areas of

governance, risk management and control arrangements.

### **3. Appendices**

Appendix – Annual Internal Audit Report 2018/19.

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# GEDLING BOROUGH COUNCIL

## Annual Internal Audit Report 2018/19

28 May 2019

This report is solely for the use of the persons to whom it is addressed.  
To the fullest extent permitted by law, RSM Risk Assurance Services LLP  
will accept no responsibility or liability in respect of this report to any other party.



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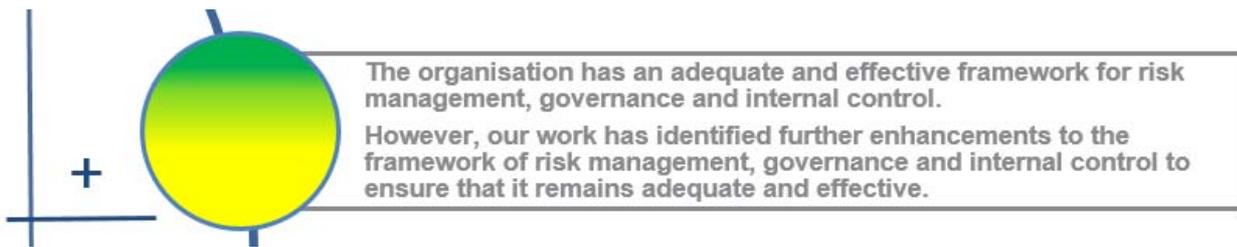
# 1 THE HEAD OF INTERNAL AUDIT OPINION

In accordance with Public Sector Internal Audit Standards, the Head of Internal Audit is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the Council's risk management, control and governance processes. The opinion should contribute to the Council's annual governance statement.

## 1.1 The opinion

For the 12 months ended 31 March 2019, the Head of Internal Audit opinion for Gedling Borough Council is as follows:

### Head of Internal Audit opinion 2018/19



Please see appendix A for the full range of annual opinions available to us in preparing this report and opinion.

## 1.2 Scope and limitations of our work

The formation of our opinion is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, our opinion is subject to inherent limitations, as detailed below:

- The opinion does not imply that internal audit has reviewed all risks and assurances relating to the Council;
- The opinion is substantially derived from the conduct of risk-based plans generated from a robust and Council-led assurance framework. As such, the assurance framework is one component that the Council takes into account in making its annual governance statement (AGS);
- The opinion is based on the findings and conclusions from the work undertaken, the scope of which has been agreed with management / lead individual;
- The opinion is based on the testing we have undertaken, which was limited to the area being audited, as detailed in the agreed audit scope;
- Where strong levels of control have been identified, there are still instances where these may not always be effective. This may be due to human error, incorrect management judgement, management override, controls being by-passed or a reduction in compliance;
- Due to the limited scope of our audits, there may be weaknesses in the control system which we are not aware of, or which were not brought to attention; and

- It remains management's responsibility to develop and maintain a sound system of risk management, internal control and governance, and for the prevention and detection of material errors, loss or fraud. The work of internal audit should not be seen as a substitute for management responsibility around the design and effective operation of these systems.

## 1.3 Factors and findings which have informed our opinion

### Governance

We have taken into consideration the governance and oversight related elements of each of the reviews undertaken as part of the 2018/19 internal audit plan. There is a sound governance framework in place and we have observed that the Audit Committee is effective in monitoring and challenging management and holding them to account.

An audit of Corporate Governance, with a specific focus on the Council's constitution provided continued assurance over key areas of governance including the Council's effectiveness and ability to react to and reach informed decisions. Our review concluded that the Council could take substantial assurance.

### Risk Management

Our risk management opinion is informed by our observation of risk management systems and processes throughout the course of all audits within the Audit Plan. The Corporate Risk Register contains those risks which may impact achievement of the Council's strategic objectives, whereas the Service Risk Register documents risks identified at an operational level for each service area. The risks are discussed and reviewed quarterly by the Senior Leadership Team and a quarterly report is presented to Audit Committee.

An audit of Risk Management was undertaken during 2018/19, which concluded that the Council could take substantial assurance.

### Internal Control

We undertook 17 internal audit reviews in 2018/19 which resulted in an assurance opinion. There were 13 reviews (76 per cent) from which the Council can take substantial assurance and four reviews (24 per cent) from which the Council can take reasonable assurance.

During the year we raised a total of 71 management actions across assurance and follow up reviews. Of the 71 actions raised: 23 were 'medium' priority and 48 were 'low' priority actions.

To further enhance the framework for risk management, governance and internal controls, management have agreed to put actions in place.

We also undertook three advisory reviews, General Data Protection Regulation (GDPR) Governance, Ethical Phishing and a Strategic Fraud Risk Assessment.

The Strategic Fraud Risk Assessment advisory report has yet to be reported in final.

A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

## 2 THE BASIS OF OUR INTERNAL AUDIT OPINION

As well as those headlines discussed at paragraph 1.3, the following areas have helped to inform our opinion. A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

### 2.1 Acceptance of internal audit management actions

Management have agreed actions to address all of the findings reported by the internal audit service during 2018/2019.

### 2.2 Implementation of internal audit management actions

Where actions have been agreed by management, these have been monitored by management through the action tracking process in place. During the year progress has been reported to the Audit Committee, with the validation of the action status confirmed by internal audit through the follow up audit.

Our follow up of the actions agreed to address previous years' internal audit findings shows that the Council has made varied progress in implementing the agreed actions across the two planned follow up reviews. Details of the follow up work is summarised below:

#### Follow Up 1: Reasonable Progress

Our Follow Up work has concluded that the Council has demonstrated reasonable progress in implementing the agreed management actions. Of the 16 management actions reviewed, we found that 11 management actions had been fully implemented or superseded and the remaining five were ongoing or not implemented, with revised dates for completion agreed.

#### Follow Up 2: Poor Progress

Our Follow Up work has concluded that the Council has demonstrated poor progress in implementing the agreed management actions. Of the 28 management actions followed up, eight management actions had been fully implemented, nine were considered to be ongoing, eight were not implemented, two were superseded and one was not yet due for implementation.

### 2.3 Working with other assurance providers

In forming our opinion we have not placed any direct reliance on other assurance providers.

## 3 OUR PERFORMANCE

### 3.1 Conflicts of interest

RSM has not undertaken any work or activity during 2018/19 that would lead us to declare any conflict of interest.

### 3.2 Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our risk assurance service line commissioned an external independent review of our internal audit services in 2016 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA) on which PSIAS is based.

The external review concluded that “there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to Audit Committee and the supporting working papers.” RSM was found to have an excellent level of conformance with the IIA’s professional standards.

The risk assurance service line has in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit services. Resulting from the programme, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

### 3.3 Quality assurance and continual improvement

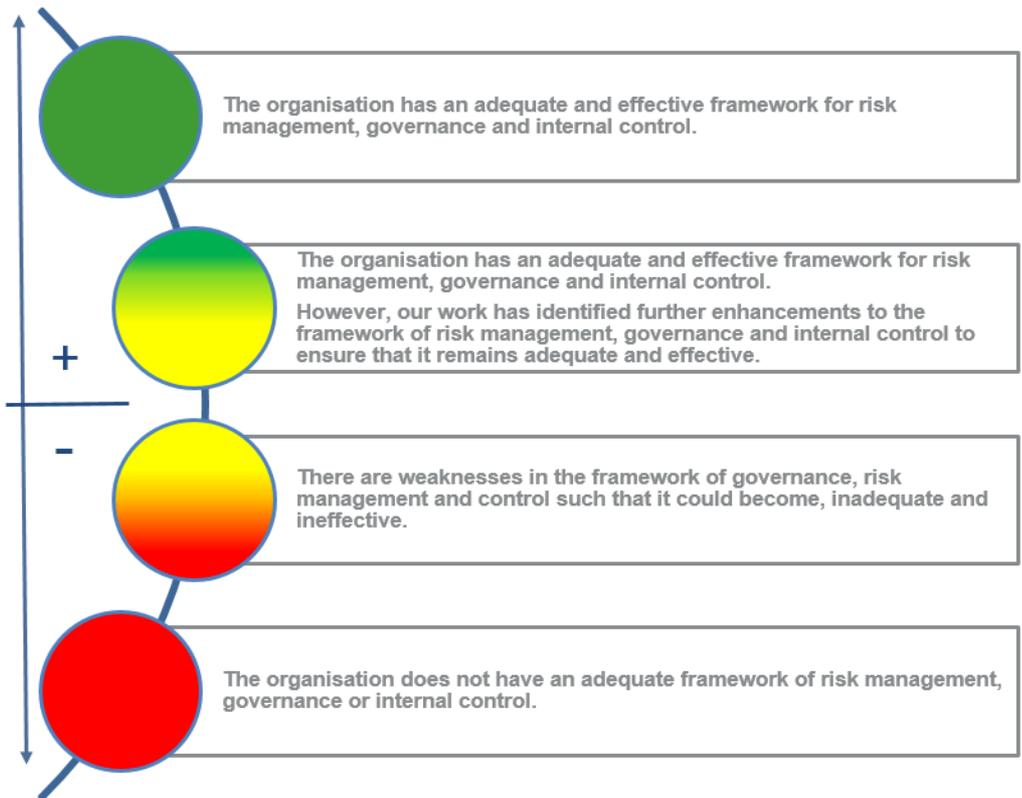
To ensure that RSM remains compliant with the PSIAS framework we have a dedicated internal Quality Assurance Team who undertake a programme of reviews to ensure the quality of our audit assignments. This is applicable to all Heads of Internal Audit, where a sample of their clients will be reviewed. Any findings from these reviews are used to inform the training needs of our audit teams.

This is in addition to any feedback we receive from our post assignment surveys, client feedback, appraisal processes and training needs assessments.

# APPENDIX A: ANNUAL OPINIONS

The following shows the full range of opinions available to us within our internal audit methodology to provide you with context regarding your annual internal audit opinion.

Annual opinions	Factors influencing our opinion
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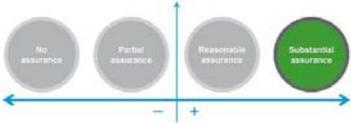
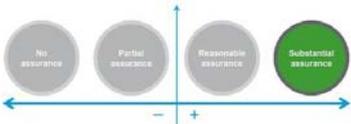
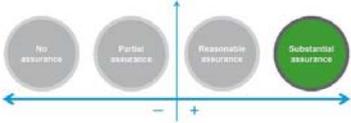
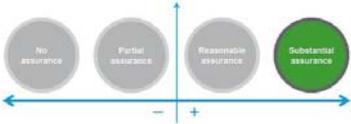
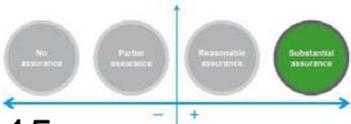


The factors which are considered when influencing our opinion are:

- inherent risk in the area being audited;
- limitations in the individual audit assignments;
- the adequacy and effectiveness of the risk management and / or governance control framework;
- the impact of weakness identified;
- the level of risk exposure; and
- the response to management actions raised and timeliness of actions taken.

## APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2018/2019

Assignment	Executive lead	Assurance level	Actions agreed		
			H	M	L
Mail Room (1.18/19)	Deputy Chief Executive and Finance Director		0	0	3
Customer Services and One Stop Shop Areas (2.18/19)	Deputy Chief Executive and Finance Director		0	0	1
Gedling Country Park Visitor Centre (3.18/19)	Director of Health and Community Wellbeing		0	0	1
Community Centres (4.18/19)	Deputy Chief Executive and Finance Director		0	4	1
Reconciliations (5.18/19)	Deputy Chief Executive and Finance Director		0	2	6
Follow Up 1 (6.18/19)	Deputy Chief Executive and Finance Director	Reasonable Progress	0	1	4
Main Accounting System (7.18/19)	Deputy Chief Executive and Finance Director		0	0	2
Corporate Governance (8.18/19)	Director of Organisational Development and Democratic Services		0	1	2
Payroll and Expenses (9.18/19)	Deputy Chief Executive and Finance Director		0	0	1

Assignment	Executive lead	Assurance level	Actions agreed		
			H	M	L
NNDR (10.18/19)	Deputy Chief Executive and Finance Director		0	1	1
Health and Safety (11.18/19)	Health, Safety and Emergency Planning Officer		0	3	1
Grounds Maintenance, Parks and Open Spaces (12.18/19)	Deputy Chief Executive and Finance Director		0	2	3
Landlord Licensing (13.18/19)	Director of Health and Community Wellbeing		0	1	1
Development Management (14.18/19)	Chief Executive		0	0	4
Follow Up 2 (15.18/19)	Deputy Chief Executive and Finance Director	Poor Progress	0	6	11
Risk Management (16.18/19)	Deputy Chief Executive and Finance Director		0	0	0
General Data Protection Regulations (GDPR) Governance (17.18/19)	Director of Organisational Development and Democratic Services	Advisory	7 actions raised		
Cash and Banking (18.18/19)	Deputy Chief Executive and Finance Director		0	1	3
Property – Investment, Miscellaneous Properties and Facilities Management (19.18/19)	Deputy Chief Executive and Finance Director		0	0	2
Contracts and Procurement (20.18/19)	Deputy Chief Executive and Finance Director		0	1	1

Assignment	Executive lead	Assurance level	Actions agreed		
			H	M	L
Strategic Fraud Risk Assessment (21.18/19) <b>DRAFT</b>	Director of Organisational Development and Democratic Services	Advisory	8 actions raised		
Ethical Phishing	Deputy Chief Executive and Finance Director	Advisory	3 actions raised		

All of the assurance levels and outcomes provided above should be considered in the context of the scope, and the limitation of scope, set out in the individual Assignment Report.

We use the following levels of opinion classification within our internal audit reports. Reflecting the level of assurance the Council can take:

<p>The diagram shows four circles representing assurance levels: 'No assurance' (red), 'Partial assurance' (grey), 'Reasonable assurance' (grey), and 'Substantial assurance' (grey). A horizontal blue double-headed arrow is below the circles, with a vertical line in the center. To the left of the center is a minus sign (-) and to the right is a plus sign (+).</p>	<p>Taking account of the issues identified, the Council cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Urgent action is needed to strengthen the control framework to manage the identified risk(s).</p>
<p>The diagram shows four circles representing assurance levels: 'No assurance' (grey), 'Partial assurance' (orange), 'Reasonable assurance' (grey), and 'Substantial assurance' (grey). A horizontal blue double-headed arrow is below the circles, with a vertical line in the center. To the left of the center is a minus sign (-) and to the right is a plus sign (+).</p>	<p>Taking account of the issues identified, the Council can take partial assurance that the controls to manage this risk are suitably designed and consistently applied. Action is needed to strengthen the control framework to manage the identified risk(s).</p>
<p>The diagram shows four circles representing assurance levels: 'No assurance' (grey), 'Partial assurance' (grey), 'Reasonable assurance' (yellow), and 'Substantial assurance' (grey). A horizontal blue double-headed arrow is below the circles, with a vertical line in the center. To the left of the center is a minus sign (-) and to the right is a plus sign (+).</p>	<p>Taking account of the issues identified, the Council can take reasonable assurance that the controls in place to manage this risk are suitably designed and consistently applied. However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risk(s).</p>
<p>The diagram shows four circles representing assurance levels: 'No assurance' (grey), 'Partial assurance' (grey), 'Reasonable assurance' (grey), and 'Substantial assurance' (green). A horizontal blue double-headed arrow is below the circles, with a vertical line in the center. To the left of the center is a minus sign (-) and to the right is a plus sign (+).</p>	<p>Taking account of the issues identified, the Council can take substantial assurance that the controls upon which the Council relies to manage the identified risk(s) are suitably designed, consistently applied and operating effectively.</p>

## FOR FURTHER INFORMATION CONTACT

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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of Gedling Borough Council, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

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## **Report to Audit Committee**

**Subject:** Annual Governance Statement 2018/19  
**Date:** 28 May 2019  
**Author:** Deputy Chief Executive and Director of Finance

### **1. Purpose of the Report**

To inform Members of the proposed Annual Governance Statement 2018/19.

#### **Recommendations:**

##### **That Members:**

- note the Annual Governance Statement 2018/19 and provide any comments for inclusion in the final version when presented to the Audit Committee on 23 July 2019.

### **2. Background**

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and that it is used economically, efficiently and effectively. In accordance with the Accounts and Audit Regulations the Council conducts an annual review of the effectiveness of the system of internal controls and prepares an Annual Governance Statement (AGS).

### **3. Proposal**

Following the review of the system of internal control it is proposed that the AGS for 2018/19, attached at Appendix 1, is approved.

#### **4. Resource Implications**

There are no financial implications arising from this report.

#### **5. Appendices**

Appendix 1 – Annual Governance Statement 2018/19.

# **GEDLING BOROUGH COUNCIL**

## **ANNUAL GOVERNANCE STATEMENT 2018/19**

### **1. Scope of Responsibility**

- 1.1 Gedling Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Gedling Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Gedling Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.
- 1.3 Gedling Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the authority's code is on our website at [www.gedling.gov.uk](http://www.gedling.gov.uk) or can be obtained from the Deputy Chief Executive and Director of Finance, Gedling Borough Council, Arnot Hill Park, Arnold, Nottingham. NG5 6LU. This statement explains how Gedling Borough Council has complied with the code and also meets the requirements of the Accounts and Audit Regulations 2015, regulation 6(1), which requires all relevant bodies to prepare an annual governance statement.

### **2. The Purpose of the Governance Framework**

- 2.1 The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Gedling Borough Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at Gedling Borough Council for the year ended 31 March 2019 and up to the date of approval of the statement of accounts.

### **3. The Governance Framework**

- 3.1 Gedling Borough Council's approach to the "*Local Code of Corporate Governance*" recognises that effective governance is achieved through the 7 core principles and 21 supporting principles as identified in the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government 2016 Edition*. These are:

**(A) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.**

- (i) Behaving with integrity*
- (ii) Demonstrating strong commitment to ethical values*
- (iii) Respecting the rule of law*

**(B) Ensuring openness and comprehensive stakeholder engagement.**

- (iv) Openness*
- (v) Engaging comprehensively with institutional stakeholders*
- (vi) Engaging with individual citizens and service users effectively*

**(C) Defining outcomes in terms of sustainable economic, social and environmental benefits.**

- (vii) Defining outcomes*
- (viii) Sustainable economic, social and environmental benefits*

**(D) Determining the interventions necessary to optimise the achievement of the intended outcomes.**

- (ix) Determining interventions*
- (x) Planning interventions*
- (xi) Optimising achievement of intended outcomes*

**(E) Developing the entity's capacity, including the capability of its leadership and the individuals within it.**

- (xii) Developing the entity's capacity*
- (xiii) Developing the capability of the entity's leadership and other individuals*

**(F) Managing risks and performance through robust internal control and strong public financial management.**

- (xiv) Managing risk*
- (xv) Managing performance*
- (xvi) Robust internal control*
- (xvii) Managing data*
- (xviii) Strong public financial management*

**(G) Implementing good practices in transparency, reporting, and audit to deliver effective accountability.**

- (xix) Implementing good practice in transparency*
- (xx) Implementing good practices in reporting*
- (xxi) Assurance and effective accountability*

3.2 The Audit Committee held on 20 March 2018 received the report on Gedling's "Local Code of Corporate Governance 2018/19" which set out in detail how the Council demonstrates that its governance structures comply with these seven core principles. An end of year review has confirmed that these were in place for the whole of the financial year.

#### **4. Governance Arrangements**

4.1 There is a governance assurance framework through which the Council satisfies itself as to the effectiveness of its system of internal control. This takes as its starting point the Council's principal statutory and organisational objectives as set out in the Council's Corporate Plan. From this are identified the key risks to the achievement of the Council's objectives as set out within the Council's corporate, directorate and service risk registers.

- 4.2 The framework identifies the main sources of assurance on the controls in place to manage those risks, and it is the evaluation of those assurances that is the basis of this Annual Governance Statement.
- 4.3 The following documents establish these policies, aims and objectives at a strategic level:
- The Corporate Plan (The Gedling Plan);
  - The Community Safety Partnership Strategy;
  - The Local Development Framework;
  - The Annual Budget and Performance Management Framework;
  - The Financial Strategy;
  - The Treasury Management Strategy;
  - The Internal Audit Strategy;
  - The Risk Management Strategy;
  - The Corporate Equalities Scheme;
  - The Anti-Fraud & Anti-Corruption Strategy.
- 4.4 These high level plans are further supported by Service Plans. The Constitution provides clear guidance on how the Council operates, how decisions are made and the procedures and protocols to ensure that decisions and activities are efficient, transparent and accountable to local citizens. Some of these processes are required by law, whilst others are determined by the Council for itself. All of these documents are within the Council's Publication Scheme and available on the Council's website at [www.gedling.gov.uk](http://www.gedling.gov.uk) or can be inspected at the Council's Civic Centre, Arnot Hill Park, Arnold, Nottinghamshire.
- 4.5 Gedling's corporate governance framework defines the roles and responsibilities of the full Council, Cabinet, Scrutiny and officer functions, and demonstrates how the Council meets defined standards of governance in relation to its policies, aims and objectives.
- 4.6 The Council acknowledges its responsibility to ensure that it operates an effective system of internal control to maintain and operate controls over its resources. This system of internal control can only provide reasonable (not absolute) assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are prevented or would be detected within a reasonable period.
- 4.7 The internal control system includes:
- Annual review of the effectiveness of the Council's Corporate Governance Framework, including signed Assurance Statements from Directors and Service Managers;
  - An established anti-fraud strategy, including whistle-blowing procedures, communicated to Members, officers and the public, and are available on the Council's website;
  - An established Audit Committee that undertakes the core functions as identified in CIPFA guidance;
  - The Terms of Reference for the Audit Committee which include specific responsibility for reviewing risk management procedures, including the reporting arrangements on strategic risks via a corporate risk scorecard;
  - A Risk Management Strategy that is led by Senior Management for the identification and evaluation of Corporate Risks, and integrated with the work of Internal Audit to provide a holistic source of assurance aligned to corporate objectives;

- A comprehensive risk management process that includes the identification of both strategic and operational risks which are held and maintained on corporate and directorate Risk Registers, and subject to regular review;
- Internal audit reviews are carried out using a risk-based audit approach with the emphasis on key financial systems. This work is undertaken in co-operation with the Council's External Auditor ensuring maximum use of Audit resources, and ensures that professional standards are maintained;
- Performance Plan monitoring, review and reporting;
- Facilitation of policy and decision making through the Constitution, Codes of Conduct and the decision-making process, Forward Plan and role of the Scrutiny Committees;
- The statutory roles of the Council's Head of Paid Service, Monitoring Officer and Chief Financial Officer place a duty on these post-holders to ensure compliance with established policies, procedures, laws and regulations;
- Compliance with established policies, procedures, laws and regulations are monitored through the work of the Finance and Legal staff that are adequately trained and experienced;
- Budgetary and performance management reporting to management, Cabinet and Council;
- Formal project management guidelines;
- Adherence to good employment practices;
- Governance training has been provided to all key officers and Members, including induction training, and arrangements are in place for the ongoing continuation of that training.

## **5. Financial Management**

- 5.1 Ensuring that an effective system of internal financial control is maintained and operated is the responsibility of the Section 151 Officer.
- 5.2 Internal financial control is based on a framework of management information that includes the Financial Regulations, Contract Standing Orders and Procurement Procedure Rules and administration procedures, adequate separation of duties, management supervision, and a system of delegation and accountability.
- 5.3 The Council has produced comprehensive procedure notes/manuals for all key financial systems, and these are regularly reviewed. The controls created by management are evaluated to ensure:
- Council objectives are being achieved;
  - The economic and efficient use of resources;
  - Compliance with policies, procedures, laws, rules and regulations;
  - The safeguarding of Council assets;
  - The integrity and reliability of information and data.
- 5.4 CIPFA issued in 2016 a Statement on *"The Role of the Chief Financial Officer in Local Government"*, and this covered five key areas. The Council can demonstrate how it conforms to these governance requirements as the Section 151 Officer:

- is a member of the Senior Leadership Team and plays a key role in helping it to develop and implement strategy to resource and deliver the Council's strategic objectives sustainably and in the public interest.
- is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and there is alignment with the Council's overall financial strategy.
- leads the promotion and delivery by the whole Council of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.
- leads and directs the finance function, which is resourced to be fit for purpose.
- is professionally qualified and suitably experienced.

5.5 CIPFA issued in 2010 a Statement on "The Role of the Head of Internal Audit", and this covered five key areas. The Council can demonstrate how it conforms to these governance requirements as the Head of Internal Audit:

- champions best practice in governance and management, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.
- gives an objective and evidence based opinion on all aspects of governance, risk management and internal control.
- is Chris Williams, a Director of RSM UK, and he (or his RSM representatives) have had regular and open engagement across Gedling Borough Council, particularly with the Leadership Team and with the Audit Committee.
- leads and directs an internal audit service that is resourced to be fit for purpose.
- is professionally qualified and suitably experienced.

## 6. Assurance from Internal and External Audit

6.1 Two of the key assurance statements the Council receives are the annual report and opinion of the Head of Internal Audit, and the external auditor's Value for Money conclusion as follows:

- The external auditor (KPMG)'s Value For Money conclusion for 2017/18 which stated:

*"We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."*

- The Head of Internal Audit (RSM) Annual Report for 2018/19, which concluded:

*"For the 12 months ended 31 March 2019, the Head of Internal Audit opinion for Gedling Borough Council is as follows:*

*The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective."*

“Factors and findings which have informed our opinion

- ❖ *Governance – We have taken into consideration the governance and oversight related elements of each of the reviews undertaken as part of the 2018/19 internal audit plan. There is a sound governance framework in place and we have observed that the Audit Committee is effective in monitoring and challenging management and holding them to account. An audit of Corporate Governance, with a specific focus on the Council’s constitution provided continued assurance over key areas of governance including the Council’s effectiveness and ability to react to and reach informed decisions. Our review concluded that the Council could take substantial assurance.*
- ❖ *Risk Management – Our risk management opinion is informed by our observation of risk management systems and processes throughout the course of all audits within the Audit Plan. The Corporate Risk Register contains those risks which may impact achievement of the Council’s strategic objectives, whereas the Service Risk Register documents risks identified at an operational level for each service area. The risks are discussed and reviewed quarterly by the Senior Leadership Team and a quarterly report is presented to Audit Committee. An audit of Risk Management was undertaken during 2018/19, which concluded that the Council could take substantial assurance.*
- ❖ *Internal control – We undertook 17 internal audit reviews in 2018/19 which resulted in an assurance opinion. There were 13 reviews (76 per cent) from which the Council can take substantial assurance and four reviews (24 per cent) from which the Council can take reasonable assurance. During the year we raised a total of 71 management actions across assurance and follow up reviews. Of the 71 actions raised: 23 were ‘medium’ priority and 48 were ‘low’ priority actions.*

*To further enhance the framework for risk management, governance and internal controls, management have agreed to put actions in place. We also undertook three advisory reviews, General Data Protection Regulation (GDPR) Governance, Ethical Phishing and a Strategic Fraud Risk Assessment. The Strategic Fraud Risk Assessment advisory report has yet to be reported in final.”*

6.2 It is important to recognise the results of the Internal Audit Annual Report where the Council has been issued with an overall positive assurance rating, with no ‘high’ priority actions being identified.

## **7. Review of Effectiveness**

7.1 Gedling Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit’s annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

7.2 The Council is committed to the maintenance of a system of internal control which:

- Demonstrates openness, accountability and integrity;
- Monitors and reviews compliance with established policies, procedures, laws and regulations and effectiveness against agreed standards and targets;
- Monitors and reviews the effectiveness of the operation of controls that have been put in place;
- Identifies, profiles, controls and monitors all significant strategic and operational risks;
- Ensures that the risk management and control process is monitored for compliance.

7.3 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined in section 8 below.

## 8. Significant Governance Issues

### INTERNAL:

8.1 During the 2018/19 financial year the following issues were identified via the Council's risk management, governance, internal audit and other internal control processes as being relevant to the preparation of the Annual Governance Statement. They are not highlighted as significant control or risk concerns, but included to highlight the Council's awareness of emerging issues through its proactive and holistic approach to governance:

- Constitutional Changes – A review group was established as part of the Dynamic Council programme and updates to a number of sections of the Constitution have been drafted and considered by the Dynamic Council Programme Board. These need further consideration by SLT before being presented to Members.

**Action: Senior Leadership Management Team – March 2020.**

- Commercialisation – The Council is increasingly becoming “commercial” in its operations and robust governance arrangements have already been put in place for new service areas. This year the Council will investigate the possibility of introducing a commercial housing development operation and appropriate governance issues will need to be identified.

**Action: Senior Leadership Management Team – December 2019.**

- Member Training – The Council has introduced a number of new Members as part of the district elections and an appropriate training programme will be developed.

**Action: Director of Organisational Development and Democratic Services – August 2019.**

- Officer Training – A suitable training programme for staff will need to be developed following the outcome of the Constitution review, which would include training in financial management.

**Action: Senior Leadership Management Team – March 2020.**

- Counter Fraud & Corruption Strategy – A new strategy is currently in development which will require approval by both the Audit Committee and the Cabinet.

**Action: Deputy Chief Executive – December 2019.**

- Internal capacity/resilience – As a consequence of budget pressures, decreasing workforce, increasing workloads and customer expectations, the Council is seeing an impact on capacity

and resilience. This may have an impact on compliance with the governance framework in later years.

**Watching brief: Senior Leadership Management Team.**

EXTERNAL:

- External Economy – the Council remains susceptible to, but vigilant for, the external risks posed by the uncertain economic and political climate. Despite ongoing pressures and squeezes on costs, income streams and funding, effective short and medium term planning has resulted in the Council presenting a balanced budget for the period 2019 – 2024 with no significant reductions in service. The Council is well placed to deal with the ongoing pressure on income and funding streams, but there are approved budget reduction targets to be achieved and delivered during this five-year period in order for the Council to maintain its financial standing.

**Action: Senior Leadership Management Team – March 2020.**

- Brexit - On 23 June 2016, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. It was scheduled to depart at 11pm UK time on Friday 29 March 2019, but parliamentary agreement on the way forward has not yet been delivered. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation, whilst also determining future funding levels for public services once the UK has left the EU.

**Watching brief: Senior Leadership Management Team.**

8.2 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Karen Bradford .....  
Chief Executive

Date: 23 July 2019

John Clarke .....  
Council Leader

Date: 23 July 2019