



Civic Centre,  
Arnot Hill Park,  
Arnold,  
Nottinghamshire,  
NG5 6LU

# Agenda

## Audit Committee

Date: **Wednesday 25 March 2015**

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Time: **5.30 pm**

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Place: **Committee Room**

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For any further information please contact:

**Lyndsey Parnell**

Senior Elections and Members' Services Officer

0115 901 3910

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# Audit Committee

## Membership

**Chair**                      Councillor Paul Feeney

**Vice-Chair**              Councillor Nick Quilty

Councillor Sandra Barnes  
Councillor Chris Barnfather  
Councillor Bob Collis  
Councillor Tony Gillam  
Councillor Richard Nicholson

## **AGENDA**

**Page**

- 1 Apologies for Absence and Substitutions.**
- 2 To approve, as a correct record, the minutes of the meeting held on 16 December 2014.** 1 - 4
- 3 Declaration of Interests.**
- 4 2014-15 Audit Plan KPMG Report** 5 - 34  
Report of Service Manage Audit & Assest Management
- 5 Corporate Risk Scorecard** 35 - 50  
Report of Service Manager Audit & Asset Management
- 6 Follow-up of Previous Audit Recommendations** 51 - 52  
Report of Service Manager – Audit & Asset Management.
- 7 Summary of Audit Activity** 53 - 56  
Report of Service Manager Audit & Asset Management
- 8 Annual internal Audit Plan 2015/16** 57 - 62  
Report of Service Manager Audit & Asset Management
- 9 Payments of Compensation** 63 - 66  
Report of Service Manager - Revenues and Benefits
- 10 Any other item which the Chair considers urgent.**

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## **MINUTES AUDIT COMMITTEE**

**Tuesday 16 December 2014**

Councillor Paul Feeney (Chair)

Present: Councillor Sandra Barnes                      Councillor Tony Gillam  
              Councillor Chris Barnfather                Councillor Richard Nicholson  
              Councillor Bob Collis

Absent: Councillor Nick Quilty

Officers in Attendance: V Rimmington and F Whyley

### **56 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS.**

Apologies for absence were received from Councillor Quilty.

### **57 TO APPROVE, AS A CORRECT RECORD, THE MINUTES OF THE MEETING HELD ON 23 SEPTEMBER 2014.**

#### **RESOLVED:**

That the minutes of the above meeting, having been circulated, be approved as a correct record.

### **58 DECLARATION OF INTERESTS.**

None.

### **59 ANNUAL AUDIT LETTER 2013-14**

Consideration was given to a report of KPMG, the Council's external Auditors, summarising their key findings from their 2013/14 audit of the Authority.

#### **RESOLVED:**

To note the report.

### **60 CORPORATE RISK SCORE CARD**

Consideration was given to the report of the Service Manager, Audit and Risk Management, which had been circulated prior to the meeting,

update Members on the current level of assurance that can be provided against each corporate risk.

**RESOLVED:**

To note the report.

**61 FOLLOW-UP OF PREVIOUS AUDIT RECOMMENDATIONS**

Consideration was given to a report of the Service Manager, Audit and Risk Management, which was circulated prior to the meeting, informing Members of departmental progress in the implementation of Internal Audit recommendations and identifying to Members where additional action needs to be considered in relation to any outstanding recommendations.

**RESOLVED:**

**To note the report.**

**62 SUMMARY OF AUDIT ACTIVITY OCTOBER - DECEMBER 2014**

Consideration was given to a report of the Service Manager, Audit and Risk Management, which had been circulated prior to the meeting, summarising the outcome of Internal Audit activity for the period October to December 2014.

**RESOLVED:**

**To note the report.**

**63 ANNUAL AUDIT PLAN - RISK ASSESSMENT**

Consideration was given to a report of the Service Manager, Audit and Risk Management, which had been circulated prior to the meeting, providing Members with the opportunity to influence the audit risk assessment for the annual audit plan 2015-16 and to confirm whether any additional areas of audit work need to be considered.

Councillor Barnfather requested that Contract Management, and in particular the Bonington Theatre contract, be included in the 2015-16 audit plan.

**RESOLVED:**

**To note the report.**

**64 TERMS OF REFERENCE - ANNUAL REVIEW**

Consideration was given to a report of the Service Manager, Audit and Risk Management, which was circulated prior to the meeting, seeking

Members' views on the appropriateness of the Committee's current Terms of Reference.

**RESOLVED:**

To agree to the continued use of the current Terms of Reference, as at Appendix A of the report.

**65 ANY OTHER ITEM WHICH THE CHAIR CONSIDERS URGENT.**

None.

The meeting finished at Time Not Specified

Signed by Chair:  
Date:

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*cutting through complexity*

Page 5

# External Audit Plan 2014/15

Gedling Borough  
Council

March 2015

Agenda Item 4

**The contacts at KPMG in connection with this report are:**

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## Page

### Report sections

|   |    |
|---|----|
| ■ Introduction                                | 2  |
| ■ Headlines                                   | 3  |
| ■ Our audit approach                          | 4  |
| ■ Key financial statements audit risks        | 10 |
| ■ VFM audit approach                          | 11 |
| ■ Audit team, deliverables, timeline and fees | 15 |

### Appendices

|  |    |
|--|----|
| 1. Independence and objectivity requirements | 19 |
| 2. Quality assurance and technical capacity  | 20 |
| 3. Assessment of Fraud Risk                  | 22 |
| 4. Transfer of Audit Commission's functions  | 23 |

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Bellamy, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 1<sup>st</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 03034448330.

This document describes  
how we will deliver our audit  
work for Gedling Borough  
Council.

## Scope of this report

This document supplements our *Audit Fee Letter 2014/15* presented to you in April 2014. It describes how we will deliver our financial statements audit work for Gedling Borough Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2014/15.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

## Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The Audit Commission will close at 31 March 2015. However our audit responsibilities under the *Audit Commission Act 1998* and the *Code of Audit Practice* in respect of the 2014/15 financial year remain unchanged.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit/review and report on your:

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

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

The Audit Commission will cease to exist on 31 March 2015. Details of the new arrangements are set out in Appendix 4. The Authority can expect further communication from the Audit Commission and its successor bodies as the new arrangements are established. This plan restricts itself to reference to the existing arrangements.

## Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements audit and Value for Money arrangements Conclusion.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM arrangements work and sets out our initial risk assessment for the VFM conclusion.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

|  |  |
|--|--|
| <b>Audit approach</b>                              | <p>Our overall audit approach remains similar to last year with no fundamental changes . Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the Corporate Director and Chief Finance Officer.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>   |
| <b>Key financial statements audit risks</b>        | <p>We have completed our initial risk assessment for the financial statements audit and have not identified any significant risks this year.</p>   |
| <b>VFM audit approach</b>                          | <p>We have completed our initial risk assessment for the VFM conclusion and have not identified any significant risks at this stage. However risk assessment process is an on going process. If we identify any new VFM risks during this on going process we will communicate that to you.</p>  |
| <b>Audit team, deliverables, timeline and fees</b> | <p>We have refreshed our audit team this year ensuring that we maintain and build upon our existing knowledge of the authority and key relationships. Thomas Tandy is your Audit Manager and Karenjeet Basra is your In-Charge Auditor. Both staff members worked on the audit last year and therefore ensure good continuity going forward.</p> <p>Our main year end audit is currently planned to commence on 3 August 2015. Upon conclusion of our work we will again present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The planned fee for the 2014/15 audit is £56,760. This has changed from the position set out in our <i>Audit Fee Letter 2014-15</i>. Like all district councils the planned fee has increased by £900 due to NNDR issues as reported by the Audit Commission, and is now in line with the actual fee charged in 2013/14.</p> |

## Section three

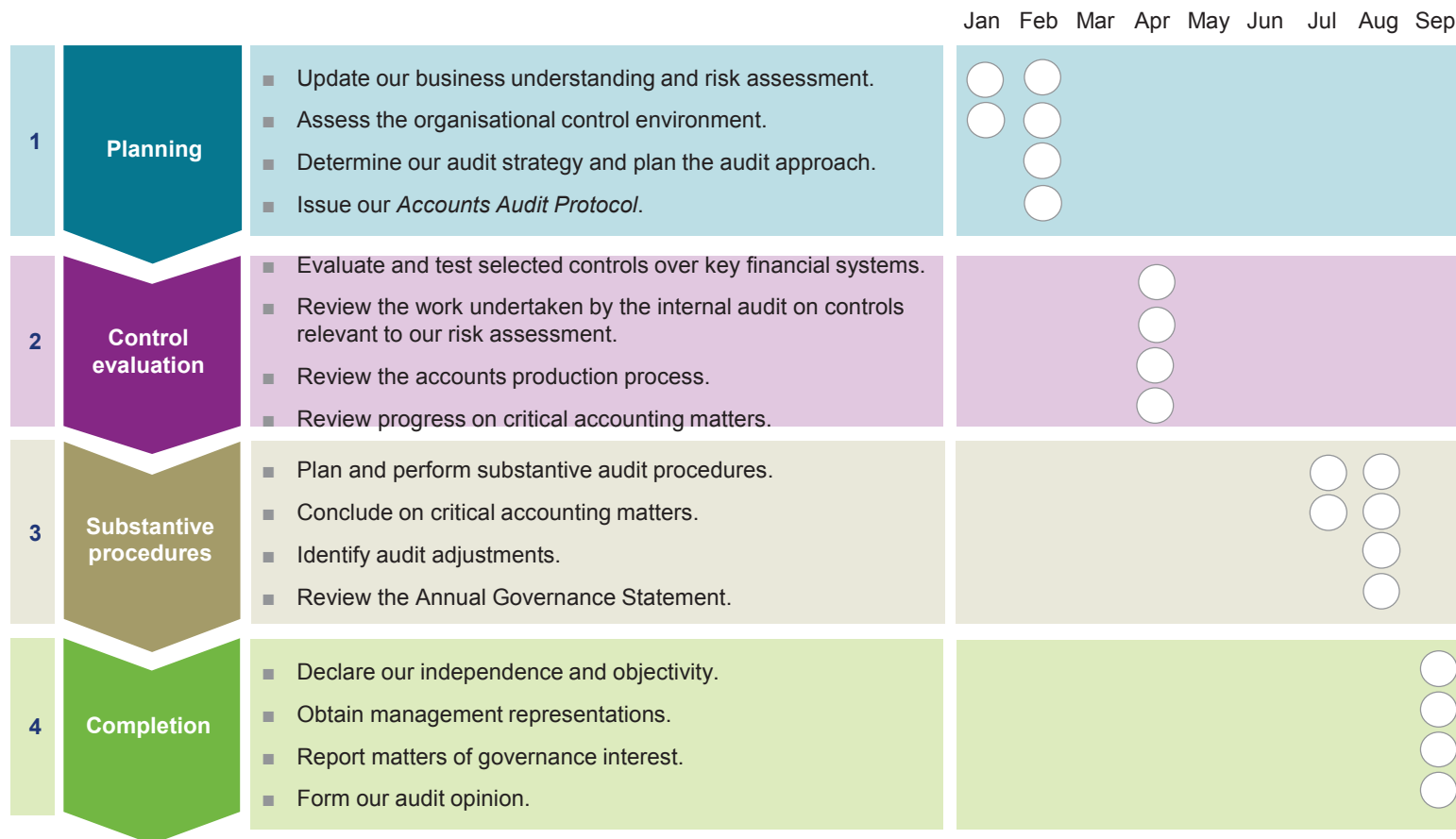
# Our audit approach

We undertake our work on your financial statements in four key stages during 2015:

- **Planning** (January to February).
- **Control Evaluation** (April).
- **Substantive Procedures** (July to August).
- **Completion** (September).

Page 9

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



During January and February 2015 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

Our planning work takes place in January and February 2015. This involves the following aspects:

## Planning

- Update our business understanding and risk assessment including fraud risk.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

## Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks including risk of fraud affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We have regular contact with the Financial Services Manager and Principal Accountant to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

## Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the relevant work of your internal auditors also informs our risk assessment.

## Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of professional judgement and is set by the Engagement Lead.

In accordance with ISA 320 (UK&I) '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Further details on assessment of materiality is set out on page 6 of this document.

When we determine our audit strategy we set a monetary materiality level for planning purposes.

We will issue our *Accounts audit protocol* following completion of our planning work.

## Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

## Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) '*Communication with those charged with governance*', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 (UK&I), '*Evaluation of misstatements identified during the audit*', requires us to request that uncorrected misstatements are corrected.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

## Accounts audit protocol

At the end of our planning work we will issue our *Accounts Audit Protocol*. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

During April 2015 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2014/15.

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

We will report any significant findings arising from our work to the Audit Committee.

Our on site interim visit will commence 20 April 2015. During this time we will complete work in the following areas:

### Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

### Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

### Review of internal audit

Where our audit approach is to undertake controls work on financial systems, we seek to review any relevant work internal audit have completed to minimise unnecessary duplication of work. This will inform our overall risk assessment process.

### Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit Committee.



During August 2015 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report to the Audit Committee in September 2015*.

Our final accounts visit on site has been provisionally scheduled to commence 3 August 2015. During this time, we will complete the following work:

## Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

## Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

## Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Financial Services Manager in July 2015, prior to reporting to the Audit Committee in September 2015.

## Audit adjustments

During our on site work, we will meet with the Financial Services Manager on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

## Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are part of this.

We report the findings of our audit of the financial statements work in our *ISA 260 Report*, which we will issue in September 2015.

**In addition to the financial statements, we also review the Authority's Whole of Government Accounts pack.**

**We may need to undertake additional work if we receive objections to the accounts from local electors.**

**We will communicate with you throughout the year, both formally and informally.**

### Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2014/15 have not yet been confirmed.

### Elector challenge

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

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

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

### Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 16.

### Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

### Confirmation statement

We confirm that as of 25 March 2015 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

**In this section we set out our assessment of the significant risks or other key areas of audit focus of the Authority's financial statements for 2014/15.**

**We have identified no specific risks at this stage.**

Page 15

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Appendix 3 covers more details on our assessment of fraud risk.

Our initial assessment has not identified any risks that are specific to the Authority.

We will revisit our assessment throughout the year and should any risks present themselves we will adjust our audit strategy as necessary.

Our approach to VFM work follows guidance provided by the Audit Commission.

### Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

| Specified criteria for VFM conclusion  | Focus of the criteria  | Sub-sections  |
|--|--|---|
| The organisation has proper arrangements in place for securing <b>financial resilience</b> .                           | The organisation has robust systems and processes to: <ul style="list-style-type: none"> <li>■ manage effectively financial risks and opportunities; and</li> <li>■ secure a stable financial position that enables it to continue to operate for the foreseeable future.</li> </ul> | <ul style="list-style-type: none"> <li>■ Financial governance</li> <li>■ Financial planning</li> <li>■ Financial control</li> </ul> |
| The organisation has proper arrangements for challenging how it <b>secures economy, efficiency and effectiveness</b> . | The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> <li>■ achieving cost reductions; and</li> <li>■ improving efficiency and productivity.</li> </ul>  | <ul style="list-style-type: none"> <li>■ Prioritising resources</li> <li>■ Improving efficiency and productivity</li> </ul>         |

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

### Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

| VFM audit stage           | Audit approach   |
|---------------------------|--|
| VFM audit risk assessment | <p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> <li>the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>information from the Audit Commission's VFM profile tool ;</li> <li>evidence gained from previous audit work, including the response to that work; and</li> <li>the work of other inspectorates and review agencies.</li> </ul> |

## Section five

### VFM audit approach (continued)

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

Page 18

| VFM audit stage   | Audit approach  |
|---|---|
| Linkages with financial statements and other audit work | <p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>  |
| Assessment of residual audit risk                       | <p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p> |
| Identification of specific VFM audit work               | <p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> <li>■ considering the results of work by the Authority, inspectorates and other review agencies; and</li> <li>■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.</li> </ul>  |

## Section five

### VFM audit approach (continued)

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We have completed our initial risk assessment and have not identified any risks to our VFM conclusion at this stage. We will update our assessment at year end. We will conclude on the results of the VFM audit through our ISA 260 Report.

| VFM audit stage                   | Audit approach  |
|-----------------------------------|---|
| Delivery of local risk based work | <p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> <li>■ local savings review guides based on selected previous Audit Commission national studies; and</li> <li>■ update briefings for previous Audit Commission studies.</li> </ul> <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p> |
| Concluding on VFM arrangements    | <p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>   |
| Reporting                         | <p>We have completed our initial VFM risk assessment and have not identified any key issues. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.</p> <p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>  |

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the audit last year.

Contact details are shown on page 1.

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



Neil Bellamy  
**Director**

“My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit Committee, Chief Executive, Corporate Director and Chief Finance Officer.”



Thomas Tandy  
**Audit Manager**

“I am responsible for the management, review and delivery of the audit.

I will liaise with the Financial Services Manager and Service Manager – Audit and Risk Management.”



Karenjeet Basra  
**In Charge Auditor**

“I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.”



| Deliverable   | Purpose   | Committee dates       |
|---|---|-----------------------|
| <b>Planning</b>   |   |                       |
| <b>External Audit Plan</b>                                      | <ul style="list-style-type: none"> <li>■ Outlines our audit approach.</li> <li>■ Identifies areas of audit focus and planned procedures.</li> </ul>   | <b>March 2015</b>     |
| <b>Control evaluation and Substantive procedures</b>            |   |                       |
| <b>Report to Those Charged with Governance (ISA 260 Report)</b> | <ul style="list-style-type: none"> <li>■ Details control and process issues.</li> <li>■ Details the resolution of key audit issues.</li> <li>■ Communicates adjusted and unadjusted audit differences.</li> <li>■ Highlights performance improvement recommendations identified during our audit.</li> <li>■ Comments on the Authority's value for money arrangements.</li> </ul> | <b>September 2015</b> |
| <b>Completion</b>   |   |                       |
| <b>Auditor's Report</b>   | <ul style="list-style-type: none"> <li>■ Provides an opinion on your accounts (including the Annual Governance Statement).</li> <li>■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).</li> </ul>   | <b>September 2015</b> |
| <b>Whole of Government Accounts</b>                             | <ul style="list-style-type: none"> <li>■ Provide our assurance statement on the Authority's WGA pack submission.</li> </ul>   | <b>September 2015</b> |
| <b>Annual Audit Letter</b>                                      | <ul style="list-style-type: none"> <li>■ Summarises the outcomes and the key issues arising from our audit work for the year.</li> </ul>  | <b>November 2015</b>  |

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

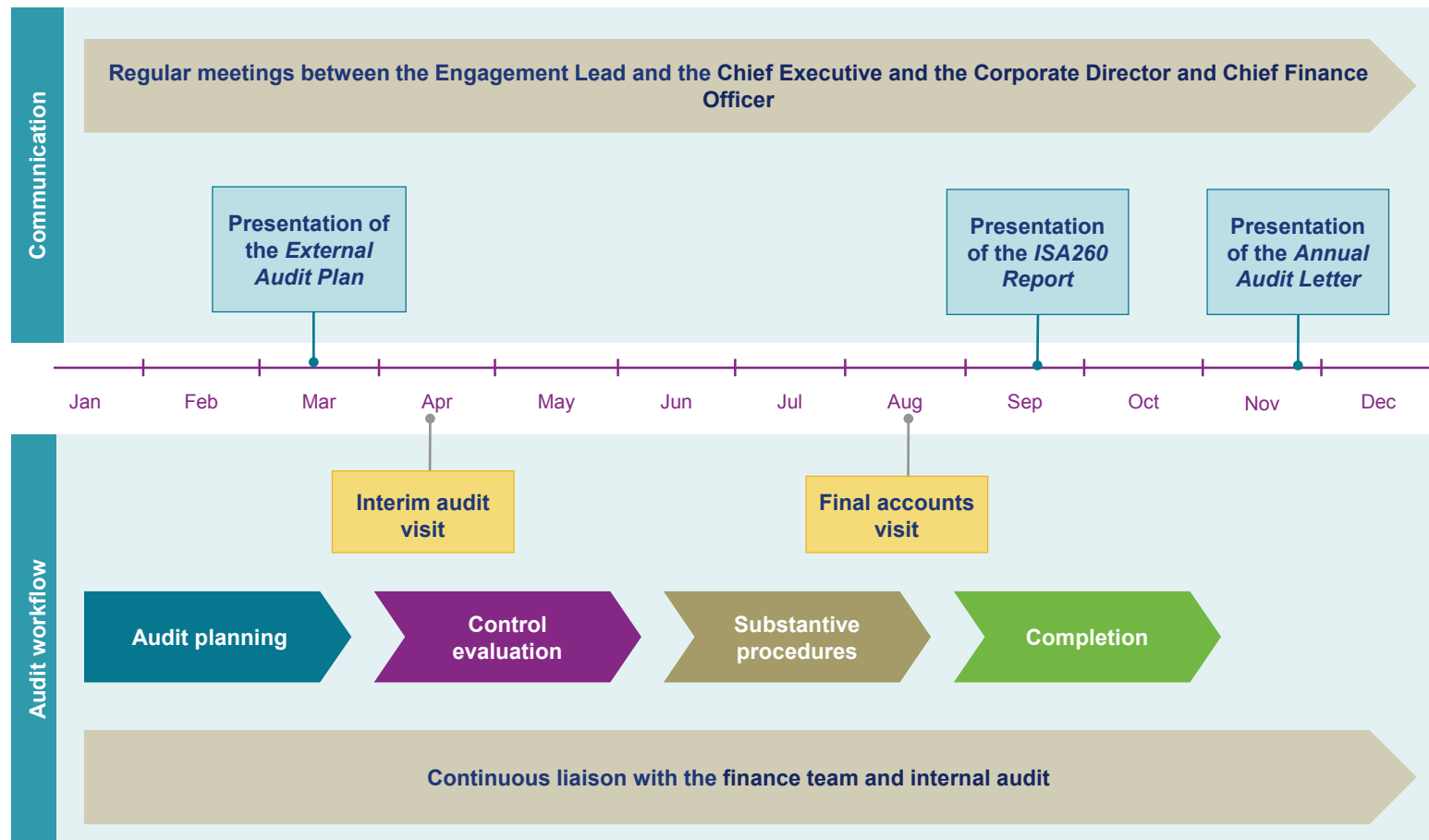
Key formal interactions with the Audit Committee are:

- March – External Audit Plan;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during April.
- Final accounts audit during August.



Key: ● Audit Committee meetings.

**The fee for the 2014/15 audit of the Authority is £56,760. The fee has changed from that set out in our *Audit Fee Letter 2014/15* issued in April 2014. The fee has increased by £900 in line with the fee variation for 2013/14 to reflect the extra work we undertake in relation to business rates.**

**Our audit fee remains indicative and based on you meeting our expectations of your support.**

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

#### Audit fee

Our *Audit Fee Letter 2014/15* presented to you in April 2014 first set out our fees for the 2014/15 audit. The fee has increased by £900 in line with the fee variation for 2013/14 to reflect the extra work we carry out over business rate income.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

The planned audit fee for 2014/15 is **£56,760**. This is the same as the audit fee charged for 2013/14.

#### Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2014/15;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15* within your 2014/15 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the financial statements are made available for audit in line with the agreed timescales;
  - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

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

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas

#### Changes to the audit plan

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

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

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Corporate Director and Chief Finance Officer.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

### Independence and objectivity

Auditors are required by the Code to:

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

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

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

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

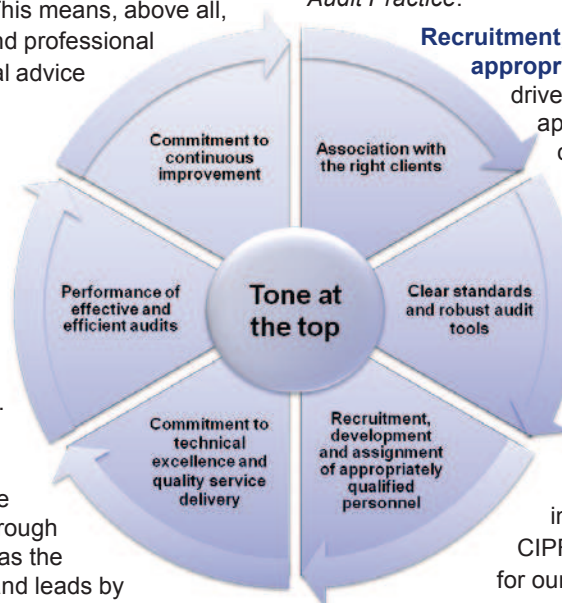
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**Tone at the top:** We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Neil Bellamy as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

**Association with right clients:** We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

**Clear standards and robust audit tools:** We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



### Recruitment, development and assignment of appropriately qualified personnel:

One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

### **Commitment to technical excellence and quality service delivery:**

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

**Performance of effective and efficient audits:** We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

**Commitment to continuous improvement:** We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

### **Our quality review results**

We are able to evidence the quality of our audits through the results of Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the Audit Commission's overall audit quality and regularity compliance requirements.



**We are required to consider fraud and the impact that this has on our audit approach.**

**We will update our risk assessment throughout the audit process and adapt our approach accordingly.**

Page 27

## Members/Officers responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit Committee and auditors:
  - any significant deficiencies in internal controls.
  - any fraud involving those with a significant role in internal controls.

## KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit Committee, and others.
- Evaluate controls that prevent, deter, and detect fraud.

## KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit Committee and management.

## KPMG's identified fraud risk factors

- We will monitor the following areas throughout the year and adapt our audit approach accordingly.
  - Revenue recognition.
  - Management override of controls.

**The Audit Commission will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commissions' regulatory and other functions.**

From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for publishing the Commission's value for money profiles tool will also transfer to PSAA.

From 1 April 2015, the Commission's other functions will transfer to new organisations:

- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO) for audits of the accounts from 2015/16;
- the Commission's responsibilities for local value for money studies will also transfer to the NAO; and
- the National Fraud Initiative (NFI) will transfer to the Cabinet Office.





*cutting through complexity™*

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Neil.Bellamy@kpmg.co.uk

Mark Kimberley  
Corporate Director  
Gedling Borough Council  
Civic Centre  
Arnot Hill Park  
Arnold,  
Nottingham NG5 6LU

Our ref nb/dc

Date 23 February 2015

Dear Mark

#### **Certification of claims and returns - annual report 2013/14**

The Audit Commission requires its external auditors to prepare an annual report on the claims and returns it certifies for each client. This letter is our annual report for the certification work we have undertaken for 2013/14 at Gedling Borough Council.

In 2013/14 we carried out certification work on the following claims/returns:

| <b>Claim/return</b>                   | <b>Certified value (£)</b> |
|---------------------------------------|----------------------------|
| BEN01 – Housing Benefit subsidy claim | 26,889,959                 |

#### **Matters arising**

Our certification work did not identify any issues or errors with the claim and we certified the claim unqualified without amendment.

Consequently we have made no recommendations to the Authority to improve its claims completion process. There were no recommendations made last year and there are no further matters to report to you regarding our certification work.

#### **Certification work fees**

The Audit Commission set an indicative fee for our certification work in 2013/14 of £15,048, which is based on the actual fee in 2011/12. We currently estimate the final fee will be £14,082 following the submission of a fee variation to the Audit Commission of -£966. This reflects the

lower number of issues arising during the audit than in 2011/12. The fee for certifying the same claim in 2012/13 was £15,630.

The details are set out in the table below.

| <b>Claim</b>                          | <b>2013/14<br/>Indicative<br/>fee (£)</b> | <b>2013/14<br/>Final fee<br/>(£)</b> | <b>2012/13<br/>Final fee<br/>(£)</b> |
|---------------------------------------|---|--------------------------------------|--------------------------------------|
| BEN01 – Housing Benefit subsidy claim | 15,048                                    | 14,082                               | 15,630                               |

The final fee of £14,082 is estimated as we are currently awaiting confirmation from the Audit Commission in regards to a fee variation we submitted as detailed above.

Yours sincerely

Neil Bellamy  
Director

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Bellamy, who is the engagement leader to the Authority (telephone 0116 256 6082, e-mail [neil.bellamy@kpmg.co.uk](mailto:neil.bellamy@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk)) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 0303 444 8330.

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## **Report to Audit Committee**

**Subject: Corporate Risk Scorecard**

**Date: 25<sup>th</sup> March 2015**

**Author: Service Manager – Audit & Asset Management**

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

To update members of the Audit Committee on the current level of assurance that can be provided against each corporate risk.

### **2. Background**

The current Risk Management Strategy was considered and approved by Cabinet in February 2007.

A key deliverable of the Strategy was the development of the Risk Management reporting process, with the key aim of streamlining reports to enhance their use in management's decision making. The Strategy introduced the Corporate Risk Scorecard as a key enabler to this objective.

The Corporate Risk Scorecard provides assurance on the key risks identified as Corporate Risks, which are provided in **Appendix B**.

The assurance opinion is based on reviews of the control environment from the following sources:

- a. Internal Audit,
- b. Management Review of Risk Registers and Supporting Controls,
- c. External Audit,
- d. External Assessment / Accreditation Bodies (e.g. ISO9000),
- e. Other assurance sources (e.g. Health & Safety).

Existing risks identified in the Authority's strategic and operational risk registers have been aligned in a hierarchy to the agreed Corporate Risks. These are subject to bi-annual review by senior management and on an ongoing basis through the work of Internal Audit.

### **3. Summary of Findings**

The Corporate Risk Scorecard and supporting comments, as at March 2015, are provided below.

The methodology and assurance metrics adopted in producing the Corporate Risk Scorecard are provided for reference in **Appendix A**.

A summary of all control gaps currently identified on the Council's Risk register is provided in **Appendix C**.

### **4. Resource Implications**

To be delivered within existing budgets.

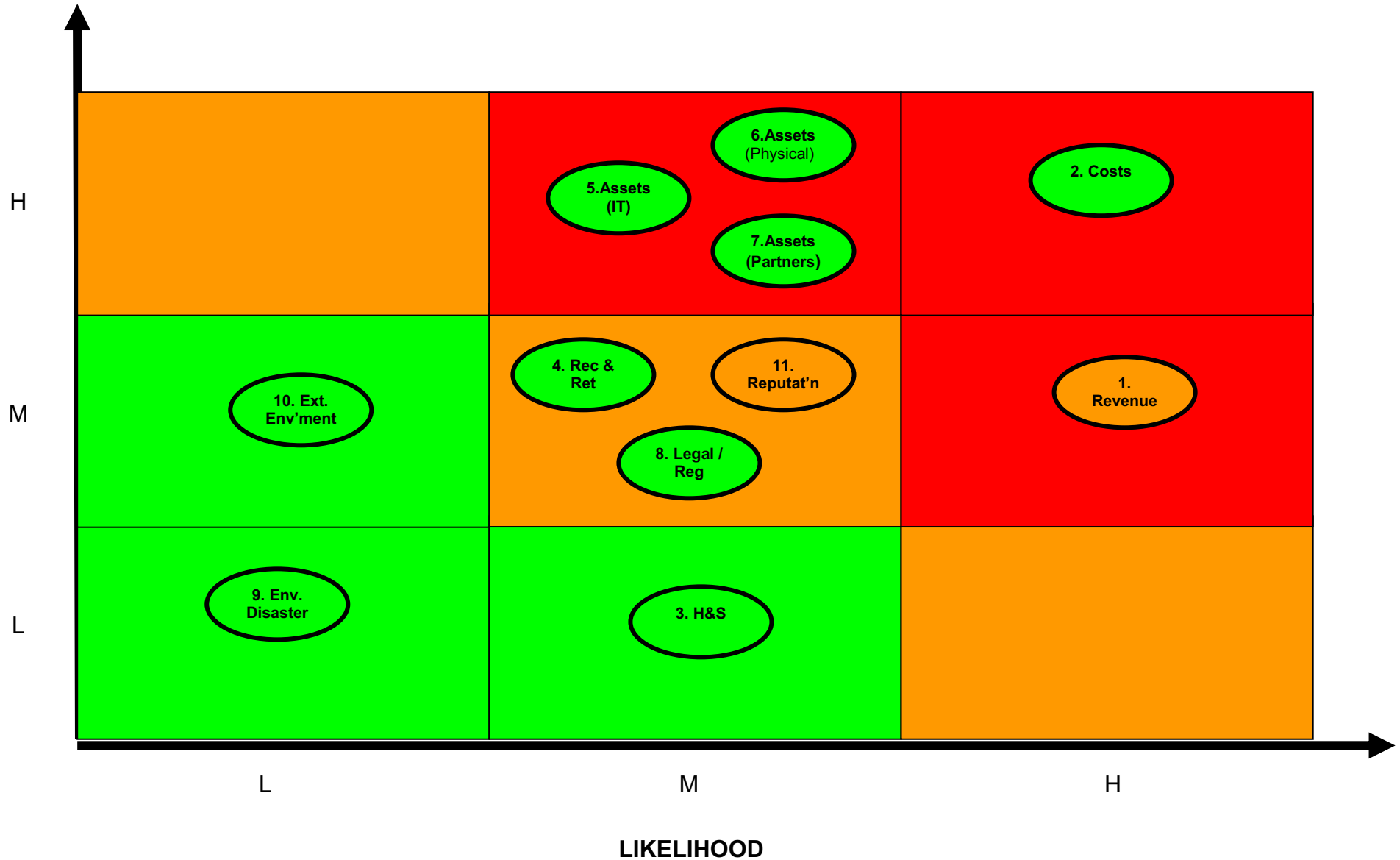
### **5. Recommendation**

Members are requested to note the report.












# GEDLING BOROUGH COUNCIL

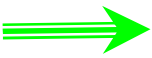













## CORPORATE RISK SCORECARD – March 2015

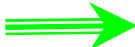

















## Supporting Comments & Explanations



|                      |   |                      |   |                      |   |
|----------------------|---|----------------------|---|----------------------|---|
| 1                    | <p><b>FAILURE TO MAXIMISE REVENUE</b></p> <p><b><u>Owner:</u></b> Mark Kimberley</p> <p><b><u>Residual Risk Direction:</u></b> </p> <table border="1" data-bbox="987 315 1326 465"><tr><td><b>Inherent Risk</b></td><td></td></tr><tr><td><b>Residual Risk</b></td><td></td></tr></table> <p><b><u>Summary of Control Weaknesses:</u></b></p> <p>There is no overall change to this risk category.</p> <p><b><u>Audit Recommendations</u></b></p> <p>There are no outstanding high/medium risk audit recommendations relating to this corporate risk.</p> <p><b><u>Risk Register</u></b> (Management Activity)</p> <p>The squeeze on income and funding grants has been identified on the strategic risk register and is reflected in the annual budget process and medium term financial plan.</p> <p>Modelling of the medium term financial plan has been undertaken to identify best and worse case scenario's. Contingent strategies have been developed to respond to the wider spread of scenarios identified.</p> <p>Whilst income pressures have eased with respect to Building and Development control, pressure is still prevalent on Leisure Income streams, particularly income levels within Leisure Centre's.</p> <p>An emerging risk has been identified with respect to Council Tax reforms potentially resulting in insufficient funds being available to fund Council Tax Reduction Scheme payments. This is a cautionary risk and a full review of the affordability of the scheme is underway.</p> | <b>Inherent Risk</b> |  | <b>Residual Risk</b> |  |
| <b>Inherent Risk</b> |    |                      |   |                      |   |
| <b>Residual Risk</b> |    |                      |   |                      |   |

|               |  |               |  |               |  |
|---------------|--|---------------|--|---------------|--|
| 2             | <p><b>FAILURE TO MINIMISE COSTS</b></p> <div style="float: right;"> <table border="1"> <tr> <td>Inherent Risk</td><td style="background-color: red;"></td></tr> <tr> <td>Residual Risk</td><td style="background-color: green;"></td></tr> </table> </div> <p><b><u>Owner:</u></b> Mark Kimberley</p> <p><b><u>Residual Risk Direction:</u></b> </p> <p><b><u>Summary of Control Weaknesses:</u></b></p> <p>There is no overall change to this risk category.</p> <p><b><u>Audit Recommendations</u></b></p> <p>The number of outstanding medium risk recommendation remains at two.</p> <p>Two medium risk recommendations were identified in the review of Housing Benefits (IAR1415-08), relating to a lack of independent and timely review of write off and payment reports. Resource was identified as a key factor in these issues, both of which will be addressed via the completion of a staffing structure review.</p> <p><b><u>Risk Register</u></b> (Management Activity)</p> <p>There are currently no outstanding control gaps in the strategic or operational risk registers relating to this corporate risk.</p> | Inherent Risk |  | Residual Risk |  |
| Inherent Risk |  |               |  |               |  |
| Residual Risk |  |               |  |               |  |
| 3             | <p><b>HEALTH &amp; SAFETY FAILINGS / PROTECTION OF STAFF</b></p> <div style="float: right;"> <table border="1"> <tr> <td>Inherent Risk</td><td style="background-color: green;"></td></tr> <tr> <td>Residual Risk</td><td style="background-color: green;"></td></tr> </table> </div> <p><b><u>Owner:</u></b> Mark Kimberley</p> <p><b><u>Residual Risk Direction:</u></b> </p> <p><b><u>Summary of Control Weaknesses:</u></b></p> <p>There is no overall change to this risk category.</p> <p><b><u>Audit Recommendations</u></b></p> <p>There are no outstanding high/medium risk audit recommendations relating to this corporate risk.</p> <p><b><u>Risk Register</u></b> (Management Activity)</p> <p>There are currently no outstanding control gaps in the strategic or operational risk registers relating to this corporate risk.</p>   | Inherent Risk |  | Residual Risk |  |
| Inherent Risk |  |               |  |               |  |
| Residual Risk |  |               |  |               |  |

|               |   |               |   |               |   |
|---------------|---|---------------|---|---------------|---|
| 4             | <p><b>FAILURE TO RECRUIT &amp; RETAIN SUITABLY SKILLED STAFF</b></p> <p><b><u>Owner:</u></b> Stephen Bray</p> <p><b><u>Residual Risk Direction:</u></b> </p> <table border="1" data-bbox="965 284 1302 434"> <tr> <td>Inherent Risk</td><td></td></tr> <tr> <td>Residual Risk</td><td></td></tr> </table> <p><b><u>Summary of Control Weaknesses:</u></b></p> <p>There is no overall change to this risk category.</p> <p><u>Audit Recommendations</u></p> <p>There are no outstanding high/medium audit recommendations relating to this corporate risk.</p> <p><u>Risk Register</u> (Management Activity)</p> <p>There are currently no outstanding control gaps in the strategic or operational risk registers relating to this corporate risk.</p>   | Inherent Risk |    | Residual Risk |    |
| Inherent Risk |    |               |   |               |   |
| Residual Risk |    |               |   |               |   |
| 5             | <p><b>FAILURE TO PROTECT &amp; UTILISE ASSETS (IT/IS)</b></p> <p><b><u>Owner:</u></b> Mark Kimberley</p> <p><b><u>Residual Risk Direction:</u></b> </p> <table border="1" data-bbox="1005 1012 1342 1162"> <tr> <td>Inherent Risk</td><td></td></tr> <tr> <td>Residual Risk</td><td></td></tr> </table> <p><b><u>Summary of Control Weaknesses:</u></b></p> <p>There is an overall slight improvement to this risk category.</p> <p><u>Audit Recommendations</u></p> <p>There are no outstanding high/medium audit recommendations relating to this corporate risk.</p> <p><u>Risk Register</u> (Management Activity)</p> <p>The number of minor controls gaps identified on the corporate risk register remains at one.</p> <p>The remaining minor control gap relates to resource issues identified in the planned roll out of further Resourcelink modules.</p> | Inherent Risk |  | Residual Risk |  |
| Inherent Risk |    |               |   |               |   |
| Residual Risk |    |               |   |               |   |

|               |  |               |  |               |  |
|---------------|--|---------------|--|---------------|--|
| 6             | <p><b>FAILURE TO PROTECT &amp; UTILISE ASSETS (PHYSICAL)</b></p> <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="width: 60%;"> <p><b><u>Owner:</u></b> John Robinson</p> <p><b><u>Residual Risk Direction:</u></b> </p> <p><b><u>Summary of Control Weaknesses:</u></b></p> <p>There is no overall change to this risk category.</p> <p><b><u>Audit Recommendations</u></b></p> <p>There are no outstanding high/medium audit recommendations relating to this corporate risk.</p> <p><b><u>Risk Register</u></b> (Management Activity)</p> <p>There are currently no outstanding control gaps in the strategic or operational risk registers relating to this corporate risk.</p> <p>The minor control gap with respect to the successful delivery of the capital project to refurbish Arnold Leisure Centre has been discharged upon completion of the project.</p> </div> <div style="width: 35%; text-align: center;"> <table border="1" data-bbox="991 259 1326 412"> <tr> <td>Inherent Risk</td><td style="background-color: red;"></td></tr> <tr> <td>Residual Risk</td><td style="background-color: green;"></td></tr> </table> </div> </div> | Inherent Risk |  | Residual Risk |  |
| Inherent Risk |  |               |  |               |  |
| Residual Risk |  |               |  |               |  |
| 7             | <p><b>FAILURE TO DEVELOP &amp; DELIVER STRATEGIC PARTNERSHIPS</b></p> <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="width: 60%;"> <p><b><u>Owner:</u></b> Mark Kimberley</p> <p><b><u>Residual Risk Direction:</u></b> </p> <p><b><u>Summary of Control Weaknesses:</u></b></p> <p>There is no overall change to this risk category.</p> <p><b><u>Audit Recommendations</u></b></p> <p>There are no outstanding high/medium risk audit recommendations relating to this corporate risk.</p> <p><b><u>Risk Register</u></b> (Management Activity)</p> <p>The Leisure Services operational risk register identifies a minor control gap with respect to the need to develop new joint use agreements, particularly with respect to Academy Schools. A management action plan is in place to address the risks identified.</p> </div> <div style="width: 35%; text-align: center;"> <table border="1" data-bbox="994 1158 1329 1310"> <tr> <td>Inherent Risk</td><td style="background-color: red;"></td></tr> <tr> <td>Residual Risk</td><td style="background-color: green;"></td></tr> </table> </div> </div>                                     | Inherent Risk |  | Residual Risk |  |
| Inherent Risk |  |               |  |               |  |
| Residual Risk |  |               |  |               |  |

|               |  |               |   |               |   |
|---------------|--|---------------|---|---------------|---|
|               |  |               |   |               |   |
| 8             | <p><b>LEGAL / REGULATORY / CONTRACTUAL BREACH</b></p> <p><b><u>Owner:</u></b> Helen Barrington</p> <p><b><u>Residual Risk Direction:</u></b> </p> <table border="1" data-bbox="994 369 1331 519"> <tr> <td>Inherent Risk</td><td></td></tr> <tr> <td>Residual Risk</td><td></td></tr> </table> <p><b><u>Summary of Control Weaknesses:</u></b></p> <p>There is an overall slight improvement to this risk category.</p> <p><b><u>Audit Recommendations</u></b></p> <p>There are currently no outstanding high/medium risk audit recommendations relating to this corporate risk.</p> <p><b><u>Risk Register</u></b> (Management Activity)</p> <p>The Leisure Services operational risk register identifies a potential breach of the Data Protection Act relating to transfer of personal data held within DNA and GP referral schemes. Advice has been sought from Legal Services and IT. The Department has also completed work with partner agencies to review working practices.</p> <p>Management are currently monitoring the situation to identify any instances of transfer of personal data. Once identified management will seek DPA advice from Legal Services and the Authority's Data Security Group. Ongoing monitoring will confirm (or otherwise) whether this current approach is sufficient to fully mitigate the risk.</p> | Inherent Risk |    | Residual Risk |    |
| Inherent Risk |   |               |   |               |   |
| Residual Risk |   |               |   |               |   |
| 9             | <p><b>ENVIRONMENTAL POLLUTION / DISASTER</b></p> <p><b><u>Owner:</u></b> David Wakelin</p> <p><b><u>Residual Risk Direction:</u></b> </p> <table border="1" data-bbox="962 1467 1299 1617"> <tr> <td>Inherent Risk</td><td></td></tr> <tr> <td>Residual Risk</td><td></td></tr> </table> <p><b><u>Summary of Control Weaknesses:</u></b></p> <p>There is no overall change to this risk category.</p> <p><b><u>Audit Recommendations</u></b></p> <p>There are no outstanding high/medium audit recommendations relating to this corporate risk.</p> <p><b><u>Risk Register</u></b> (Management Activity)</p>  | Inherent Risk |  | Residual Risk |  |
| Inherent Risk |   |               |   |               |   |
| Residual Risk |   |               |   |               |   |

|                      |  |                      |  |                      |  |
|----------------------|--|----------------------|--|----------------------|--|
|                      | There are currently no outstanding control gaps in the strategic or operational risk registers relating to this corporate risk.  |                      |  |                      |  |
| 10                   | <p><b>ADVERSE EVENTS IN THE EXTERNAL ENVIRONMENT</b></p> <p><b><u>Owner:</u></b> John Robinson</p> <p><b><u>Residual Risk Direction:</u></b> </p> <table border="1" data-bbox="986 371 1323 521"> <tr> <td><b>Inherent Risk</b></td><td></td></tr> <tr> <td><b>Residual Risk</b></td><td></td></tr> </table> <p><b><u>Summary of Control Weaknesses:</u></b></p> <p>There is no overall change to this risk category.</p> <p><u>Audit Recommendations</u></p> <p>There are no outstanding high/medium audit recommendations relating to this corporate risk.</p> <p><u>Risk Register</u> (Management Activity)</p> <p>There are currently no outstanding control gaps in the strategic or operational risk registers relating to this corporate risk.</p>   | <b>Inherent Risk</b> |  | <b>Residual Risk</b> |  |
| <b>Inherent Risk</b> |  |                      |  |                      |  |
| <b>Residual Risk</b> |  |                      |  |                      |  |
| 11                   | <p><b>DAMAGE TO REPUTATION</b></p> <p><b><u>Owner:</u></b> John Robinson</p> <p><b><u>Residual Risk Direction:</u></b> </p> <table border="1" data-bbox="986 1108 1323 1258"> <tr> <td><b>Inherent Risk</b></td><td></td></tr> <tr> <td><b>Residual Risk</b></td><td></td></tr> </table> <p><b><u>Summary of Control Weaknesses:</u></b></p> <p>There is no overall change to this risk category.</p> <p><u>Audit Recommendations</u></p> <p>There are no outstanding high/medium audit recommendations relating to this corporate risk.</p> <p><u>Risk Register</u> (Management Activity)</p> <p>The number of control gaps has increased from five to eight. Whilst one control gap has been mitigated, four additional ones have been identified.</p> <p>These include an emerging issue with respect to the increasing use of social media. There have been no significant issues to date, however, it is considered prudent to highlight this as an issue until existing controls can be fully tested over time to confirm their adequacy.</p> <p>The additional three emerging issues all relate to pressures on staff and services</p> | <b>Inherent Risk</b> |  | <b>Residual Risk</b> |  |
| <b>Inherent Risk</b> |  |                      |  |                      |  |
| <b>Residual Risk</b> |  |                      |  |                      |  |

|  |  |
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|  | <p>as a consequence of budgetary pressures. Communication plans have been developed and feedback will be monitored to identify potential issues.</p> <p>In addition further minor control gaps exist relating to the potential failure to implement the Community Infrastructure Levy and develop sustainable management arrangements at the Bonnington Theatre. Project teams have been established to address the issues and progress viable solutions.</p> <p>A minor control gap has been identified within the operational risk register, relating to the potential failure to deliver housing numbers, including affordable housing. Identified controls include a review of the current affordable housing policy and progression of local development scheme work with conurbation parties and Registered Social Landlord's. However, despite these efforts, the key factor in the short to medium term is likely to be the external environment and specifically the ongoing economic problems.</p> <p>A further minor control gap has been identified with respect to the potential failure to secure ongoing funding for CCTV and the ASB co-ordinator.</p> |
|--|--|



## Assurance Metrics

| CORPORATE RISKS |                                   |  |  |
|-----------------|-----------------------------------|--|--|
| Assurance Level | No. of o/s Audit Recs. (Med/High) | Risk Register – medium control gaps <sup>*1</sup> (number) | Risk Register – high control gaps <sup>*2</sup> (number) |
| <b>RED</b>      | 16+                               | 7+   | 2  |
| <b>AMBER</b>    | 8-15                              | 3-6  | 1  |
| <b>GREEN</b>    | 0-7                               | 1-2  | 0  |

<sup>\*1</sup> medium risk control gap = -1 to -3

<sup>\*2</sup> high risk control gap = > -3

The control gaps identified from the strategic and operational risk registers are the net result of the calculation ((Inherent risk – Target risk) – Residual risk)) i.e. the gap in control between the target risk and current risk.

## Risk Assessment March 2015

Number of risk exposures by corporate risk:

| Risk No. | Prior Assess. | Audit Assess. | Risk Register |       | Current Asses. | Direction |
|----------|---------------|---------------|---------------|-------|----------------|-----------|
|          |               |               | Med.          | High  |                |           |
| 1        | <b>AMBER</b>  | 0 (0)         | 5 (5)         | 0 (0) | <b>AMBER</b>   | No Change |
| 2        | <b>GREEN</b>  | 2 (2)         | 0 (0)         | 0 (0) | <b>GREEN</b>   | No Change |
| 3        | <b>GREEN</b>  | 0 (0)         | 0 (0)         | 0 (0) | <b>GREEN</b>   | No Change |
| 4        | <b>GREEN</b>  | 0 (0)         | 0 (0)         | 0 (0) | <b>GREEN</b>   | No Change |
| 5        | <b>GREEN</b>  | 0 (0)         | 1 (1)         | 0 (0) | <b>GREEN</b>   | No Change |
| 6        | <b>GREEN</b>  | 0 (0)         | 0 (1)         | 0 (0) | <b>GREEN</b>   | No Change |
| 7        | <b>GREEN</b>  | 0 (0)         | 1 (1)         | 0 (0) | <b>GREEN</b>   | No Change |
| 8        | <b>GREEN</b>  | 0 (0)         | 1 (1)         | 0 (0) | <b>GREEN</b>   | No Change |
| 9        | <b>GREEN</b>  | 0 (0)         | 0 (0)         | 0 (0) | <b>GREEN</b>   | No Change |
| 10       | <b>GREEN</b>  | 0 (0)         | 0 (0)         | 0 (0) | <b>GREEN</b>   | No Change |
| 11       | <b>AMBER</b>  | 0 (0)         | 7 (7)         | 1 (1) | <b>AMBER</b>   | No Change |

Figures shown in brackets represent the previous quarter.

## Corporate Risks

Page 46

| C<br>U<br>S<br>T<br>O<br>M<br>E<br>R | Risk Category | Corporate Risk   | Inherent Risk |        | Risk Owner   |
|--------------------------------------|---------------|--|---------------|--------|--------------|
|                                      |               |  | Impact        | L'hood |              |
|                                      | FINANCIAL     | 1. Failure to Maximise Revenue                         | M             | H      | M Kimberley  |
|                                      |               | 2. Failure to Minimise Costs                           | H             | H      | M Kimberley  |
|                                      |               |  |               |        |              |
|                                      | PEOPLE        | 3. Health & Safety Failings / Protection of Staff      | L             | M      | M Kimberley  |
|                                      |               | 4. Failure to Recruit & Retain Suitably Skilled Staff  | M             | M      | S Bray       |
|                                      |               |  |               |        |              |
|                                      | ASSETS        | 5. Failure to Protect & Utilise Assets (IT/IS)         | H             | M      | M Kimberley  |
|                                      |               | 6. Failure to Protect & Utilise Assets (Physical)      | H             | M      | M Kimberley  |
|                                      |               | 7. Failure to Develop & Deliver Strategic Partnerships | H             | M      | J Robinson   |
|                                      |               |  |               |        |              |
|                                      | LEGAL         | 8. Legal / Regulatory / Contractual Breach             | M             | M      | H Barrington |
|                                      |               |  |               |        |              |
|                                      | ENVIRONMENT   | 9. Environmental Pollution / Disaster                  | L             | L      | D Wakelin    |
|                                      |               | 10. Adverse Events in the External Environment         | M             | L      | J Robinson   |
|                                      |               |  |               |        |              |
|                                      | REPUTATION    | 11. Damage to Reputation                               | M             | M      | J Robinson   |
|                                      |               |  |               |        |              |

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## Risk Register summary of current control gaps:

| Risk Ref. | Date Identified | Risk Description  | Corp. Risk | Inherent Risk |   |        | Target Risk |   |        | Controls  | Residual Risk |   |        | Control Status | Further Action (inc. Timescales)                           |
|-----------|-----------------|---|------------|---------------|---|--------|-------------|---|--------|---|---------------|---|--------|----------------|--|
|           |                 |   |            | I             | L | Rating | I           | L | Rating |   | I             | L | Rating |                |  |
| S12       | 2004-05         | Govt. grant settlement and other government grant significantly lower than anticipated.       | 1          | 2             | 2 | 4      | 1           | 1 | 1      | Comprehensive Spending Review and Chancellor budgets and announcements provide forward projections which are factored into Medium Term Planning.  | 1             | 2 | 2      | -1             | Continue to monitor for emerging issues.                   |
| S20       | 2008-09         | Budget pressure resulting from declining income (economy impact) and external cost pressures. | 1          | 3             | 3 | 9      | 1           | 1 | 1      | Robust M/T Financial Strategy. Budget planning and monitoring. Strategies being developed (efficiency / income). S151 Officer role – preventing unbalanced budget.                          | 2             | 1 | 2      | -1             | Continue to monitor for emerging issues.                   |
| S22       | 2012-13         | 'Failure to produce a balance Medium Term Financial Plan (3 year horizon)                     | 1          | 3             | 3 | 9      | 1           | 1 | 1      | 'MTFP balanced over 3 years<br>Track record of achieving efficiencies and budget reductions<br>Regular SLT/Cabinet budget reviews<br>Controlling group manifesto pledges already delivered. | 2             | 1 | 2      | -1             | Continue to monitor for emerging issues.                   |
| MK75      | 2013-14         | CT Technical Reforms insufficient to fund CTRS scheme payments.                               | 1          | 3             | 1 | 3      | 1           | 1 | 1      | Monthly monitoring of CTRS caseload and expenditure for variances.  | 2             | 1 | 2      | -1             | Review of CTRS scheme affordability.                       |
| PD64      | 2007-08         | Inability to maintain current level of income within Leisure Services.                        | 1          | 3             | 3 | 9      | 1           | 2 | 2      | New systems and procedures developed for DNA – marketing promotion / sales / retention.<br>New membership options introduced.<br>Ongoing monitoring of competitors.                         | 2             | 2 | 4      | -2             | 'Leisure and Community Centre Strategies to be undertaken. |

|                 |         |   |    |   |   |   |   |   |   |  |   |   |   |    |   |
|-----------------|---------|---|----|---|---|---|---|---|---|--|---|---|---|----|---|
| SB11            | 2007-08 | Failure to effectively implement self service for resourcelink leading to failure to secure efficiencies.   | 5  | 1 | 2 | 2 | 1 | 1 | 1 | Project plan drafted. Resource requirements identified and programmed for implementation.  | 1 | 2 | 2 | -1 | Resource issues – may need to re-prioritise activities.   |
| PD56<br>Page 48 | 2004-05 | Inability to finalise/ maintain Joint Use Agreements for all 3 sites, potentially resulting in reduced income, loss of maintenance funding and reduction in provision / service delivery. | 7  | 1 | 3 | 3 | 1 | 1 | 1 | Enter into new agreements. Ongoing management review. Included in medium term plan.  | 1 | 2 | 2 | -1 | 'New, separate agreement now in place for Calverton with Seely School Governors and with NCC. New Joint Use agreement for all sites are needed. Academy Status at Redhill School and Wheldon School require variations to the existing agreement due to ownership issues. NB - third party reliance (NCC legal services). |
| PD65            | 2007-08 | Potential breach of DPA relating to transfer of personal data held within DNA and GP referral schemes.  | 8  | 3 | 1 | 3 | 1 | 1 | 1 | Advice sought from legal services/IT. Working with partner agencies to review working practices. Corporate Data Security group established.  | 2 | 1 | 2 | -1 | Continue to identify instances of transfer of personal data and seek DPA advice from legal services / IT security.  |
| S19             | 2008-09 | Failure to deliver housing numbers, including affordable housing.   | 11 | 2 | 3 | 6 | 2 | 2 | 4 | 'Continue to engage with HaCA. Review current affordable housing policy (c/f SP15). Progress local development scheme work with conurbation parties and RSL's. In spite of all these measures, current market conditions | 2 | 3 | 6 | -2 | Future housing numbers assessment being commissioned. Considering review of Commuted Sum  |

|                 |         |   |    |   |   |   |   |   |   |   |   |   |   |    |   |
|-----------------|---------|---|----|---|---|---|---|---|---|---|---|---|---|----|---|
|                 |         |   |    |   |   |   |   |   |   | mean that in short term, target numbers unlikely to be delivered even with all measures in place. Keep under review. Further uncertainty arising from new government policy, including abolition of RSS. Unlikely to be resolved until Localism Bill published at earliest. |   |   |   |    | Policy.   |
| DW46            | 2009-10 | Failure to secure ongoing Home Office funding for CCTV and ASB co-ordinator.                    | 11 | 2 | 2 | 4 | 2 | 1 | 2 | Monitoring funding source. Consider alternative funding sources.  | 2 | 2 | 4 | -2 | Monitoring funding source Consider alternative funding sources.           |
| PD70            | 2012-13 | 'Failure to implement Community Infrastructure Levy.  | 11 | 2 | 2 | 4 | 1 | 1 | 1 | 'Resulting in reduced ability to secure s106 contributions to mitigate the impact of new development. Reviewing introduction of CIL whilst not compromising the viability of the local housing market.  | 2 | 2 | 4 | -3 | Emerging risk, project developed.   |
| Page 49<br>PD72 | 2012-13 | 'Failure to develop arrangements for ongoing management and development of Bonnington Theatre.  | 11 | 2 | 2 | 4 | 1 | 1 | 1 | Continue to work with Theatre User Forum and Theatres Trust to establish feasible options. Establish sustainable management structure.  | 2 | 1 | 2 | -1 | Emerging risk, review options and discussion outcomes.                    |
| PD76            | 2013-14 | Impact of budget reductions.  | 11 | 1 | 2 | 2 | 1 | 1 | 1 | Communication plan. Monitoring of complaints and feedback.  | 1 | 2 | 2 | -1 | Monitor impact on morale, reputation and ability to meet service targets. |
| PD77            | 2013-14 | Inability to maintain current levels and standards of service as a result of budget reductions. | 11 | 2 | 3 | 6 | 1 | 2 | 2 | Communication plan. Monitoring of complaints and feedback.  | 1 | 3 | 3 | -1 | Monitor impact on morale, reputation and ability to meet service targets. |
| PD78            | 2013-14 | Inability to maintain staff morale due to reductions in budgets, services and staff.            | 11 | 2 | 2 | 4 | 1 | 1 | 1 | Communication plan. Monitoring of complaints and feedback.  | 1 | 2 | 2 | -1 | Increase communication and monitor feedback.                              |
| SB22            | 2013-14 | Damage to the Council's reputation  | 11 | 2 | 3 | 6 | 1 | 2 | 2 | Social Media guidelines written in 2013. Dedicated officers who keep a close  | 2 | 3 | 6 | -4 |   |

|  |  |                     |  |  |  |  |  |  |  |  |  |  |  |
|--|--|---------------------|--|--|--|--|--|--|--|--|--|--|--|
|  |  | using social media. |  |  |  |  |  |  | watch on social media and use management tools which highlight many issues as soon as they arise, giving us the ability to deal with them/ respond if necessary. |  |  |  |  |
|--|--|---------------------|--|--|--|--|--|--|--|--|--|--|--|



## **Report to Audit Committee**

**Subject:** Follow-up of Audit Recommendations

**Date:** 25<sup>th</sup> March 2015

**Author:** Service Manager – Audit & Asset Management

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

To monitor departmental progress in the implementation of Internal Audit recommendations.

To identify to members where additional action needs to be considered in relation to any outstanding recommendations.

### **2. Background**

Internal Audit follow-up on the implementation of recommendations on a quarterly basis. The results of the initial follow-up are reported to the Corporate Director & Chief Financial Officer, who requests any outstanding recommendations are actioned immediately.

Any recommendations remaining outstanding following this instruction are reported to this committee.

### **3. Summary of Findings**

Recommendations made in the following audit report were followed-up during the period January – March 2015.

- IAR1314-15 Council Tax
- IAR1314-16 NDR
- IAR1314-17 Housing Benefits

#### IAR1314-15 Council Tax

The report, issued in March 2014, provided **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. Four low risk recommendations were made.

A review of progress of management action against these recommendations was undertaken in December 2014. The review confirmed that three recommendations had been fully implemented and one partially implemented. The partially implemented recommendation relates to timely reconciliations and due to the very low nature of risk has not been reiterated in the current report (IAR1415-12).

#### IAR1314-116 NDR

The report, issued in March 2014, provided **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. Four two low risk recommendations were made.

A review of progress of management action against these recommendations was undertaken in December 2014. The review confirmed that both recommendations had been fully implemented.

#### IAR1314-17 Housing Benefits

The report, issued in March 2014, provided **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. Two medium and five low risk recommendations were made.

A review of progress of management action against these recommendations was undertaken in November 2014. The review confirmed that all recommendations had been fully implemented.

### **4. Resource Implications**

To be delivered within existing budgets.

### **5. Recommendation**

Members are requested to note the report.





## **Report to Audit Committee**

**Subject:** Summary of Audit Activity

**Date:** 25<sup>th</sup> March 2015

**Author:** Service Manager – Audit & Asset Management

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

To summarise the outcome of Internal Audit activity for the period January to March 2015.

The report will highlight all final reports issued and associated key findings, concerns identified in any work in progress, details of liaison with management and External Audit and provide details of any changes to the Annual Audit Plan.

### **2. Background**

The report highlights all final reports issued and associated key findings, concerns identified in any work in progress, details of liaison with management and External Audit and provide details of any changes to the Annual Audit Plan.

### **3. Summary of Findings**

#### Final Reports Issued

The following reports have been finalised for the period January – March 2015.

- IAR1415-08 Housing Benefits
- IAR1415-11 NDR
- IAR1415-12 Council Tax
- IAR1415-14 Lending & Borrowing

#### IAR1415-08 Housing Benefits

The report provided **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. Two medium and four low risk recommendations were made. The medium risk recommendations relate to a lack of independent and timely review of write off and payment reports. Resource was identified as a key factor in these issues, both of which will be addressed via the completion of a staffing structure review.

#### IAR1415-11 NDR

The report provided **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. Four low risk recommendations were made relating to low risk procedural issues with respect to signatures and dates on reconciliations and outdated procedural documents.

Several areas of good practice were identified including:

- All refunds are processed immediately once all appropriate supporting documentation has been received and reviewed.
- All exemptions and reliefs were applied upon receipt of appropriate supporting documentation.
- Recovery action taken within the year was in accordance with the Council's Fair Collection and Debt Recovery Policy.
- Valuation Office Agency schedules are reviewed on a weekly basis, with the Civica System updated with any amendments.

#### IAR1415-12 Council Tax

The report provided **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. Two low risk recommendations were made relating to minor procedural issues.

#### IAR1415-14 Lending & Borrowing

The report provided **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. No audit recommendations were made.

### **Work in Progress**

Audit fieldwork and testing has been completed for the Payroll, Officer and Member Disbursements, Cash Receipting and Financial Management System reviews. Draft reports are being prepared for management consideration. In addition a review of the risk management process has been completed and, again, the draft report is awaited.

Audit fieldwork and testing is underway with respect to reviews of income within Direct Services and the HR starters and leavers processes. Completion of these reviews and issue of reports will complete work scheduled as part of the 2014-15 annual audit plan, with no reviews scheduled to be carried forward to 2015-16.

### **4. Resource Implications**

To be delivered within existing budgets.

### **5. Recommendation**

Members are requested to note the report.

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## **Report to Audit Committee**

**Subject:** The Draft Annual Audit Plan 2015-16

**Date:** 25<sup>th</sup> March 2015

**Author:** Service Manager – Audit & Asset Management

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

To report on the planned audit activity for 2015-16.

Having taken account of any comments made by this committee the final report will be passed to the Chief Financial Officer for approval in line with Financial Regulation 3.27.

### **2. Background**

Previously the Council has received a report which combined the forward plan of activity with an out-turn and assurance report, known as the Annual Audit Report. However, now that Annual Audit Risk Assessments create the plan for the forthcoming financial year, rather than a three-year plan within the Audit Strategy, there is a need to report on planned audit activity prior to the start of the financial year. The Annual Audit Report including the Audit Assurance Statement will be reported to the Audit Committee in June 2015. This report relates solely to the planned internal audit work for 2015-16.

In December 2014 the Audit Committee considered the risk criteria within the Annual Audit Risk Assessment Model and were requested to highlight any additional areas that were not already included. No additions were identified.

### **3. Planned Audit Activity For 2015-16**

#### Audit Reports

The performance target is 20 issued audit reports for the 2015-16 financial year.

### Audit Activity Arising From The Use Of Risk Assessment Methodology

The annual audit plan for 2015-16 has been created using an audit risk analysis model.

The model takes account of factors such as the size and complexity of the system, how well it is currently controlled and the level of assurance provided in previous audits and other assurance bodies.

The chart below demonstrates how the Audit Risk Assessment Model evaluates each system to provide a weighted score. The weighted scores for all systems are then prioritised against the audit resources available.

The worked example given is for the Leisure Income system.

| Internal Audit Risk Assessment Model                                |                              |              |           |           |           |                   |
|---|------------------------------|--------------|-----------|-----------|-----------|-------------------|
|   |                              | Score<br>1-5 | Weighting | Total     | max       | Weighted<br>Score |
| <b>SIZE</b>   |                              |              |           |           |           |                   |
| A   | Value of budget              | 3            | 2         | 6         |           |                   |
| B   | No. of Employees             | 4            | 1         | 4         |           |                   |
| C   | Impact per risk matrix       | 2            | 3         | 6         |           |                   |
| D   | Volume of transactions       | 5            | 1         | 5         |           |                   |
|   |                              |              |           |           |           |                   |
|   | <b>Total size score</b>      |              |           | <b>21</b> | <b>35</b> | <b>0.6</b>        |
|   |                              |              |           |           |           |                   |
| <b>CONTROL</b>  |                              |              |           |           |           |                   |
| F   | Impact – mgt & staff         | 4            | 2         | 8         |           |                   |
| G   | Third Party sensitivity      | 2            | 1         | 2         |           |                   |
| H   | Std of internal Control      | 4            | 3         | 12        |           |                   |
| J   | Likelihood per risk matrix   | 3            | 3         | 9         |           |                   |
|   |                              |              |           |           |           |                   |
|   | <b>Total Control Score</b>   |              |           | <b>31</b> | <b>45</b> | <b>0.6889</b>     |
|   |                              |              |           |           |           |                   |
| <b>DETECTION</b>  |                              |              |           |           |           |                   |
| K   | Effectiveness of audit       | 3            | 1         | 3         |           |                   |
| L   | Duration of audit            | 3            | 2         | 6         |           |                   |
| M   | Time since last review       | 3            | 2         | 6         |           |                   |
| N   | Other review agencies        | 3            | 2         | 6         |           |                   |
|   |                              |              |           |           |           |                   |
|   | <b>Total Detection Score</b> |              |           | <b>21</b> | <b>35</b> | <b>0.6</b>        |
|   |                              |              |           |           |           |                   |
| Multiply each sections weighted total by each other and then by 200 |                              |              |           |           |           |                   |
|   |                              |              |           |           |           |                   |
| <b>Weighted Final Score</b>   |                              |              |           |           |           | <b>50</b>         |

The model shown is applied to each of the risk areas identified for audit in 2015-16. The weighted scores are then prioritised and an assessment of the number of audit days to be assigned to each review is undertaken.

**Appendix A** summarises the resources available and planned activity for 2015-16.

**Appendix B** summarises the results from the audit risk assessment model for 2015-16 planned activity. Additional time has been allocated for the completion of outstanding audits from the 2014-15 audit plan.

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

To be delivered within existing budgets.

#### **5. Recommendation**

Members are requested to note the report.

**INTERNAL AUDIT RESOURCES**

**AVAILABLE AND PLANNED ACTIVITY IN 2015-16**

|                                | <b><u>PLANNED DAYS</u></b> |
|--------------------------------|----------------------------|
| <b>DAYS AVAILABLE</b>          | 260                        |
| LESS:                          |                            |
| Bank Holidays and Annual Leave | 40                         |
| Sickness                       | 5                          |
| Training                       | 5                          |
| Vacancies                      | 0                          |
| Meetings/Admin                 | 13                         |
| Management                     | 0                          |
|                                | (63)                       |
| Externally procured resource   | 103                        |
| <b>AUDIT DAYS AVAILABLE</b>    | <b>300</b>                 |
| <b>PLANNED ACTIVITY</b>        |                            |
| Key Financial Systems          | 165                        |
| Other Financial Systems        | 25                         |
| Service Level Reviews          | 55                         |
| Specialist Systems             | 10                         |
| Follow-up Activity             | 45                         |
| <b>Total Planned Activity</b>  | <b>300</b>                 |



**AUDIT RISK ASSESSMENT RESULTS**  
**FOR THE 2015-16 ANNUAL PLAN**

| AUDIT AREA                             | SCORE | PRIORITY | DAYS       |
|--|-------|----------|------------|
| Housing Benefits                       | 61    | 2        | 25         |
| Leisure Income                         | 36    | 4        | 15         |
| NNDR                                   | 40    | 3        | 15         |
| Council Tax                            | 39    | 3        | 15         |
| Cash Receipting                        | 43    | 3        | 10         |
| Capital / Assets                       | 23    | 4        | 10         |
| FMS                                    | 30    | 4        | 10         |
| Payroll                                | 27    | 4        | 15         |
| Bank Accounts                          | 27    | 4        | 5          |
| Officers Disbursements                 | 26    | 4        | 10         |
| Insurance & Inventory                  | 26    | 4        | 10         |
| Creditors                              | 24    | 4        | 10         |
| Lending & Borrowing                    | 23    | 4        | 5          |
| Debtors                                | 59    | 2        | 10         |
|  |       |          |            |
| Performance Indicators                 | 41    | 3        | 10         |
| Cash-ups Leisure                       | 30    | 4        | 3          |
| Cash-ups Finance                       | 17    | 5        | 2          |
| Contract (audit review)                | 23    | 4        | 0          |
| Contract (final check)                 | 17    | 5        | 10         |
|  |       |          |            |
| Computer Audit                         | 39    | 4        | 10         |
|  |       |          |            |
| Service Reviews / Contingency          |       |          | 55         |
| HR (starters/leavers)                  |       |          |            |
|  |       |          |            |
| Follow-up Reviews                      |       |          | 35         |
| Anticipated finishing time (c/f 14-15) |       |          | 10         |
|  |       |          |            |
| <b>TOTAL</b>                           |       |          | <b>300</b> |

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## **Report to: Audit Committee**

**Subject: Payments of Compensation**

**Date: 4 March 2015**

**Author: Service Manager – Revenues and Benefits**

### **1. PURPOSE OF REPORT**

This report is to notify the Committee of two offers of payments of compensation to complainants as part of a settlement to their complaints.

### **2. BACKGROUND**

Two cases have recently occurred where the Council have agreed to make an offer of payment of compensation to a complainant, where there has been a dispute over the Council Tax liability for an empty property and correspondence has been issued to the complainant at a former address.

In the first case, the offer of payment was made following the recommendation of the Local Government Ombudsman Service. In the second case, the offer of payment was made following a request being made by the complainant.

### **3. SUMMARY OF CASES**

#### Case 1

Mr M was made liable for an empty property which he owned. This was the first time he had become liable for this property since 2006. Correspondence was issued to his last known address. Mr M had subsequently moved on two occasions since 2006, but had not informed the Council of these changes of address.

When Mr M's managing agents for his property notified the Council of new tenants, they also provided a care of address for Mr M. A new Council Tax account was sent up for the new tenants, but the care of address was not added to Mr M's Council Tax account.

Recovery action was taken in respect of the outstanding Council Tax debt, which was eventually passed to a firm of Enforcement Agents for collection. The Enforcement Agents traced the current address for Mr M and wrote to him. The receipt of the Enforcement Agents letter prompted Mr M to complain to the Council.

Part of Mr M's complaint was that the Council did not correspond with him via his Managing Agents as instructed, and part of his complaint was that he disputed the amount of Council Tax he was being charged on the empty property.

The Council were unable to resolve Mr M's complaint through the Council's Complaints Procedure, therefore Mr M took his complaint to the Local Government Ombudsman Service.

Having considered the complaint, the Local Government Ombudsman recommended that the Council make a payment of compensation of £100.00 to Mr M.

Mr A was offered £100.00 as compensation which he accepted.

## Case 2

Mr A, and his former partner, were erroneously thought to be the owners of a property that they used to reside at a number of years ago. Consequently they were made liable for the Council Tax on the property when it became empty. Correspondence was issued to their last known address, however no response to this correspondence was forthcoming from Mr A and/or his former partner. Recovery action was taken in respect of the outstanding Council Tax debt, which was eventually passed to a firm of Enforcement Agents for collection. The Enforcement Agents traced the current address for Mr A and wrote to him. The receipt of the Enforcement Agents letter prompted Mr A to complain to the Council.

On investigation of the complaint, there was no evidence to show that Mr A and his former partner were owners of the property, and evidence was held to show who the current property owners were. Mr A and his former partner's Council Tax account was closed from the date it was opened, and all costs incurred on the account was cancelled. Mr A was sent Council Tax demand notices to show that that account was closed, but these were sent without an accompanying letter of explanation or apology.

Mr A was unhappy with how this matter had been dealt with and made a request for compensation.

Mr A's complaint was responded to with both an explanation and an apology.

Mr A was offered £50.00 as compensation, which he accepted.

## **4. APPROVAL OF PAYMENTS**

The Council's Senior Solicitor, as Monitoring Officer, has approved the above offers of payment.

## **5. ACTIONS TAKEN**

A payment of £100.00 has been made to Mr M.

A payment of £50.00 has been made to Mr A.

Revenues Office staff have been reminded of the importance of checking, where possible, that correspondence addresses held for those persons liable for the Council Tax on empty properties, are correct, as those persons will be due to pay Council Tax after being liable for one month.

## **6. CONCLUSION**

The Committee are asked to note this Report.

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