



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

Agenda

Audit Committee

Date: **Tuesday 23 June 2015**

Time: **5.30 pm**

Place: **Committee Room**

For any further information please contact:

Lyndsey Parnell

Senior Elections and Members' Services Officer

0115 901 3910

Audit Committee

Membership

Chair Councillor Paul Feeney

Vice-Chair Councillor Bob Collis

Councillor Sandra Barnes
Councillor Chris Barnfather
Councillor Boyd Elliott
Councillor Helen Greensmith
Councillor Viv McCrossen

AGENDA

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MINUTES AUDIT COMMITTEE

Wednesday 25 March 2015

Councillor Paul Feeney (Chair)

Councillor Sandra Barnes
Councillor Chris Barnfather
Councillor Bob Collis

Councillor Tony Gillam
Councillor Richard Nicholson

Absent: Councillor Nick Quilty

Officers in Attendance: L Parnell, V Rimmington and L Sugden

66 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS.

None received.

67 TO APPROVE, AS A CORRECT RECORD, THE MINUTES OF THE MEETING HELD ON 16 DECEMBER 2014.

RESOLVED:

That the minutes of the above meeting, having been circulated, be approved as a correct record, subject to the following amendment:

1. That Item 63 be amended to read:

“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, **in relation to the Arnold Leisure Centre** and Bonington Theatre contract, be included in the 2015-16 audit plan.”

68 DECLARATION OF INTERESTS.

None.

69 2014-15 AUDIT PLAN KPMG REPORT

Tom Tandy, of KPMG, presented the report, which had been circulated prior to the meeting, and provided headline information to Members,

along with an outline of the transfer of functions of the Audit Commission following its cessation.

RESOLVED:

To note the report.

70 CORPORATE RISK SCORECARD

The Service Manager, Audit and Asset Management, presented the report, which had been circulated prior to the meeting, updating members of the Audit Committee on the current level of assurance that can be provided against each corporate risk.

RESOLVED:

To note the report.

71 FOLLOW-UP OF PREVIOUS AUDIT RECOMMENDATIONS

The Service Manager, Audit and Asset Management, presented the report, which had been 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.

72 SUMMARY OF AUDIT ACTIVITY

The Service Manager, Audit and Asset Management, presented the report, which had been circulated prior to the meeting, summarising the outcome of Internal Audit activity for the period January to March 2015.

RESOLVED:

To note the report.

73 ANNUAL INTERNAL AUDIT PLAN 2015/16

The Service Manager, Audit and Asset Management, presented the report, which had been circulated prior to the meeting, informing Members of planned audit activity for 2015-16.

RESOLVED:

To note the report.

74 PAYMENTS OF COMPENSATION

The Service Manager, Audit and Asset Management, presented the report, which had been circulated prior to the meeting, notifying the Committee of two offers of payments of compensation to complainants as part of a settlement to their complaints.

RESOLVED:

To note the report.

75 ANY OTHER ITEM WHICH THE CHAIR CONSIDERS URGENT.

None.

The meeting finished at 6.05 pm

Signed by Chair:
Date:

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Report to: Audit Committee

Subject: Annual Fraud & Irregularities Report

Date: 23rd June 2015

Author: Service Manager – Audit & Asset Management

1. PURPOSE OF REPORT

To provide a summary report to members of all investigated cases of fraud and irregularities identified during the 2014-15 financial year.

To inform members of the action taken, sanctions imposed and level of recovery achieved in respect of the identified cases of fraud and irregularities.

2. BACKGROUND

Previously, any issues relating to significant fraud and irregularities have been reported to the Audit Committee on an exception basis, usually case by case.

Historically, where no significant cases have been identified throughout the financial year, no fraud and irregularities report has been submitted to the committee, implying that no such cases have been identified.

This report confirms to Members any cases of significant fraud identified throughout the financial year and also provides a summary statement of all cases identified.

This approach enables the Members to reach a more informed conclusion in fulfilling their specific responsibilities with respect to fraud and irregularities reporting.

For comparative purposes, where applicable, the corresponding figures for 2013-14 are highlighted in brackets.

3. INTERNAL AUDIT INVESTIGATIONS

There have been no special fraud investigations undertaken by Internal Audit to bring to Members attention, during the 2014-15 financial year.

4. HOUSING & COUNCIL TAX BENEFIT FRAUD

The Benefit Fraud and Investigation section received **474** (512) referrals in 2014/15. **263** (282) of these cases were raised from the outset as criminal investigations for the Council's Investigators.

145 (146) of the referrals were sent straight to the Department for Work and Pensions (DWP) after preliminary checks, as National Benefits were involved in these cases. Some of these referrals would not have affected the Housing and Council Tax Benefit even if the fraud had been proven, or it was because we simply did not have the resources to commence the investigation at that time due to current ongoing investigations.

57 (72) referrals where DWP benefits were not involved were not raised due to the lack of information provided at the referral stage to allow a criminal investigation to commence. Some of these cases were passed to our visiting team to perform a review.

9 (12) referrals were not raised as the allegation did not affect the benefit, or because the alleged undeclared circumstances had in fact been declared by the claimant.

In 2014/15, **46** (42) individuals were sanctioned under the following fraud types:

• Undeclared partner	11
• Undeclared capital	2
• Undeclared work for claimant and/or partner	18
• Undeclared pension	1
• Undeclared second property	1
• Undeclared Tax Credits	2
• Undeclared increase in earnings	8
• Undeclared partner and undeclared work	1
• Incorrect amount of rent declared	1
• False documents submitted (false invoices)	1

The 46 (42) sanctions are broken down as follows:

- **10** (26) referred for criminal proceedings and successfully prosecuted,
- **22** (16) offered and accepted an administrative penalty,
- **14** (0) offered a simple caution.

The prosecution policy allows that, in some cases, no Sanction action might be taken as the amount was too low, there was insufficient evidence to prosecute to a beyond reasonable doubt standard or prosecution would not be in the public interest. In such cases, a Claimant Error overpayment only may be recorded. We would not pursue the investigation if the overpayment was deemed to be Local Authority error.

Between April 2014 and March 2015, fraud investigation files closed identified **£242,435.81** (£251,591.66) of incorrectly paid benefit broken down as:

	Fraud overpayments	Claimant / LA error overpayments
Housing Benefit	£125,094.27 (£172,379.29)	£73,745.18 (£43,211.53)
Council Tax Benefit	£23,190.61 (£30,576.97)	£20,259.85 (£5,423.87)
DHP	0 (0)	£145.90 (0)
Total	£148,284.88 (£202,956.26)	£94,150.93 (£48,635.40)

Overpayment by Sanction type:

	Caution	Administrative Penalty	Prosecution
Housing Benefit	£29,009.39 (n/a)	£36,194.22 (£10,726.08)	£59,890.66 (£161,653.21)
Council Tax Benefit / CTRS	£6,927.17 (n/a)	£6,927.17 (£5,171.90)	£9,677.77 (£25,405.07)

For the Year 2014/15, the Benefit Liaison Section generated **£17,168.27** (£7,059.83) of additional income for the Council in the form of accepted Administrative Penalties. The Administrative Penalty is a departmental fine offered to individuals as an alternative to prosecution for lesser offences. It is set at 30% or 50% of the recoverable fraud overpayment and is collected from the individual only after the overpayment has been fully repaid.

Benefit fraud cases put before the courts in 2014/15, generated **£1,265.00** (£2,980.00) of income from prosecution costs awarded by the courts to the council.

All Housing Benefit overpayments and Administrative Penalties are recovered by the Debtor's Section. Fraud overpayments and Administrative Penalties are robustly recovered often at a higher weekly rate as the benefit was

deemed to be fraudulently obtained. Council Tax Benefit overpayments are added to the Council Tax account and are recovered separately to benefit debtors.

The government gives Local Authorities an incentive to collect the identified overpaid Housing and Council Tax Benefit. The Local Authority receives 40% of the overpaid benefit back from the government. This means that once 60% of the overpaid benefit has been recovered back from the debtor, anything collected after this point is new money for the council.

The Fraud Section also received, sifted, referred and monitored the results of **290** (237) Housing Benefit Matching Services data matches in 2014/15.

The data matches closed between April 2014 and March 2015 identified **£115,548.26** (£65,156.49) of Housing Benefit overpayments and **£30,123.35** (£13,432.99) of Council Tax (CTRS) benefit overpayments, total **£78,589.48** (£78,589.48). Some of these figures will be included in the fraud and claimant error figures above as some of the data matches were raised as fraud investigations.

Since the 1st February 2015, the Fraud Section also received 514 National Fraud Initiative data matches.

As at the date of this report, the team has assessed all of the matches. 404 are now cleared, 110 are in progress, which means they are still being looked at by the Council or DWP staff. Furthermore, 19 of the matches have identified **£14,580.33** of fraud and error.

The Benefit Liaison Team consists of 1 Senior Benefit Liaison Officer and 2 Benefit Liaison Officers.

The Senior Benefit Liaison Officer has continued to publicise prosecution cases via the Communications Team.

From November 2015, the function of investigating Housing Benefit fraud for Gedling Borough Council will be transferred to the Department for Work and Pensions (DWP) under the Single Fraud Investigation Services (SFIS). All of the Benefit Liaison Team will transfer to the DWP to continue to perform this function within DWP offices. The Council Tax Reduction Scheme and Council Tax Benefit Fraud previously investigated by the Benefit Liaison Team is **not** a function to be transferred under SFIS.

5. RECOMMENDATION

Members are requested to note the report.



Report to Audit Committee

Subject: The Annual Internal Audit Report 2014-15

Date: 23rd June 2015

Author: Service Manager - Audit & Asset Management

1. Purpose of the Report

- 1.1 To report on the activity of the Internal Audit section during the 2014-15 financial year.
- 1.2 This report will also provide assurance on the internal control systems across the Authority to support the Annual Governance Statement provided within the Annual Statement of Accounts.

2. Background

- 2.1 The Accounts and Audit Regulations 2003 (amended 2006), and the Code of Practice for Internal Audit in Local Government in the United Kingdom make detailed and specific requirements for the Annual Internal Audit report in support of the Annual Governance Statement. These requirements are:
- 2.2 "The Head of Internal Audit's formal annual report to the organisation should:
 - Include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment,
 - Disclose any qualifications to that opinion, together with the reasons for the qualification,
 - Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies,
 - Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement,
 - Compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function,
 - Comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme".

3. Recommendations

- 3.1 The Annual Internal Audit report is attached at Appendix 1 and indicates that the Council's systems and controls are generally operating adequately. This conclusion is of importance in reviewing and supporting the Annual Governance Statement in support of the Annual Statement of Accounts.
- 3.2 Members are requested to note the contents of the report.



GEDLING BOROUGH COUNCIL

Annual Report of the Internal Audit Service

2014-15

For presentation at the Senior Leadership Team (2nd June 2015) and the Audit Committee (23rd June 2015)

Prepared by: Vince Rimmington, Service Manager - Audit & Asset Management

Date: June 2015

1: Introduction

The Role of the Internal Audit Service

- 1.1 The role of the internal audit service is to provide management with an objective assessment of whether systems and controls are adequate and working effectively. It is a key part of Gedling Borough Council's internal control system because it measures and evaluates the adequacy and effectiveness of controls so that:
- The Council and senior management are aware of the extent to which they can rely on the whole system of control; and
 - Individual managers are aware how reliable the systems and controls are for which they are responsible.
- 1.2 The internal control system comprises the whole network of systems and controls established to manage Gedling Borough Council to ensure that its objectives are achieved. It includes financial and other controls, and also arrangements for ensuring that Gedling Borough Council is achieving value for money from its activities.

Definition of Internal Audit

- 1.3 The definition of internal audit, as described in the CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom is set out below.
- Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, internal control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
 - Whilst Internal Audit "primarily" provides an independent and objective opinion to the organisation on the control environment, it may also undertake other, non-assurance work at the request of the organisation subject to the availability of skills and resources. This can include consultancy work; indeed, Internal Audit intrinsically delivers consultancy services when making recommendations for improvement arising from assurance work, and fraud-related activity.

Annual Governance Statement

1.4 Under Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, authorities are required to publish a Statement on Internal Control (SIC). From 2007-08, authorities should publish an Annual Governance Statement (AGS) in line with the CIPFA/SOLACE Good Governance Framework to meet that statutory requirement. The statement brings a number of benefits to government organisations, including:

- Increased awareness of internal controls and control weaknesses, and risk management among Section 151 Officers, Councillors and senior management,
- Greater awareness of the importance of risk identification and monitoring amongst staff at all levels,
- Better appreciation of the benefits of a strong internal audit function,
- Greater awareness of other internal and third party assurance sources that operate within the organisation and the importance of the role that they fulfil, and
- Increased and encouraged audit committee activity.

As Gedling Borough Council's internal audit provider, the assurance opinions provided in each audit review undertaken throughout the year are part of the framework of assurances that assist in the preparation of the Annual Governance Statement.

Our work for the 2014-15 financial year is summarised in this report, and we have highlighted in section 2.4 any specific issues that we are aware of and that should be reflected in the 2014-15 Annual Governance Statement.

Significant Events / Factors During the Year

1.5 There have not been any significant events or factors during the financial year that have affected the extent of our internal audit work or needed to be addressed as an additional part of our internal audit plan.

2: The Statement of Assurance

Background

2.1 As the provider of the internal audit service to Gedling Borough Council we are required to provide the Council with assurance on the whole system of internal control. In providing our opinion it should be noted that the level of assurance given can never be absolute. The internal audit service can only provide reasonable assurance that there are no major weaknesses in risk management, governance and internal control processes.

In arriving at the audit opinion, consideration has been given to:

- The results of all audits undertaken during the financial year,
- The results of follow-up action taken in respect of audits from previous years,
- Whether or not any high or medium risk recommendations have not been accepted by management and the consequential risks,
- The effects of any material changes in the organisation's objectives and activities,
- Any limitations that have been placed on the scope of internal audit,
- Whether there have been any resource constraints imposed upon internal audit which may have impinged on our ability to meet the full internal audit needs of the organisation,
- The proportion of the organisation's internal audit requirements that have been covered to date.

2.2 Internal Audit Opinion

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

It is internal audits opinion that, for the 12 months ending 31st March 2015, Gedling Borough Council has adequate and effective risk management, internal control and governance processes to manage and achieve the organisations objectives.

- 2.3 In reaching this opinion the following factors were taken into particular consideration:

Risk Management

The Authority has developed and implemented a Risk Management Strategy, which defines a standard approach (common language) to risk terminology, the formalisation of reporting procedures and the introduction of Key Performance Indicators to measure how effectively risks are being managed and the extent to which risk management procedures are embedded across the organisation.

Strategic and operational risk registers are reviewed bi-annually by management. All identified risks are aligned to the 11 corporate risks identified against the Authority's objectives. All audit recommendations are also aligned to these corporate risks, which, when considered with other internal and external sources of assurance, provide the Authority with an integrated and holistic assurance process.

The outcomes from these multiple assurance sources are consolidated into the Authority's Corporate Risk Scorecard and reported into the Senior Leadership Team and Audit Committee.

This approach provides a well-organised system and methodology to underpin the arrangements made by the organisation to address and mitigate the risks arising from its environment.

Overall, it is Internal Audit's opinion that Gedling Borough Council has adequate and effective risk management processes to manage the achievement of its business objectives.

Governance

The CIPFA/SOLACE guidance note and framework - Corporate Governance in Local Government defined corporate governance in local authorities as "the system by which local authorities direct and control their functions and relate to their communities". The guidance issued a framework for local authorities and recommended that they draw up a Local Code of Corporate Governance.

Gedling Borough Council has established a Local Code of Corporate Governance and developed a Governance Framework based on the principles within the CIPFA/SOLACE guidance. The Framework is subject to an annual review as part of the process for the production of the Annual Governance Statement.

In addition to the Governance Framework review signed Assurance Statements are obtained from Corporate Directors and Service Managers, with specific statements made by the Chief Executive, S151 Officer and the Monitoring Officer. The statements are based directly on assurances given with respect to compliance with the Authority's Financial Regulations. Service Manager's are encouraged to involve their line reports in the process, particularly where day-to-day responsibilities are delegated.

Overall, it is Internal Audit's opinion that Gedling Borough Council has adequate and effective governance processes to manage the achievement of its business objectives.

Internal Control

A summary of Internal Audit activity during 2014-15 is provided in section 3.4.

Overall, it is Internal Audit's opinion that Gedling Borough Council has adequate and effective control processes to manage the achievement of its business objectives.

- 2.4 The overall internal audit opinion statement provided in section 2.2 should be used by the Authority in the preparation of the Annual Governance Statement.

The internal audit statement is further evidenced by the fact that Council's external auditors did not identify any significant risks for consideration within their 2014-15 audit plan.

There were no significant issues identified within the Governance process to warrant inclusion in the 2014-15 Annual Governance Statement.

The following issues are not highlighted as current control or risk concerns, but included to highlight the Council's awareness of emerging issues through its proactive and holistic approach to governance:

- **External Economy** – the Council remains susceptible to, but vigilant for, the external risks posed by the uncertain economic and political climate. Despite ongoing pressures and squeezes on costs, income streams and funding, effective planning has resulted in the Council's 2015-16 budget having no significant reductions in service.

The Council has a strong track record in maintaining a sound financial position through effective Medium Term Financial Planning. The Council is well placed to deal with the ongoing

economic uncertainty and squeezes on its income and funding streams.

Nevertheless, the Council faces a significantly challenging period to maintain its historic solid financial and governance position. Plans have been developed outlining the Council's priorities, however, the challenge remains to deliver the action required to maintain its financial standing.

- **Employee Pay & Rewards** – as a consequence of the improving economic climate, the job market is becoming increasingly buoyant with employees becoming increasingly confident to change employers.

This may become a specific issue for the Council if they fail to remain competitive with respect to pay and benefits, particularly where recruitment competes with the private sector. This may pose a specific problem with respect to experienced technically qualified professional staff.

The Council has responded to this risk and is in the process of undertaking an independent review to consider the competitiveness of its current pay and rewards policy.

In addition to the above emerging issues, during 2015-16 the Council will need to manage particular challenges arising from welfare reform and the introduction of Universal Credit and the associated transfer of the fraud investigation team.

Furthermore the Council, whilst having developed internal procedures to ensure compliance with the Transparency Code, will need to monitor the robustness of procedures to address the inherent risk associated with full compliance.

Internal Audit will monitor the progress of the action plans and evaluate the effectiveness of the actions in addressing the issues identified.

3: Audit Activity & Performance

The Audit & Risk Services Section

- 3.1 Prior to February 2014, the activity of the section covered Corporate Governance, Risk Management, Insurance, Business Continuity Planning, Health & Safety, Procurement and Internal Audit.

In February 2014, the role of the Service Manager was expanded to include responsibility for Facilities Management, Asset Management and the Technical Services team which undertake Car Parking and Engineering activities.

This expanded role provides the opportunity to review existing arrangements for service delivery. The combined service area was re-titled Audit & Asset Management.

The current structure of the section is as follows:

- Manager Audit & Asset Services (1FTE)
- Internal Auditor (1 FTE)
- Externally Procured Resource (1.2 FTE)
- Insurance & Risk Management Officer (0.5 FTE)
- Audit & Risk Technician (1 FTE)
- Health & Safety Officer (1 FTE)
- Property Estates Surveyor (1FTE) plus Technical Administrator (1FTE) and Car Park Manager (0.5 FTE)
- Facilities Manager (1 FTE) plus Facilities Team

The procurement officer post is covered through a shared post with Rushcliffe Borough Council. The officer is employed by Rushcliffe with 2 days of his time/costs recharged to Gedling.

Over the past six years the section has had a partnership arrangement with the County Council for the provision of Internal Audit work to ensure that the annual audit plan is achieved. The cost of this partnership arrangement has been met by vacancy savings equating to 1.2 FTE (Internal Auditor posts).

Delivery of the audit plan within the financial budgetary limits was achieved by engaging Baker Tilly to provide 122 days of audit activity.

This approach to partnership work and co-sourcing audit resource will continue during 2015-16, as it provides the Authority with greater flexibility to meet the challenges ahead and access to a greater skill set and knowledge base.

Effectiveness of Internal Audit

- 3.2 A review of the Authority's system of internal audit was completed during April 2014. The review comprised a self-assessment against the standards outlined in the CIPFA Code of Practice. The individual criteria within the standards were prioritised into 4 levels to provide a formal conclusion and a benchmark comparator to monitor future progress.

The review was completed by the Authority's Chief Financial Officer, Chair of the Audit Committee and via an external peer review conducted by the Audit Manager at Mansfield District Council.

The review concluded that:

"Following completion of the self-assessment and peer review process, it is considered that the system of internal audit is operating to an excellent professional standard and is providing an excellent level of effectiveness for the Authority. Overall performance is considered to be excellent, with robust plans in place to further enhance the effectiveness of the service".

A summary of the review is provided in **Appendix A**.

The CIPFA statement on the "Role of the Head of Internal Audit (HIA)" details best practice and recommends that authorities assess their existing HIA arrangements against the criteria within the statement. It should be noted that the statement does not have the status of a CIPFA code nor does it replace the sector specific guidance, codes or professional standards.

The statement sets out the following 5 principles:

- Championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.
- Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.
- Must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and Audit Committee.
- Must lead and direct an internal audit service that is resourced to be fit for purpose.
- Must be professionally qualified and suitably experienced.

For each principle, the statement sets out the governance arrangements required to ensure that the HIA is able to operate effectively and perform their core duties. The HIA role at Gedling

Borough Council is considered robust when assessed against each of the five core principles.

In support of the internal self assessment and Audit Commission reviews outlined above, Internal Audit take feedback via a Customer Satisfaction Questionnaire (CSQ). Essentially this additional feedback provides a comprehensive 360 degree review of the Internal Audit function.

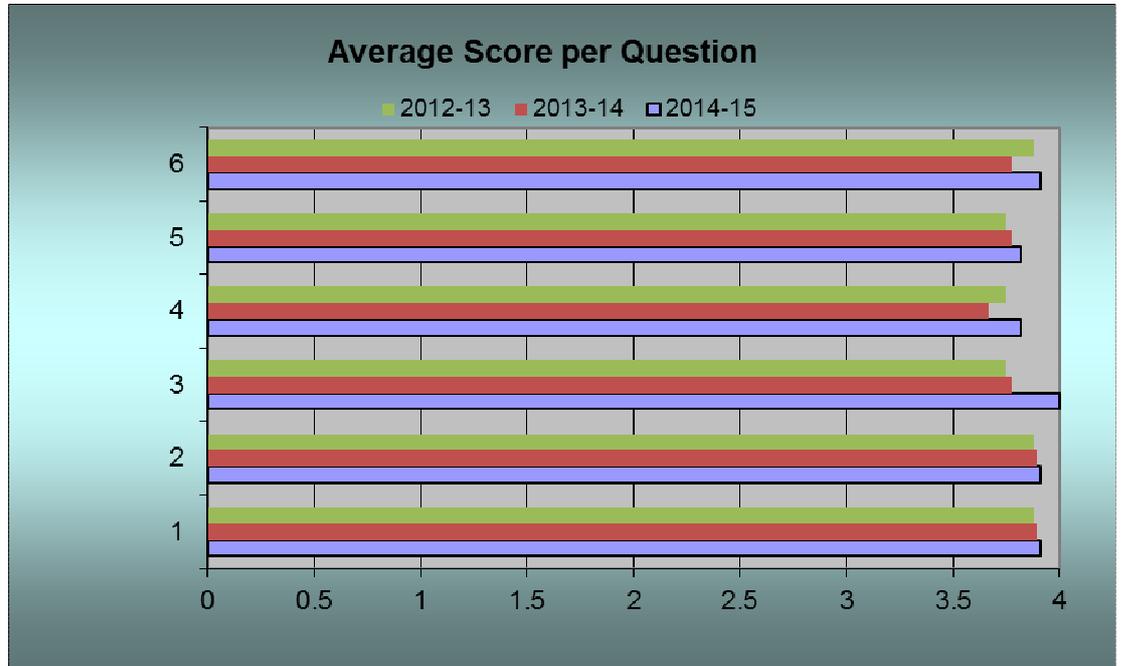
The Questionnaire comprises the following six questions covering the end to end audit process;

- 1 - The auditor clearly explained the scope and objectives of the audit.
- 2 - The audit met the objectives outlined.
- 3 - The report was accurate and understandable.
- 4 - The audit recommendations were practical and useful.
- 5 - The auditor clearly discussed the audit issues and findings.
- 6 - The auditor conducted his/her work in a professional manner.

The questions are ranked on a scoring basis as follows:

- 4 - Very Satisfied
- 3 - Generally Satisfied
- 2 - Generally Dissatisfied
- 1 - Very Dissatisfied

During 2014-15, 11 completed CSQ's were returned from the 22 audit reports issued. Results are summarised in the chart below and highlight that respondents are generally satisfied to very satisfied with all aspects of the audit process. The scores maintain the satisfaction levels from previous years.



Internal Audit will continue to focus efforts to raise the scores relating to the practicality and usefulness of recommendations to those of the other areas of the audit process.

Analysis of Audit Activity 2014-15

- 3.3 Within the Authority's aims and objectives, the Internal Audit section has a performance target of 22 audit reports to be issued during the financial year.

During the year 22 audit reports issued against the target of 22. Of the 22 reports, 14 were undertaken to provide formal assurance statements with respect to the adequacy of the control environment. Substantial assurance was provided on 13 of these reports, with 1 providing limited assurance. There were no instances where no assurance was given. The audit reviews are summarised below in section 3.4.

There are no audit reviews being carried forward to the 2015-16 audit plan.

Ref.	Title	Plan Days	Actual Days	Audit Recommendations			Assurance Level
				High	Medium	Low	
Audit reports not providing a formal assurance statement							
IAR1415-01(a-e)	Cash Ups (Leisure Centres x 5)	3	3	N/a	N/a	N/a	N/a
IAR1415-02	Cash Ups (Civic Centre)	2	2	N/a	N/a	N/a	N/a
IAR1415-03	PASC Income Codes	15	15	N/a	N/a	N/a	N/a
IAR1415-13	Risk Management	15	15	N/a	N/a	N/a	N/a
Other Work							
	Audit Follow-up Activity	35	26				
	13-14 work carried forward	10	10				
	Contract (Final Check)	10	14				
	Contingency / Investigations	50	55				
Work carried forward to 2015-16							
	Grand Totals	320	312				

Assurance definitions are provided in **Appendix B**.

Trend Analysis of Audit Activity

- 3.5 The table below highlights the trend in assurance levels provided from internal audit reviews completed over the last eight financial years. The assurance provided from internal audit activity shows a sustained improvement in the control environment reviewed.

Assurance	Substantial	Limited	No
2014-15	13	1	0
	92.9%	7.1%	
2013-14	12	1	0
	92.3%	7.7%	
2012-13	13	2	0
	86.7%	13.3%	
2011-12	15	1	0
	93.8%	6.2%	
2010-11	16	0	0
	100%	0%	
2009-10	16	2	0
	88.9%	11.1%	
2008-09	14	2	0
	87.5%	12.5%	
2007-08	17	4	0
	81%	19%	
2006-07	14	7	0
	67%	33%	

The table below summarises the total number of audit recommendations by risk category emanating from completed audit reviews over the last eight financial years.

Recommendations	High	Medium	Low
2014-15	1	12	32
	2.2%	26.7%	71.1%
2013-14	0	12	31
		27.9%	72.1%
2012-13	2	12	35
	4%	24.5%	71.5%
2011-12	0	11	46
		19.3%	80.7%
2010-11	0	6	46
		11.5%	88.5%
2009-10	0	17	62
		21.5%	78.5%
2008-09	0	14	39
		26%	74%
2007-08	2	40	76
	2%	34%	64%
2006-07	1	50	81
	1%	38%	61%

The table highlights an overall slight decrease in the total number of recommendations (45 in comparison to 43 during 2013-14), however, the overall general trend is that of a sustained improvement in the control environment.

4: Conclusion

- 4.1 Internal Audit can confirm that adequate resources have been made available to allow sufficient internal audit activity to be undertaken so as to provide reasonable assurance regarding the adequacy and effectiveness of Gedling Borough Council's risk management, governance and control processes.
- 4.2 Overall, internal audit activity identifies a sustained improvement in the control environment during 2014-15.

Annual Review of the Effectiveness of the System of Internal Audit 2014-15

Assessment Definitions

Level		Requirement	Standard
1		Not all green criteria achieved.	Performing below minimum standards.
2		All green criteria achieved.	Performing at minimum standards.
3		All green criteria plus 70% of the pink.	Performing at a good standard.
4		All pink criteria plus 50% of the blue.	Performing at an excellent standard.

Assessment Summary

CiPFA Standards

Criteria	Total Number	Total Achieved	Percentage
	26	26	100%
	24	24	100%
	13	12	92.3%

Internal Audit is currently achieving Level 4 with respect to Standards.

CiPFA Effectiveness

Criteria	Total Number	Total Achieved	Percentage
	2	2	100%
	7	7	100%
	4	2	50%

Internal Audit is currently achieving Level 4 with respect to Effectiveness.

Overall Performance Assessment

Standards

4	A	C	D (GBC 07-08)	D (GBC 08-09 - 14-15)
3	A	B	C (GBC 06-07)	D
2	A	B	B	C
1	A	A	A	A
	1	2	3	4

Effectiveness

A = Unacceptable – performing below minimum standards.

B = Satisfactory – performing at minimum standards.

C = Good – performing to a good standard.

D = Excellent – performing to an excellent standard.

Risk & Assurance – Standard Definitions

Audit Recommendations

Audit recommendations are categorised, depending upon the level of associated risk, as follows:

Level	Category	Definition
1	High	Action is essential to manage exposure to fundamental risks.
2	Medium	Action is necessary to manage exposure to significant risks.
3	Low	Action is desirable and should result in enhanced control or better value for money.

Assurance Statement

Each report will provide an opinion on the level of assurance that is provided with respect the risk emanating from the controls reviewed. The categories of assurance are as follows:

Category	Definition
No	The majority of the significant risks relating to the area reviewed are not effectively managed.
Limited	There are a number of significant risks relating to the area reviewed that are not effectively managed.
Substantial	The risks relating to the objectives of the areas reviewed are reasonably managed and are not cause for major concern.



Report to Audit Committee

Subject: Risk Management Review

Date: 23rd June 2015

Author: Service Manager – Audit & Asset Management

1. Purpose of the Report

The attached report summarises the findings from a review of the Council's Risk Management arrangements undertaken by the risk management consultancy arm of our insurers Zurich Municipal.

The nature of the review was to undertake a health-check review of current processes and procedures and identify areas where the risk management arrangements could be improved. The exercise was not an audit and should not be construed as an audit of controls. This was purely an advisory piece of work and as a result, no assurance opinion was provided.

2. Summary of Findings

The key findings are detailed within the report.

A summary of the key findings concluded that overall arrangements are good and the council is committed to developing its maturity in risk management and has taken steps to update its strategy and reporting arrangements to support this.

Recommendations for improvement include:

- Review and update the Risk Management Strategy, specifically to include a statement from the Chief Executive and/or Leader, which includes a statement on the Council's Risk Appetite,
- Review the Risk Management training requirement of members, and specifically Audit Committee members,
- Review and update the risk categories within the Corporate Risk Scorecard, and associated procedures and guidance notes,
- Consider developing and introducing a cost of risk option within the Risk Management reporting process.

Action to address the key issues highlighted is under way and progress will be reported back to the Audit Committee.

3. Resource Implications

To be delivered within existing budgets.

4. Recommendation

Members are requested to note the report.



Gedling Borough Council

Strategic Risk Management

Risk Management Development Report
April 2015



Contents and distribution



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Name	Purpose
Vince Rimmington, Service Manager – Audit & Asset Management	For Information
Alison Nicholson, Insurance and Risk Management Officer	
Senior Management Team	

The matters arising and reported within this document and identified as part of our work are not necessarily a comprehensive statement of all the risks that exist, or of all the improvements that may be required. Our assessment is based on a number of discussions held with key individuals and whilst every care has been taken to ensure that the information provided during our work is as accurate as possible, no complete guarantee or warranty can be given with regard to the advice and information finally presented.

This document is prepared solely for the use for Gedling Borough Council's Members, Leader, Directors and Senior Management. Details may be made available to specified external agencies, but otherwise this document should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the document has not been prepared, and is not intended for any other purpose.

1. Executive Summary



Objective and Scope

The purpose of this exercise was to conduct a Risk Management Health Check on the council's arrangements relating to risk, with a purpose of presenting findings in this Risk Management Development Report.

In order to perform this assignment we completed an initial desktop review of relevant policies, procedures and documents with the purpose of feeding this information back via this report. This process allowed us to gain a further understanding of the methodologies and mechanisms used to both govern and manage the Council's risks. A detailed summary of the scope, along with the documents obtained to complete the desktop review, are listed in Appendix A and B.

The nature of the review was to look at current processes and procedures and identify areas where the risk management arrangements could be improved. This exercise was not an audit and should not be construed as an audit of controls. This is purely an advisory piece of work and as a result, no opinion will be given.

Overview

Over the past years, the Council has been committed to the development of risk management and have made steps to implement tools to increase the maturity of their approach. However, the governance and reporting arrangement around risk management could be improved to maintain its presence and progress against improvements to the current arrangements.

From completing the document desk top review and supplementary meetings with the risk management section, followed by a session with SLT we noted that:

The council is committed to developing its maturity in risk management and has taken steps to update its strategy and reporting arrangements to support this,

Risk registers, both strategic and operational are reviewed routinely by management. Audit Committee and Senior Leadership Team (SLT) review these formally at least 4 times a year,

Assurance on the management of risks is reported formally to Audit Committee quarterly via the Corporate Risk Scorecard

The activities of the former Risk Management Group have now been subsumed within the Audit Committee which could be seen to align risk management more with a compliance and assurance role rather than a business improvement driver,

The authority continues to develop their central risk database, providing a hierarchy of risks mapped to corporate objectives,

Policies and procedures are documented and approved.

During the course of our review, we identified some potential areas of improvement, which are noted below. These have been explored in greater detail in section 2.

1. Executive Summary *continued*



Area of Improvement	Overview
Integrated with strategy	<ul style="list-style-type: none"> Operational risk is currently identified as part of the Service Assurance Statements and should be instrumental in both the Directorate's business planning and performance management processes.
Scrutiny, review & reporting	<ul style="list-style-type: none"> § The format of the reporting of strategic risk should be reviewed and refreshed. A useful one page visual tool allowing consideration, assessment and decisions to be made could be implemented. § Audit Committee members should have the opportunity to attend a risk refresher training session, to allow them to: <ul style="list-style-type: none"> ○ Understand their roles with regards to risk management and the importance of effective scrutiny; ○ Identify mechanisms to assess and report framework or risk improvements/issues. ○ Have the opportunity to explore views and opinions on useful design of reports, escalation and obtaining information etc. to enhance the scrutiny process.

1. Executive Summary *continued*



Area of Improvement	Overview
Scrutiny, review & reporting <i>(continued)</i>	<ul style="list-style-type: none"> § Risk management is currently discussed at Service Manager Meetings where the risk team facilitate conversations regarding risk and updates to the risk register on a 6 monthly cycle. This approach complements the Internal Audit planning activities. Formal risk reporting and assurance going to Audit Committee. § Effective 'two way' communication channels are evident in the existence of a robust Whistle Blowing Policy and the 'open door' approach to escalating issues of concern. § The Data Security Group has robust governance in place to manage its projects and IT related risks. § Operational risk management activities are generally, however, inconsistently applied.
Effective enabling risk tools	<ul style="list-style-type: none"> § Guidance on risk management is available through the 'Risk Management Policy Guidelines' which have been developed using feedback from staff and members. § The scorecard includes the risk type, which aids in highlighting any specific concerns on certain areas of risk exposure. § The risk profile, which is completed for new or updated risks, highlight any control gaps for reporting.
Policy & Procedures	<ul style="list-style-type: none"> § The Council should define and develop a risk appetite, communicate this to staff and incorporate this within the risk management strategy and procedures.

Conclusion

The council has a sound foundation in place to enable it to manage its risks. Key documents exist that set out the council's strategy and policy for risk management.

From the review of documents; reporting and review of risk is happening on a regular basis at corporate level but the frequency of review and updates should be assessed for their timeliness. Following comments from SLT, consideration should be given to updating the corporate risk categories on the Risk Scorecard to include an additional section on Customer Satisfaction as SLT felt this was a key driver for performance management and an area of risk that should be monitored closely. Review of operational risks should also be investigated to ensure that on-going management of risk is happening and not just at 6 monthly intervals.

The council has a risk maturity model in place as part of its self assessment process and currently is marked at level 3-4 reflecting that there is an agreed corporate framework in place but that there are some inconsistencies of ability at operational level to identify and mitigate risks.

Consideration should be given to how and what degree the embedding of operational risk management across the services should move current practise from a 'tick box exercise' to comply with reporting requirements, to it being a 'golden thread' throughout the day to day activities.

Implementing the recommendations highlighted within Section 2 of this report will strengthen the Authority's risk management framework and this will, in turn help to ensure a consistent and integrated approach to managing risk.

2. Detailed findings and suggested areas of improvement



Area	Finding	Suggested Improvement
Integrated strategy		
1	Interconnectivity of risk management strategy with operational risk and business planning	<p>The linkages between risk management and other appropriate policies within the Strategy should be explicit. This will heighten the importance and understanding of the interconnectivity of these policies for readers and widen risk identification processes.</p> <p>Currently the Risk Management Strategy lacks a formal statement of support from either the Chief Executive or Leader. While it makes reference to the strategic importance of risk, there is a lack of clarity about how risks are aligned to the delivery of corporate objectives.</p>
Effective Review, Reporting and Scrutiny		
2	Oversight and reporting	<p>The Audit Committee receives quarterly reports on the Corporate Risk Scorecard, which looks at the strategic risks in detail. The council has an integrated approach to assessing the effectiveness of controls (by highlighting the control gap) and mapping direction of travel. All of the reporting data is useful but this level of information may be overwhelming for the reader and prevent individuals from reviewing the document in depth and subsequently reducing the level of scrutiny around the content.</p> <p>Consideration may be given to the training of Committee members:</p> <ul style="list-style-type: none"> § Their roles within risk management § The need for effective scrutiny and communication of issues/improvements. § Potential views/opinions on the development of reporting aids, information and enhancements to the process.

2. Detailed findings and suggested areas of improvement



Area		Finding	Suggested Improvement
3	Accurate documentation of risks, controls etc	No costing of risk, either in terms of the risk or implementation of controls is included within the risk registers which could be useful when making decisions on which risks need financial attention.	Consideration should be given to developing a cost of risk option, associated with the risk registers. This is recognised as a difficult concept, however, should at least be given consideration.
4	Communication and feedback	In order for risk management to be effective, management should ensure that on-going assessments and reviews are conducted. This includes feedback from Audit Committee with regards to the format, content and ease of use of the risk reporting tools. It is not clear from the documents reviewed the level or nature of the feedback on the submissions, or the nature, controls, documentation etc of the risks submitted. Conversations with the corporate risk team support the engagement of members in the process and the challenge on risk profile changes, as evidenced in the Audit Committee minutes.	All users of the risk reporting tools should ensure that there is an effective communication channel so that staff are made aware of: <ul style="list-style-type: none"> § Areas of good practice § Potential emerging risks (both internally and externally) § Enhancements/improvements; and § Future considerations or additional reporting information.

2. Detailed findings and suggested areas of improvement



Area	Finding	Suggested Improvement
Effective Enabling Risk Tools		
5	<p>Categories of risks /Control Type and Compliance activity</p> <p>Appendix B of the Corporate Risk Scorecard details the corporate risks against each category. The scorecard information was presented in an alternative format to SLT and illustrated potential gaps in information and awareness of strategic risks. A notation of the discussion around new risks is listed in Appendix C, with a view to exploring these in more detail at the quarterly review of the Corporate Risk Register.</p>	<p>We would recommend that the Risk Department consider the outputs from the SLT session and undertake a review and update of the Corporate Risk Scorecard and the 11 risk categories as outlined in Appendix C.</p>

2. Detailed findings and suggested areas of improvement



Area	Finding	Suggested Improvement
Policy and Procedures		
6	<p data-bbox="555 496 1364 619">We obtained a copy of the relevant policies and procedures and noted that the risk management strategy had recently been reviewed, updated and approved. In addition to the strategy, documentation is available to staff.</p> <p data-bbox="555 655 1364 810">Risk appetite The Authority's current Risk Management Policy does not include a risk appetite. Not only is it best practice to develop such a statement, it would also benefit employees when making business decisions.</p>	<p data-bbox="1386 496 1991 587">The Policy and procedures should be reviewed and a small number of amendments identified during our review should be made.</p> <p data-bbox="1386 687 1991 1038">Due to the current economic climate, organisations are required to focus on the reduction of budgets, process improvements and investment in initiatives to reduce costs and increase revenue streams. As a result, it is important that the Authority identifies, documents and communicates the level and areas of risks that it is willing to accept. The Council should consider the development of a risk appetite. Once performed, this should be communicated and included within the Risk Management policies and procedures.</p>

Appendix A – Documents Reviewed



Documents reviewed

As part of the desktop exercise, we obtained and reviewed the following documents:

- § Risk Management Strategy
- § Risk Management Policy Guidelines
- § Risk Profile Change Forms
- § Risk Profile for New Risk
- § Internal Audit Report 2013-2014 to Audit Committee
- § GBC Risk register March 2014
- § Risk Scorecard June 2014 (ASC)
- § ASC Terms of Reference Review (13-14)
- § CHAS Terms of Reference
- § CHAS Forward Plan as at 10.07.14
- § CHAS Agenda 09.09.14
- § CHAS Minutes 09.06.14
- § AGS 2013-14 Account Version

Supporting Evidence

Discussions as follows:

- § Feedback meetings with Risk Management team
- § SLT session 24th February

Appendix B – Outline scope



PHASE	DESCRIPTION
Phase 1 Desk top Review	We will review relevant information such as, the existing policies and procedures, Risk Registers along with further relevant information/documentation.
Phase 2 Report and Briefing	Our findings will be documented within a risk management development report, which we will meet with yourself and Alison to discuss further and agree.
Phase 3 Briefing paper	An attendees briefing paper will be drafted outlining the process for the workshop, existing strategic risks and prompts for consideration of further risks etc.
Phase 4 Senior Leadership Workshop	During a two hour workshop, we will facilitate a discussion of the existing and new strategic risks, along with the grading and mitigating actions. In addition, we will feedback the findings of the desktop review and with the SLT formulate a number of actions to deliver on any improvements identified.
Phase 4 Strategic Risk Register & Development Action Log	From the details obtained during the workshop, we will update the existing Strategic Risk Register along with the development actions log and submit to the SLT for review and approval.

Appendix C – Strategic Risk Discussion with SLT



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- Risks associated with County Councils passing down responsibilities from tier 1, for example in relation to the Care Act
- A number of staffing challenges relating to recruitment and retention, in particular a proximity risk to Nottingham and whether staff can be retained as the economy improves and city centre organisations are able to offer better terms
- There was some discussion about whether the Local Authority sector was sufficiently attractive to younger people given the background of austerity but the CEO countered this by suggesting that it was also an opportunity given that central government appeared to be giving more freedom to local government, particularly to innovate
- Maintaining service standards, service quality and customer satisfaction against a more challenging backdrop of a reducing workforce
- Being clear about the choices being made which may involve reducing standards in certain areas to divert funds elsewhere
- Finding the balance between the community leadership role (outward facing) versus delivery of core services (inward looking)
- A couple of commercial risks were mentioned in relation to a) a failure to be commercial (being efficient) and b) failure to regularly review commercial activities eg. building control
- Number and interrelation of projects which, if not delivered could impact from social, economic and reputation perspectives

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Report to Audit Committee

Subject: Follow-up of Audit Recommendations

Date: 23rd June 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 April – June 2015.

- IAR1213-17 Cash Receipting
- IAR1314-14 Payroll
- IAR1314-19 Officer & Member Disbursements
- IAR1314-20 Financial Management System (FMS)

IAR1213-17 Cash Receipting

The report, issued in May 2013, provided **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. One medium and four low risk recommendations were made. The medium risk recommendation relating to the use of user i.d. and passwords was implemented immediately.

A review of progress of management action against the four remaining low risk recommendations was undertaken in December 2014. Two were deemed no longer relevant as a consequence of revised procedures following the implementation of Automated Cash till. The remaining two recommendations were refined giving consideration to revised procedures and reiterated in the current report.

IAR1314-14 Payroll

The report, issued in April 2014, 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.

A review of progress of management action against these recommendations was undertaken in February 2015. The review confirmed that both recommendations had been fully implemented.

IAR1314-19 Officer & Member Disbursements

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 low risk recommendations were made.

A review of progress of management action against these recommendations was undertaken in February 2015. The review confirmed that both recommendations had been fully implemented.

IAR1314-20 FMS

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 February 2015. The review confirmed that both recommendations, relating to removal of user access rights and review of reporting tools had been partially implemented. Both recommendations were reiterated in the current report, however, both have been subsequently fully implemented.

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: Summary of Audit Activity

Date: 23rd June 2015

Author: Service Manager – Audit & Asset Management

1. Purpose of the Report

To summarise the outcome of Internal Audit activity for the period April to June 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 April – June 2015.

- IAR1415-07 Financial Management System (FMS)
- IAR1415-09 Officer & Member Disbursements
- IAR1415-10 Payroll
- IAR1415-19 Cash Receipting

IAR1415-07 FMS

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, both of which were implemented with immediate effect.

IAR1415-09 Officer & Member Disbursements

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 low risk procedural issues with respect to countersigning claims and communication of expense rates.

Several areas of good practice were identified including:

- § All claim forms are processed within the payroll department in a timely manner once received by the officers to ensure payment is received by Members and employees in a timely manner.
- § The Council have established an Independent Remuneration Panel in line with legislative requirements and have published details of Members allowances in accordance with legislation.

IAR1415-10 Payroll

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 recommendations were made.

IAR1415-19 Cash Receipting

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 two low risk recommendations were made. The two medium risk recommendations relate to countersignatures in relation to cash machine floats and replenishments.

Work in Progress

Audit fieldwork and testing has been completed for the review of Waste Income. The draft report highlighted one high, four medium and one low risk recommendation. The medium risk recommendations relate to a lack of an up to date Trade Waste policy and supporting procedures and also a lack of effective management information and monitoring in respect of arrears management.

Due to the nature of the risks highlighted in the report, the level of assurance provided will be limited. The draft report has been issued and Internal Audit are currently awaiting final agreement on the response and action to one of the recommendations.

The final report will be submitted to the Audit Committee for consideration.

Completion of this review and issue of the report 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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