



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

Agenda

Audit Committee

Date: **Tuesday 22 March 2016**

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

Page

- | | | |
|-----------|--|---------|
| 1 | Apologies for Absence and Substitutions. | |
| 2 | To approve, as a correct record, the minutes of the meeting held on 15 December 2015. | 5 - 8 |
| 3 | Declaration of Interests. | |
| 4 | External Audit Plan 2015-16 | 9 - 26 |
| | Report of the Service Manager, Audit and Asset Management and KPMG, External Auditors. | |
| 5 | Certification of Claims & Returns | 27 - 30 |
| | Report of Service Manager - Audit & Asset Management | |
| 6 | Corporate Risk Scorecard | 31 - 48 |
| | Report of Service Manager - Audit & Asset Management | |
| 7 | Follow-up of Previous Audit Recommendations | 49 - 52 |
| | Report of Service Manager - Audit & Asset Management | |
| 8 | Summary of Audit Activity | 53 - 56 |
| | Report of Service Manager - Audit & Asset Management | |
| 9 | Annual Internal Audit Plan 2016/17 | 57 - 62 |
| | Report of Service Manager - Audit & Asset Management | |
| 10 | Any other item which the Chair considers urgent. | |

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MINUTES AUDIT COMMITTEE

Tuesday 15 December 2015

Councillor Paul Feeney (Chair)

Councillor Bob Collis
Councillor Sandra Barnes
Councillor Chris Barnfather

Councillor Jim Creamer
Councillor Boyd Elliott

Apologies for absence: Councillor Helen Greensmith and Councillor Viv McCrossen

Officers in Attendance: D Blasdale, A Dubberley and V Rimmington

19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS.

Apologies for absence were received from Councillors Greensmith and McCrossen with Councillor Creamer attending as substitute.

20 TO APPROVE, AS A CORRECT RECORD, THE MINUTES OF THE MEETING HELD ON 22 SEPTEMBER 2015.

RESOLVED:

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

21 DECLARATION OF INTERESTS.

None.

22 KPMG ANNUAL AUDIT LETTER

Consideration was given to a report of the External Auditors, KPMG, which had been circulated prior to the meeting, setting out the Annual I Audit Letter for the 2014/15 financial year.

Members expressed their appreciation of the Finance Department for overseeing an unqualified set of accounts for the year.

RESOLVED:

To note the information.

23 CORPORATE RISK SCORECARD

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

RESOLVED:

To note the report.

24 FOLLOW UP OF PREVIOUS AUDIT RECOMMENDATION

The Service Manager Audit and Asset Management presented a report, which had been circulated prior to the meeting, which gave information about progress made to address actions identified from previous audit recommendations.

RESOLVED:

To note the report.

25 SUMMARY OF AUDIT ACTIVITY

The Service Manager Audit and Asset Management presented a report, which had been circulated prior to the meeting, giving details of audit activity for the period ending December 2015.

RESOLVED:

To note the information.

26 ANNUAL AUDIT PLAN

The Service Member Audit and Asset Management presented a report, which had been circulated prior to the meeting, which provided members with information about proposed audit plans for the 2016/17 year.

RESOLVED:

To note the proposed Audit Plan for 2016/17.

27 TERMS OF REFERENCE - ANNUAL REVIEW

The Service Manager Audit and Asset Management presented a report, which had been circulated prior to the meeting, giving the terms of reference for the Audit Committee.

RESOLVED:

To agree that the current terms of reference for the Audit Committee are appropriate.

28 ANY OTHER ITEM WHICH THE CHAIR CONSIDERS URGENT.

None.

The meeting finished at 6.35 pm

Signed by Chair:
Date:

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Report to Audit Committee

Subject: KPMG 2015-2016 External Audit Plan

Date: 22nd March 2016

Author: Service Manager – Audit & Asset Management (KPMG)

1. Purpose of the Report

The report supplements the KPMG Audit Fee Letter 2015/16 presented to the Audit Committee in June 2015.

The report sets out KPMG's work plan and associated key deliverables: the audit/review and report on the Financial Statements (including the Annual Governance Statement) and Use of Resources.

2. Recommendation

Members are requested to note the report.

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External Audit Plan 2015/2016

Gedling Borough Council

March 2016

Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has been based on last year's expenditure and set at **£300,000**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£40,000**.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Revenue Recognition;
- Management override of controls;
- Pension liability assumptions; and
- NNDR Business Rates Provision

See pages 3 to 5 for more details.

Value for Money Arrangements work



The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Financial resilience in the local and national economy; and

See pages 6 to 8 for more details.

Logistics



Our team is:

- Andy Bush - Director
- Tom Tandy – Manager
- Owen Campbell – Assistant Manager

More details are on **page 12**.

Our work will be completed in four phases from December 2015 to September 2016 and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 11**.

Our fee for the audit is £42,570 (2014/15 £56,760), see **page 10**.

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in June 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key 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 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.

Acknowledgements

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

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 6 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16 and the findings of our VFM risk assessment.



Financial Statements Audit Planning

Our planning work takes place during December 2015 to February 2016. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

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.

The diagram opposite identifies significant risks, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: ● Significant risks ● Other area of audit focus ● Example other areas considered by our approach



Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

NNDR business rates provision

- The Business Rate Retention regime places a liability on the Council to refund ratepayers who successfully appeal against the rateable value of their properties on the rating list. A provision of £710,900 was made in 2014/15, which represented the Council's estimated share of such liabilities at 31 March 2015, however the continuing prevalence of appeals poses a significant risk to the material misstatement of NNDR income.
- As part of our audit work we will need to understand the assumptions underpinning the business rates provision and how the Authority has assured itself as to the accuracy of this based on the success and impact of prior year appeals.
- We will need to understand how the Authority has assured itself as to the completeness of its business rates provisions i.e. has the Authority correctly recognised all outstanding appeals as at the 31 March 2016.
- We will review the methodology of the provisions calculation and assess it for reasonableness against other district council's in the Nottinghamshire area.

Pension liability assumptions

- The net pension liability for the Authority at 31 March 2015 was £43.6m, following an actuarial re-measurement in the prior year of pension assets and liabilities of an increase in the liability of £9.9m.
- The assumptions which form the basis of the actuarial valuation present a significant risk of material misstatement.
- There is also a risk that the data provided to the actuary for their valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Nottinghamshire County Council who administer the pension fund.
- We will document the management processes in place to review the assumptions used by the actuary to ensure they are reasonable.
- Using a KPMG actuarial specialist we will review the assumptions used by the actuary for reasonableness.
- As part of our audit, we will need to agree the data provided to the actuary back to the systems and reports from which it was derived, and test the accuracy of this data.
- We will liaise with the separate KPMG audit team for the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf.



Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £800,000 for the Authority's accounts, which equates to approximately 1.5% percent of gross expenditure.

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

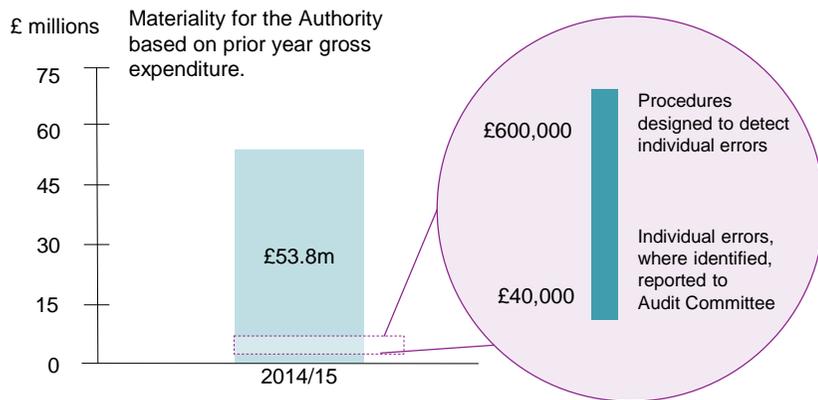
Reporting to the Audit Committee

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 unadjusted 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.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £40,000.

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.

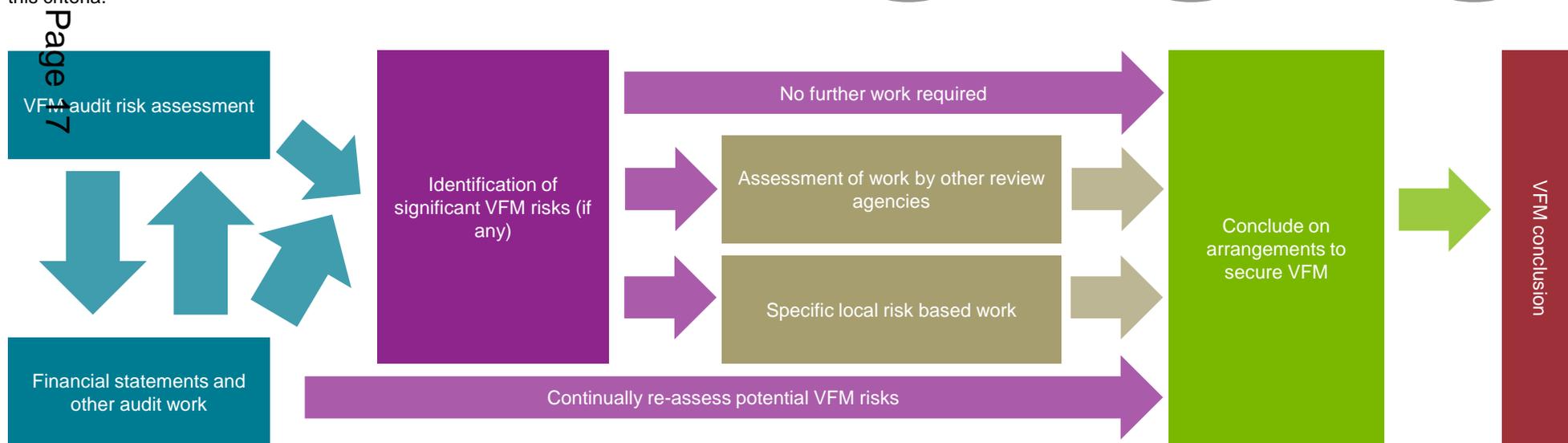
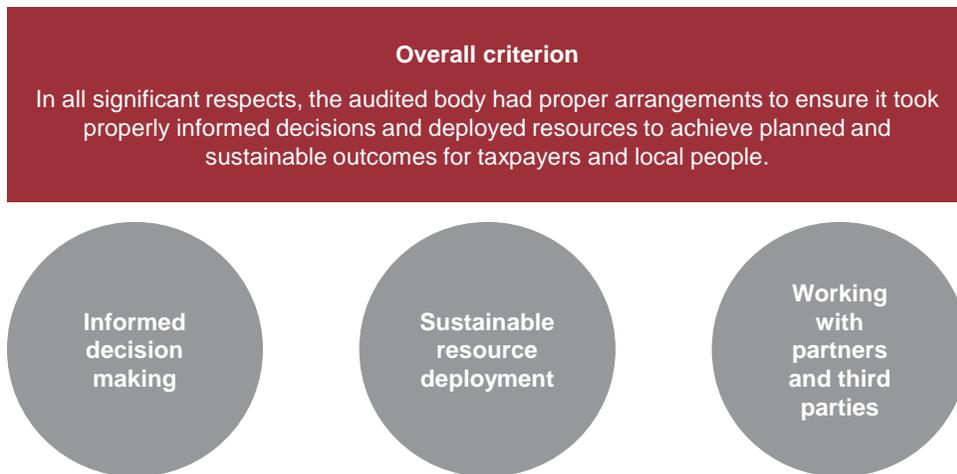


Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The diagram to the right shows the details of this criteria.





VFM audit stage	Audit approach
<p>VFM audit risk assessment</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 18</p>	<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"> ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
<p>Linkages with financial statements and other audit work</p>	<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>
<p>Identification of significant risks</p>	<p>The Code identifies a matter as significant '<i>if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.</i>'</p> <p>If we identify significant VFM 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"> ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ 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.



VFM audit stage	Audit approach
<p>Assessment of work by other review agencies</p> <p>and</p> <p>Delivery of local risk based work</p>	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
<p>Concluding on VFM arrangements</p>	<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>
<p>Reporting</p>	<p>On the following page, we report the results of our initial risk assessment.</p> <p>We will report on the results of the VFM audit through our ISA 260 Report. This will summaries any specific matters arising, and the basis for our overall conclusion.</p> <p>If considered appropriate, we may produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake.</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>



Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Financial Resilience and Capacity

The Authority continues to be under financial pressure. In recent years, over the period 2012/13 to 2014/15 GBC has had government grant settlement reductions of £3.2million equivalent to a 34% cash reduction. In addition, over the period 2015/16 to 2017/18 the Authority is expecting settlement funding to reduce by a further £2.6m. The Authority has had to reduce its planned expenditure and increase the delivery of efficiency savings in order to maintain service levels. The Authority has in place a savings plan to help deliver efficiencies and resulting savings. The Authority has a good track record of delivering its savings plans.

We will undertake the following procedures over this significant risk:

- Review the delivery of the saving plans including any actions taken by the Authority where savings are achieved in line with the plan.
- Evaluate the arrangements the Authority have in place in identifying further savings for future years.

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 2015/16 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 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 PSAA's fee scales.

Our audit team

Our audit team will be led by Andy Bush. Appendix 2 provides more details on specific roles and contact details of the team.

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 communication outputs are included in Appendix 1.

Independence and Objectivity

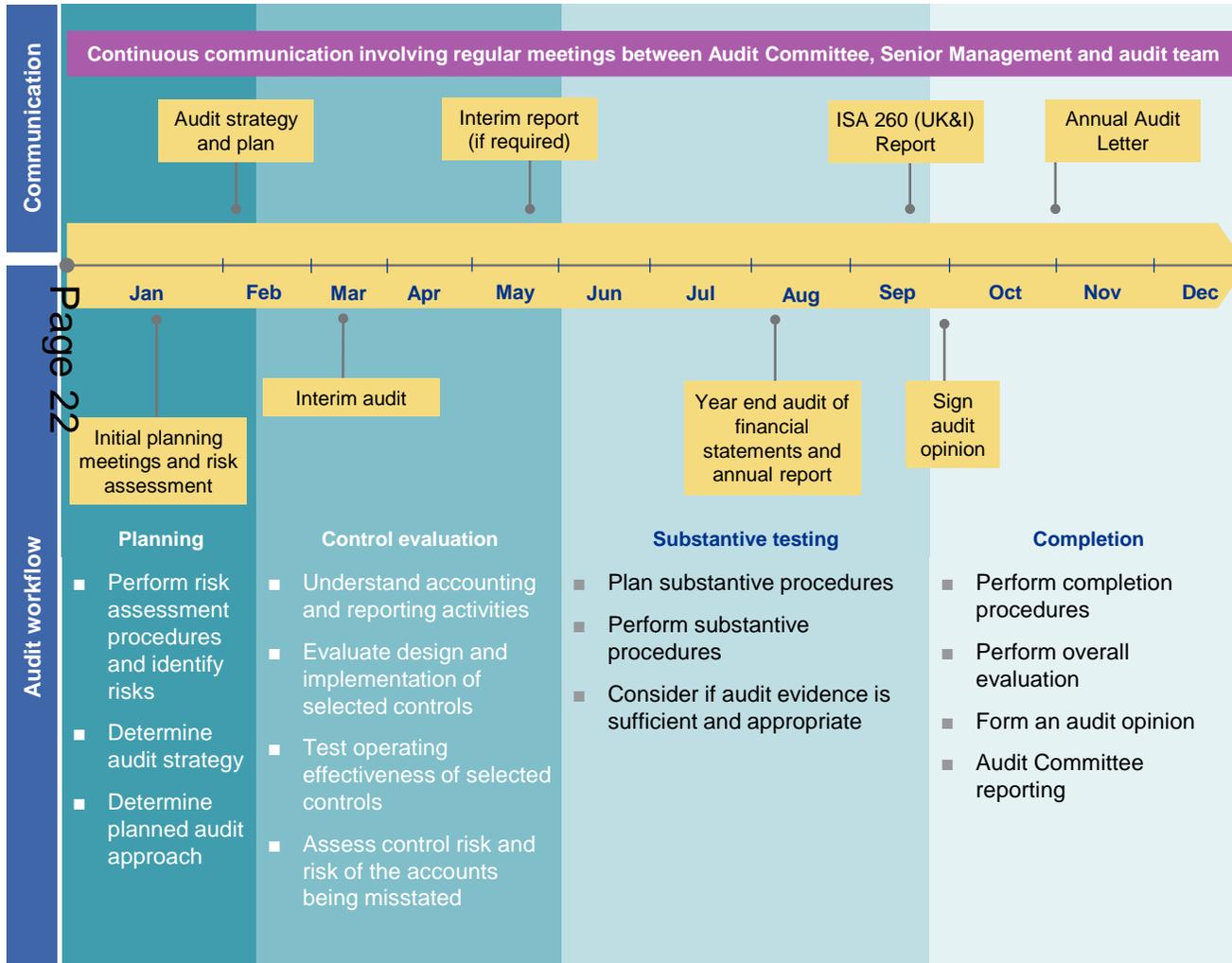
Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2015/2016 presented to you in June 2015 first set out our fees for the 2015/2016 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2015/16 is £42,570. Inline with our contract with the Public Sector Audit Appointments Ltd (PSAA), this reflects a reduction in the audit fee of £14,190 (25%) compared to 2014/15.

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



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.



Your audit team has been drawn from our specialist public sector assurance department.



Name	Andy Bush
Position	Director
	<p>"My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.</p> <p>I will be the main point of contact for the Audit Committee and Chief Executive."</p>

Andy Bush

Director

Tel: 0115 935 3560

Email: Andrew.Bush@kpmg.co.uk



Name	Tom Tandy
Position	Manager
	<p>"I am responsible for the management, review and delivery of the audit.</p> <p>I will liaise with the Chief Finance Officer and Head of Internal Audit.</p>

Tom Tandy

Manager

Tel: 0115 9454480

Email: Thomas.Tandy@kpmg.co.uk



Name	Owen Campbell
Position	Assistant Manager
	<p>'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'</p>

Owen Campbell

Assistant Manager

Tel: 07464 980307

Email: Owen.Campbell@kpmg.co.uk

Independence and objectivity

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.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment 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 PSAA audit work 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.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA'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 Terms of Appointment.

Confirmation statement

We confirm that as of February 2016 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.



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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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Bostock, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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Report to Audit Committee

Subject: KPMG Certification of Grants Annual Report 2014/15

Date: 22nd March 2016

Author: Service Manager – Audit & Asset Management (KPMG)

1. Purpose of the Report

The Public Sector Audit Appointment requires its external auditors (KPMG) to prepare an annual report on the claims and returns it certifies for each client.

The enclosed letter is KPMG's annual report for the certification work undertaken for 2014/15 at Gedling Borough Council.

2. Recommendation

Members are requested to note the report.

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

Our ref ab/tt

26 January 2016

Dear Mark

Certification of claims and returns - annual report 2014/15

Public Sector Audit Appointment 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 2014/15 at Gedling Borough Council.

In 2014/15 we carried out certification work on only one claim/return, the Housing Benefit Subsidy claim. The certified value of the claim was £27.1 million, and we completed our work and certified the claim on 27 November 2015.

Matters arising

Our certification work on Housing Subsidy Benefit claim did not identify any issues or errors 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

Public Sector Audit Appointments set an indicative fee for our certification work in 2014/15 of £13,750. Our actual fee was the same as the indicative fee, and this compares to the 2013/14 fee for this claim of £14,082.

Yours sincerely

Andrew Bush
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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Bush, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to andrew.sayers@kpmg.co.uk After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



Report to Audit Committee

Subject: Corporate Risk Scorecard

Date: 22nd March 2016

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

A key deliverable of the Risk Management 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 2016, 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

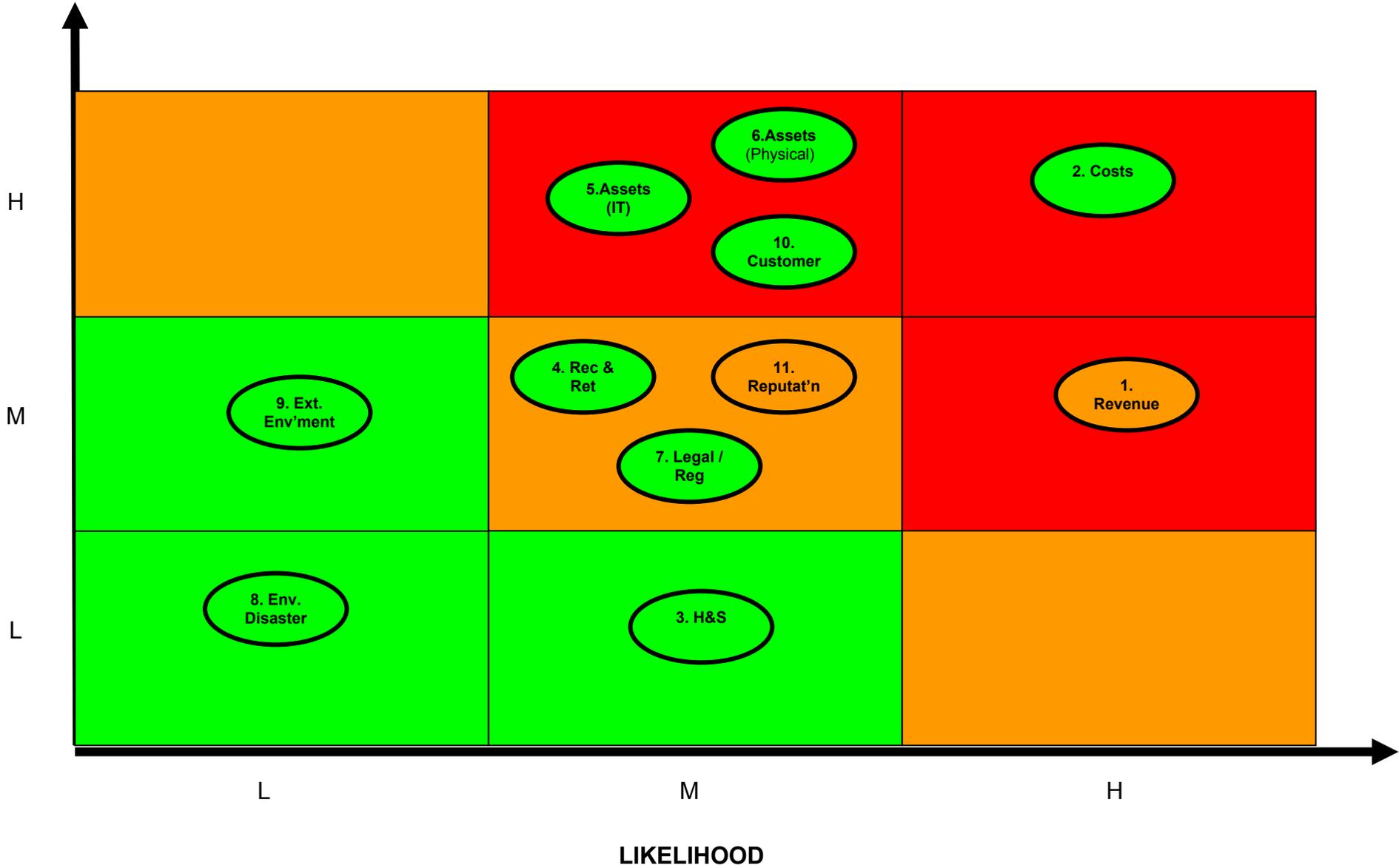
To be delivered within existing budgets.

5. Recommendation

Members are requested to note the report.

GEDLING BOROUGH COUNCIL
CORPORATE RISK SCORECARD – March 2016

I-M P A C T
Page 33



Supporting Comments & Explanations

1	<p>FAILURE TO MAXIMISE REVENUE</p> <p><u>Owner:</u> Mark Kimberley</p> <p><u>Residual Risk Direction:</u> </p> <p><u>Summary of Control Weaknesses:</u></p> <p>There is an overall slight improvement to this risk category.</p> <p><u>Audit Recommendations</u></p> <p>The number of outstanding medium risk internal audit recommendations has reduced from three to two.</p> <p>This is due to a medium risk recommendation made in the review of Waste Income (IAR1415-15), relating to the production of management and performance information, having been implemented.</p> <p>The remaining medium risk recommendations were made in the review of Cash Receipting procedures (IAR1415-09) and relate to the requirement to enhance the “start-up” and “hopper float” reports to allow them to be countersigned by both members of staff undertaking the count.</p> <p><u>Risk Register</u> (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>	<table border="1"> <tr> <td style="text-align: center;">Inherent Risk</td> <td style="background-color: red;"></td> </tr> <tr> <td style="text-align: center;">Residual Risk</td> <td style="background-color: yellow;"></td> </tr> </table>	Inherent Risk		Residual Risk	
Inherent Risk						
Residual Risk						

2 **FAILURE TO MINIMISE COSTS**

Owner: Mark Kimberley

Residual Risk Direction:



Inherent Risk	Red
Residual Risk	Green

Summary of Control Weaknesses:

There is an overall slight improvement to this risk category.

Audit Recommendations

The number of outstanding medium risk recommendations has decreased from four to two.

This is due to the two medium risk recommendations made in the Waste Income (IAR1415-15) report, relating to the review and update of Trade Waste policy and procedures, having been fully implemented.

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.

Risk Register (Management Activity)

There are currently no outstanding control gaps in the strategic or operational risk registers relating to this corporate risk.

3 **HEALTH & SAFETY FAILINGS / PROTECTION OF STAFF**

Owner: Mark Kimberley

Residual Risk Direction:



Inherent Risk	Green
Residual Risk	Green

Summary of Control Weaknesses:

There is no overall change to this risk category.

Audit Recommendations

There are no outstanding high/medium risk audit recommendations relating to this corporate risk.

Risk Register (Management Activity)

There are currently no outstanding control gaps in the strategic or operational risk registers relating to this corporate risk.

4

FAILURE TO RECRUIT & RETAIN SUITABLY SKILLED STAFF

Owner: Helen Barrington

Residual Risk Direction: 

Inherent Risk	
Residual Risk	

Summary of Control Weaknesses:

There is no overall change to this risk category.

Audit Recommendations

There are no outstanding high/medium audit recommendations relating to this corporate risk.

Risk Register (Management Activity)

There are currently no outstanding control gaps in the strategic or operational risk registers relating to this corporate risk.

Whilst there are no current control gaps highlighted in the risk register, recruitment and retention of staff is becoming an increasing problem for the Council to remain competitive with respect to pay and benefits, particularly where recruitment competes with the private sector. This is beginning to pose a specific problem with respect to experienced technically qualified professional staff.

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

5

FAILURE TO PROTECT & UTILISE ASSETS (IT/IS)

Owner: Mark Kimberley

Residual Risk Direction: 

Inherent Risk	
Residual Risk	

Summary of Control Weaknesses:

There is no overall change to this risk category.

Audit Recommendations

There are no outstanding high/medium audit recommendations relating to this corporate risk.

Risk Register (Management Activity)

The number of minor controls gaps identified on the corporate risk register remains at one.

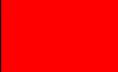
This relates to resource issues identified in the planned roll out of further Resourcelink modules.

6 FAILURE TO PROTECT & UTILISE ASSETS (PHYSICAL)

Owner: John Robinson



Residual Risk Direction:

Inherent Risk	
Residual Risk	

Summary of Control Weaknesses:

There is an overall slight deterioration to this risk category.

Audit Recommendations

There are no outstanding high/medium audit recommendations relating to this corporate risk.

Risk Register (Management Activity)

The number of control gaps identified on the corporate risk register has increased from one to two.

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.

An emerging issue has been highlighted with respect to the potential loss/damage of deeds, contracts or agreements due to fire/water damage in the current storage area. An action plan is in place to complete the process of Voluntary Registration of title deeds at the Land Registry during 2015-16.

7	<p>LEGAL / REGULATORY / CONTRACTUAL BREACH</p> <p>Owner: Helen Barrington</p> <p>Residual Risk Direction: </p> <table border="1" data-bbox="992 517 1329 667"> <tr> <td>Inherent Risk</td> <td></td> </tr> <tr> <td>Residual Risk</td> <td></td> </tr> </table> <p>Summary of Control Weaknesses:</p> <p>There is an overall slight improvement to this risk category.</p> <p><u>Audit Recommendations</u></p> <p>The number of outstanding high/medium risk audit recommendations has fallen from one to nil.</p> <p>This is due to the implementation of the high risk recommendation relating to the provision of valid Duty of Care Waste Transfer Notes for all customers made in the Trade Income report (IAR1415-15).</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					
8	<p>ENVIRONMENTAL POLLUTION / DISASTER</p> <p>Owner: David Wakelin</p> <p>Residual Risk Direction: </p> <table border="1" data-bbox="960 1467 1297 1617"> <tr> <td>Inherent Risk</td> <td></td> </tr> <tr> <td>Residual Risk</td> <td></td> </tr> </table> <p>Summary of Control Weaknesses:</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</p>	Inherent Risk		Residual Risk	
Inherent Risk					
Residual Risk					

	<p>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>				
9	<p>ADVERSE EVENTS IN THE EXTERNAL ENVIRONMENT</p> <p><u>Owner:</u> John Robinson</p> <p><u>Residual Risk Direction:</u> </p> <table border="1" data-bbox="984 667 1321 815"> <tr> <td>Inherent Risk</td> <td></td> </tr> <tr> <td>Residual Risk</td> <td></td> </tr> </table> <p><u>Summary of Control Weaknesses:</u></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					
10	<p>FAILURE TO MAINTAIN SERVICE STANDARDS & CUSTOMER SATISFACTION</p> <p><u>Owner:</u> John Robinson</p> <p><u>Residual Risk Direction:</u> </p> <table border="1" data-bbox="984 1527 1321 1675"> <tr> <td>Inherent Risk</td> <td></td> </tr> <tr> <td>Residual Risk</td> <td></td> </tr> </table> <p><u>Summary of Control Weaknesses:</u></p> <p>There is no overall change to this risk category.</p> <p><u>Audit Recommendations</u></p>	Inherent Risk		Residual Risk	
Inherent Risk					
Residual Risk					

There are no outstanding high/medium audit recommendations relating to this corporate risk.

Risk Register (Management Activity)

There are currently no outstanding control gaps in the strategic or operational risk registers relating to this corporate risk.

11 **DAMAGE TO REPUTATION**

Owner: John Robinson

Residual Risk Direction: 

Inherent Risk	
Residual Risk	

Summary of Control Weaknesses:

There is no overall change to this risk category.

Audit Recommendations

There are no outstanding high/medium audit recommendations relating to this corporate risk.

Risk Register (Management Activity)

The number of control gaps highlighted in the risk registers remains at seven.

Two emerging issues relate to pressures on staff and services as a consequence of budgetary pressures. Communication plans have been developed and feedback will be monitored to identify potential issues.

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.

A minor control gap has also 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.

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.

A further emerging issue has been highlighted with respect to the potential failure to successfully deliver the Central European Funded Erasmus + Project. The Project Management team will implement governance procedures to monitor financial and target outcomes to ensure the aims of the project are met within a timely manner (3 year project).

Assurance Metrics

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

*¹ medium risk control gap = -1 to -3

*² 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 2016

Number of risk exposures by corporate risk:

Risk No.	Prior Assess.	Audit Assess.	Risk Register		Current Asses.	Direction
			Med.	High		
1	AMBER	2 (3)	5 (5)	0 (0)	AMBER	Improving
2	GREEN	2 (4)	0 (0)	0 (0)	GREEN	Improving
3	GREEN	0 (0)	0 (0)	0 (0)	GREEN	No Change
4	GREEN	0 (0)	0 (0)	0 (0)	GREEN	No Change
5	GREEN	0 (0)	1 (1)	0 (0)	GREEN	No Change
6	GREEN	0 (0)	1 (1)	1 (0)	GREEN	Deteriorating
7	GREEN	0 (1)	0 (0)	0 (0)	GREEN	Improving
8	GREEN	0 (0)	0 (0)	0 (0)	GREEN	No Change
9	GREEN	0 (0)	0 (0)	0 (0)	GREEN	No Change
10	GREEN	0 (0)	0 (0)	0 (0)	GREEN	No Change
11	AMBER	0 (0)	7 (7)	0 (0)	AMBER	No Change

Figures shown in brackets represent the previous quarter.

Corporate Risks

C U S T O M E 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	H Barrington
		ASSETS	5. Failure to Protect & Utilise Assets (IT/IS)	H	M	M Kimberley
			6. Failure to Protect & Utilise Assets (Physical)	H	M	M Kimberley
	LEGAL	7. Legal / Regulatory / Contractual Breach	M	M	H Barrington	
	ENVIRONMENT	8. Environmental Pollution / Disaster	L	L	D Wakelin	
		9. Adverse Events in the External Environment	M	L	J Robinson	
	CUSTOMER & REPUTATION	10. Failure to Maintain Service Standards & Customer Satisfaction	H	M	J Robinson	
		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.
Page 44	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 Track record of achieving efficiencies and budget reductions Regular SLT/Cabinet budget reviews Controlling group manifesto pledges already delivered.	2	1	2	-1
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.
MK88	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. New membership options introduced. Ongoing monitoring of competitors.	2	2	4	-2	'Leisure and Community Centre Strategies to be undertaken.

HB18	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.
MK84	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.	6	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).
HB23	2015-16	Loss of/ damage to original deeds, contracts or agreements in the event of fire. The deeds and contracts/ agreements are not stored in a fire proof room.	6	3	2	6	3	1	3	The majority of the Council's land holding is registered with the Land Registry. However, some remains unregistered and in the event of the loss of deeds, significant work is required to prove title. More recent contracts/ agreements are scanned so the Service holds an electronic copy in addition to the original. A copy of any contract/ agreement could be requested from the contractor if necessary.	3	2	6	-3	Complete process of Voluntary Registration of title deeds at the Land Registry during 2015-16.

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 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.	2	3	6	-2	Future housing numbers assessment being commissioned. Considering review of Commuted Sum 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.
Page 46 SB64	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	1	2	-1	Emerging risk, project developed.
MK95	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.
MK97	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.
MK98	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.

SB69	2015-16	Failure to successfully deliver the Central European Funded Erasmus + Project if funding is secured in July2015.	11	2	2	4	1	1	1	The Project Management team will implement governance procedures to monitor financial and target outcomes to ensure the aims of the project are met within a timely manner (3 year project).	2	1	2	-1
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Report to Audit Committee

Subject: Follow-up of Audit Recommendations

Date: 22nd March 2016

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 2016.

- IAR1415-05 Creditors
- IAR1415-09 Officer Disbursements
- IAR1415-11 NDR
- IAR1415-12 Council Tax

IAR1415-05 Creditors

The report, issued in October 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 January 2016. The review confirmed that all three recommendations had been fully implemented.

IAR1415-09 Officer Disbursements

The report, issued in April 2015, 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 January 2016. The review confirmed that both recommendations had been fully implemented.

IAR1415-11 NDR

The report, issued in March 2015, 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 January 2016. The review confirmed that three recommendations have been fully implemented and one had been partially implemented. The partially implemented recommendation related to document review and has been reiterated in the current report (IAR1516-09).

IAR1415-12 Council Tax

The report, issued in March 2015, 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 January 2016. The review confirmed that one recommendation had been fully implemented and one had been partially implemented. The partially implemented recommendation related to document review and has been reiterated in the current report (IAR1516-10).

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: 22nd March 2016

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 2016.

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 2016.

- IAR1516-07 Creditors
- IAR1516-09 NDR
- IAR1516-10 Council Tax
- IAR1516-15 Member Disbursements
- IAR1516-16 Officer Disbursements

IAR1516-07 Creditors

The report provided **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. Three low risk recommendations were made relating to the review of the amendment to supplier detail report, independent review of reconciliations and the raising of purchase orders.

IAR1516-09 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. Five low risk recommendations were made relating to low risk procedural issues with respect to annual review of procedural documentation and timely preparation and review of system reconciliations.

IAR1516-10 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. Seven low risk recommendations were made relating to low risk procedural issues with respect to annual review of procedural documentation and timely preparation and review of system reconciliations.

IAR1516-15 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. There were no recommendations made in the report.

IAR1516-16 Officer 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. One low risk recommendation was made relating to the review and update of the authorisation signatories list.

Work in Progress

Audit fieldwork and testing has been completed for the review of Payroll. The draft report is being prepared, however, no significant issues have been raised. In addition audit fieldwork and testing is underway for the Cash Receipting and Financial Management (FMS) reviews.

The remaining reviews for the 15-16 audit plan are scheduled to be completed within the financial year, with no reviews scheduled to be carried forward to 2016-17.

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 2016-17

Date: 22nd March 2016

Author: Service Manager – Audit & Asset Management

1. Purpose of the Report

To report on the planned audit activity for 2016-17.

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 2016. This report relates solely to the planned internal audit work for 2016-17.

In December 2015 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 2016-17

Audit Reports

The performance target is 20 issued audit reports for the 2016-17 financial year.

Audit Activity Arising From The Use Of Risk Assessment Methodology

The annual audit plan for 2016-17 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 1-5	Weighting	Total	max	Weighted Score
SIZE						
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		
	Total size score			21	35	0.6
CONTROL						
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		
	Total Control Score			31	45	0.6889
DETECTION						
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		
	Total Detection Score			21	35	0.6
Multiply each sections weighted total by each other and then by 200						
Weighted Final Score						50

The model shown is applied to each of the risk areas identified for audit in 2016-17. 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 2016-17.

Appendix B summarises the results from the audit risk assessment model for 2016-17 planned activity. Additional time has been allocated for the completion of outstanding audits from the 2015-16 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 2016-17

	<u>PLANNED DAYS</u>
DAYS AVAILABLE	260
LESS:	
Bank Holidays and Annual Leave	40
Sickness	5
Training	5
Vacancies	0
Meetings/Admin	13
Management	0
	(63)
Externally procured resource	88
AUDIT DAYS AVAILABLE	<u>280</u>
PLANNED ACTIVITY	
Key Financial Systems	160
Other Financial Systems	20
Service Level Reviews	50
Specialist Systems	10
Follow-up Activity	40
Total Planned Activity	<u>280</u>

AUDIT RISK ASSESSMENT RESULTS
FOR THE 2016-17 ANNUAL PLAN

AUDIT AREA	SCORE	PRIORITY	DAYS
Housing Benefits	61	2	25
Leisure Income	36	4	10
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	5
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			30
Community Infrastructure Levy			20
Follow-up Reviews			30
Anticipated finishing time (c/f 15-16)			10
TOTAL			280

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