



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

Agenda

Audit Committee

Date: **Tuesday 18 June 2013**

Time: **5.30 pm**

Place: **Reception Room**

For any further information please contact:

Lyndsey Parnell

Members' Services Officer

0115 901 3910

Audit Committee

Membership

Chair Councillor Phil McCauley

Vice-Chair Councillor Meredith Lawrence

Councillor Chris Barnfather

Councillor Paul Feeney

Councillor Tony Gillam

Councillor Mark Glover

Councillor Richard Nicholson

AGENDA

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Agenda Item 2

AUDIT COMMITTEE

Tuesday, 26th March, 2013

Councillor P. McCauley(Chair)

Councillors:	M. Lawrence	C.P. Barnfather
	A.J. Gillam	R.J. Nicholson
	M.R. Payne	D.E. Pulk

29 APOLOGIES FOR ABSENCE.

No apologies for absence were received.

30 TO APPROVE, AS A CORRECT RECORD, THE MINUTES OF THE MEETING HELD ON 11 DECEMBER 2012.

RESOLVED:

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

31 DECLARATION OF INTERESTS.

None.

32 EXTERNAL REPORTS

Consideration was given to reports of the external auditors, KPMG, which had been circulated previously.

RESOLVED:

To thank KPMG for their work and to note the reports.

33 COMPLIANCE WITH INTERNATIONAL AUDITING STANDARDS

Consideration was given to a report of the Chair of the Audit Committee, which has been previously circulated, outlining the Audit Committee's response to the standard questions raised by KPMG.

RESOLVED:

To endorse the Chair's response.

34 CORPORATE RISK SCORECARD

Consideration was given to a report of the Service Manager, Audit and Risk Management, which had been circulated previously, 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.

35

FOLLOW-UP OF PREVIOUS AUDIT RECOMMENDATIONS

Consideration was given to a report of the Service Manager, Audit and Risk Management, which had been circulated previously, monitoring 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.

36

INTERNAL AUDIT REPORTS ISSUED JANUARY – MARCH 2013

Consideration was given to a report of the Service Manager, Audit and Risk Management, which had been circulated previously, summarising the outcome of Internal Audit activity for the period January to March 2013.

RESOLVED:

To note the report and, in particular, that the level of assurance provided in each audit assignment will be taken into account when Internal Audit provide an overall opinion on assurance in the Annual Report at the end of the financial year.

37

ANNUAL INTERNAL AUDIT PLAN 2013/14

Consideration was given to a report of the Service Manager, Audit and Risk Management, which had been circulated previously, reporting the planned Audit activity for 2013-14.

RESOLVED:

To note the contents of this draft report to be passed to the Chief Financial Officer for approval.

38

ANY OTHER ITEMS WHICH THE CHAIRMAN CONSIDERS URGENT.

Members discussed current levels of sickness absence in light of a recent change to the policies governing staff sickness. Members were advised that as the policy had been implemented in January 2013, it was too early to assess any impact it may have on sickness levels.

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Report to: Audit Committee

Subject: Annual Fraud & Irregularities Report

Date: 18th June 2013

Author: Service Manager – Audit & Risk Management

1. PURPOSE OF REPORT

To provide a summary report to members of all investigated cases of fraud and irregularities identified during the 2012-13 financial year.

To identify to members 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 2011-12 are highlighted in brackets.

3. INTERNAL AUDIT INVESTIGATIONS

During the financial year, a serious case of theft by an employee against the Council was investigated by Internal Audit. The case was originally referred to Internal Audit via the Whistleblowing policy, however, the original report related to a separate unfounded allegation.

During March and April 2012 fuel reports were obtained and reviewed by Internal Audit which identified significant usage of fuel during weekend periods, where no operational need could be justified. Further data relating to vehicle movements and overtime attendance patterns were reviewed. These identified a consistent pattern of activity and fuel usage.

A RIPA authority was obtained to install CCTV cameras during May and June 2012. These identified the member of staff responsible for the theft. The individual was suspended from duty in July 2012 and subsequently charged by the Police with eight counts of theft against the employer.

The individual entered a guilty plea against the criminal charges and was dismissed from employment in August 2012.

Internal Audit undertook a review of fuel reports, vehicle movements and overtime sheets to ascertain the full extent of the theft of fuel. The table below summarises the findings:

Calendar Year	Theft (litres)	Theft (£)
2007	3,600	2,571.22
2008	3,803	3,158.15
2009	5,997	5,168.35
2010	7,001	5,966.04
2011	10,500	10,333.50
2012 (6 months to June)	8,245	7,891.01
TOTAL	39,146	35,088.27

A claim to recover the cost of the theft has been placed with the Council's insurers Zurich Municipal. The claim currently rests with the loss adjuster and is subject to a £500 excess on the policy.

4. HOUSING & COUNCIL TAX BENEFIT FRAUD

The Benefit Fraud and Investigation section received **460** (461) referrals in 2012/13. **228** (230) of these cases were raised from the outset as criminal investigations for the Council's Investigators.

144 (116) 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 have not 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.

82 (99) 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.

6 (16) 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 2012/13, **43** (59) individuals were sanctioned under the following fraud types:

• Undeclared partner	4
• Undeclared capital	6
• Undeclared work for claimant and/or partner	21
• False tenancy created	3
• Landlord father of child	1
• Claimed after vacating claim address	4
• Undeclared work and Tax Credits	2
• Not resident at claim address/ living with partner elsewhere	1
• Undeclared pension and second property	1

The 43 (59) sanctions are broken down as follows:

- **22** (24) referred for criminal proceedings and successfully prosecuted,
- **13** (21) offered and accepted an administrative penalty,
- **8** (14) were offered and accepted a formal 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 2012 and March 2013, fraud investigation files closed identified **£260,145.59** (£261,403.37) of incorrectly paid benefit broken down as:

	Fraud overpayments	Claimant / LA error overpayments
Housing Benefit	£119,992.41 (£135,526.29)	£86,689.42 (£62,119.49)
Council Tax Benefit	£21,921.50 (£48,706.84)	£31,542.26 (£15,050.75)
Total	£141,913.91 (£184,233.13)	£118,231.68 (£77,170.24)

Overpayment by Sanction type:

	Caution	Administrative Penalty	Prosecution
Housing Benefit	£6,008.73 (£12,299.18)	£27,747.35 (£16,213.30)	£86,236.33 (£107,013.81)
Council Tax Benefit	£1,310.54 (£6,856.82)	£5,523.68 (£11,013.32)	£15,087.28 (£30,836.70)

For the Year 2012/13, the Benefit Liaison Section generated **£10,181.05** (£8,167.58) 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 2012/13, generated **£3,805.00** (£1,155.00) 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 **866 (491)** Housing Benefit Matching Services data matches in 2012/13.

The data matches closed between April 2012 and March 2013 identified **£119,545.20** (£88,933.99) of Housing Benefit overpayments and **£31,007.67** (£31,182.68) of Council Tax benefit overpayments, total **£150,552.87** (£120,116.67). 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.

On the 1st March 2013, the Fraud Section also received **822** National Fraud Initiative data matches. As at the date of this report, 404 cases have been examined. 244 of the referrals have been cleared as the information highlighted in the data match is already known or there is no issue. 81 of the cases have been sent to the DWP, 23 have been raised by the Benefit Liaison Team for investigation and 56 are awaiting information from various sources to determine whether there is a potential fraud or error.

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

Between April 2012 and August 2012, one of the officers was on secondment for 3 days a week to the DWP to assist with the introduction of the Single Fraud Investigation Service. The Council received payment from the DWP for the days on secondment.

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

5. RECOMMENDATION

Members are requested to note the report.

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Report to: Audit Committee

Subject: The Annual Internal Audit Report 2012-13

Date: 18th June 2013

Author: Service Manager - Audit & Risk Management

1. PURPOSE OF THE REPORT

To report on the activity of the Internal Audit section during the 2012-13 financial year.

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

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:

“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. RECOMMENDATION

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.

Members are requested to note the contents of the report.



GEDLING BOROUGH COUNCIL

Annual Report of the Internal Audit Service

2012-13

For presentation at the Senior Leadership Team (21st May 2013) and the Audit Committee (18th June 2013)

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

Date: June 2013

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 2012-13 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 2012-13 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 2013, 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 2012-13 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 external evaluators such as the Audit Commissions governance report and annual audit and inspection letter and other inspectorate reports such as the Planning Inspectorate.

There were no significant issues identified within the Governance process to warrant inclusion in the 2012-13 Annual Governance Statement.

The following issue is not highlighted as a current control or risk concern, 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 volatile economic climate and the uncertain political climate. Despite ongoing pressures and squeezes on costs, income streams and funding, effective planning has resulted in the Council's 2013-14 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 position. Plans are being developed to assess the Council's priorities and deliver the action required to maintain its financial standing.

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 The activity of the section covers Corporate Governance, Risk Management, Insurance, Business Continuity Planning, Health & Safety, Procurement and Internal Audit.

The current structure of the section is as follows:

- Manager Audit & Risk Services (1 FTE)
- Internal Auditor (1 FTE)
- Externally Procured Resource (1.5 FTE)
- Insurance & Risk Management Officer (0.5 FTE)
- Audit & Risk Technician (1 FTE)
- Health & Safety Officer (1 FTE)

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 1.5 FTE (Internal Auditor posts).

The agreement for 2012-13 with the County was for 30 days of audit work to be undertaken. Delivery of the audit plan within the financial budgetary limits was achieved by engaging RSM Tennon to provide 102 days of audit activity.

This approach to partnership work and co-sourcing audit resource will continue during 2012-13, 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 The Audit Commission undertakes an annual review of the Internal Audit function and the quality of its work. When undertaking the review they ensure compliance with the CIPFA Code of Practice and, where relevant, make recommendations on how compliance can be improved or developed further.

In addition, the Audit Commission undertakes a detailed review of Internal Audit work every 3-4 years. This was last completed in March 2009. The Audit Commission identified no issues and confirmed that Gedling Borough Council's Internal Audit function fully satisfies the requirements of the CIPFA Code of Practice.

The Accounts and Audit (Amendment) (England) Regulations 2006 came into force on the 1st April 2006. Two of the amended regulations have an impact on the preparation of the Annual Governance Statement.

Regulation 6 requires the Authority to undertake an annual review of the effectiveness of their system of internal audit, and under Regulation 4 for the findings of the review to be considered by a committee of the Authority (or by the Authority as a whole).

A review of the Authority's system of internal audit was completed during April 2013. 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**.

In December 2010, CIPFA published a statement on the "Role of the Head of Internal Audit (HIA)" which 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.

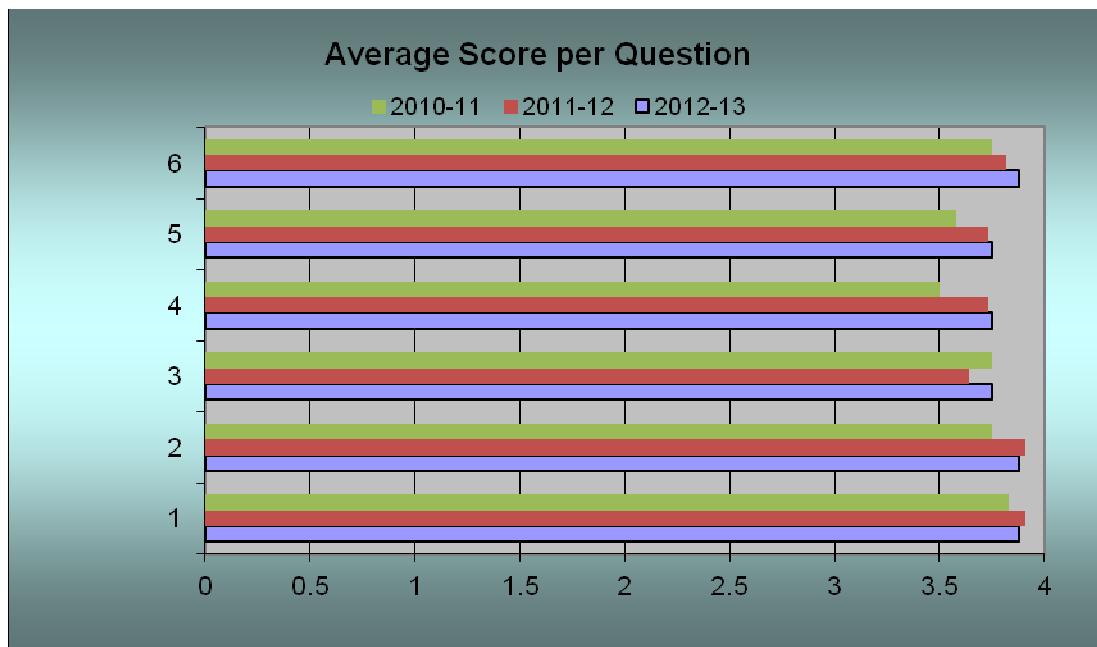
The Questionnaire comprises the following six questions covering the end to end audit process;

- 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 2012-13, 9 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 2012-13

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 reviews were undertaken, with 22 audit reports issued against the target of 22. Of the 22 reports, 15 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 2 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 2012-13 audit plan.

Whilst overall, audit activity remained within the planned days, an additional 26 days were allocated to investigatory work. These additional days were allocated entirely to the investigation into a serious case of theft of vehicle fuel by an employee.

The case was originally referred to Internal Audit via the Council's Whistleblowing policy, however, the original report related to a separate unfounded allegation.

During March and April 2012 fuel reports were obtained and reviewed by Internal Audit which identified significant usage of fuel during weekend periods, where no operational need could be justified. Further data relating to vehicle movements and overtime attendance patterns were reviewed. These identified a consistent pattern of activity and fuel usage.

A RIPA authority was obtained to install CCTV cameras during May and June 2012. These identified the member of staff responsible for the suspected theft. The individual was suspended from duty in July 2012 and, based on the evidence obtained by Internal Audit, charged with eight counts of theft against the employer.

The individual entered a guilty please against the criminal charges and was dismissed from employment in August 2012.

Internal Audit undertook a review of fuel reports, vehicle movements and overtime sheets to ascertain the full extent and value of the theft of fuel. The table below summarises the findings:

Calendar Year	Theft (litres)	Theft (£)
2007	3,600	2,571.22
2008	3,803	3,158.15
2009	5,997	5,168.35
2010	7,001	5,966.04
2011	10,500	10,333.50
2012 (6 months to June)	8,245	7,891.01
TOTAL	39,146	35,088.27

A claim to recover the cost of the theft has been placed with the Council's insurers Zurich Municipal. The claim rests with the loss adjuster and is subject to a £500 excess on the policy.

Internal Audit also undertook a full review of the control environment relating to storage and issue of fuel stocks. The review provided only limited assurance and highlighted one high and three medium risk recommendations including a lack of security of fuel key fobs and inadequate management monitoring of fuel usage.

Management action to address these significant control weaknesses has now been implemented.

3.4 Summary of Audit Report Conclusions and Recommendations

Ref.	Title	Plan Days	Actual Days	Audit Recommendations			Assurance Level
				High	Medium	Low	
Audit reports providing a formal assurance statement							
IAR1213-03	Fuel Stocks	25	25	1	3	1	Limited
IAR1213-04	Bin Stocks	10	10	0	1	0	Substantial
IAR1213-05	General Stores	5	5	0	0	1	Substantial
IAR1213-06	Debtors	15	15	1	2	3	Limited
IAR1213-07	Creditors	10	10	0	0	2	Substantial
IAR1213-08	Bank Accounts	5	5	0	0	1	Substantial
IAR1213-09	Lending & Borrowing	5	5	0	0	0	Substantial
IAR1213-10	Housing Benefits	30	30	0	2	4	Substantial
IAR1213-11	Council Tax	15	15	0	0	3	Substantial
IAR1213-12	NNDR	15	15	0	1	1	Substantial
IAR1213-13	Payroll	15	7	0	0	6	Substantial
IAR1213-15	Capital	10	10	0	2	1	Substantial
IAR1213-16	FMS	10	10	0	0	4	Substantial
IAR1213-17	Cash Receipting	10	10	0	1	4	Substantial
IAR1213-18	Officer & Member Disbursements	10	10	0	0	4	Substantial
Totals		190	183	2	12	35	

Ref.	Title	Plan Days	Actual Days	Audit Recommendations			Assurance Level
				High	Medium	Low	
Audit reports not providing a formal assurance statement							
IAR1213-01	Cash Ups (Civic Centre)	2	2	N/a	N/a	N/a	N/a
IAR1213-02(a-e)	Cash Ups (Leisure Centres x 5)	3	4	N/a	N/a	N/a	N/a
IAR1213-14	Leisure Income (Bar Stocks)	10	6	N/a	N/a	N/a	N/a
Other Work							
	Audit Follow-up Activity	40	34				
	11-12 work carried forward	10	7				
	Computer Audit	20	8				
	Contract (Final Check)	10	8				
	Contingency / Investigations	56	82				
Work carried forward to 2013-14							
Grand Totals		341	334				

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 seven financial years. The assurance provided from internal audit activity shows a sustained improvement in the control environment reviewed.

Assurance	Substantial	Limited	No
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 seven financial years.

Recommendations	High	Medium	Low
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 (49 in comparison to 57 during 2011-12).

However, there is a slight increase in the number of medium and high risk recommendations (28.5% compared to 19.3% in 2011-12). This is predominantly due to the two audit reviews that provided limited assurance on the control environment.

Details relating to the first of these, the review of Fuel Stocks, is outlined above in section 3.3.

In addition, limited assurance was provided in the debtors review. The majority of the issues raised in this report were a direct consequence of bringing the debtor facility back in house from Rushcliffe Borough Council and have also been addressed.

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 2012-13.

Annual Review of the Effectiveness of the System of Internal Audit 2012-13

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.

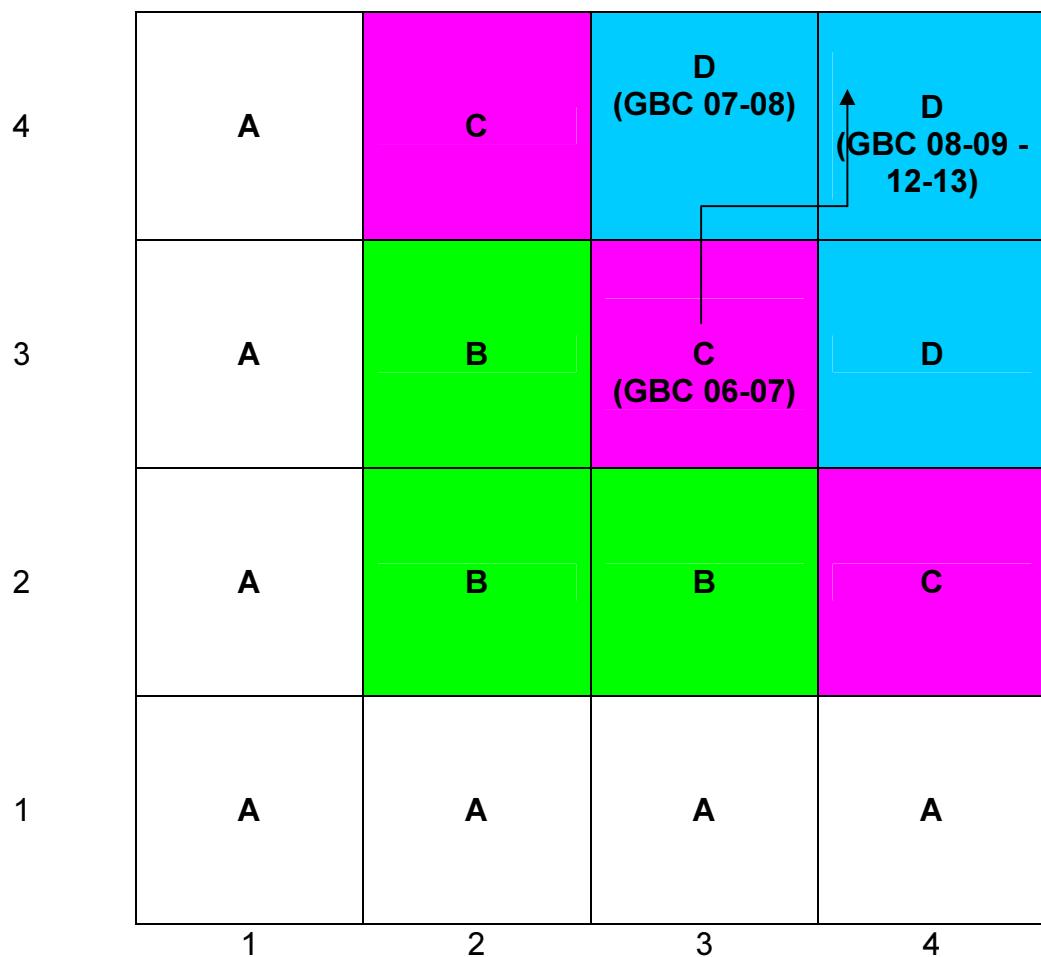
CiPFA Effectiveness

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



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.

Appendix B

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: Corporate Risk Scorecard

Date: 18th June 2013

Author: Service Manager - Audit & Risk Management

1. PURPOSE OF REPORT

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

2. BACKGROUND

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

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

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

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

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

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

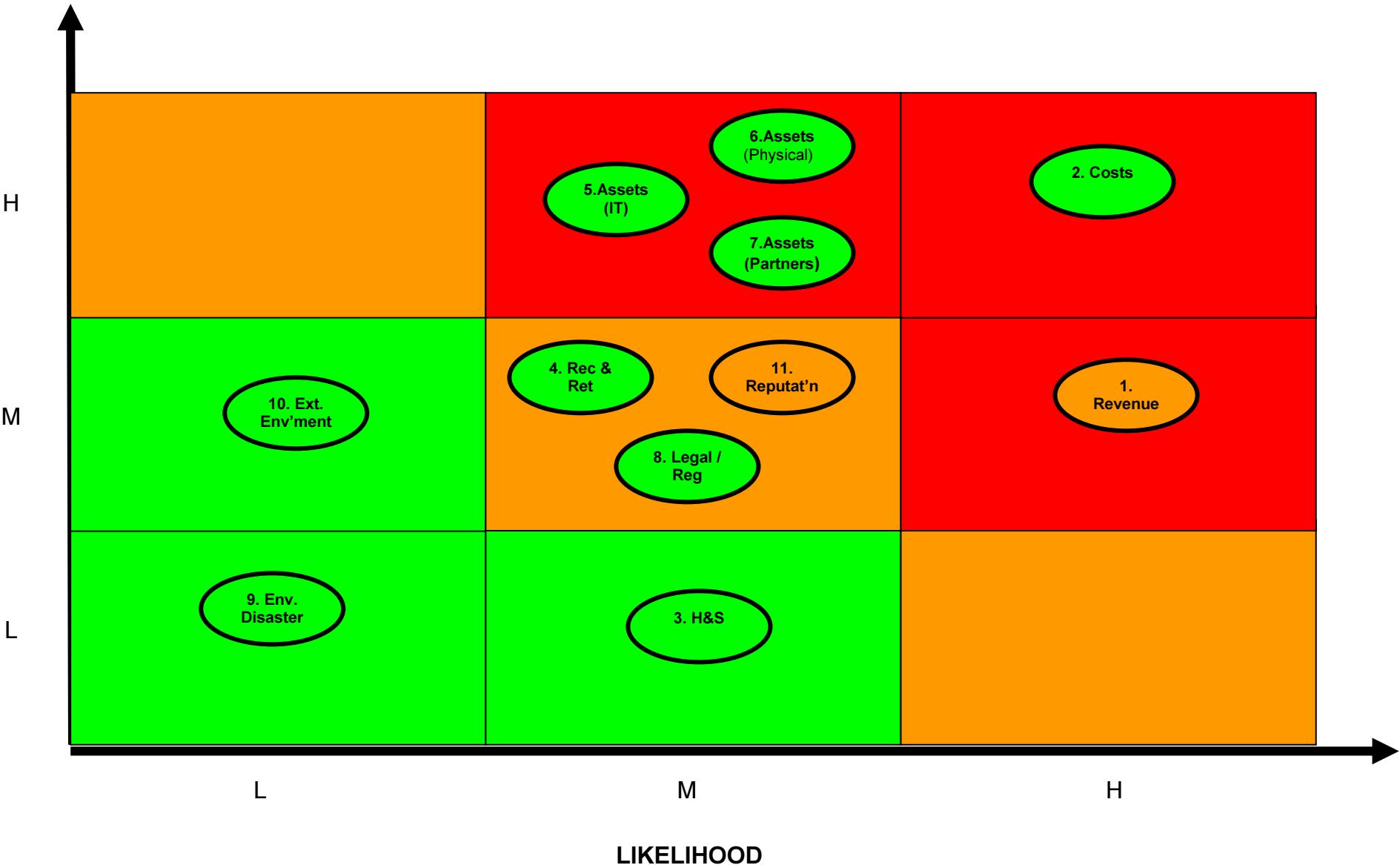
3. CORPORATE RISK SCORECARD

The Corporate Risk Scorecard and supporting comments, as at June 2013, 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**.

GEDLING BOROUGH COUNCIL
CORPORATE RISK SCORECARD – June 2013



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 deterioration in this risk category, however, the residual risk remains at amber.</p> <p><u>Audit Recommendations</u></p> <p>The number of outstanding medium risk audit recommendations remains at 5.</p> <p>The review of NNDR (IAR1213-12) identified a medium risk recommendation relating to the need to undertake a review of system parameters to ensure that once an account has been awarded Discretionary Relief, a notification letter regarding any changes is automatically sent to the account holder.</p> <p>The review of Debtors (IAR1213-06) highlighted two medium and one high risk recommendation. These relate to need to undertake timely reconciliations between the Direct Services system and the Civica debtor system and similarly between the debt collection agency system.</p> <p>In addition, a medium risk recommendation was reported in the Cash Receipting review (IAR1213-17), relating to the use of shred user log on's during periods of short breaks.</p> <p><u>Risk Register</u></p> <p>Pressure is still prevalent on Leisure Income streams, particularly income levels within Leisure Centre's. Income streams within Planning and Environment, both Building and Development Control, are also still subject to pressure, however, these have stabilised.</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>	<table border="1" style="margin-left: auto; margin-right: auto;"><tr><td style="width: 50px; height: 50px;"></td><td style="width: 50px; background-color: red;"></td></tr><tr><td style="width: 50px; height: 50px;"></td><td style="width: 50px; background-color: orange;"></td></tr></table>				

2	<p>FAILURE TO MINIMISE COSTS</p> <p><u>Owner:</u> Mark Kimberley</p> <p><u>Residual Risk Direction:</u> </p> <p>Summary of Control Weaknesses:</p> <p>There is an overall deterioration to this risk category, due to the five new audit recommendations summarised below.</p> <p><u>Audit Recommendations</u></p> <p>There have been five high/medium risk audit recommendations identified during the quarter.</p> <p>These relate to the need to review and enhance the management reporting and monitoring arrangements for fuel stocks and enhance the monitoring of the use of fuel key fobs to provide a robust audit trail (IAR1213-03).</p> <p>In addition, a medium risk recommendation was identified in the review of Bin Stocks (IAR1213-04), requiring a review of order levels to minimise stock holding levels and costs.</p> <p><u>Risk Register</u></p> <p>There are currently no outstanding control gaps in the strategic or operational risk registers relating to this corporate risk.</p>	<table border="1" data-bbox="1001 226 1334 377"> <tr> <td>Inherent Risk</td><td></td></tr> <tr> <td>Residual Risk</td><td></td></tr> </table>	Inherent Risk		Residual Risk	
Inherent Risk						
Residual Risk						
3	<p>HEALTH & SAFETY FAILINGS / PROTECTION OF STAFF</p> <p><u>Owner:</u> Mark Kimberley</p> <p><u>Residual Risk Direction:</u> </p> <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 risk audit recommendations relating to this corporate risk.</p> <p><u>Risk Register</u></p> <p>There are currently no outstanding control gaps in the strategic or operational risk registers relating to this corporate risk.</p>	<table border="1" data-bbox="969 1361 1302 1511"> <tr> <td>Inherent Risk</td><td></td></tr> <tr> <td>Residual Risk</td><td></td></tr> </table>	Inherent Risk		Residual Risk	
Inherent Risk						
Residual Risk						

4	<p>FAILURE TO RECRUIT & RETAIN SUITABLY SKILLED STAFF</p> <p><u>Owner:</u> Stephen Bray</p> <p><u>Residual Risk Direction:</u> </p> <table border="1" data-bbox="952 280 1293 437"> <tr> <td>Inherent Risk</td><td style="background-color: #FFD700;">Yellow</td></tr> <tr> <td>Residual Risk</td><td style="background-color: #90EE90;">Green</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></p> <p>There are currently no outstanding control gaps in the strategic or operational risk registers relating to this corporate risk.</p>	Inherent Risk	Yellow	Residual Risk	Green
Inherent Risk	Yellow				
Residual Risk	Green				
5	<p>FAILURE TO PROTECT & UTILISE ASSETS (IT/IS)</p> <p><u>Owner:</u> Mark Kimberley</p> <p><u>Residual Risk Direction:</u> </p> <table border="1" data-bbox="991 1010 1325 1167"> <tr> <td>Inherent Risk</td><td style="background-color: #FF0000;">Red</td></tr> <tr> <td>Residual Risk</td><td style="background-color: #90EE90;">Green</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></p> <p>There are two minor control gaps identified on the corporate risk register.</p> <p>These relate to resource issues identified in the planned roll out of further Resourcelink modules and the need to raise staff awareness within Planning & Environment regarding the need to record "Hate Incidents".</p>	Inherent Risk	Red	Residual Risk	Green
Inherent Risk	Red				
Residual Risk	Green				

6	<p>FAILURE TO PROTECT & UTILISE ASSETS (PHYSICAL)</p> <p><u>Owner:</u> John Robinson</p> <p><u>Residual Risk Direction:</u></p>  <table border="1" data-bbox="980 253 1318 411"> <tr> <td>Inherent Risk</td><td style="background-color: red;"> </td></tr> <tr> <td>Residual Risk</td><td style="background-color: green;"> </td></tr> </table> <p><u>Summary of Control Weaknesses:</u></p> <p>There is an overall slight deterioration 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></p> <p>An emerging risk has been identified with respect to the successful delivery of the capital project to refurbish Arnold Leisure Centre.</p>	Inherent Risk		Residual Risk	
Inherent Risk					
Residual Risk					
7	<p>FAILURE TO DEVELOP & DELIVER STRATEGIC PARTNERSHIPS</p> <p><u>Owner:</u> Mark Kimberley</p> <p><u>Residual Risk Direction:</u></p>  <table border="1" data-bbox="980 1039 1318 1197"> <tr> <td>Inherent Risk</td><td style="background-color: red;"> </td></tr> <tr> <td>Residual Risk</td><td style="background-color: green;"> </td></tr> </table> <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>There are no outstanding high/medium risk audit recommendations relating to this corporate risk.</p> <p><u>Risk Register</u></p> <p>The Leisure Services operational risk register identifies a minor control gaps with respect to the need to develop new joint use agreements, particularly with respect to Academy Schools. A management action plan is in place to address the risks identified.</p>	Inherent Risk		Residual Risk	
Inherent Risk					
Residual Risk					

8

LEGAL / REGULATORY / CONTRACTUAL BREACH**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 currently no outstanding medium risk audit recommendations relating to this corporate risk.

Risk Register

The Leisure Services operational risk register identifies a potential breach of the Data Protection Act relating to transfer of personal data held within DNA and GP referral schemes. Advice has been sought from Legal Services and IT. The Department has also completed work with partner agencies to review working practices.

Management are currently monitoring the situation to identify any instances of transfer of personal data. Once identified management will seek DPA advice from Legal Services and the Authority's Data Security Group. Ongoing monitoring will confirm (or otherwise) whether this current approach is sufficient to fully mitigate the risk.

An emerging risk has been identified with respect to the payment of holidays for casual employee's. The use of casual employee's is being minimised and case law being monitored for developments.

9	<p>ENVIRONMENTAL POLLUTION / DISASTER</p> <p><u>Owner:</u> David Wakelin</p> <p><u>Residual Risk Direction:</u> ➔</p> <table border="1" data-bbox="953 271 1287 428"> <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></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>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="977 1046 1310 1203"> <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></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					

11

DAMAGE TO REPUTATION**Owner:** John Robinson**Residual Risk Direction:**

Inherent Risk	
Residual Risk	

Summary of Control Weaknesses:

There is an overall deterioration in this risk category, however, the residual risk remains at amber.

Audit Recommendations

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

Risk Register

Two emerging risks have been identified. These relate 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.

The significant risk identified within the Parks & Street Care operational risk register, relating to the potential failure to repair and maintain fencing in recreational areas, has been reassessed as a minor control gap. The cause of the control gap is identified as inadequate funding. There have been no identified trends of increased incidents or insurance claims.

A minor control gap has been identified within the Strategy & Performance operational risk register. This relates 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.

In addition, a further minor control gap has been identified within Planning & Environment with respect to the potential failure to secure ongoing funding for CCTV and the ASB co-ordinator.

4. RECOMMENDATION

Members are requested to note the report.

Appendix A

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 June 2013

Number of risk exposures by corporate risk:

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

Figures shown in brackets represent the previous quarter.

Corporate Risks

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

Appendix C

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		
S19 Page 45	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.	
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			
S20	2008-09	Budget pressure resulting from declining income (economy impact) and external cost pressures.	1	3	3	9	1	1	1	Robust M/T Financial Strategy. Budget planning and monitoring. Strategies being developed (efficiency / income). S151 Officer role – preventing unbalanced budget.	2	1	2	-1	Continue to monitor for emerging issues.		
S22	2012-13	'Failure to produce a balance Medium Term Financial Plan (3 year horizon)	1	3	3	9	1	1	1	'MTFP balanced over 3 years Track record of achieving efficiencies and budget reductions Regular SLT/Cabinet budget reviews Controlling group manifesto pledges already delivered	2	2	4	-3	Continue to monitor for emerging issues.		

DW7	2004-05	Failure to repair and maintain fencing in recreation areas.	11	3	3	9	1	1	1	Inadequate funds to complete - further budget bids to be made. Insurance policy in place. No trend identified of incidents/claims.	1	2	2	-1	Monitor success of future budget bids.
PD56	2004-05	Inability to finalise/ maintain Joint Use Agreements for all 3 sites, potentially resulting in reduced income, loss of maintenance funding and reduction in provision / service delivery.	7	1	3	3	1	1	1	Enter into new agreements. Ongoing management review. Included in medium term plan.	1	2	2	-1	New, separate agreement now in place for Calverton with Seely School Governors and with NCC. New Joint Use agreement for all sites are needed. Academy Status at Redhill School and Wheldon School require variations to the existing agreement due to ownership issues. NB - third party reliance (NCC legal services). This is being progressed. Will be subject to 6 monthly review.
PD64	2007-08	Inability to maintain current level of income within Leisure Services.	1	3	3	9	1	2	2	New systems and procedures developed for DNA – marketing promotion / sales / retention. New membership options introduced. Ongoing monitoring of competitors.	2	2	4	-2	'Leisure and Community Centre Strategies to be undertaken 13/14.
PD65	2007-08	Potential breach of DPA relating to transfer of personal data held within DNA and GP referral schemes.	8	3	1	3	1	1	1	Advice sought from legal services/IT. Working with partner agencies to review working practices. Corporate Data Security group established.	2	1	2	-1	Continue to identify instances of transfer of personal data and seek DPA advice from legal services / IT security.

PD71	2012-13	'Failure to deliver Capital project to refurbish Arnold Leisure Centre.	6	2	2	4	2	1	2	Project team established including Project Manager and various technical disciplines.	2	2	4	-2	Emerging risk, project team established, monitor project risks/issues.
PD46	2008-09	Falling DC Income.	1	2	2	4	1	1	1	Introduction of pre-application charges April 2013. Income monitored at actual and underlying levels actual currently holding). Monitoring of fee income by stream (household/commercial). Potential impact of the Planning Guarantee.	1	2	2	-1	'Ongoing management monitoring and reaction to market forces by income stream.
Page 47	PD47	2008-09	Falling BC Income	1	2	2	4	1	2	'Income monitored at actual and underlying levels (actual currently holding). Monitoring of fee income by stream (household/commercial). Using introduction of pre-app service for planning applications to promote the BC service.	2	2	4	-2	'Management monitoring and reaction to market forces by income stream.
PD50	2009-10	Inadequate recording and response to hate incidents against staff.	5	3	2	6	1	1	1	Recording of all incidents. Access to records by all staff who have contact/ enter premises. Staff awareness training.	2	1	2	-1	Regular reviews of accuracy and consistency of recording of incidents. On-going staff training. Quarterly review.
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.

		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.
		A challenge is made to the non payment of holidays for casual employees (predominantly in Leisure).	8	2	2	4	1	1	1	Monitoring case law to see if there are developments. Ensuring that as far as possible use of casual employees is minimised, and that casual employees are moved onto permanent or temporary contracts.	2	2	4	-3	There are significant cost implications arising from addressing this risk. However the balance is to continue to monitor the situation rather than take action. The costs to be borne are the same whether there is a legal challenge or we take action.
Page 48		'Failure to implement Community Infrastructure Levy.	11	2	2	4	1	1	1	'Resulting in reduced ability to secure s106 contributions to mitigate the impact of new development. Reviewing introduction of CIL whilst not compromising the viability of the local housing market.	2	2	4	-3	Emerging risk, project developed.
		'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	-1		Emerging risk, review options and discussion outcomes.



Report to: Audit Committee

Subject: Follow-Up of Audit Recommendations

Date: 18th June 2013

Author: Service Manager - Audit & Risk Management

1. PURPOSE OF 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 FINDINGS

Recommendations made in the following audit report were followed-up during the period April – June 2013.

- IAR1112-06 Cash Receipting
- IAR1112-14 Payroll
- IAR1112-17 Financial Management System (FMS)

IAR1112-06 Cash Receipting

The report, issued in November 2011, 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.

A review of progress of management action against these recommendations was undertaken in February 2013. The review confirmed two recommendations had been fully implemented and one superseded by changes to working practices.

The remaining recommendations had been partially implemented, however are reiterated in recommendations 3 and 5 of the current report (IAR1213-17) and relate to the need to provide a full narrative of the reasons for void transactions and complete the review of record retention periods.

IAR1112-14 Payroll

The report, issued in February 2012, 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.

A review of progress of management action against these recommendations was undertaken in February 2013. The review confirmed that all one recommendation had been fully implemented. The remaining two recommendations had been partially implemented and are reiterated in the current report (IAR1213-13) under recommendations 1 and 2. These are in respect of procedural issues relating to the authorised signatory list and evidenced management review of documentation.

IAR1112-17 Financial Management System (FMS)

The report, issued in May 2012, 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.

A review of progress of management action against these recommendations was undertaken in February 2013. The review confirmed that all three recommendations had been fully implemented.

4. RECOMMENDATION

Members are requested to note the report.



Report to: Audit Committee

Subject: Summary of Audit Activity

Date: 18th June 2013

Author: Service Manager - Audit & Risk Management

1. PURPOSE OF REPORT

To summarise the outcome of Internal Audit activity for the period April to June 2013.

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. SUMMARY OF INTERNAL AUDIT ACTIVITY

Final Reports Issued

The following reports have been finalised for the period April – June 2013.

- IAR1213-03 Fuel Stocks
- IAR1213-04 Bin Stocks
- IAR1213-05 General Stores
- IAR1213-13 Payroll
- IAR1213-15 Capital
- IAR1213-16 Financial Management System (FMS)
- IAR1213-17 Cash Receipting
- IAR1213-18 Officer & Member Disbursements

IAR1213-03 Fuel Stocks

The report provided **limited assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. One high, three medium and one low risk recommendations were made.

The high risk recommendation relates to the need to enhance the routine monthly monitoring reports for fuel usage. Whilst the monitoring of fuel usage has been greatly improved to centralise the monitoring of fuel cumulative fuel usage, further monitoring reports need to be developed to monitor individual vehicle/activity usage.

In addition, three medium risk recommendations were made relating to the control of vehicle fuel tags and a review of CCTV equipment at the depot. As with the fuel reports, highlighted above, additional controls have already been introduced with respect to restricting access to key fuel fobs, however, further monitoring controls are recommended to provide a robust audit trail of access arrangements.

The full report is provided as an annex for member consideration.

IAR1213-04 Bin Stocks

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 medium risk recommendation was made relating to the need to undertake a review of stock replenishment levels to minimise stock holding levels and associated costs.

IAR1213-05 General Stores

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 need to investigate a minor anomaly (£383.28) on the stock holding sheet. The error was attributable to a rogue formula on the spreadsheet rather than any discrepancies with the actual stock figures.

IAR1213-13 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. Six low risk recommendations were made. These related to the need to update procedural documentation and review the timeliness of documentation between payroll and personnel and the associated responsibilities for storing relevant documents.

IAR1213-15 Capital

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 one low risk recommendations were made. The medium risk recommendations relate to the need to review and update the Procurement Strategy, and specifically to ensure the strategy documents the Council's approach to the public's "right to challenge" procurement activities.

The strategy has been reviewed and updated to include reference to the Localism Bill 2011 and will be presented to SLT during June 2013.

IAR1213-16 Financial Management System (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. Four low risk recommendations were made all relating to minor procedural issues including the sign off of month end reports/reconciliations. All four issues have been addressed.

IAR1213-17 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. One medium and four low risk recommendations were made. The medium risk recommendation relates to the shared use of user log on's during short periods of cover.

IAR1213-18 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. Four low risk recommendations were made, all relating to minor procedural issues with respect to the completion of relevant claim forms.

Work in Progress

The above reviews represent the final reports in respect of the 2012-13 financial year, and ensure completion of the 2012-13 audit plan.

There are no audit reviews carried forward to the 2013-14 annual audit plan.

4. RECOMMENDATION

The Audit Committee are asked to note the report and in particular that the level of assurance provided in each audit assignment will be taken into account when Internal Audit provide an overall opinion on assurance in the Annual Report at the end of the financial year.

Appendix A

INTERNAL AUDIT

FINAL REPORT

Title: Fuel Stocks

Report Distribution

For Action: Mark Hurst Transport Services Manager

For Information: Mark Kimberley Corporate Director & Chief
Financial Officer
David Wakelin Corporate Director
Colleen Warren Principal Accountant
Thomas Tandy KPMG

Prepared By: Diane Hyett

Draft Issued: 26th March 2013

Final Issued: 25th April 2013

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EXECUTIVE SUMMARY

Introduction

A review of Fuel Stocks has been undertaken as part of the approved internal audit periodic plan for 2012/13.

Gedling Borough Council purchased approximately 380,000 litres of fuel during the financial year 2011-12 with an approximate purchase value of £430,000.

The fuel is held in tanks within the depot at Arnold. The tanks are in the process of being replaced and the gauges updated to ensure that the monitoring of the fuel stocks will be accurate, and the information collected reliable. To date, recording of actual fuel stocks has been by a manual dipstick method.

The main tank has recently been replaced with a larger tank, which will allow the Council to take advantage of increased discounts when purchasing larger quantities of fuel.

During the period of the audit testing, the Council procured a new fuel supply contract through ESPO.

Principal Findings

	High	Medium	Low
Number of recommendations	1	3	1

The detailed findings and associated recommendations are provided in the second part of this report.

The high risk recommendation relates to the need for more focussed monthly monitoring reports of fuel issues and usage. Two of the medium risk recommendations are concerned with controls over the issue and use of fuel ID tags and the third relates to the availability of CCTV surveillance of the depot.

Assurance Statement

Internal Audit can provide **limited assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. This is primarily due to there being significant scope to improve the use of effective management information to control fuel stocks and issues.

INTRODUCTION

Objective & Scope

The objective of the audit was to document and evaluate the auditable area with a view to delivering reasonable assurance as to the adequacy of the design of the internal control system and its application in practice. The control system is put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively.

The key risks associated with the system objective are:

- Hazards arising from fuel leaks
- Losses due to theft, including the issue of fuel to non-council vehicles and to unapproved staff
- The use of council vehicles for unapproved activities
- Excessive expenditure on fuel supplies through poor Value For Money with fuel purchases, processing unauthorised orders, and failure to receive all supplies paid for
- Mis-statement of stock balances and fuel usage costs
- Unreliable management information.

The control areas included within the scope of the review are:

- Fuel is securely and safely stored
- Fuel is issued for approved purposes
- Fuel is appropriately sourced, ordered, delivered and paid for
- Fuel is used promptly and accurately accounted for.

This audit report is presented on an exception basis. The detailed findings include only those areas where controls should be enhanced to improve their effectiveness and mitigate the risks that affect the Authority's objectives for the system reviewed. Controls and risks identified in the scope that are not mentioned in the detailed findings were considered to be adequate and operating effectively.

Acknowledgement

A number of staff gave their time and co-operation during the course of this review. We would like to record our thanks and appreciation to all the individuals concerned.

DETAILED FINDINGS

Observation	Risks	Recommendation	Management's Response
Recommendation 1 - 'Small Workshop' Fuel ID Tag			
Level of Risk - Medium			
<p>Fuel can only be issued at the pumps with a fuel ID card; these are normally allocated to a vehicle registration number. However, there is a 'Small Workshop' fuel tag, which is kept for the issuing of fuel for items of machinery.</p> <p>The tag is kept in the key cabinet in the small workshop office. However, if the cabinet is left open during the day anyone with access to the office would have access to the key fob.</p> <p>It was confirmed that there is no record kept of who has used this tag to issue fuel, or for which machinery items it is used. Should monitoring reports highlight irregularities with issues assigned to this card, it would be difficult to determine which members of staff were responsible.</p>	<p>Misappropriation through the issue of fuel against an ID tag for non-council use.</p>	<ul style="list-style-type: none"> a) A record should be kept showing which operative has used the fuel ID card for the 'Small Workshop' and for what purpose. b) An exception report from the fuel system should be developed to highlight instances in which the 'small workshop' tag has been used: for the issue of fuel at unusual times of the day; for unusually high quantities of fuel; and for unexpected types of fuel. <p>Action: Mark Hurst – Transport Services Manager</p>	<p>Management Comment: Other departments need to be held more responsible for the issuing and monitoring of fuel.</p> <p>Planned Corrective Action:</p> <ul style="list-style-type: none"> a) Involve other departments and set up keys for either team leaders or supervisors with pin or id number to eliminate the use of the small workshop tag. If pin or id numbers cannot be set up then a manual recording system will have to be used. b) Set up exception reports for all users in conjunction with the fuel monitoring suppliers. <p>Timescale: 30th September 2013</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 2 - Record of Vehicles/Fuel ID Tags Allocated to Staff</p> <p>Level of Risk - Medium</p>			
<p>Fuel ID tags are allocated for each vehicle, but a record is not maintained of which operative is using which vehicle each day. Should monitoring reports highlight irregularities with fuel issues (e.g. high frequency and/or quantities) it would be difficult to identify which members of staff were responsible.</p>	<p>Misappropriation through the issue of fuel against an ID tag for non-council use.</p>	<p>A daily record is maintained of which vehicles/fuel ID tags are allocated to which members of staff.</p> <p>Action: Mark Hurst – Transport Services Manager</p>	<p>Management Comment: Tachographs are used by all drivers for vehicles over 3500kgs, also the bartec waste system identifies drivers via their daily vehicle checks, this also has integrated GPS. Masternaut tracking is fitted to all other registered vehicles apart from ride on mowers and the drivers all have id keys to insert into a key reader in the vehicle. Departments also have daily crew sheets and vehicle check sheets.</p> <p>Planned Corrective Action Send out an internal memo to drivers to highlight the importance of using Masternaut tracking id keys and monitor compliance.</p> <p>Timescale: 31st July 2013</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 3 - Security of Fuel (CCTV)</p> <p>Level of Risk - Medium</p>			
<p>Although there is CCTV equipment in place covering the depot where the fuel tanks are located, our enquiries confirmed that it is not actually in use. Discussions identified that the equipment is thought to be faulty, possibly as a result of damage to underground cabling caused by vermin.</p> <p>We consider that active use of the CCTV equipment would serve a dual purpose:</p> <ul style="list-style-type: none"> - A deterrent against potential thefts; and - A means of investigating suspicions of theft to identify offenders. 	<p>Theft of fuel.</p>	<p>A business case for the repair or replacement of the CCTV equipment is put together, to assess whether the expected benefits would warrant the likely costs.</p> <p>Action: Mark Hurst – Transport Services Manager</p>	<p>Management Comment: Transport Services Manager has met with the Facilities Manager and asked for quotations for CCTV replacement or repair.</p> <p>Planned Corrective Action: Update or replace CCTV system. This will be dependent on a viable business case.</p> <p>Timescale: Business case to be completed by 30th September 2013.</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 4 - Monitoring of Fuel Stocks (dip readings)</p> <p>Level of Risk - Low</p>			
<p>Fuel stock dip readings are taken from the tanks and recorded on a weekly basis. Hard copies of the forms are held in the Transportation Office.</p> <p>Our review of these forms for the period 3/8/12 to 2/11/12 showed that they are not signed on a regular basis to confirm who has taken the readings and then who has reviewed them.</p>	<p>Effective and prompt monitoring may not take place, as a result of which significant discrepancies may not be identified and investigated at the earliest opportunity.</p>	<p>The fuel stock sheets are signed both by the officer taking the readings and the officer reviewing the outcome of the comparison.</p> <p>Action: Mark Hurst – Transport Services Manager</p>	<p>Management Comment: Stock sheets are now signed by the Workshop Supervisor and the Transport Services Manager.</p> <p>Planned Corrective Action: Stock sheets signed on a regular basis from December 2012 and a file with the stock sheets is kept in the Fleet Offices.</p> <p>Timescale: Implemented.</p>

Observation	Risks	Recommendation	Management's Response
Recommendation 5 - Routine Monthly Monitoring Reports Level of Risk - High			
Reports are run on a monthly basis analysing the fuel that has been issued by vehicle. The Workshop Supervisor looks over the reports for any anomalies in the recorded refuelling times and quantities. However, at present, expected and actual fuel consumption are not compared. Difficulties arise in relation to some vehicles, such as refuse trucks, which are required to be stationary with the engine running for lengthy periods. Nonetheless, we consider that such factors could be taken into consideration in order to arrive at target fuel consumption rates for each type of vehicle.	Misappropriation of fuel through its issue to non-council vehicles or through its use for non-council business.	<p>a) Target mpg figures are developed for each type of vehicle in the fleet.</p> <p>b) Monthly monitoring reports should be developed as follows:</p> <ul style="list-style-type: none"> - Analysis by vehicle showing total quantity of fuel issued and actual mpg against target mpg. - Exception report of fuel issues over a specified quantity for each type of vehicle. - Exception report of fuel issued outside of usual office hours. <p>Once developed, the actions taken to investigate reported anomalies should be recorded.</p> <p>Action: Mark Hurst – Transport Services Manager</p>	<p>Management Comment: Review and utilise existing systems to eliminate misappropriation of fuel.</p> <p>Planned Corrective Action:</p> <p>a) Develop target mpg via the use of the fuel monitoring system and the fleet management system.</p> <p>b) Use the fuel management system and fleet management system to develop monthly monitoring reports as listed in recommendation b) and record any actions taken in reporting anomalies.</p> <p>Timescale: 30th September 2013</p>

ANNEX A**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 to the risks 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.

What Happens Now?

The final report is distributed to those involved with discharging the recommended action, the Chief Financial Officer, Audit Commission and, where applicable, the relevant Corporate Director.

A synopsis of the audit report is provided to the Authority's Audit Committee. Internal Audit will carry out a follow-up exercise approximately six months after the issue of the final audit report. The on-going progress in implementing each recommendation is reported by Internal Audit to each meeting of the Audit Committee.

Any Questions?

If you have any questions about the audit report on any aspect of the audit process please contact the auditor responsible for the review or Vince Rimmington, Service Manager – Audit & Risk Management on telephone number 0115 9013850 or via e-mail to vince.rimmington@gedling.gov.uk