

Report to Audit Committee

Subject: Annual Internal Audit Report 2016/17

Date: 12 September 2017

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1. Purpose of the Report

- 1.1 To report on the activities of Internal Audit during the 2016/17 financial year that includes, amongst other matters, an opinion on the overall adequacy and effectiveness of the Council's internal control environment.

2. Background

The role of Internal Audit

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

Governance Statement

- 2.2 Under Regulation 6(1) of the Accounts and Audit (England) Regulations 2015, which amended the 2011 Regulations, authorities are required to publish an Annual Governance Statement in line with the CIPFA/SOLACE Framework "*Delivering Good Governance in Local Government*", to meet with that statutory requirement.
- 2.3 As the Council's Head of Internal Audit retired on 31 March 2017 with no direct replacement, the Deputy Chief Executive and Director of Finance (as the Acting Head of Internal Audit) has issued an opinion that forms part of the framework of assurances that assist the Council in preparing an informed Annual Governance Statement. However, the annual audit work programme for 2016/17 and the finalisation of those audits were all completed under the supervision, control and guidance of the Head of Internal Audit during the year.

Annual Internal Audit Report

2.4 The report includes, based on the work undertaken by the internal team and RSM, an opinion regarding the adequacy and effectiveness of Gedling Borough Council's arrangements for governance, risk management and internal control.

2.5 The report summarises the work undertaken by Internal Audit during the financial year 2016/17 to formulate that opinion.

2.6 The overall opinion issued to Gedling Borough Council for 2016/17 is as follows:

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

It is internal audit’s opinion that, for the 12 months ending 31 March 2017, Gedling Borough Council has adequate and effective risk management, governance and internal control processes to manage and achieve the organisation’s objectives.”

2.7 The Council has an established Risk Management Strategy in place. The risks identified are recorded at both a strategic level in the Corporate Risk Register, and an operational level in Service Risk Registers. This two tier approach ensures that the highest level of strategic risks, those which present the greatest challenge to the Council, are identified, evaluated and closely monitored by the Senior Leadership Team and the Audit Committee.

2.8 To inform the governance opinion for 2016/17, consideration was taken of the governance and oversight-related elements of each of the reviews delivered as part of the 2016/17 Internal Audit Plan. The end-of-year processes in regard to the signed Assurance Statements were also reviewed. It was concluded that there is a sound governance framework in place and the Audit Committee is effective in monitoring and challenging management.

2.9 In total, 11 internal audit reviews were undertaken during 2016/17. These comprised of 10 assurance reviews and 1 follow-up. Of these, 10 resulted in Substantial Assurance being provided, and 1 resulted in Reasonable Assurance being provided.

2.10 In conclusion, the Council has maintained progress within the areas of governance, risk management and control arrangements.

3. Recommendations

3.1 Members are requested to receive and accept the Report as presented.



GEDLING BOROUGH COUNCIL

ANNUAL INTERNAL AUDIT REPORT 2016/17

Definition of Internal Audit

- 1.1 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.
- 1.2 "*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.*"

Annual Governance Statement

- 1.3 Since 2007/08, authorities have been required to publish an Annual Governance Statement (AGS) in line with the CIPFA/SOLACE "*Delivering 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.
- 1.4 The Internal Audit team(s) issue assurance opinions for each audit review undertaken throughout the year, and these form part of the framework of assurances that assist in the preparation of the Annual Governance Statement.
- 1.5 The work of the Internal Audit team(s) for the 2016/17 financial year is summarised in this report.

Significant Events / Factors During the Year

- 1.6 There have not been any significant events or factors during the financial year that have affected the extent of the internal audit work or needed to be addressed as an additional part of the Internal Audit Plan.

The Statement of Assurance

- 1.7 The Head of Internal Audit is required to provide the Council with assurance on the whole system of internal control. In providing the 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.

1.8 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 the 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.

Internal Audit Opinion

1.9

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

It is internal audit's opinion that, for the 12 months ending 31 March 2017, Gedling Borough Council has adequate and effective risk management, governance and internal control processes to manage and achieve the organisations objectives.

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

Risk Management

1.11 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.

1.12 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.

- 1.13 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.
- 1.14 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.
- 1.15 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

- 1.16 The CIPFA/SOLACE guidance note and framework – *“Delivering Good 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.
- 1.17 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.
- 1.18 In addition to the Governance Framework review, signed Assurance Statements are obtained from Corporate Directors and Service Managers. The statements are based directly on assurances given with respect to compliance with the Authority's Financial Regulations. Service Managers are encouraged to involve their line reports in the process, particularly where day-to-day responsibilities are delegated.
- 1.19 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

- 1.20 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.
- 1.21 The overall internal audit opinion statement provided in section 1.9 should be used by the Authority in the preparation of the Annual Governance Statement.
- 1.22 During the year 11 audit reports were undertaken to provide formal assurance statements with respect to the adequacy of the control environment. Substantial Assurance was provided on 10 of these reports, with 1 given a

Reasonable Assurance. In addition there were 2 cash-ups undertaken for which no issues were identified.

1.23 There are no audit reviews being carried forward to the 2017/18 Audit Plan.

Title	Audit Recommendations			Assurance Level
	High	Medium	Low	
Audits provided by Internal Resource:				
1.Civic Centre Cashiers	n/a	n/a	n/a	n/a
2.Leisure Centre Cashiers	n/a	n/a	n/a	n/a
3.Banking	0	0	2	Substantial
4.Follow-up Standby and Callout Policy	0	3	1	Reasonable
5.Lending and Borrowing	0	0	1	Substantial
6.Member Disbursements	0	0	0	Substantial
7.Officer Disbursements	0	0	1	Substantial
Audits provided by RSM:				
8.Debtors	0	0	6	Substantial
9.Payroll	0	1	1	Substantial
10.Creditors	0	0	2	Substantial
11.NNDR	0	2	1	Substantial
12.Council Tax	0	2	1	Substantial
13.Housing Benefits	0	1	5	Substantial
Overall Total	0	9	21	

Trend Analysis of Audit Activity

1.24 The table below highlights the trend in assurance levels provided from internal audit reviews completed over the last 10 financial years. The assurance provided from internal audit activity shows a sustained improvement since 2007/08 in the control environment reviewed.

Assurance	Substantial	Reasonable / Limited	None
2016-17	10	1	0
	91%	9%	0%
2015-16	13	0	0
	100%	0%	0%
2014-15	13	1	0
	93%	7%	0%
2013-14	12	1	0
	92%	8%	0%

2012-13	13	2	0
	87%	13%	0%
2011-12	15	1	0
	94%	6%	0%
2010-11	16	0	0
	100%	0%	0%
2009-10	16	2	0
	89%	11%	0%
2008-09	14	2	0
	88%	12%	0%
2007-08	17	4	0
	81%	19%	0%

1.25 The table below summarises the total number of audit recommendations by risk category emanating from completed audit reviews over the last 10 financial years.

Recommendations	High	Medium	Low
2016-17	0	9	21
	0%	30%	70%
2015-16	0	4	30
	0%	12%	88%
2014-15	1	12	32
	2%	27%	71%
2013-14	0	12	31
	0%	28%	72%
2012-13	2	12	35
	4%	25%	71%
2011-12	0	11	46
	0%	19%	81%
2010-11	0	6	46
	0%	12%	88%
2009-10	0	17	62
	0%	22%	78%
2008-09	0	14	39
	0%	26%	74%

2007-08	2	40	76
	2%	34%	64%

1.26 The table highlights an overall decrease in the total number of recommendations (30 in comparison to 34 during 2015/16), but with an increase in the number of medium recommendations – these will be addressed during 2017/18. It is pleasing to note that there was no high risk recommendations raised, giving confidence in the overall control environment.

Effectiveness of Internal Audit

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

1.28 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.”*

1.29 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.

1.30 The Public Sector Internal Audit Standards (PSIAS) require a formal independent assessment against the revised standard at least once every five years. As RSM are now delivering the Internal Audit service from April 2017, such an assessment is no longer required for Gedling Borough Council as RSM fully conform to these standards of operation.

Conclusion

1.31 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.

1.32 Overall, internal audit activity identifies a sustained improvement compared to previous years in the control environment during 2016/17.

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
None	The majority of the significant risks relating to the area reviewed are not effectively managed.
Reasonable / 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.