



# GEDLING BOROUGH COUNCIL

## Internal Audit Progress Report 2018/19

**Audit Committee**

**28 May 2019**

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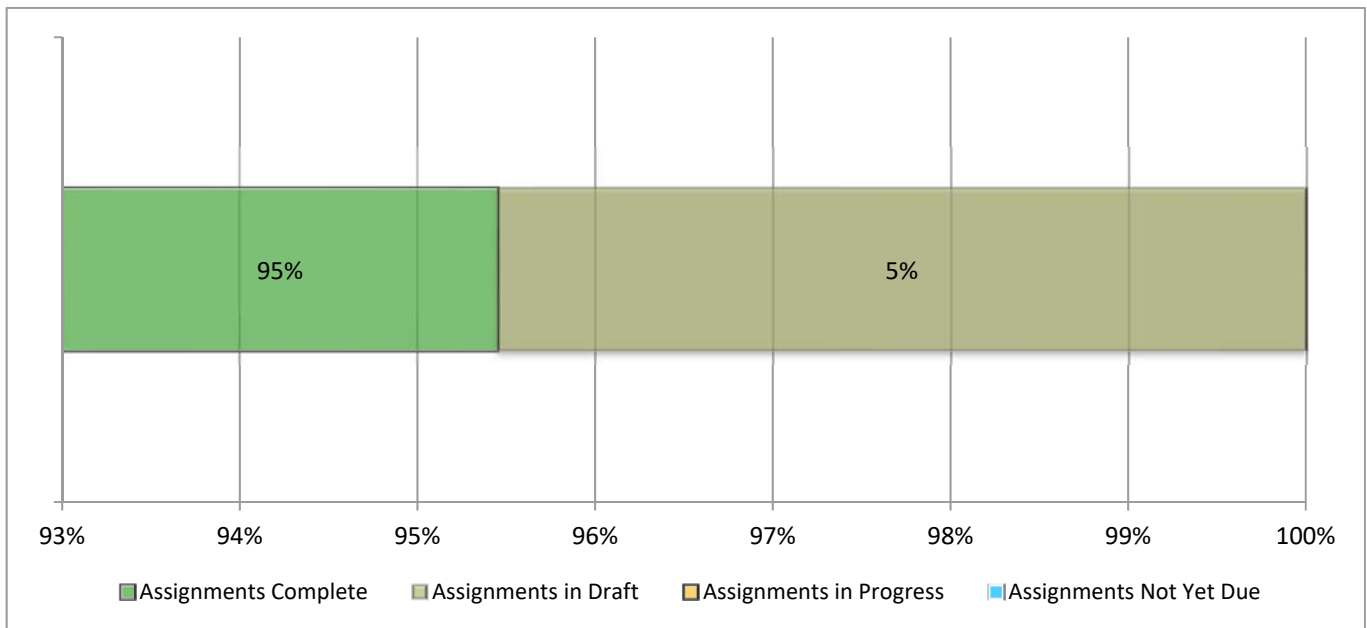
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# 1 INTRODUCTION

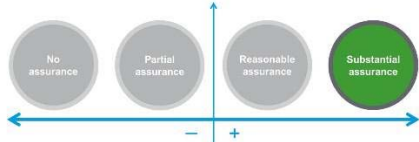
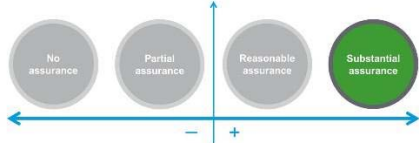
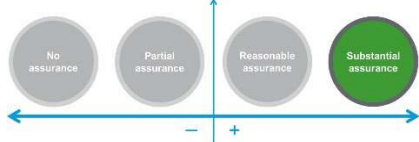
The internal audit plan for 2018/19 was approved by the Audit Committee on 20 March 2018. Below provides a summary update on progress against that plan and summarises the results of our work to date.

Please see chart below for current progress with the plan.



## 2 REPORTS CONSIDERED AT THIS AUDIT COMMITTEE

This table informs of the audit assignments that have been completed and the impacts of those findings since the last Audit Committee held. The Executive Summary and Key Findings of the assignments below are attached to this progress report.

Assignments	Status	Opinion issued	Actions agreed		
			H	M	L
Follow Up Visit 2 (15.18/19)	Final	Poor Progress	0	6	11
Cash and Banking (18.18/19)	Final		0	1	3
Property – Investment, Miscellaneous Properties and Facilities Management (19.18/19)	Final		0	0	2
Contract and Procurement (20.18/19)	Final		0	1	1

## 2.1 Impact of findings to date

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### Follow Up Visit 2 (15.18/19)

Conclusion: Poor Progress Made

Impact on Annual Opinion: Negative

As a result of our testing, we identified that six 'medium' and 11 'low' priority management actions had not been implemented or had been partially implemented. As a result, the management actions concerned have been re-iterated and a revised implementation date set.

The medium priority management actions relate to:

- Charges for the use of Brickyard and Burton Road Community Centres, require review and updating and a new pricing strategy more tailored to those sites, implemented.
  - A Lone Working Risk Assessment has not been completed for all Community Centre Managers.
  - General Risk Assessments have not been completed at all Community Centres.
  - Quarterly Sundry Debtor reconciliations are not always completed in timely manner and are not always independently reviewed.
  - Housing Needs Rent Reconciliations are not always completed in timely manner and are not always independently reviewed.
  - The Partnerships Register requires reviewing and updating.
- 



### Cash and Banking (18.18/19)

Conclusion: Substantial Assurance

Impact on Annual Opinion: Positive

As a result of our testing, we have raised one 'medium' and three 'low' priority management actions and these were agreed by management.

The 'medium' priority management action is in relation to:

- At Arnold Market, the spreadsheet recording attendance by traders is not always reconciled to the receipts issued/cash collected.

Full details of the 'low' priority management action is included in the Executive Summary and Action Plan, attached as an appendix, at the rear of this report.

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### Property Investment, Miscellaneous Properties and Facilities Management (19.18/19)

Conclusion: Substantial Assurance

Impact on Annual Opinion: Positive

As a result of our audit testing, we have raised two 'low' priority management actions and these were agreed by management.

Full details of the two 'low' priority management actions are included in the Executive Summary and Action Plan, included as an appendix at the rear of this report.

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### **Contracts and Procurement (20.18/19)**

Conclusion: Substantial Assurance

Impact on Annual Opinion: Positive

As a result of testing, we have raised one 'medium' and one 'low' priority management actions and these were agreed with management.

The medium management action is in relation to:

- Through testing of a sample of 20 contracts selected from the contracts register it was confirmed that in one instance there is no evidence of a signed contract being in place with the supplier. The contract is valued at £163,000 and was entered into as part of a Framework call-off. Furthermore, it was established that there were inconsistencies in the storage and recording of contracts. Testing of the same sample of 20 contracts identified two which the Legal Team were not aware of and did not hold any record of, one being the aforementioned Framework call-off and the other relating to car parking pay and display machines.
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### 3 LOOKING AHEAD

Assignment area	Timing per approved IA Plan 2018/19	Status	Target Audit Committee
Strategic Fraud Risk Assessment	Quarter 4	Draft report issued	28 May 2019

## 4 OTHER MATTERS

### 4.1 Changes to the audit plan

There have been no changes made to the audit plan since the previous Audit Committee.

### 4.2 Quality Assurance and Continual Improvement

To ensure that RSM remains compliant with the PSIAS framework we have a dedicated internal Quality Assurance Team who undertake a programme of reviews to ensure the quality of our audit assignments. This is applicable to all Heads of Internal Audit, where a sample of their clients will be reviewed. Any findings from these reviews being used to inform the training needs of our audit teams.

The Quality Assurance Team is made up of: Ross Wood (Manager, Quality Assurance Department) with support from other team members across the Department. All reports are reviewed by James Farnbrough as the Head of the Quality Assurance Department.

This is in addition to any feedback we receive from our post assignment surveys, client feedback, appraisal processes and training needs assessments.

### 4.3 Post Assignment Surveys

We are committed to delivering an excellent client experience every time we work with you. Your feedback helps us to improve the quality of the service we deliver to you. Currently, following the completion of each product we deliver we attached a brief survey for the client lead to complete.

We would like to give you the opportunity to consider how frequently you receive these feedback requests; and whether the current format works. Options available are:

- After each product (current option);
- Monthly / quarterly / annual feedback request; and

Executive lead only, or executive



## APPENDIX A: INTERNAL AUDIT ASSIGNMENTS COMPLETED TO DATE

Report previously seen by the Audit Committee and included for information purposes only:

Assignment	Status	Opinion issued	Actions agreed		
			H	M	L
Mail Room (1.18/19)	Final		0	0	3
Customer Services and One Stop Shop Areas (2.18/19)	Final		0	0	1
Gedling Country Park Visitor Centre (3.18/19)	Final		0	0	1
Community Centres (4.18/19)	Final		0	4	1
Reconciliations (5.18/19)	Final		0	2	6
Follow Up 1 (6.18/19)	Final	Reasonable Progress	0	1	4
Main Accounting System (7.18/19)	Final		0	0	2
Corporate Governance (8.18/19)	Final		0	1	2

Assignment	Status	Opinion issued	Actions agreed		
			H	M	L
Payroll and Expenses (9.18/19)	Final		0	0	1
NNDR (10.18/19)	Final		0	1	1
Health and Safety (11.18/19)	Final		0	3	1
Grounds Maintenance, Parks and Open Spaces (12.18/19)	Final		0	2	3
Landlord Licensing (13.18/19)	Final		0	1	1
Development Management (14.18/19)	Final		0	0	4
Risk Management (16.18/19)	Final		0	0	0
General Data Protection Regulation (GDPR) Governance (17.18/19)	Final	Advisory	Seven management actions to consider.		
IT Review – Ethical Phishing Campaign	Final	Advisory	Three management actions to consider		

## FOR FURTHER INFORMATION CONTACT

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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of Gedling Borough Council, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

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## FOLLOW UP 2 - EXECUTIVE SUMMARY

### 1.1 Introduction

As part of the approved internal audit periodic plan for 2018/19 we have undertaken a review to follow up progress made by the Council to implement the previously agreed management actions. The audits considered as part of the follow up review were:

- 15.17/18 Debtors and Debt Recovery;
- 20.17/18 Capital Accounting and Asset Management;
- 23.17/18 Housing Needs;
- 24.17/18 Follow Up 2;
- 1.18/19 Mail Room;
- 2.18/19 Customer Services and One Stop Shop;
- 3.18/19 Gedling Country Park Visitor Centre;
- 4.18/19 Community Centres;
- 5.18/19 Reconciliations;
- 6.18/19 Follow Up 1; and
- 7.18/19 Payroll and Expenses.

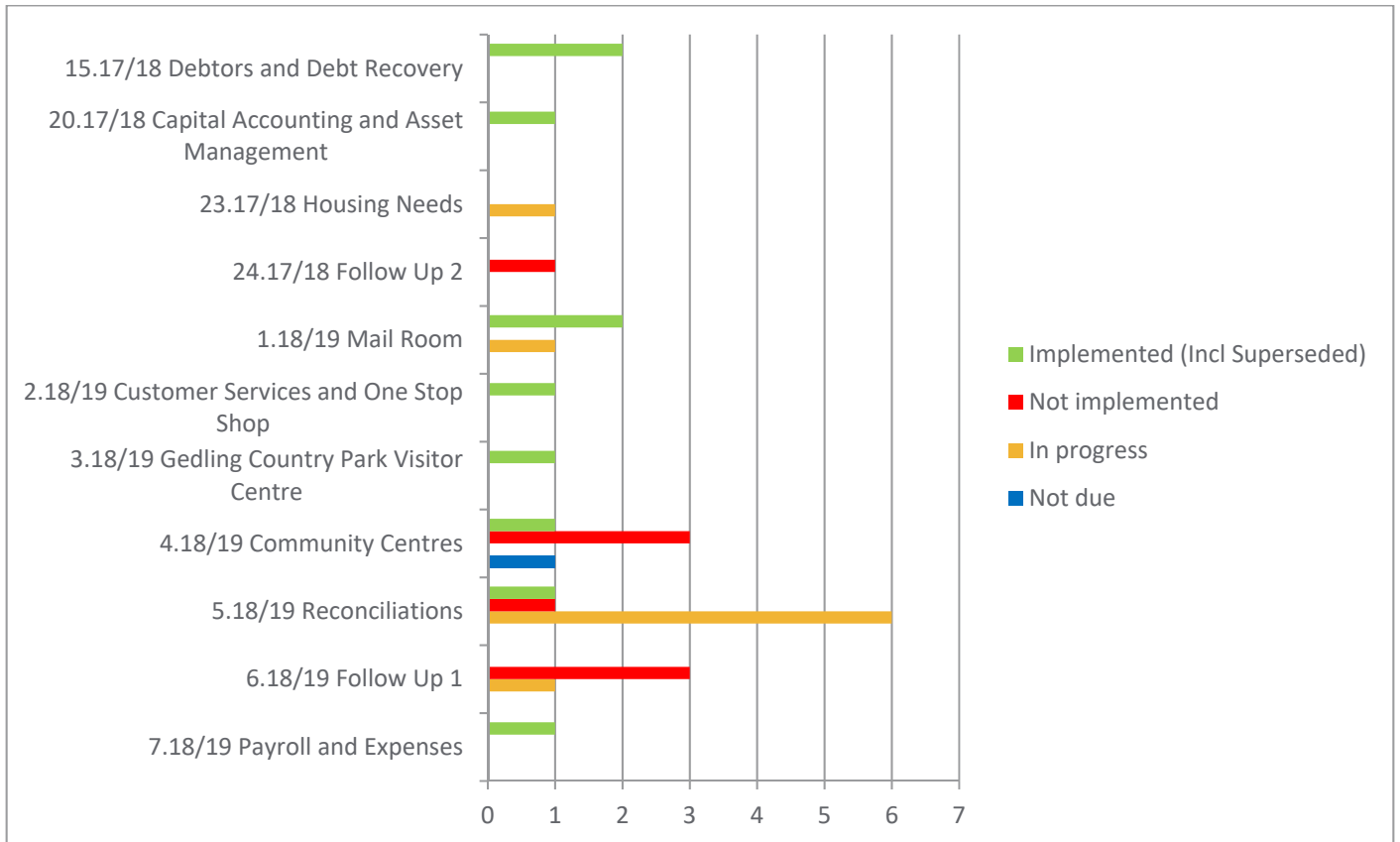
The 28 management actions considered in this review comprised of eight 'medium' and 20 'low' actions. Concentrating on the actions classified as 'medium', the focus of this review was, to provide assurance that all actions previously made have been adequately implemented. For actions categorised as 'low' we have accepted management's assurance regarding their implementation.

### 1.2 Conclusion

Taking account of the issues identified in the remainder of the report, in our opinion Gedling Borough Council has demonstrated **poor progress** in implementing agreed management actions.

We have reiterated management actions where these have not yet been implemented. In addition, we have made new management actions where appropriate; these are detailed in section 2 of this report.

The following graph highlights the progress made on the actions that have been followed up:



### 1.3 Progress on actions

Implementation status by review	Number of actions agreed	Status of management actions					
		Implemented (1)	Implementation ongoing (2)	Not implemented (3)	Superseded (4)	Not yet due (5)	Confirmed as completed or no longer necessary (1)+(4)
15.17/18 Debtors and Debt Recovery	2	1	0	0	1	0	2
20.17/18 Capital Accounting and Asset Management	1	0	0	0	1	0	1
23.17/18 Housing Needs	1	0	1	0	0	0	0
24.17/18 Follow Up 2	1	0	0	1	0	0	0
1.18/19 Mail Room	3	2	1	0	0	0	2
2.18/19 Customer Services and One Stop Shop	1	1	0	0	0	0	1
3.18/19 Gedling Country Park Visitor Centre	1	1	0	0	0	0	1
4.18/19 Community Centres	5	1	0	3	0	1	1
5.18/19 Reconciliations	8	1	6	1	0	0	0
6.18/19 Follow Up 1	4	0	1	3	0	0	0
7.18/19 Payroll and Expenses	1	1	0	0	0	0	1

Implementation status by management action priority	Number of actions agreed	Status of management actions					
		Implemented (1)	Implementation ongoing (2)	Not implemented (3)	Superseded (4)	Not yet due (5)	Confirmed as completed or no longer necessary (1)+(4)
Low	20	7	9	2	2	0	9
Medium	8	1	0	6	0	1	1
Totals	28	8	9	8	2	1	10

## 2 FINDINGS AND MANAGEMENT ACTIONS

This report has been prepared by exception. Therefore, we have included only those actions graded as 2 and 3. Each action followed up has been categorised in line with the following:

Status	Detail
1	The entire action has been fully implemented.
2	The action has been partly though not yet fully implemented.
3	The action has not been implemented.
4	The action has been superseded and is no longer applicable.
5	The action is not yet due.

4.18/19 Community Centres										
Ref	Management action	Original date	Original priority	Audit finding	Current status	Updated management action	Priority issued	Revised date	Owner responsible	
4	We will review prices for Brickyard and Burton Road Community Centres with a view to implementing a pricing strategy more tailored to those sites.	31 December 2018	Medium	Discussion with the Community Centre Manager – Community Relations confirmed the prices for Brickyard and Burton Road Community Centres are due to be refreshed prior to the start of the new financial year. It is proposed that the current discounted prices will become the standard pricing across both centres.	3	We will review prices for Brickyard and Burton Road Community Centres with a view to implementing a pricing strategy more tailored to those sites.	Medium	31 March 2019	Service Manager – Community Relations	
5	We will create a lone working risk assessment for the whole service area as part of a separate Lone Working Policy. Consideration will be	31 January 2019	Medium	Discussion with the Community Centre Manager – Community Relations confirmed that this action has not yet been completed.	3	We will create a lone working risk assessment for the whole service area as part of a separate Lone Working Policy.	Medium	31 March 2019	Service Manager – Community Relations	



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given to how to bridge the gap in Skyguard provisions.

Consideration will be given to how to bridge the gap in Skyguard provisions.

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6	We will review and update the general risk assessments for Community Centres to ensure they are maintained on file, accessible to staff, and still fit for purpose. Going forward, we will also implement an annual review of them to maintain an audit trail.	31 October 2018	Medium	Discussion with the Community Centre Manager – Community Relations confirmed that this action has not yet been completed. Once all general risk assessments for the Community Centre have been reviewed, they will be transferred to the AssessNET portal.	3	We will review and update the general risk assessments for Community Centres to ensure they are maintained on file, accessible to staff, and still fit for purpose. Going forward, we will also implement an annual review of them to maintain an audit trail.	Medium	30 June 2019	Community Centre Manager – Community Relations
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10	Quarterly Sundry Debtors Reconciliations will be prepared, independently reviewed and approved in a timely manner.	31 August 2018	Medium	<p>Reconciliations are completed on a quarterly basis and are prepared by Principal Finance Business Partner.</p> <p>At the time of audit, the quarter one 2018/19 reconciliation had not yet been produced and completed.</p> <p>Quarter two 2018/19 reconciliation was completed on 29 August 2018. Review of the reconciliation confirmed that it had not been independently reviewed.</p> <p>Quarter three 2018/19 reconciliation was in progress at the time of audit.</p>	3	<p>The reconciliation for Sundry Debtors, Sundry Debtors Cash and Sundry Debtors Refunds are all part of the same reconciliation and not separate. The reconciliations process will be undertaken by the Revenues Clerical Officer. The check, challenge and authorisation of the reconciliation will be undertaken by the Revenues Team Leader. This part of the reconciliation will be completed no more than 21 days after the period end. The reconciliation will then be forwarded to a Finance Business Partner who will then peer review no later than 28 days after the period end.</p>	Medium	31 July 2019	<p>Service Manager - Revenues and Welfare Support</p> <p>Principal Finance Business Partner</p>
13	Housing Need Rents Reconciliations will be completed in a timely manner as well as being signed and dated by the relevant preparer and independent reviewer.	31 August 2018	Medium	<p>Reconciliations are prepared by the Assistant Finance Business Partner.</p> <p>Quarterly reconciliations of Housing Needs Rent were obtained and reviewed.</p> <p>Testing found the following:</p> <ul style="list-style-type: none"> <li>The quarter one 2018/19 reconciliation had not been</li> </ul>	2	<p>Housing Need Rents Reconciliations will be completed in a timely manner and evidence retained that they have been independently reviewed and verified.</p>	Medium	31 July 2019	Principal Finance Business Partner

signed and dated by the relevant preparer and reviewer;

- The quarter two 2018/19 reconciliation had not been signed and dated by the relevant preparer and reviewer; and
  - Quarter three 2018/19 reconciliations were in progress at the time of the audit.
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16	<p>A review of the partnerships register will take place to ensure that only current partnerships are included.</p> <p>Consideration will be made into whether the level of reporting currently undertaken is appropriate and whether the register needs to be reported to Audit Committee / members as well.</p>	31 October 2018	Medium	<p>Discussion with the Service Manager - Community Relations confirmed that this action has not yet been implemented. The current partnership register will be circulated amongst Service Managers to determine current partnerships and those no longer active.</p> <p>Once the cleansing exercise has been completed, the register will be presented to Senior Leadership Team (SLT) for approval. SLT will also make a decision as to whether the register needs to be reported to Audit Committee.</p>	3	<p>A review of the partnerships register will take place to ensure that only current partnerships are included.</p> <p>Consideration will be made into whether the level of reporting currently undertaken is appropriate and whether the register needs to be reported to Audit Committee / members as well.</p>	Medium	31 May 2019	Service Manager - Community Relations
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# CASH AND BANKING - EXECUTIVE SUMMARY

## 1.1 Background

A review of Cash and Banking was done at Gedling Borough Council ('the Council') as part of the approved internal audit periodic plan for 2018/19. The audit focused on Arnold Market, the kiosk, the five Leisure Centres and the theatre.

### Arnold Market

The Council acquired the market in July 2018 and the first Council-managed market day was held on Friday 13 July 2018. A regular market is held every Tuesday, Wednesday and Saturday and a weekly flea market during the summer months. The market is managed by the Estates Team and there are two part-time Estates Technical Officers who job share. Regular traders are listed on a register and are invoiced on a monthly basis at the rate of £20 per stall per session. Council officers visit each session to record attendance and this information is entered on to the trader register to calculate the amount due to be invoiced. Invoices are able to be paid in a number of ways and are managed as part of the sundry debt recovery process by the Revenues Team. Flea market stalls are charged at £12 per stall per session and are payable in cash in person at the market. Traders pay the Council officer who issues a receipt and trading licence then passes the takings to the Public Protection Team who returns it to the Council offices. The Estates Team deposit the cash in the in the kiosk machine the next day.

### Kiosk

The kiosk is a self-service machine which resembles an ATM and is located in the Council's main reception area. Customers use the kiosk to make payments for a range of services and can use cash, card or deposit cheques without needing to wait for a member of staff. When making a payment customers are presented with options to select what service they are paying for, they are then required to enter a reference or invoice number which the Civica finance system later uses to allocate the payment to the customer's account. If an incorrect reference number is quoted during the payment process the system puts the payment into a suspense account until it can be identified and manually allocated by Revenues staff. A float of £1,000 is maintained in the kiosk which is topped up twice per day. Cash and cheques paid into the kiosk are cashed up on a daily basis and securely stored until they are collected and taken to the bank by security agents. There are three collections per week from the main Council offices and a receipt is received for each collection.

### Leisure Centres

The five Leisure Centres were visited as part of this audit; Arnold, Calverton, Carlton Forum, Redhill and Richard Herrod.

Each of the Council's Leisure Centres are responsible for the daily reconciliation of actual income to the control 'Z' readings, produced by the cash register system. Daily income reconciliations are carried out and copies are forwarded to Finance, who reconcile the cash received in the bank statement to the daily income summary. Security Plus collect the income from each Leisure Centre and ensure that it is banked, timely and securely. Income and Banking records for the month of December 2018 were reviewed to ensure consistent practices were in place across all Leisure Centres.

### Theatre

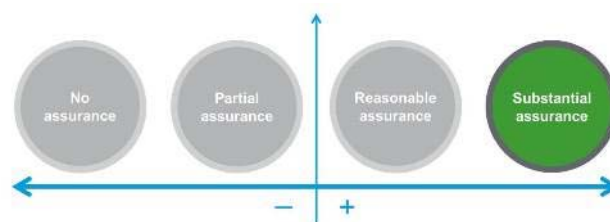
Theatre payments are made either in person at Arnold Leisure Centre which is located next to the theatre, or online. In-person payments are included as part of Arnold Leisure Centre processes, including receipting and cash collection. Customers are only able to make online bookings by logging into their online accounts.

## 1.2 Conclusion

Through review of the control framework surrounding Cash and Banking processes at Gedling Borough Council we have established that controls are well designed and consistently complied with. However, weaknesses have been identified resulting in the agreement of one 'medium' and three 'low' priority management actions.

### Internal audit opinion:

Taking account of the issues identified, the Council can take substantial assurance that the controls upon which the organisation relies to manage the identified risk(s) are suitably designed, consistently applied and operating effectively.



## 1.3 Key findings

The key findings from this review are as follows:

- Financial Regulations form part of the Council's Constitution which was last updated on 27 March 2018 and is available to all staff and members of the public on the Council's website. High level key controls relating to cash and banking are documented.
- Procedure notes are available to staff regarding cash handling in each of the four areas within the scope of the audit.
- Cash payments for theatre bookings are made at Arnold Leisure Centre which is located next to the theatre. These payments are included within the Leisure Centre's daily cash-up and cash collection processes.
- Arnold Market is held three times per week and regular traders are invoiced on a monthly basis based on attendance registers kept by the Estates Team.
- Flea market traders pay £12 cash to Council officers or Council agency staff in person at the market. Receipts are issued, and the cash is returned to Council offices to be paid into the kiosk. Testing of the December 2018 Christmas flea market confirmed that the amount of cash collected as per the receipts and market register matched the amount paid into the kiosk.
- Daily cash-up processes are completed at the Leisure Centres (including theatre) and kiosk (including flea market). Leisure Centre and theatre expected income is reconciled to actual income on a weekly basis by the Finance Team.
- Cash is securely stored in locked safes until it is collected by a contracted Collection Agent for transporting to the bank. A current insurance policy is in place to protect the Council against losses of cash and cheques. Observation of the safe confirmed that the insured value was not exceeded.
- Receipts are issued to customers for payments made in each of the areas.
- Online and kiosk payments are automatically allocated to the correct account based on the reference number quoted during the payment process, such as the invoice number. Payments quoting invalid reference numbers are held in a suspense account and manually allocated by the Revenues Team. Leisure Centre and flea market payments do not need to be allocated to a customer account. Online theatre bookings can only be made by the customer logging into their Gedling Leisure account.

Areas identified for improvement:

#### Arnold Market

- The Arnold Market procedure note could be made more robust with the addition of further details. For example, the procedure note states that receipts should be reconciled to the amount banked but does not state where this is checked to i.e. the bank statement, the finance system or the kiosk.
- Regular market - The register sheets used to record market attendance are inconsistent in format and do not necessarily capture all relevant information, such as the number of stalls sold to each trader. Actual attendance is not always clear from the registers. Testing of the 12 regular traders in December 2018 identified that three of the invoices raised did not match the registers. It is considered that the invoices are correct as none have been disputed and that the problem is in the format of recording attendance.
- Flea market - Two monitoring spreadsheets are kept by the Estates Team but they both capture the same information; number of stalls sold at each market session. One also includes the expected income for each session based on the attendance. Inconsistencies were identified in the number of stalls recorded on each spreadsheet and with the value of receipts issued. Fifteen flea market sessions are included on the spreadsheets, for three of these the amount of cash paid into the kiosk was greater than the value of the receipts indicating that receipts either had not been issued to some customers or showed incorrect values.

#### Leisure Centres

- Carlton Forum Leisure Centre - Income Return and Daily Bank Analysis Sheets were not signed on three of the 27 working days in December 2018 to evidence who it was prepared by.
- Daily Income Cash-Up Sheets; Arnold – 2/27 sheets had not been signed; Carlton Forum – 1/27 sheets had not been signed; Richard Herrod – 4/29 sheets had not been signed.
- Cash collection receipts which are provided by the security Collection Agent are not consistently kept on file at Carlton Forum Leisure Centre. Collections take place twice per week meaning there would have been eight collections in December 2018 however, only three collection receipts were on file.

## 1.4 Additional information to support our conclusion

The following table highlights the number and categories of management actions made. The detailed findings section lists the specific actions agreed with management to implement.

Risk	Control design not effective*		Non-compliance with controls*		Agreed management actions		
					Low	Medium	High
Failure to prevent budget overheating once the budget has been set (Risk Register: 1)	0	(7)	2	(7)	2	0	0
Failure to maintain financial integrity (Risk Register: 2)	0	(6)	2	(6)	1	1	0
<b>Total</b>					<b>3</b>	<b>1</b>	<b>0</b>

\* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.



## 2 DETAILED FINDINGS

### Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible regulatory scrutiny/reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, regulatory scrutiny, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

This report has been prepared by exception. Therefore, we have included in this section, only those risks of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design	Controls complied with	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
<b>Risk: Failure to maintain financial integrity (Risk Register: 2)</b>								
4	Income received is reconciled to the amount of income expected in order to verify whether the expected amount of income has actually been received by the Council.  Arnold Market - a register of traders is completed and compared to the finance system.  Kiosk - daily cash counts are performed	Yes	No	<u><b>Arnold Market</b></u> <u>Flea market - cash</u>  The Property Surveyor maintains a spreadsheet to track flea market attendance and the number of stalls at each session and the Estates Technical Officer keeps a record of flea market traders, number of stalls and income but there is no evidence of the reconciliation to the kiosk being performed. Attendance at the December one-off Christmas market has not been captured on the spreadsheets.	Medium	a) Staff collecting cash from flea market traders will be reminded to write receipts fully and clearly.  b) Both flea market attendance monitoring spreadsheets will be consolidated and used to prepare the reconciliations between the number and value of receipts issued, the number of licences issued and the kiosk Payments Fund report.	30 April 2019	Estates Technical Officer

Ref	Control	Adequate control design	Controls complied with	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	and signed by two people.  Leisure Centres and Theatre - the Finance Team perform weekly reconciliations between leisure centre cash up sheets and system reports.			<p>Review of the monitoring spreadsheets identified:</p> <ul style="list-style-type: none"> <li>• 5/15 market sessions there are discrepancies in the number of stalls held between the two spreadsheets;</li> <li>• 4/15 are not included on the Estates Technical Officer's spreadsheet;</li> <li>• 3/15 the number of stalls sold as per the receipt book does not match either of the spreadsheets; and</li> <li>• 3/15 the value of income as per the receipts was less than the amount paid into the kiosk, suggesting that receipts have not been issued to all customers or that the receipts have incorrect values recorded.</li> </ul> <p>Flea market cash is reconciled to the amount deposited into the kiosk and the number of receipts issued but this is not formally documented or recorded and there is no evidence of independent review.</p> <p>Without an independent review of the reconciliation there is a risk that any discrepancies are not identified and rectified which could lead to financial loss and reputational damage.</p>		Evidence of reconciliation preparation and of independent review will be documented and kept on file. Discrepancies identified will be investigated.		

# PROPERTY – INVESTMENT, MISCELLANEOUS PROPERTIES AND FACILITIES MANAGEMENT - EXECUTIVE SUMMARY

## 1.1 Background

We carried out an audit of the Council's arrangements for managing its property and land portfolio, as part of the agreed internal audit plan for 2018/19.

The Council's Property Services Team is responsible for the management and development of the Council's property portfolio. This includes all operational and non-operational land owned by the council and it is currently valued at a net book value of £23,790,000. Operational land includes all of the Council's offices, depots, leisure centres and public parks. Non-operational land includes a large number of small parcels of land including: tracks and footpaths; open spaces and vision splays. The Council also holds a number of properties that are let on a commercial basis. These provide a rental income to the Council of approximately £120,000 per annum. When practical, surplus non-operational land is disposed of on the open market. All land and property is revalued every two years; in accordance with the methodologies and basis for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. A recent, significant disposal of land was completed on 30 April 2018, when land at Teal Close was sold for £2,847,000.

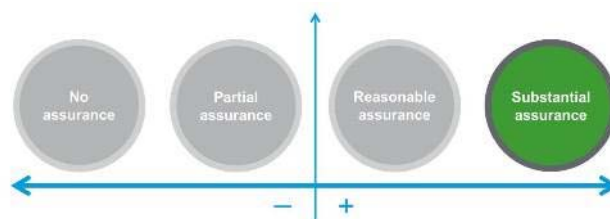
The Council has recently approved its 'Commercial Property Investment Strategy. The objective is to enable the Council to invest in commercial property opportunities, providing both a rental income stream and capital value appreciation. With the current low level of interest rates, it is likely that commercial property rents will generate a greater rate of return on capital invested. The Commercial Property Investment Strategy has identified three strands of different opportunities. Each strand will have their own detailed implementation strategy, but at present; only strand one has been developed in detail. Strand one relates to the acquisition of commercial properties, in order to produce a net financial return after charging costs and loan repayments. A property selection criterion and the framework within which a property will be purchased, held and sold is defined. An initial budget of £5million, for investment has been agreed. Properties that are most likely to produce the returns required by GBC, are typically situated in prime locations, with the ability to be let on long leases to quality tenants with a good covenant strength.

## 1.2 Conclusion

Through review of the control framework surrounding the managing of the Council's property and land portfolio we have concluded that controls are well designed and consistently complied with. However, weaknesses have been identified from our audit testing undertaken from which we have agreed with management and raised two 'low' priority management actions.

### Internal audit opinion:

Taking account of the issues identified, the Council can take substantial assurance that the controls upon which the Council relies to manage the identified risks are suitably designed, consistently applied and operating effectively.



## 1.3 Key findings

The key findings from this review are as follows:

- The Council has put in place detailed procedural guidance notes to assist staff when managing its property and land portfolio.

- A detailed register of all land and property owned by the Council is maintained up to date. It identifies location and includes brief details of each property or land owned. The register is available on the intranet for all staff to access as necessary.
- All land owned by the Council is clearly identified, with appropriate deeds and supporting records in place and work is progressing to ensure that all owned land is registered at the Land Registry.
- For new tenancies, the actual rent to be charged is advertised alongside the advertising of the availability of the property. Full details of the agreed rent and the payment pattern e.g. monthly or quarterly; are specified in the signed lease agreement between the Council and the tenant.
- Rents are reviewed and adjusted as necessary, at the scheduled rent review date, specified in the lease agreement or when the lease is renewed, either with existing tenant or with a new tenant. When rents are reviewed, a bench-marking exercise of comparable properties and the rent currently being charged is carried out, to ensure that the new rent is set at a competitive and sustainable level.
- New tenants must complete an Application Form and proceed through a vetting process, to confirm that they are suitable tenants and are able to sustain their tenancy. References are obtained (one personal and one business) and a Bankers reference is obtained. A check is carried out to confirm that the prospective tenant can meet the monthly rent and business rates charges. If considered necessary, the tenant will be required to provide a refundable deposit or will be asked to provide a guarantor.
- Details of the rent to be charged are taken from the lease agreement and are entered into the Civica system, which generates a monthly or quarterly invoice direct to the tenant. The charging period, monthly or quarterly is as specified in the lease agreement. The Council's Income Recovery Unit carries out all credit control functions including the chasing and recovery of arrears.
- A Commercial Property Investments Strategy has been devised and is reviewed and approved by Cabinet. This identifies the types of commercial property that can be acquired as an investment, sets the budget available for investment and sets out the target rates of return that should be generated, in terms of rental income and capital appreciation. Appropriate due diligence arrangements are in place to ensure that the Council follows an established investment appraisal and approval process and acquires a good and marketable title in the property acquired.
- All disposals of the Council's property assets are appropriately authorised and are processed by the Council's Legal Department, who carry out all necessary conveyancing duties.
- All land and property owned by the Council is fully insured, for all risks and up to full replacement value.
- Maintenance Contracts are in place with approved suppliers to ensure that key equipment including health and safety critical items; are maintained to the appropriate standard and are tested, with relevant safety certificates being provided in accordance with legislative requirements. This ensures that key equipment including lifts, fire alarms and emergency lighting are all maintained and tested to specified standards.
- Although it was identified that there were no formal procedures in place for the walking of boundaries and physical inspection of land not in regular use: to confirm that it remains secure, that there is no encroachment by neighbours and that there are no health and safety hazards present for which the Council, as landowner, would be deemed liable; it was agreed that although this would be best practice to do, the Council does not have the resources available to undertake this task.

As a result of our audit testing, we identified minor control weaknesses and as a result; we have agreed two 'low' priority management actions. These relate to:

- A current Asset Management Strategy is not in place.
- The Council does not have any current condition surveys regarding any of the properties owned. We confirmed that only one property has been surveyed in the last five years. Without current condition survey reports, there is a risk that the Council is not aware of deteriorating components that could affect the structure or sustainability of its property assets. Consequently, there is a greater likelihood of component failure making unexpected reactive repairs necessary, which may prove expensive and for which no planned budget provision is available.

## 1.4 Additional information to support our conclusion

The following table highlights the number and categories of management actions made. The detailed findings section lists the specific actions agreed with management to implement.

Risk	Control design not effective*		Non-Compliance with controls*		Agreed management actions		
	0	(9)	0	(9)	Low	Medium	High
Failure to maintain financial integrity (Risk Register: 2)	0	(9)	0	(9)	0	0	0
Failure to protect & utilise physical assets (Risk Register: 6)	0	(7)	2	(7)	2	0	0
<b>Total</b>					<b>2</b>	<b>0</b>	<b>0</b>

\* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

# CONTRACTS AND PROCUREMENT - EXECUTIVE SUMMARY

## 1.1 Background

A review of Contracts and Procurement was undertaken at Gedling Borough Council ('the Council') as part of the approved internal audit periodic plan for 2018/19.

At the time of the previous audit in December 2017 the Council was due to implement an e-Procurement system, however, this was not implemented, and an outsourcing arrangement was instead entered into with Bolsover District Council who provide two Procurement Officers to the Council on a part-time basis.

The Procurement Officers provide advice and support to facilitate the procurement process. The relevant Service Manager sets the required specification of the contract and decides the criteria and weightings which bids will be evaluated on, deciding such as whether price is a more important factor than contractor experience. After the tender document has been created by the Procurement Officers it is returned to the Service Manager for review and approval and a timetable agreed for key parts of the process such as issuing Invites to Tender (ITT) and the deadline to submit bids. It is then published on procurement websites and on the e-procurement system which contractors have access to and can use to bid on contracts up until the deadline. Due diligence checks are performed by the Procurement Officers who receive and review the relevant documents such as contractors' financial statements.

The recruitment of the Procurement Officers was originally entered into as a fixed term secondment but there are now plans to make this into a permanent arrangement and the Council is seeking to obtain its own licence for the e-procurement system so that it can access and manage its own data through a Contract Management module.

The responsibility for selecting and appointing contractors remains with the Council.

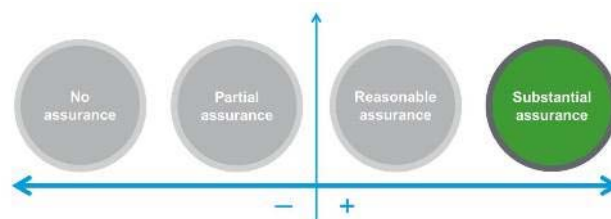
There are currently approximately 60 live contracts in place at the Council with an approximate combined value of £2.5million.

## 1.2 Conclusion

Through review of the control framework surrounding contracts and procurement at Gedling Borough Council we have concluded that controls are well designed and consistently complied with. However, weaknesses have been identified in relation to the recording and storage of contracts, resulting in the agreement of one 'medium' and one 'low' priority management actions.

### Internal audit opinion:

Taking account of the issues identified, the Council can take substantial assurance that the controls upon which the organisation relies to manage the identified risk(s) are suitably designed, consistently applied and operating effectively.



## 1.3 Key findings

The key findings from this review are as follows:

- Financial Regulations and Contract Standing Orders were last reviewed in March 2018 and form part of the Council's Constitution which is readily available on the Council's website. The Contract Standing Orders define the purchase values at which quotes must be obtained or tender exercises followed.
- The Procurement Officers are being involved and consulted by Council staff on procurement exercises.
- Prior to the engagement of a supplier, checks are undertaken to ensure appropriate due diligence before contract commencement.
- All procurement contracts are continually monitored and reviewed to ensure that quality is maintained and value for money is being achieved.
- Service Area staff raise purchase orders based on the good and/or services required. Purchase orders are appropriately authorised, contain contract technical specifications and copies are maintained on file. Furthermore, received invoices are reconciled to purchase orders and approved prior to payment being made.
- For orders of a value up to £10,000, prices are agreed or the method of ascertaining the cost is agreed in writing.
- Between £10,000 and £50,000, at least three written quotations are obtained in accordance with Standing Order 7.
- £50,000 to EU thresholds tenders are invited in accordance with Standing Orders 8 to 11 or a Framework Agreement used in accordance with Standing Order 12.
- Above EU thresholds set out in the 2015 Regulations. Tenders are invited in accordance with the procedures set out in the Public Contracts Regulations 2015.
- All suppliers identified through a tender process are assessed against the same criteria.

Areas identified for improvement:

- Through testing of a sample of 20 contracts selected from the contracts register it was confirmed that in one instance there is no evidence of a signed contract being in place with the supplier. The contract is valued at £163,000 and was entered into as part of a Framework call-off. Furthermore, it was established that there were inconsistencies in the storage and recording of contracts. Testing of the same sample of 20 contracts identified two which the Legal Team were not aware of and did not hold any record of, one being the aforementioned Framework call-off and the other relating to car parking pay and display machines.
- One out of three orders tested was not reported to the Overview and Scrutiny Committee where fewer than three quotes had been obtained.

## 1.4 Additional information to support our conclusion

The following table highlights the number and categories of management actions made. The detailed findings section lists the specific actions agreed with management to implement.

Risk	Control design not effective*		Non-compliance with controls*		Agreed management actions		
					Low	Medium	High
Procurement	0	(8)	2	(8)	1	1	0
Contract Management	0	(5)	0	(5)	0	0	0
<b>Total</b>					<b>1</b>	<b>1</b>	<b>0</b>

\* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

## 1.5 Additional feedback

We have also identified innovation or good practice at similar organisations that Gedling Borough Council may wish to consider:

The Financial Regulations and Contract Standing Orders should be updated to reflect the process of submitting a request for procurement to the Procurement Officers, the involvement of the officers, the use of the e-procurement system once fully implemented and the requirement to receive hard copy tender bids or whether electronic submissions are acceptable. Staff should then be instructed on the new processes and provided with the updated guidance. All procurement should be required to go to the Procurement Officers.



## 2 DETAILED FINDINGS

Categorisation of internal audit findings	
Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible regulatory scrutiny/reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, regulatory scrutiny, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

This report has been prepared by exception. Therefore, we have included in this section, only those risks of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design	Controls complied with	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
<b>Risk: Failure to prevent budget overheating once the budget has been set (Risk Register: 1)</b>								
2	A Contracts Register is maintained and kept up to date by the Insurance and Risk Management Officer.	Yes	No	<p>Testing of a sample of 20 contracts selected from the Contracts Register as at 11 February 2019 confirmed that the details matched the signed documents for 18 of the contracts.</p> <p>A signed contract was not on file in one instance due to delays in the contractor returning a signed copy, however, evidence has been seen of the Council chasing the contract up.</p> <p>A signed contract or Framework document was not provided for the final contract.</p>	Medium	Once the Council has its own licence for the e-procurement system a digital register facility will be available for use through the Contract Management module. A reconciliation exercise will be undertaken with the involvement of Service Managers / contract owners and the Legal Team to ensure that all existing contracts are identified and added	30 September 2019	Financial Services Manager

Ref	Control	Adequate control design	Controls complied with	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				<p>Through the testing it was noted that the Legal Team were not aware and had no record of two of the contracts.</p> <p>As per the signed documents one of the 20 contracts ceased in November 2017 but no end date was recorded on the register, so it had not been removed. One of the contracts expired in June 2018 but had not been removed. Once the Council has its own licence for the e-procurement system a digital register facility will be available for use through the Contract Management module.</p> <p>Without a central repository of all contracts there is a risk that the documentation cannot be located in the event that it needs to be referred to and that the Council may not have an accurate picture of all contracts in place as. Furthermore, if the Legal Team has not been involved in agreeing or reviewing the contract terms there is a risk that the Council is committed to unfavourable terms and conditions.</p>		<p>to the Contracts Register on the system.</p> <p>All contracts will be reviewed by the Legal Team prior to the Council entering into any agreements.</p>		