



**INTERNAL AUDIT ANNUAL REPORT AND ANNUAL  
STATEMENT OF ASSURANCE**

Gedling Borough Council

2022-23

IDEAS | PEOPLE | TRUST

**IBDO**

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# CONTENTS

	Page
Executive Summary	3
Review of 2022/23 Work	4
Summary of Findings	8
Added value	10
Background to annual opinion	12
Key Performance Indicators	15
Appendix 1: Opinion and recommendation significance	16

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# SUMMARY OF 2022-23 WORK

## Internal Audit 2022-23

This report details the work undertaken by internal audit for Gedling Borough Council (the Council) and provides an overview of the effectiveness of the controls in place for the full year. The following reports have been issued for this financial year:

- Corporate Governance and Performance Management
- Cyber Security
- Recruitment and Retention
- Building Control and Development Management
- Workforce Strategy
- Business Continuity and Emergency Planning
- Remote Working
- Main Financial Systems
- Counter Fraud and Corruption Strategy - in progress
- Additional IT Work - in progress.

We have detailed the opinions of each report and key findings on pages five to 10. Our internal audit work for the 12-month period from 1 April 2022 to 31 March 2023 was carried out in accordance with the internal audit plan approved by management and the Audit Committee. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards. Management were aware of some of the control and governance issues with certain service areas and openly requested BDO to review these when forming the Internal Audit Plan.

## Head of Internal Audit Opinion

The role of internal audit is to provide an opinion to the Full Council, through the Audit Committee (AC), on the adequacy and effectiveness of the internal control system to ensure the achievement of the Council's objectives in the areas reviewed. The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. The basis for forming my draft opinion is as follows:

- We are able to provide the Council with **Limited Assurance** of its system of controls. The Chief Executive has publicly reported that "Gedling Borough Council recently uncovered a significant fraud allegedly involving a member of staff from within the organisation". We have also issued High findings and Limited opinions for other reports, including Business Continuity and Emergency Planning and Workforce Strategy. Although we have not fully concluded our work on the Counter Fraud and Corruption Strategy review, on the balance of issues identified and opinions across other reviews, we are able to provide our annual opinion in lieu of this
- Due to vacancies and absences the Council has a small senior leadership team (SLT), impacting the leadership and management of the organisation. We have had positive engagement in the delivery of our 2022/23 internal audit plan and the initial planning stages and early reviews in our 2023/24 internal audit plan. However, high levels of reliance on few individuals have resulted in delays to some of our work

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- Delays in implementing recommendations continues to be clear from across the Council, with Medium recommendations raised in 2020/21 relating to Health & Safety, Commercialisation and Taxi Licensing that are not yet implemented. This was also identified in our 2021/22 Annual Report where delays in management responses to draft report and implementing recommendations was accredited to staff issues, which we were informed had been solved through recruitment. There is a potential that control weaknesses remain if recommendations are not implemented in a timely manner, exposing the Council to potential risk
  - The Council's 2021/22 statutory accounts still have not been signed off by external audit due to the ongoing fraud investigation. Mazars' report to the Audit Committee in March 2023 noted that further substantive testing will be required and the prospective timetable is for the accounts to be signed off in November 2023. The delays to the accounts indicates weaknesses in financial controls and the financial environment, driven by turnover and absence of key finance staff
  - In January 2023 the Council identified that it had undercharged for taxi licences by £430,728 between 2016/17 and 2021/22. In the same period it overcharged for vehicle licences by £124,186 and operator licences by £12,542. As a result, the Council has committed to refunding these customers with interest, resulting in reimbursements to customers of up to £150,000. While these relate to historic transactions, we have considered this as relevant in this Annual Report due to the timing of this being identified.

# REVIEW OF 2022-23 WORK

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Summary of Key Findings / Recommendations
	H	M	L	Design	Operational Effectiveness	
Corporate Governance and Performance Management (Finalised: September 2022)	-	3	1	Moderate	Moderate	<p><u>Conclusion</u></p> <p>The Council have an effective full council, committee and reporting structure and maintain work plans for the executive and non-committees through minute taking. However, there is inadequate training delivered which could impact the Council meeting its objectives as well as a lack of reporting to the SLT on gifts and hospitality and the lack of a process in place to encourage committees to undertake regular self-reflection of their effectiveness.</p> <p>Findings:</p> <ul style="list-style-type: none"> <li>• The member’s induction training skills programme did not identify a minimum level of training required from members to be able to conduct their role</li> <li>• A training skills matrix for the SLT or a central record of all training completed to monitor ongoing compliance with mandatory training requirements</li> <li>• Officers gifts and hospitality had not been reported to the SLT at all in 2021/22, as required by the Councils Approved Gifts and Hospitality Code of Practice for Members and Officers 2019</li> <li>• Committee self-assessments have not taken place to reflect on the performance and areas of improvement for committees.</li> </ul>
Recruitment and Retention (Finalised: September 2022)	-	2	1	Moderate	Moderate	<p><u>Conclusion</u></p> <p>The Council has had effective reporting mechanisms and monitoring of the recruitment and retention KPIs in place. Additionally, policies and procedures outlined the expected pre-employment checks for new starters. However, there were instances where new starters (internal transfers or external recruits) did not have relevant documentation in</p>

					<p>place (signed terms and conditions of employment, PEN1 pension form). The Establishment List, which details all long-term vacant posts, was not kept up-to-date.</p> <p>Findings:</p> <ul style="list-style-type: none"> <li>From our sample testing of new starters we noted that not all individuals had a signed statement of conditions or PEN 1 form retained on file. Some starter forms were also completed late which could delay other subsequent checks, including DBS checks</li> <li>The Establishment list, detailing posts that have been vacant for over a year, was not kept up to date following the budget being removed for these roles.</li> </ul>	
<p>Building Control and Development Management (Finalised: February 2023)</p>	-	1	1	Substantial	Substantial	<p><u>Conclusion</u></p> <p>The Council's management of building control and development management is in a strong position. There is an appropriate level of structure in place, roles and responsibilities are clear, a dedicated LDP is in place which sets out the strategic planning policies which are clearly referred to when planning officers at the Council justify their decisions. However, we identified that inspection notes had not been recorded in Uniform in three of the 10 building control applications that were reviewed, due to issues around one officer's use and understanding of the system. Internal procedure notes were not in place for building control and development management, which may have contributed to this.</p> <p>Findings:</p> <ul style="list-style-type: none"> <li>There were some building control inspections that were not recorded on the Uniform system. We were informed that all three related to the same individual where the Council had experienced issues in them using the system effectively</li> <li>There are no internal procedural guidance notes available to staff to document the processes, timelines and responsibilities of roles relating to building control and development management.</li> </ul>
<p>Remote Working (Finalised: March 2023)</p>	-	1	2	Substantial	Moderate	<p><u>Conclusion</u></p> <p>The Council had reasonable processes in place to support staff through remote working, with biennial staff surveys focused on addressing staff wellbeing. Furthermore, technology issued to staff was recorded centrally and there were adequate security controls around the configuration of devices.</p> <p>However, staff had been provided with devices and equipment without completing a DSE assessment or a fully combined assessment. Furthermore, there is not a process in place</p>

						<p>for monitoring furniture that has been issued to staff, although our sample testing identified that this is rare.</p> <p>Findings:</p> <ul style="list-style-type: none"> <li>• Employees had not completed DSE assessments or fully combined assessments prior to being given devices by the Council, and the request forms had not been signed the line manager in the majority of cases</li> <li>• There is no formal process for monitoring furniture issued to staff</li> <li>• The Flexible and Agile Working Policy was last updated in October 2019 and does include requirements for staff to complete self-assessments.</li> </ul>
<p>Workforce Strategy (Finalised: September 2023)</p>	1	2	-	Moderate	Limited	<p><u>Conclusion</u></p> <p>While the Council's Workforce Strategy is strongly aligned with its corporate objectives and priorities, there was poor compliance with the performance development review (PDR) with only 44% completion rate for the 2023 reviews. Furthermore, the Council needs to make improvements to workforce planning by identifying critical roles, carrying out capacity reviews, and succession planning to ensure that it can deliver its services. The Council has taken action to improve retention of staff, including a one-off payment to support staff during the cost-of-living crisis, a wide-range of training initiatives and effective management reporting on its workforce.</p> <p>Findings:</p> <ul style="list-style-type: none"> <li>• Completion of PDRs for 2023 was only 44%, potentially identifying a poor culture for assessing staff performance, identifying further training needs. As such, HR confirmed that there had been no training requests for the year. The completion rate was higher than in 2022 (20.4%) but remains significantly lower than we would expect</li> <li>• Critical roles are not systematically identified and succession plans developed for senior roles, leaving the Council vulnerable to key staff leaving</li> <li>• Mandatory training modules were not completed by all staff.</li> </ul>
<p>Business Continuity and Emergency Planning (Finalised: July 2023)</p>	1	2	1	Moderate	Limited	<p><u>Conclusion</u></p> <p>At the time of our review, the Council's business continuity planning (BCP) arrangements were inadequate, with corporate and service plans out of date and not aligned with the emergency plans. However, following the appointment of the Health, Safety and Emergency Planning Officer, a process is ongoing to refresh the corporate BCP and service BCPs by the end of July 2023. These will be subject to scenario testing with Heads of Service who will be responsible for ensuring staff are sufficiently trained on their local BCP.</p>

			<p>Therefore, there is a positive direction of travel for BCP within the Council, but there were many gaps with arrangements at the time of our review.</p> <p>Findings:</p> <ul style="list-style-type: none"> <li>At the time of our fieldwork (pre-February 2023) service BCPs were out of date, and following the restructure, did not reflect the current structure of the Council. Service BCPs that were in place were inconsistent in quality and the key controls to mitigate the risks identified were not recorded</li> <li>The corporate and service BCPs did not have clear links into the Council’s wider strategic framework, notably emergency plans, potentially leading to a lack of cohesion between the documents</li> <li>There has not been annual testing on the Council’s current BCPs, although the new service BCPs will be subject to testing with Heads of Service</li> <li>Training has been delivered through the Nottinghamshire Local Resilience Forum (LRF) and to service managers to support them to develop the new service BCPs, however, training attendance logs to monitor who has received the training on the service BCPs are not in place.</li> </ul>
<p>Main Financial Systems (Finalised: September 2023)</p> <p>-      3      3</p>	<p>Moderate</p>	<p>Moderate</p>	<p><u>Conclusion</u></p> <p>This review focused on treasury management and payroll. There were effective processes in place for managing daily treasury deals and investments, with deals authorised appropriately. However, the Council have not adopted the treasury management practices (TMPs) that were drafted in 2021 as required by the Treasury Management Code of Practice. Furthermore, a separate risk register was not in place for treasury risks, although risks were monitored through the Treasury Management Strategy by Cabinet.</p> <p>Payroll procedures were robust, and all starters, leavers and changes that we reviewed were supported by adequate backing documentation. Reconciliations were performed between the payroll elements report and Agresso, with separation of duties embedded into the processes throughout. However, procedure notes for the leaver’s process were not in place, detailing how to calculate final pay and remove employees from the payroll.</p> <p>Findings:</p> <ul style="list-style-type: none"> <li>The Council prepared its draft TMPs in 2021 but these were not formally adopted. While procedures were broadly documented in the Treasury Management Strategy, a set of TMPs is required by CIPFA’s Code of Practice</li> <li>A treasury risk register is not in place to monitor, manage and address specific risks relating to treasury management. These should cover internal control risks and macroeconomic risks</li> <li>Reconciliations between the bank account and Agresso were not completed in a timely manner due to staff-related challenges leading to inaccurate balances potentially not being detected until a later date and inaccurate financial reporting.</li> </ul>



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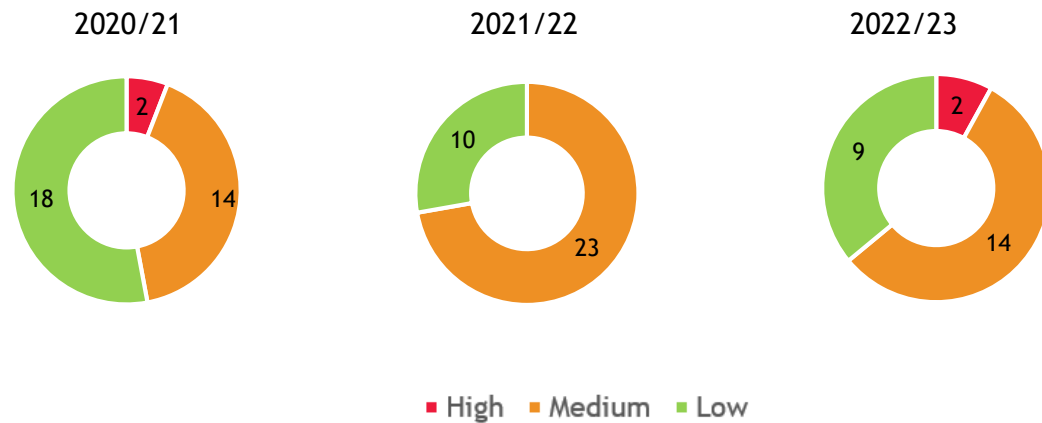
Counter Fraud and Corruption Strategy	TBC	TBC	Due to staffing challenges at the Council, we have been unable to fully conclude our work and provide an opinion based on the documentation provided to us.
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# SUMMARY OF FINDINGS

## RECOMMENDATIONS AND ASSURANCE DASHBOARD

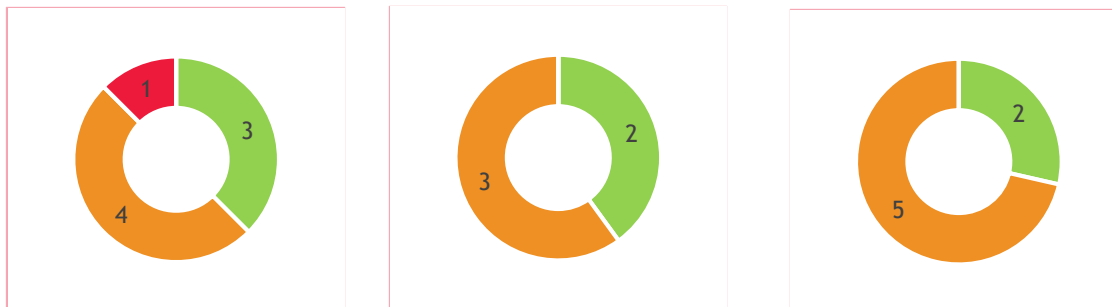
### Recommendations



In 2022-23 there were a total of 24 recommendations, of which 16 are either High or Medium recommendations.

The number of High or Medium recommendations has reduced but the proportion of these based on the overall number of recommendations has increased from 2021-22.

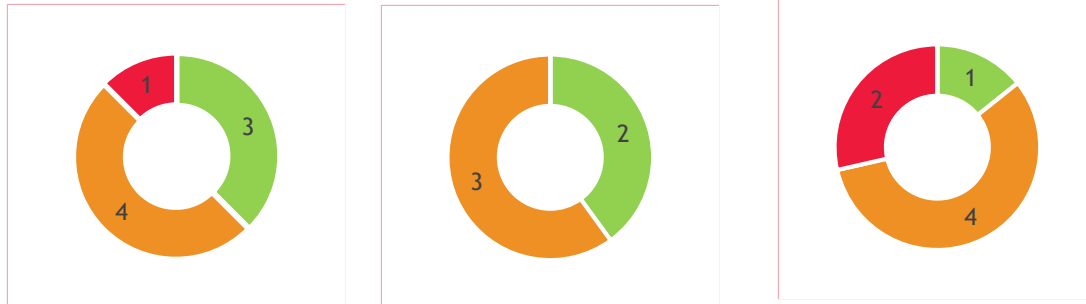
### Control Design



In 2022-23 there were five Moderate and two Substantial opinions for control design. Compared to 2021-22, the control environment has weakened from across the areas we reviewed.

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**Operational Effectiveness**



■ Substantial ■ Moderate ■ Limited ■ No

In 2022-23 there were one Limited, four Moderate and one Substantial control effectiveness opinions issued. There were two Limited control effectiveness opinions, which indicates that the effectiveness of controls has weakened from the prior year.

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## ADDED VALUE



### USE OF SPECIALISTS

We obtained several financial data sets and carried out a data analytics exercise to identify exceptions within the data. IT and system specialists have been deployed on our additional piece of work in reviewing systems and control following the fraud investigation.



### RESPONSIVE AND FLEXIBLE

In lieu of the public fraud case, we have been flexible in our provision of resources and in our delivery of the internal audit plan. This has supported the Council to manage emerging risks that are central to its current operations.



### BENCHMARKING AND BEST PRACTICE

We provided benchmarking and best practice templates that the Council could use, including incident management reporting templates in the Business Continuity and Emergency Planning review.

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## KEY THEMES



### PEOPLE

The Council welcomed our internal audits and provided us with reasonable levels and support to deliver our reviews. However, resourcing challenges and staff absences has led to delays in the completion of the plan.



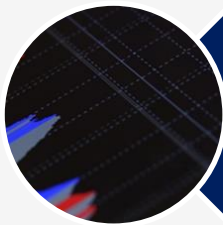
### GOVERNANCE & STRUCTURES

Monitoring and governance processes were robust and strong team structures were identified within several of our reviews, including Corporate Governance and Performance Management and Recruitment and Retention. However, the Council's leadership team has reduced significantly placing high reliance on the Chief Executive.



### POLICIES & PROCEDURES

Policies and procedures were in place with a clear approval process and frameworks. However, from our reviews we identified various policies that were out of date, including the Flexible and Agile Working Policy.



### FOLLOW UP

In January 2023 18 recommendations were followed up of which seven were complete, nine were in progress and two were overdue. At our June 2023 follow up there were some 2019/20 recommendations which were still outstanding, indicating potential exposure to risks that are not being effectively controlled.

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# BACKGROUND TO ANNUAL OPINION

## Introduction

Our role as internal auditors to Gedling Borough Council (the Council) is to provide an opinion to the Full Council, through the Audit Committee, on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. Our approach, as set out in the firm's Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Our internal audit work for the 12-month period from 1 April 2022 to 31 March 2023 was carried out in accordance with the internal audit plan approved by management and the Audit Committee, adjusted during the year for any emerging risk issues. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period.

## Scope and Approach

### Audit Approach

We have reviewed the control policies and procedures employed by the Council to manage risks in business areas identified by management set out in the 2022/23 Internal Audit Annual Plan approved by the Audit Committee. This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation. Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards, the Chartered Institute of Internal Auditors' Position Statement on Risk Based Internal Auditing.

We discharge our role, as detailed within the audit planning documents agreed with the Council's management for each review, by:

- Considering the risks that have been identified by management as being associated with the processes under review
- Reviewing the written policies and procedures and holding discussions with management to identify process controls
- Evaluating the risk management activities and controls established by management to address the risks it is seeking to manage
- Performing walkthrough tests to determine whether the expected risk management activities and controls are in place
- Performing compliance tests (where appropriate) to determine that the risk management activities and controls have operated as expected during the period.

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The opinion provided on page 3 of this report is based on historical information and the projection of any information or conclusions contained in our opinion to any future periods is subject to the risk that changes may alter its validity.

### **Reporting Mechanisms and Practices**

Our initial draft reports are sent to the key officer responsible for the area under review in order to gather management responses. In every instance there is an opportunity to discuss the draft report in detail. Therefore, any issues or concerns can be discussed with management before finalisation of the reports.

Our method of operating with the Audit Committee is to agree reports with management and then present and discuss the matters arising at the Audit Committee meetings.

### **Management actions on our recommendations**

Management were engaged with the internal audit process and provided considerable time to us during the fieldwork phases of our reviews, however, due to resource challenges and staff engagement, audit evidence was not always provided promptly causing delays in our audit fieldwork. Opportunities to discuss findings and recommendations prior to the issue of draft internal audit reports were given due to closing meetings. Management responses to draft reports were mostly not provided within our requested time frame, therefore, there were some instances where the turnaround of draft reports was slow.

### **Recommendations follow-up**

Implementation of recommendations is a key determinant of our annual opinion. If recommendations are not implemented in a timely manner then weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management's commitment to the maintenance of a robust control environment. There has been a low level of implementation of recommendations, including some recommendations from 2020/21 that are not yet implemented, exposing the Council to risks in its arrangements.

### **Relationship with external audit**

All our final reports are available to the external auditors through the Audit Committee papers and are available on request. Our files are also available to external audit should they wish to review working papers to place reliance on the work of internal audit.

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## Report by BDO LLP to Gedling Borough Council

As the internal auditors of Gedling Borough Council we are required to provide the Audit Committee, and the Director with an opinion on the adequacy and effectiveness of risk management, governance and internal control processes, as well as arrangements to promote value for money.

In giving our opinion it should be noted that assurance can never be absolute. The internal audit service provides the Council with **Limited Assurance** that there are no major weaknesses in the internal control system for the areas reviewed in 2022/23. Therefore, the statement of assurance is not a guarantee that all aspects of the internal control system are adequate and effective. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no signs of material weaknesses in the framework of control.

In assessing the level of assurance to be given, we have taken into account:

- All internal audits undertaken by BDO LLP during 2022/23
- Any follow-up action taken in respect of audits from previous periods for these audit areas
- Whether any significant recommendations have not been accepted by management and the consequent risks
- The effects of any significant changes in the organisation's objectives or systems
- Matters arising from previous internal audit reports to the Council
- Any limitations which may have been placed on the scope of internal audit - no restrictions were placed on our work





# KEY PERFORMANCE INDICATORS

Quality Assurance	KPI	RAG Rating
Quality of work	Feedback from our work was positive and recommendations were agreed with management prior to finalisation of reports. We issue a survey after each audit and received a score of 5/5 on the value added by our work.	●
Effective planning	We completed many of our reviews in the first three quarters of the year however, there have been limitations due to staffing challenges within the Senior Leadership Team and the impact of the ongoing fraud investigation has led to some delays to our work. We have prepared draft terms of reference for all 2023/24 reviews and commenced fieldwork in more than 50% of the reviews in the plan.	●
Completion of the audit plan	We have finalised reports for most audits in the 2022/23 internal audit plan, with delays to some reviews caused by resource challenges and the ongoing fraud investigation.	●
Follow-up of recommendations	We followed up all recommendations issued during the year and all outstanding recommendations from prior years as they fall due.	●





We will obtain feedback during the year upon finalisation of each report and feed the results back to the Audit Committee.



# APPENDIX 1

## OPINION SIGNIFICANCE DEFINITION

ANNUAL OPINION DEFINITION	
<b>Substantial - Fully meets expectations</b>	Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is only a small risk of failure or non-compliance.
<b>Moderate - Significantly meets expectations</b>	Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is some risk of failure or non-compliance.
<b>Limited - Partly meets expectations</b>	Our audit work provides assurance that the arrangements will deliver only some of the key objectives and risk management aims of the organisation in the areas under review. There is a significant risk of failure or non-compliance.
<b>No - Does not meet expectations</b>	Our audit work provides little assurance. The arrangements will not deliver the key objectives and risk management aims of the organisation in the areas under review. There is an almost certain risk of failure or non-compliance.

REPORT OPINION SIGNIFICANCE DEFINITION				
Level of Assurance	Design Opinion	Findings	Effectiveness Opinion	Findings
<b>Substantial</b> 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>Moderate</b> 	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed, albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of noncompliance with some controls that may put some of the system objectives at risk.
<b>Limited</b> 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>No</b> 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE DEFINITION	
<b>High</b>	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
<b>Medium</b>	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
<b>Low</b>	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

FOR MORE INFORMATION:

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