



Arrangements to Secure Value for Money - Progress

Gedling Borough Council – years ended 31 March 2022 and 31 March 2023

November 2024

Introduction

Our work on VFM arrangements is substantially well progressed and this report was produced at a point in time to meet the Audit Committee date. Under the current guidance, the Auditor's Annual Report, which finalises the VFM commentary is to be issued within 3 months of the date of issuing the audit report. We are on track to meet that deadline.

This report, therefore, represents our findings to date, with some residual work to complete through our quality control arrangements.

We shall issue a final report once our work is fully complete.

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VFM arrangements

Overall Summary



VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:



Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.



Governance - How the Council ensures that it makes informed decisions and properly manages its risks.



Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.




We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements** - We make these recommendations for improvement where we have identified a significant weakness in the Council arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations** - We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken.

The table on the following page summarises the current findings against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

VFM arrangements – Overall summary

Overall summary by reporting criteria – position as at November 2024

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	6	2021/22: No 2022/23: No	2021/22: No 2022/23: No	2021/22: No 2022/23: No
 Governance	10	2021/22: Yes 2022/23: Yes	2021/22: Yes 2022/23: Yes	2021/22: No 2022/23: No
 Improving economy, efficiency and effectiveness	13	2021/22: No 2022/23: No	2021/22: No 2022/23: No	2021/22: No 2022/23: No

VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



VFM arrangements – Financial Sustainability

Draft commentary on Financial Sustainability

Significant weaknesses identified in 2020/21	Nil
Significant weaknesses identified in 2021/22	Nil
Significant weaknesses identified in 2022/23	Nil

Position brought forward from 2020/21

There are no indications of a significant weakness in the Council's arrangements for financial sustainability brought forward from 2020/21. The Council's underlying arrangements in relation to financial sustainability are not significantly different in 2021/22 or 2022/23.

Overall responsibilities for financial governance

The Council has a statutory duty to approve a balanced budget each year. Portfolio budget holders are then required to identify savings plans to reduce current expenditure, and these savings plans are subject to discussion and approval by finance. The Council sets an annual budget based on existing directorate budgets and priorities (i.e. prior year outturn rolled forward and adjusted for known changes at a service level). These are then reviewed to identify budget pressures/service priorities and external factors (e.g. new central government requirements).

As part of the process, Officers also undertake consultation with the local community to identify areas of spending priority. Once produced the draft budget is then discussed informally with members to identify further areas of service development or where expenditure may be cut.

We have conducted a review of the Council's overall governance framework, including Council and committee reports, the Annual Governance Statement, and the draft Statement of Accounts for 2021/22 and 2022/23. This review has confirmed that the Council has fulfilled its responsibility to define the strategic aims and objectives, approve budgets, and monitor financial performance against budgets and plans to best meet the needs of the Council's service users.

Quarterly budget and financial monitoring reports are produced and reported to the Cabinet. Finance Managers work with Directorate Teams and Budget Holders to ensure that budget variances are explained, and appropriate corrective action taken.

Based on the above we are not concerned about the Council's ability to communicate accurate and timely

management information. Arrangements for financial sustainability are in line with those expected of a district council. We have not found any evidence that the Council is using unsustainable methods of relieving financial pressures or one-off accounting measures to meet year-end targets.

2021/22 and 2022/23 Outturn

We have reviewed the General Fund revenue outturn for 2021/22 as presented to Cabinet in July 2022, showing an underspend of £318,100 against the current approved Net Council Budget. We reviewed the comparable report for 2022/23 presented to the Cabinet in July 2023, which showed a net underspend of £213.633 against the current approved Net Council Budget and 2022/23.

We also analysed useable reserves per the financial statements show:

- General Fund balances of £10.7m at 31 March 2022, and £6.966m at March 2023
- Useable capital reserves of £6.8m in 2021/22 and £6.9m in 2022/23

	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23
General Fund Balance	5,161	3,909	7,923	4,592	766
Earmarked GF Reserves	6,794	5,981	8,030	6,122	6,200
Total revenue reserves	11,955	9,890	15,953	10,714	6,966
Capital Reserves	1,413	1,655	3,341	6,770	6,936
Total usable reserves	13,368	11,545	19,294	17,484	13,902

The Council's outturn position does not present a risk of significant weakness in arrangements

VFM arrangements – Financial Sustainability

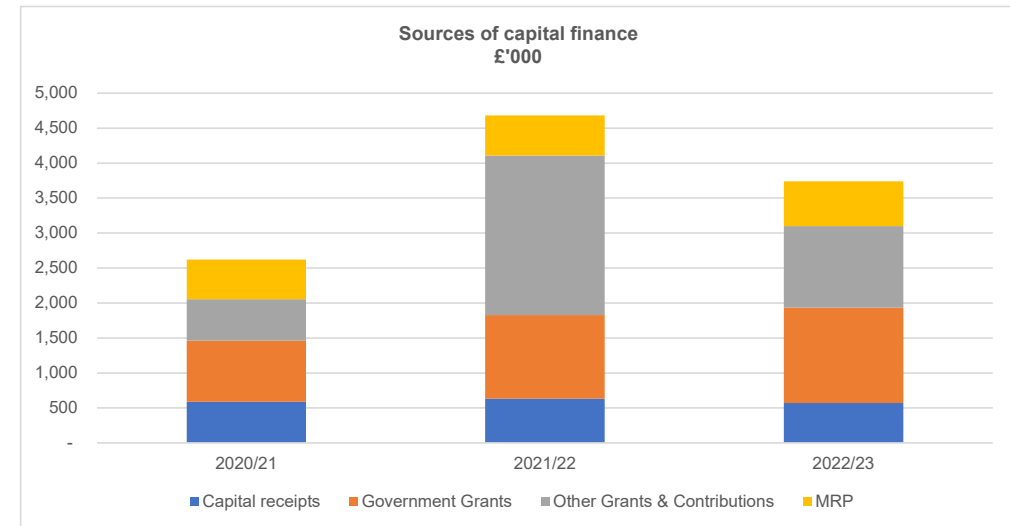
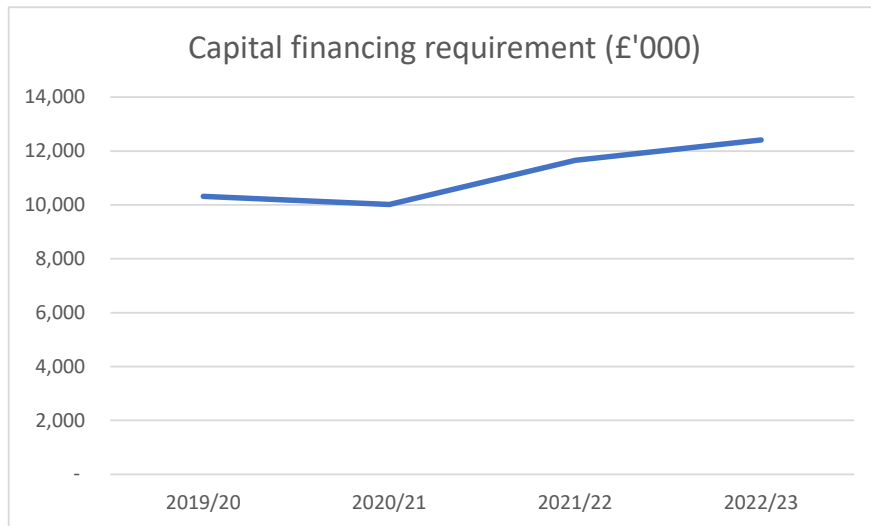
2021/22 and 2022/23 Budget Setting and Medium Term Financial Plan

We have reviewed the budget setting process in respect of the 2021/22 and 2022/23 financial years, including the Medium Term Financial Plan (MTFP), and have identified no concerns. The MTFP provides the overarching framework for the Council to plan and manage its financial resources in alignment with the Council's vision and strategic priorities. The MTFP integrates revenue allocations, savings targets and capital investment, providing the budget for the next financial year and indicative budgets for future council tax levels. The report presented to the full council meeting in January 2023 demonstrated that adequate arrangements were in place for budget setting and management, reflecting changes and does not present a risk of significant weakness in arrangements.

The Council's capital expenditure and financing

The Council's arrangements for setting and monitoring capital expenditure are consistent with those of the previous year and are deemed to be adequate.

We considered the Council's capital financing requirement as set out in Note 12 of the 2021/22 and 2022/23 Statement of Accounts which has gone from £10,313k in 2019/20 to £12,412k in 2022/23, representing an increased need to borrow to finance capital expenditure. We also considered the sources of capital finance in the capital programme, which shows over the past four years capital spend has been mainly financed through grants and contributions. We have not identified a risk of significant weakness in arrangements.



VFM arrangements – Financial Sustainability

Financial sustainability and revenue reserves

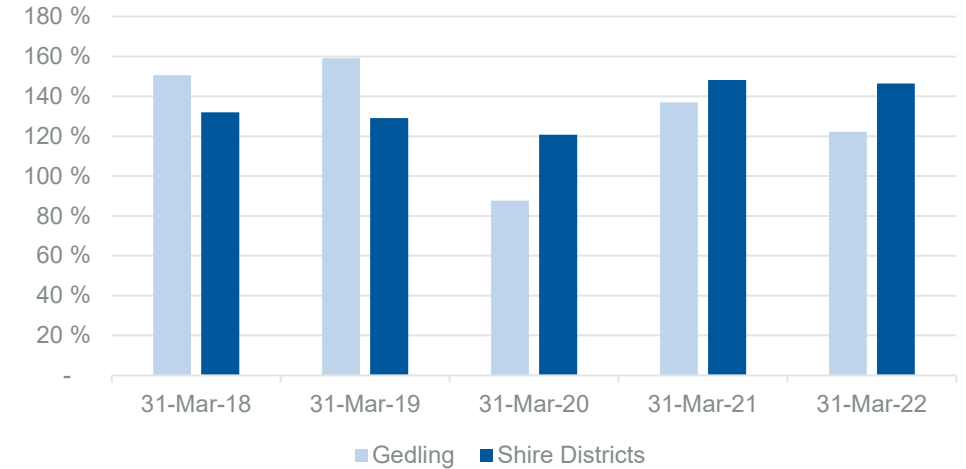
The purpose of the Council's general fund reserve is to meet costs arising from any unplanned or emergency events. It also acts as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to 'smooth' expenditure on a one-off basis across years. Whereas earmarked reserves, are set aside for specific purposes.

We have also performed a more detailed review of the Council's revenue reserves:

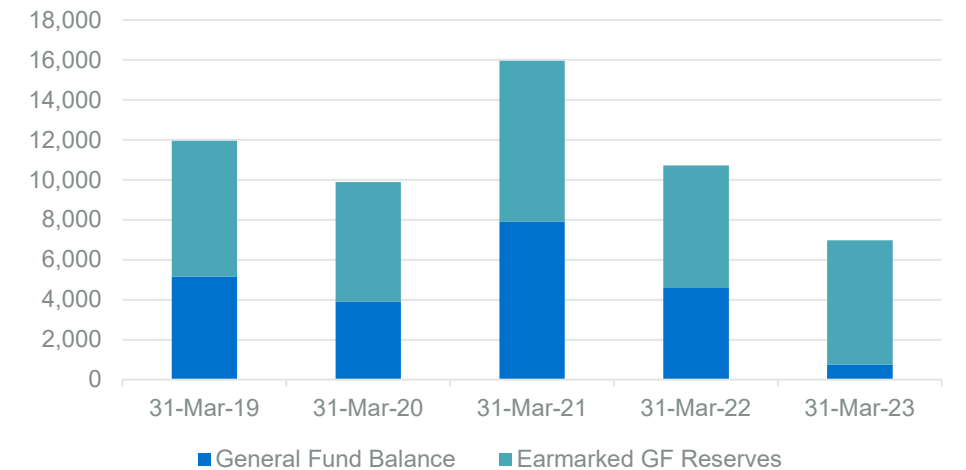
1. We reviewed data published in May 2023 by the Department for Levelling Up, Housing and Communities on Local authority general fund earmarked and unallocated reserve levels, 2017 -18 to 2021-22. The Council's reserves have generally been above the median compared to district councils since 2018 (top chart).
2. Through a review of the financial statements, we have considered the Council's revenue reserves over time (bottom chart).

The Council's Reserves position does not give us cause for immediate concern in relation to a risk of significant weakness in arrangements to secure financial sustainability for the year ended 31 March 2022 or 2023. However, revenue reserves are on a decline through to 31 March 2023 and require oversight through the development of future medium term financial plans.

Un-ringfenced reserve as % of Net Revenue Expenditure - median



Useable Revenue Reserves: Gedling Borough Council (£000s)



VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks



VFM arrangements – Governance

Risks of significant weaknesses in arrangements in relation to Governance

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>Fraud & Internal Control: Allegations of fraudulent behaviour by Council Officers.</p> <p>As set out in our progress report from February 2023, Nottinghamshire Police are investigating an alleged case of "significant" fraud involving a Gedling Borough Council officer member. The alleged fraud was uncovered by the Council and reported to the police. We believe the allegations present a risk of significant weakness in the Council's arrangements for Governance (how the body ensures that it makes informed decisions and properly manages its risks).</p>	<p>Work undertaken</p> <p>Our work included, but was not limited to:</p> <ul style="list-style-type: none">• Reviewing relevant internal audit reports;• Regular discussions with Officers and Internal Audit and the police investigation team• Review of committee minutes and agendas. <p>Results of our work</p> <p>In October 2024, a former officer of the Council, who was dismissed in 2022, was found guilty of fraud by abuse of position and obtaining money transfers by deception over a period of nearly 19 years. The identified fraudulent transactions totalled almost £1m.</p> <p>In June 2023, we issued a progress report to the Council explaining that, whilst our work on the financial statements for the year ended 31 March 2022 was substantially complete, the identification of actual fraud meant we were unable to continue our work until the extent of the issue could be reasonably determined.</p> <p>Through our discussions with officers, we are aware that, on initial identification of the fraud, the Council took various action, including informing the police, introducing compensatory controls. In August 2022, the Council engaged forensic specialists to assess the situation and requested Internal Audit to review of the IT environment relating to financial controls. This latter review, which commenced in April 2023 and concluded in January 2024, highlighted a range of significant deficiencies in financial controls for the year ending 31 March 2022 and 31 March 2023.</p> <p>We met with the internal auditors and reviewed the reports issued, confirming that, in March 2024, the Audit Committee received the Internal Audit report covering the review of Agresso IT Controls and the control weaknesses in the set-up of the finance system. From our meetings and review, we noted there were significant control deficiencies in relation to the segregation of duties and the privileged access given to this individual within the ledger system Agresso. These deficiencies have also hampered our ability to complete the financial statement audit.</p> <p>We also considered progress of the court case, including the ultimate conviction and sentencing in October 2024. In doing so, we considered whether the fraud losses were a risk to the Council's financial sustainability: overall, given the values involved and the steps taken, including further action, to reclaim funds, we are satisfied this does not present a risk of significant weakness in arrangements for financial sustainability.</p> <p>Conclusion</p> <p>In our view, the control deficiencies are indicative a risk of significant weakness in governance arrangements, including how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, that has led to a significant impact on the quality or effectiveness of the Council's reputation.</p>

VFM arrangements – Governance

Draft commentary on the Governance reporting criteria - continued

Overall commentary on the Governance reporting criteria

The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way it discharges its functions, having regard to a combination of effectiveness, economy and efficiency. In doing so, it is responsible for making proper arrangements for the governance of its affairs, the effective exercise of its functions and arrangements for the management of risk. The Council's core decision-making structure and arrangements are set out in detail within the Council's Constitution. Gedling's arrangements are broadly in line with expectations for a district council, with the notable exception of the weakness in arrangements identified above. Gedling Borough Council has adopted a local code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government (2016). This has been updated and approved by Members for 2021/22, 2022/23 and 2023/24.

Financial Governance

The Council's Medium Term Financial Plan is subject to regular review and analyses the impact of income and expenditure. Performance forecasts are monitored and assessments completed on an ongoing basis throughout the year. Since 2014/15, the Council has approved six separate efficiency programmes, with a net total of £7.0m, after allowing for risk provision. The 2023/24 efficiency programme has a total value of £443,500. The budget includes an additional risk provision of £50,000 to manage the inherent risks of efficiency programme delivery and a Transformation Fund budget of £50,000 to facilitate the implementation of the overall programme. There is no evidence of unreasonable assumptions or unachievable savings in the MTFP.

Risk Management Framework

The Council has established risk management and monitoring arrangements. The Council's Audit Committee is responsible for providing independent assurance to the Council on the adequacy of the risk management framework and internal control environment. We have reviewed evidence and confirmed that the Audit Committee meets regularly and reviews its programme of work to maintain a focus on key aspects of governance and internal control. The Council has defined the level of risk exposure that it thinks is acceptable in its Risk Appetite Statement. We have reviewed the Corporate Risk Management Scorecard for Q4 2021/22 which notes the progress of actions identified within the Corporate Risk Register. While some risks are identified, none indicate a risk of significant weakness in arrangements.

Internal Control

The Three Lines of Defence Model is a commonly held evaluation of how organisations develop arrangements to support effective risk management and governance.

1. Operational management, including designing, operating, and implementing controls
2. Risk management and compliance functions, reporting to senior management
3. Internal audit, providing independent assurance and examination of controls, governance, and risk strategies

The Council's internal audit function is outsourced to BDO, who report to the Council, via the Audit Committee, on the adequacy and effectiveness of the internal control system. We have reviewed reports from the internal auditor including the Internal Audit Annual Report and Annual Statement of Assurance for 2022/23 as well as Internal Audit's confidential additional review on IT Agresso Controls from January 2024.

For 2021/22 Internal Audit provided "moderate assurance that there is a sound system of internal control, designed to meet the Council's objectives and that controls are being applied consistently" and "Limited Assurance of its [the Council's] system of controls" in 2022/23.

We also noted that internal audit had carried out a review on the Council's Main Financial Systems in 2021/22 which concluded there was "substantial assurance" over controls in relation to payroll, accounts receivable and accounts payable. We have read the report, which was received by the Audit Committee in March 2022, noting the terms of reference included:

- Testing a sample of journals for authorisation
- Testing a sample of control account reconciliations
- Examining access controls, including obtaining a report of user access rights and confirm only appropriate members of staff within the finance function have write access to the general ledger

The report provided the Council with "substantial assurance", although did raise some low-risk findings, including control account reconciliations and timely review of journals. As set out in the Internal Audit Annual report taken to the audit committee in September 2023, a review of the Main Financial Systems focused on treasury management and payroll was finalised in September 2023 and gave "moderate" assurance.

Internal Audit's review of the financial ledger, as set out on the previous page, was issued in January 2024 and highlights significant deficiencies in the control environment, specifically referencing access rights.

Overall, Internal Audit acts as the third line of defence, but given the fraud and subsequent issues identified from a more in-depth review of the IT control environment, the Council needs to better collaborate, engage and tailor a work programme to assess risk and ensure the scope of work fully addresses the organisations needs.

VFM arrangements

Improving Economy, Efficiency and Effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



VFM arrangements – Improving Economy, Efficiency and Effectiveness

Risks of significant weaknesses in arrangements in relation to Improving Economy, Efficiency and Effectiveness

Significant weakness in 2020/21	Nil
Significant weaknesses identified in 2021/22	Nil
Significant weaknesses identified in 2022/23	Nil

Draft commentary on Improving Economy, Efficiency and Effectiveness

Position brought forward from 2020/21

As detailed in the table above, there are no indications of a significant weakness in the Council's arrangements carried over from the previous year. Furthermore, we do not believe that the significant weakness identified in relation to governance will have an impact on this reporting area, as it does not affect headings such as partnerships or performance management.

Performance management

The Council maintains a 'Gedling Plan' (refreshed for 2024-2027) against which performance is monitored against the key priorities of Economy, Community, Place and The Council. Each of the areas have a detailed delivery plan in place with specific indicators to measure success. The Council produces an annual report that summarises key achievements and performance measures against the Plan that is approved by Cabinet each year.

We have reviewed the 2022/23 report presented to Cabinet by the SLT on 6th July 2023: in addition to the 32 performance indicators monitored on a quarterly basis, there are 12 indicators reported on an annual basis. Overall performance is positive, with 25 of the indicators either meeting or exceeding target. Four were slightly below target, and only three indicators missed their target. We do not consider these areas to represent a risk of significant weakness. The remaining 12 were tracking indicators. It's noted that for all of the areas an action plan has been developed, with measurable success criteria and an indicator of direction of travel. This allows the Council to monitor successful delivery and identify any areas where corrective action is required.

Peer review and external regulators

The Council received a LGA Corporate Peer Review in June 2022 which had some recommendations, however no indications of significant weaknesses in arrangements.

The Local Government and Social Care Ombudsman (LGSCO) is the independent body responsible for investigating complaints made against public bodies where it is alleged there has been maladministration causing injustice. LGSCO reported that between 1 April 2022 and 31 March 2023, the Council received a total of 404 complaints, which is a reduction in 107 complaints from the 511 received in 2021/22. Whilst complaint levels still sit at a slightly higher level than pre-covid complaint levels, (379 in 2012/20) the overall trend is showing a reduction. Of all complaints received 33% were upheld or partially upheld at stage 1, which is a 1% increase from 2021/22. The Council has received 225 compliments in 2022/23 a slight decrease from the 234 received last year. The one upheld complaint related to missed garden waste collections for one individual, who was subsequently compensated. We do not consider this to represent a risk of significant weakness in arrangements.

Procurement

The Council has a Procurement Strategy which outlines how the procurement of goods, works and services is achieved. These documents provide a corporate framework for the procurement of goods, works and services. There are also controls in place designed to ensure that all procurement activity is conducted with openness, honesty and accountability. Our work on the financial statements has not identified any significant internal control deficiencies.

VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



VFM arrangements - Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work, we have identified significant weaknesses in the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below and will be finalised in our audit report.

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	[Draft] Recommendation for improvement
<p>Fraud and Internal Control</p> <p>As referred to in the Annual Governance Statement, in October 2024, a former officer of the Council, who was dismissed in 2022, was found guilty of fraud by abuse of position and obtaining money transfers by deception over a period of nearly 19 years. The identified fraudulent transactions totalled almost £1m.</p> <p>On initial identification of the fraud, the Council took various action, including informing the police, introducing compensatory controls. In August 2022, the Council engaged forensic specialists to assess the situation and requested Internal Audit to review of the IT environment relating to financial controls. This latter review, which commenced in April 2023 and concluded in January 2024, highlighted a range of significant deficiencies in financial controls for the year ending 31 March 2022 and 31 March 2023.</p> <p>In our view, these deficiencies exposed the Council to a significant weakness in governance arrangements, including how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, that has led to a significant impact on the quality or effectiveness of the Council’s reputation.</p>		●		<p>The Council should continue to implement all remaining recommendations raised by Internal Audit to address all aspects of the control environment and put in place arrangements to test the effectiveness of the controls on a periodic basis, including any adjustments for changes in systems or processes that may have occurred.</p>

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