

Dear Sir/Madam

21 November 2017

A meeting of the Governance, Audit and Standards Committee will be held on Wednesday 29 November 2017 in the New Council Chamber, Town Hall, Beeston commencing at 7.00pm.

Should you require advice on declaring an interest in any item on the agenda, please contact the Monitoring Officer at your earliest convenience.

Yours faithfully

Kuth E Hyde

Chief Executive

To Councillors:

E H Atherton (Vice Chair) S A Bagshaw T P Brindley J C Goold J W McGrath J C Patrick

J W Handley (Chair) J M Owen K E Rigby A W G A Stockwell

AGENDA

1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF INTEREST

Members are requested to declare the existence and nature of any disclosable pecuniary interest and/or other interest in any item on the agenda.

3. MINUTES

PAGES 1 - 4

The Committee is asked to confirm as a correct record the minutes of the meetings held on 25 and 29 September 2017.

4. <u>EXTERNAL AUDIT REPORT 2016/17 –</u> <u>MANAGEMENT RESPONSES UPDATE</u>

To provide additional details of actions being undertaken in response to the recommendations made by the external auditors in their report on the external audit of the Council's 2016/17 accounts.

5. <u>APPOINTMENT OF EXTERNAL AUDITORS FROM</u> PAGES 12 - 13 2018/19

To inform the Committee of the progress in appointing external auditors to audit the accounts of Broxtowe Borough Council for five years from 2018/19.

6. <u>REVIEW OF PARLIAMENTARY BOUNDARIES</u> PAGES 14 - 17

To seek the Committee's views on the revised proposals for parliamentary constituencies.

7. <u>REVIEW OF THE INTERNAL AUDIT CHARTER</u> PAGES 18 - 27

To recommend the approval of the revised Internal Audit Charter in accordance with the requirements of the Public Sector Internal Audit Standards.

8. INTERNAL AUDIT PROGRESS REPORT PAGES 28 - 40

To inform the Committee of the recent work completed by Internal Audit.

9. <u>REVIEW OF STRATEGIC RISK REGISTER</u> PAGES 41 - 48

To recommend approval of amendments to the Strategic Risk Register and the action plans identified to mitigate risks.

10. WORK PROGRAMME

To consider items for inclusion in the Work Programme for future meetings.

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GOVERNANCE, AUDIT AND STANDARDS COMMITTEE

25 SEPTEMBER 2017

Present: Councillor J W Handley, Chair

Councillors: E H Atherton T P Brindley J C Goold S Kerry G Marshall (substitute) J M Owen J C Patrick K E Rigby

Apologies for absence were received from Councillors S A Bagshaw, M J Crow, D A Elliott, R I Jackson and M Radulovic MBE.

8. <u>DECLARATIONS OF INTEREST</u>

There were no declarations of interest.

9. <u>MINUTES</u>

The minutes of the meeting held on 26 June 2017 were confirmed and signed.

10. AUDIT OF ACCOUNTS 2016/17 AND ASSOCIATED MATTERS

Members were informed that the Council's external auditors, KPMG, had not submitted the necessary documents and therefore a further meeting would need to be convened for their consideration.

11. INTERNAL AUDIT PROGRESS REPORT

Under the Council's Constitution and as part of the overall corporate governance arrangements the Committee noted a report informing of the work of Internal Audit.

Concern was expressed over the initial negotiating position for rents in Beeston Square. Members were informed that the Project Manager post had been appointed to, which would ensure robustness of the process. A report would be submitted to the relevant Committee in October.

12. <u>REVIEW OF STRATEGIC RISK REGISTER</u>

Following the report to the last meeting of the Committee, and in accordance with the timescales set out in the Risk Management Strategy, the Strategic Risk Management Group met on 9 August 2017 to review the Strategic Risk Register. Members requested clarification over risks not reducing despite interventions being put in place. Officers replied that it was necessary to see if actions would work over time; furthermore, the potential lack of reductions may also be due to limitations with the 3x3 matrix. Other councils' methods of recording risk would be considered.

RESOLVED that the amendments to the Strategic Risk Register and the action plans to mitigate risks, as set out in the appendix to the report, be approved.

13. <u>COMPLAINTS REPORT 2016/17</u>

Members received a report summarising complaints made against the Council in 2016/17.

14. LOCAL GOVERNMENT OMBUDSMAN AND HOUSING OMBUDSMAN SERVICE ANNUAL REVIEW LETTERS

The Local Government Ombudsman's and the Housing Ombudsman Service's annual review letters to the Council were presented.

15. WORK PROGRAMME

RESOLVED that the Work Programme be approved.

GOVERNANCE, AUDIT AND STANDARDS COMMITTEE

29 SEPTEMBER 2017

Present: Councillor J W Handley, Chair

Councillors: E H Atherton S A Bagshaw J C Goold G Marshall J M Owen P J Owen (substitute) J C Patrick K E Rigby

Apologies for absence were received from Councillors T P Brindley, D A Elliott, J W McGrath and S Kerry.

16. DECLARATIONS OF INTEREST

There were no declarations of interest.

17. AUDIT OF ACCOUNTS 2016/17 AND ASSOCIATED MATTERS

The Committee expressed concern over the late delivery of the papers. Assurances were given that next year's submission would be planned, with the auditors, in more detail so as to avoid a repeat. Members further expressed concern that having such little time to read the reports would lead to a reduction in scrutiny of the documents.

Members were informed that the external auditors KPMG had examined the Council's draft Statement of Accounts 2016/17 and set out their findings in their External Audit Report 2016/17. The external auditors gave a presentation to the Committee and stated that the audit had presented difficulties due to the number of adjustments and not always having access to working papers. Members queried whether this was due to staff being on leave and requested reassurances that a clear and rigorous process would be followed in the future.

The statutory deadline of 30 September 2017 was discussed and any consequences of not approving the Statement of Accounts. It was responded that the Department for Communities and Local Government would have a negative opinion of the Council should there not be an approval, to which members suggested that an alternative would be to approve the Statement and the Committee be informed of any further amendments. It was agreed that an extraordinary meeting be called if necessary and it was requested of officers to return to the Committee and provide updates on any exceptions and progress made following the audit.

RESOLVED that:

- 1. The Statement of Accounts 2016/17 be approved, subject to the opportunity for the Committee to study further information and amend, if necessary, the unqualified audit submission.
- 2. The letter of representation be approved.
- 3. The response to those matters identified within the External Audit Report 2016/17 be approved.

Report of the Interim Deputy Chief Executive

EXTERNAL AUDIT REPORT 2016/17 – MANAGEMENT RESPONSES UPDATE

1. <u>Purpose of report</u>

To provide additional details of actions being undertaken in response to the recommendations made by the external auditors in their report on the external audit of the Council's 2016/17 accounts.

2. <u>Detail</u>

The External Audit Report 2016/17, presented by the external auditors (KPMG) to the Governance, Audit and Standards Committee on 29 September 2017, followed their work on the Council's 2016/17 accounts. This included nine recommendations intended to strengthen the Council's financial reporting processes whilst ensuring the quality and accuracy of the financial statements and that they are produced in a timely manner.

The management responses provided to the external auditors recommendations were included in the External Audit Report 2016/17. However, further detail as to the nature of the recommendations and how they are being addressed is set out in the appendix.

It should be noted that the external auditors regard recommendations 1 to 3 as high priority, recommendations 4 to 8 as medium priority and recommendation 9 as low priority. However, addressing all the recommendations in a determined and robust manner should enhance the ability to meet the deadlines for the earlier production of the Council's accounts that will apply from 2017/18.

As reported to the meeting of the Committee on 29 September 2017, the external auditors anticipate issuing an unqualified audit opinion on the Council's 2016/17 final statements following the completion of their audit. A verbal update will be provided at this meeting.

Recommendation

The Committee is asked to NOTE the work being undertaken to respond to the recommendations made in the External Audit Report 2016/17 as set out in the appendix.

Background papers Nil

APPENDIX

External Audit Report 2016/17 – Management Responses Updates

Recommendation 1 – Accounting for Property, Plant and Equipment (PPE)

The Authority should review its approach to capital accounting and to developing the Fixed Asset Register to ensure robust records are kept and support accurate accounting entries.

Management Response Update

Some adjustments were required in respect of accounting for property, plant and equipment and due, in particular, to the complex nature of certain transactions such as the purchase of the lease for Beeston Square. This demonstrated some of the limitations of the Fixed Asset Register in its present form.

A new structure for Finance Services was agreed at the Policy and Performance Committee meeting on 4 July 2017. This is intended to address a number of issues including creating additional capacity to enable the Authority to strengthen its capital accounting processes and reduce the level of manual input.

The new structure included two new Principal Accountant posts. External appointments were made to both posts and the postholders commenced on 25 September and 16 October 2017 respectively.

One of the Principal Accountants will be the lead on capital accounting issues and is presently examining the present capital accounting processes and the Fixed Asset Register to determine how arrangements can be enhanced. This will include attendance at various workshops and other events designed to increase knowledge and expertise in the team on this subject.

The Council has uses the same software for its capital accounting processes as many other authorities. However, a lack of capacity has prevented this from being utilised as fully as intended. The Principal Accountant will be taking this forward and be supported by the Head of Finance Services.

Recommendation 2 – Accounts and Working Paper Production and Review

The Authority should develop a clear resourced plan for the production of accounts and comprehensive working papers for the 2017/18 accounts. The working papers should be provided ahead of the on-site audit visits. Issues with the production of working papers or the understanding of our audit requirements should be notified early to ensure compliance.

The overarching principle is that working papers should provide a clear and concise audit trail from the financial statements through to sufficient and appropriate evidence within supported working papers. Working papers need to:

- be clear, with explanations if needed. The working papers need to be written from the view point of someone external to the organisation;
- be supported by strong evidence, for example, third party documentation; and
- agree to the financial statements provided for audit.

The Authority should ensure that key finance staff are available during the audit period.

Management Response Update

This recommendation is fully supported.

A clear, resourced plan for the production of accounts and comprehensive working papers for the 2017/18 accounts is being produced. This will utilise lessons learned from 2016/17 and previous years as well as good practice identified by professional bodies, the external auditors and other local authorities designed to ensure that the accounts are produced in a timely manner.

The final accounts plan will cover all areas of the Council's activities contained in the financial statements including the General Fund, Housing Revenue Account and Bramcote Crematorium as well as the requirement to incorporate the financial transactions of Liberty Leisure for the purpose of producing Group Accounts.

A number of initiatives have already been identified to support this objective including a more streamlined approach to consolidating the financial transactions for Bramcote Crematorium which, in previous years, has added extra complexity and resource demands to producing the final accounts.

Working papers are now, in most cases, directly linked to the financial statements which will enhance the audit trail significantly. In addition, this should allow any required amendments to be made with little disruption.

The final accounts plan will also include arrangements for working papers to be reviewed (and amended where necessary) by more senior staff to ensure that they can be easily understood and meet the required standard in terms of quality. The new structure as outlined above should provide greater capacity and expertise to allow the new deadlines for the production of the final accounts to be met. In addition, the Accounts team have been informed that no annual leave is to be granted for April and May (unless in exceptional circumstance) as part of the measures to prioritise the production of the final accounts and the preparation for the external audit.

This work will be led by the Chief Accountant who will receive support from the Interim Deputy Chief Executive and Head of Finance Services as necessary.

Recommendation 3 – Three Way Match Control

The Authority should review the exceptions to establish what improvements should be made to the operation of controls.

Management Response Update

This recommendation referred to the system for the payment of creditors and the need to match the three distinct elements of purchase orders, goods received notes and invoices.

Detailed testing by the external auditors identified instances where, for example, an invoice was paid without a purchase order being raised or goods received note being processed before payment.

There are a number of potential scenarios where a payment may be made without a purchase order or goods received note. For example, there could be regular ongoing payments (such as utilities costs) or low value items that are required urgently and where the raing of orders would unnecessarily delay proceedings.

The Authority maintains a devolved financial management system that places responsibility upon departments to take the correct approach in terms of payments to suppliers for the provision of goods and services. Departments are regularly reminded of the requirement to place purchase orders for goods and services but, as the above examples demonstrate, this is not always appropriate in every case.

The external auditors have been asked to provide the results of their testing. This will then be examined to determine the particular circumstances of the non-use of the three way match control and how this relates to the total number of transactions. The results of this analysis will then be examined to determine what, if any, further action may be required.

Recommendation 4 – NNDR Appeals Provision

The Authority should consider whether the approach used to determine the provision could be enhanced as well as ensuring the accuracy of the underlying working papers through additional review.

Management Response Update

The approach used to determine the NNDR appeals provision is based upon a methodology that has been used by other billing authorities across Nottinghamshire for a number of years. However, some authorities are now developing more bespoke approaches and the external auditors are suggesting that consideration should be given to whether this would be the most appropriate way forward for Broxtowe. In addition, an error was found in the use of the existing model for 2016/17 that the external auditors imply indicates a requirement for further improvement in the quality of the working papers.

This recommendation is supported. The significance of the NNDR appeals provision dictates that it requires regular review in terms of the methodology adopted and the various controls and checks within the working papers. This will be factored into the plan for the production of the 2017/18 final accounts and will be overseen by the Chief Accountant.

Recommendation 5 – Control Over Journals

The Authority should review and address the issues we have raised.

Management Response Update

The external auditors expressed concerns with the fact that there are circumstances where a journal could be created and approved by the same individual. They also felt that having no journal posting authorisation limits represents a control weakness,

The conclusions of the external auditors are not supported in this case. There are circumstances where it is less bureaucratic (and with little perceived risk) for an individual to create and then approve a journal. The financial system contains an audit log that identifies the originator and approver of all journals to be identified. Any inappropriate journals should be quickly captured and correcting action taken.

The controls in respect of journals are to be reviewed by the Chief Accountant and any improvements identified will be implemented. The process will be documented and details (including all users) will be shared with the external auditors.

Recommendation 6 – Pension Fund Disclosures

The Authority should review and improve the process for ensuring pension disclosures are accurate and that the actuary's assumptions are reviewed for appropriateness.

Management Response Update

The external auditors identified that some figures from the actuary's report were not correctly reflected in the draft 2016/17 financial statements. These were small in number and arose as a consequence of a change in the format of the actuary's report from that received in previous years. This related solely to the disclosure notes and had no impact on the financial statements whatsoever.

The increased capacity arising from the new structure should enable additional checking by senior staff to allow the risk of such errors in future to be minimised.

The external auditors noted that there had been no management review of the assumptions used by the actuary to confirm that these were considered to be appropriate. As the actuary has access to a far greater range of information regarding the pensions environment than the Council, it is difficult to see the benefit of the management review being proposed. However, such a review will be incorporated into the plan for the production of the 2017/18 final accounts.

Recommendation 7 – Other System Controls

The Authority should review and address the issues identified.

Management Response Update

The controls testing (including ICT controls) undertaken by the external auditors on the key financial systems identified a number of potential improvements including:

- The revocation of access to financial systems as soon as someone leaves the Council
- The clearing down of some control accounts debtor and creditor balances
- Strengthening the monthly reconciliation of the housing benefits system to the General Ledger
- Ensuring all checks within the bank reconciliation process are undertaken in a timely manner

This recommendation has been agreed in full. Steps have already been taken to review the controls in the areas identified and certain enhancements have already been implemented. Any further measures that could strengthen procedures will be implemented in due course.

The Chief Accountant is leading on this work but support will be available from the Head of Finance Services and Chief Audit and Control Officer as necessary.

Recommendation 8 – Related Party Transactions

The Authority should review the exceptions to identify where improvements can be made in the procedures.

Management Response Update

A related party was identified by a Member on their annual return but the Accounts team failed to pick this up and therefore transactions with the related party were not disclosed in the draft 2016/17 accounts. A greater level of scrutiny of the related party returns would have identified this sooner.

The plan for the production of the 2017/18 accounts will allocate responsibility to a named individual to ensure that all related party returns are completed and submitted by Members by the due date. The individual will scrutinise each return and ensure that transactions with any potential related parties identified in the returns are properly disclosed in the final accounts.

Recommendation 9 – Medium Term General Fund Financial Strategy

The Authority should develop the granularity and evidence base for the assumptions underpinning the Strategy going forward.

Management Response Update

The external auditors have acknowledged that the Council has a good record in delivering on its financial plans. They have reviewed the Medium Term Financial Strategy (MTFS) and the Business Strategy and noted the limited analysis and documentation supporting some of the assumptions. They maintain that more detailed supporting analysis is required going forward to provide confidence in the robustness of plans, particularly as the financial environment becomes more challenging.

This recommendation is supported in full. The MTFS will be updated as part of the preparation of the 2018/19 budget and the revised version will be presented to the Finance and Resources Committee on 15 February 2018. The Business Strategy will also be refreshed in due course for consideration by Members.

This work will be led by the Interim Deputy Chief Executive and will involve input from staff across all departments to ensure that plans are realistic and assumptions are robustly tested.

Report of the Interim Deputy Chief Executive

APPOINTMENT OF EXTERNAL AUDITORS FROM 2018/19

1. Purpose of report

To inform the Committee of the progress in appointing external auditors to audit the accounts of Broxtowe Borough Council for five years from 2018/19.

2. <u>Detail</u>

As reported to the Finance and Resources Committee on 6 February 2017, the Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. These transitional arrangements come to an end on 31 March 2018.

Council decided on 1 March 2017 to opt in to a process that the Department for Communities and Local Government (DCLG) had agreed with the Local Government Association (LGA) that Public Sector Audit Appointments (the organisation responsible for overseeing the transition in external audit arrangements) would act as a Sector Led Body to make audit appointments under a national scheme with effect from 1 April 2018.

Public Sector Audit Appointments (PSAA) then completed a procurement exercise to let external audit contracts from 2018/19. PSAA announced on 14 August 2017 that Mazars LLP was successful in winning a contract in the procurement exercise. PSAA proposed appointing Mazars as the Council's external auditors for five years from 2018/19 to replace the current external auditors (KPMG). Further details on Mazars are set out in the appendix.

The PSAA then consulted on the proposed appointment. Following discussion between myself and the Chief Executive, I confirmed that the Council was satisfied with the proposed appointment before the consultation closed on Friday 22 September 2017. The PSAA Board will now consider all proposed auditor appointments at its meeting on 14 December 2017 and then formally confirm arrangements.

3. <u>Financial implications</u>

The PSAA will consult on scale fees for 2018/19 in due course and will publish confirmed scale fees for opted-in bodies on their website in March 2018. The results of the audit procurement indicate that a reduction in scale fees in the region of 18% should be possible for 2018/19 based on the individual scale fees applicable for 2016/17.

<u>Recommendation</u> The Committee is asked to NOTE the progress in appointing external auditors from 2018/19.

Background papers: Nil

APPENDIX

Mazars LLP

Mazars is a large global audit and accounting firm with over 18,000 professionals in 79 countries worldwide. In the United Kingdom, the firm ranks in the top ten with 1,700 employees and 140 partners working out of 19 offices (including one in Nottingham) and the firm's United Kingdom income in 2016 was in excess of £160 million.

Mazars dedicated public audit team has significant experience in providing external audit to public sector bodies. It comprises individuals with experience of auditing councils, combined authorities, police bodies, fire and rescue authorities, local government pension funds and other public bodies. In addition to its audit contract with PSAA, the firm also has a substantial portfolio of NHS audits and is one of the National Audit Office's framework suppliers for central government audit.

Report of the Interim Strategic Director

REVIEW OF PARLIAMENTARY BOUNDARIES

1. <u>Purpose of report</u>

To seek the Committee's views on the revised proposals for parliamentary constituencies.

2. <u>Background</u>

The Boundary Commission for England (BCE) has published its revised proposals for parliamentary constituencies. Details of how these relate to Broxtowe are set out in appendix 1, together with a map showing the BCE's proposed boundaries for the Broxtowe and Hucknall Constituency.

Although representations were made to the BCE setting out the Council's concerns about the original boundaries, these were not taken into consideration and it is therefore suggested that the Council's concerns be reiterated to the BCE. A draft response is set out in appendix 2.

3. <u>Financial implications</u>

There are no financial implications arising from the proposals.

Recommendation

The Committee is asked to CONSIDER the suggested response to the Boundary Commission for England's revised proposed parliamentary boundaries and RESOLVE accordingly.

Background papers Nil

APPENDIX 1

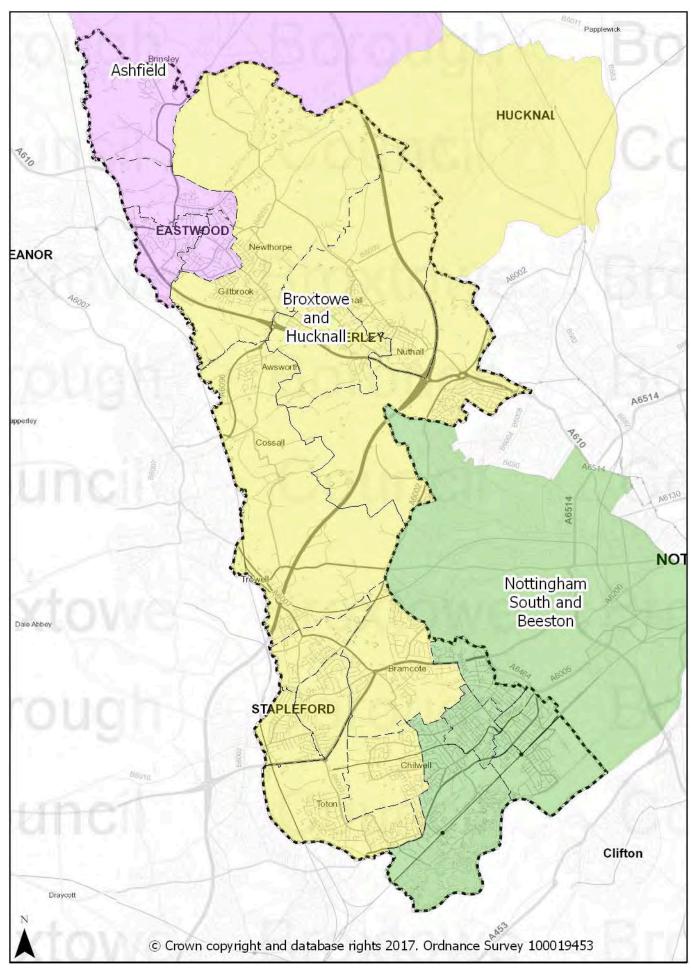
Under the revised proposals, Broxtowe borough wards will remain split between 3 constituencies as follows:

Constituency	Broxtowe Wards					
Nottingham South and Beeston	Attenborough & Chilwell East)					
Borough Constituency	Beeston Central) to Nottingham City					
	Beeston North)					
	Beeston Rylands)					
	Beeston West)					
Broxtowe and Hucknall County	Awsworth, Cossall & Trowell					
Constituency	Bramcote					
	Chilwell West					
	Greasley					
	Kimberley					
	Nuthall East & Strelley					
	Stapleford North					
	Stapleford South East					
	Stapleford South West					
	Toton & Chilwell Meadows					
	Watnall & Nuthall West					
	Hucknall Central)					
	Hucknall North) from Ashfield District					
	Hucknall South)					
	Hucknall West)					
Ashfield County Constituency	Brinsley)					
	Eastwood Hall) to Ashfield District					
	Eastwood Hilltop)					
	Eastwood St Mary's)					

The only change between the original and revised proposals is that Chilwell West and Toton & Chilwell Meadows have been transferred from the Nottingham South and Beeston Borough Constituency to the Broxtowe and Hucknall County Constituency to balance the removal of Bilborough. This would however still mean that postal votes and counted ballot papers would need to be transferred between Broxtowe, Ashfield and Nottingham City.

Governance, Audit and Standards Committee

29 November 2017



Suggested response to BCE

The Council is disappointed that under the revised proposals, wards within Broxtowe Borough remain split between 3 different parliamentary constituencies. This will potentially not only:

- (i) give rise to confusion for voters in the south of the borough which have until now been part of the Broxtowe Constituency;
- (ii) result in administrative difficulties with elections being administered by 3 different local authorities,

but the proposed boundaries for both the Broxtowe and Hucknall CC and the Nottingham South and Beeston BC combine geographical areas which do not relate to each other. The proposed arrangements appear to be purely based around the requirement to achieve electoral equality and do not take into account "any local ties that would be broken by changes in constituencies", one of the criteria which the Commission can consider in drawing up boundaries.

The Council would ask the Commission to reconsider proposal 1 submitted under BCE – 35158 for Nottinghamshire as a whole which would overcome the above concerns and retains community cohesion within Broxtowe.

Report of the Chief Audit and Control Officer

REVIEW OF THE INTERNAL AUDIT CHARTER

1. <u>Purpose of report</u>

To recommend the approval of the revised Internal Audit Charter in accordance with the requirements of the Public Sector Internal Audit Standards.

2. <u>Detail</u>

The Public Sector Internal Audit Standards came into force from April 2013. The Standards and the sector specific Local Government Application Note developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) are effective for public sector internal audit service providers in the UK and are mandatory for all principal local authorities.

One of the key elements of the Standards is that the internal audit activity must be formally defined in an Internal Audit Charter and that this must be approved by the respective audit committee. The current Internal Audit Charter was approved by the General Purposes and Audit Committee on 9 December 2013.

The Chief Audit and Control Officer has undertaken a review of the Internal Audit Charter to confirm that it remains compliant with the Standards and good practice. The Standards now include the 'Mission of Internal Audit' and the 'Core Principles for the Professional Practice of Internal Auditing' which have since been added to the International Professional Practices Framework (IPPF). These revisions have been incorporated in the revised Internal Audit Charter which is attached in the appendix. The review has not identified the need for any other material changes to the internal audit approach.

Recommendation

The Committee is asked to RESOLVE that the revised Internal Audit Charter be approved.

Background Papers Nil

APPENDIX

INTERNAL AUDIT CHARTER

1. Introduction

Internal Audit is a key component of the Broxtowe Borough Council governance framework. This Internal Audit Charter defines the role of the internal audit service and complies with the Public Sector Internal Audit Standards (the 'Standards'), the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note for the Standards, the Accounts and Audit Regulations 2015 and the Council's Financial Regulations.

2. **Definition of Internal Auditing**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

3. Mission Statement

The mission of Internal Audit at Broxtowe Borough Council is to enhance and protect the Council's organisational value by providing risk-based and objective assurance, advice and insight.

4. **Purpose of Internal Audit**

Internal Audit has been established to:

- provide independent, objective assurance to the Council on its operations;
- add value, by assisting management in improving the delivery of the Council's objectives and operations through evaluating and challenging the effectiveness of risk management, control and governance processes.

5. **Regulatory Basis**

The authority of Internal Audit is derived from legislation. Internal Audit assists the Deputy Chief Executive in discharging the statutory responsibilities of Section 151 of the Local Government Act 1972 for ensuring the proper administration of the Council's financial affairs.

The Accounts and Audit Regulations 2015 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Standards and the Local Government Application Note constitute proper practices so as to satisfy the requirements for larger relevant bodies as set out in the Regulations.

6. Key Designations and Relationships

<u>'Chief Audit Executive'</u>

The Council has appointed the Chief Audit and Control Officer to fulfil the role of the 'Chief Audit Executive' as required by the Standards with specific responsibilities for ensuring compliance with the Standards, the CIPFA Local Government Application Note for the Standards and the Internal Audit Charter.

<u>'Board'</u>

The Council has established the Governance, Audit and Standards Committee which shall fulfil the role of the 'Board' as determined by the Standards. The Committee has delegated responsibility to oversee the arrangements for the maintenance of the Council's internal control environment. Internal Audit shall report functionally to the Governance, Audit and Standards Committee.

The Chief Audit and Control Officer shall have:

- free and unrestricted access to the Governance, Audit and Standards Committee and attend all of its meetings;
- the right to meet with the Chair of the Governance, Audit and Standards Committee and/or the relevant lead Member to discuss any matters or concerns that have arisen from internal audit work.

'Senior Management'

The Council's General Management Team shall fulfil the role of 'senior management' as required by the Standards.

The Deputy Chief Executive, fulfilling the duties of Section 151 of the Local Government Act 1972, shall support the Governance, Audit and Standards Committee by ensuring that there are effective arrangements for the internal audit of the control environment.

The Chief Audit and Control Officer shall:

- report administratively to the Deputy Chief Executive;
- have free and unrestricted access to the General Management Team, which shall include meeting regularly with the Chief Executive, the Deputy Chief Executive and the Monitoring Officer as the key officers with statutory responsibilities in relation to internal control and governance arrangements.

7. **Professionalism**

Internal Audit will govern itself by adhering to the Standards. Supplementary guidance issued and endorsed by the relevant internal audit standard setters as applicable to local government will also be adhered to along with the Council's relevant policies and procedures. Non-conformance shall be reported to the Deputy Chief Executive and the Governance, Audit and Standards Committee.

8. Core Principles for the Professional Practice of Internal Auditing

The aim of the core principles is to articulate internal audit effectiveness. All of these core principles should be present and operating effectively.

The Chief Audit and Control Officer shall be responsible for ensuring that Internal Audit demonstrates achievement of the core principles:

- Integrity
- Competence and due professional care
- Objective and free from undue influence (independence)
- Alignment with corporate strategies, objectives and risks
- Appropriate positioning and resourcing
- Quality and continuous improvement
- Effective communication
- Provision of risk-based assurance
- Insightful, proactive and future-focused
- Promotion of organisational improvement.

9. Code of Ethics

Internal Auditors will act with due professional care ensuring that they are fair and objective, free from any conflicts of interest and abide by professional ethical standards and guidelines as issued by relevant professional institutions

Internal Auditors will conform with the Code of Ethics that is intended to define the minimum standards for performance and conduct expected when carrying out their duties when delivering internal audit at the Council. The Code of Ethics does not supersede or replace the requirement on individuals to comply with ethical codes issued by professional institutes of which they are members and any corporate codes of ethics or conduct.

The ethical principles that should be observed are integrity, objectivity, competence and confidentiality. Internal Auditors will also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

The Chief Audit and Control Officer will regularly remind the Internal Audit team of their professional and ethical responsibilities.

10. Independence and Objectivity

Independence is essential to the effectiveness of Internal Audit. It shall remain free from interference by any element in the Council and its scope shall not be restricted in anyway. This will include, but not be limited to, matters of audit selection, scope, procedure, frequency, timing or report content.

Internal Audit shall be free to review the arrangements of any aspect of service delivery, finance or governance irrespective of whether those arrangements are provided directly or indirectly (via partnerships or any other business arrangement).

The objectivity, impartiality, integrity and conduct of Internal Audit must be above reproach at all times. Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. They must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Chief Audit and Control Officer shall confirm to the Governance, Audit and Standards Committee, at least annually, the organisational independence of Internal Audit. The Chief Audit and Control Officer has responsibilities for the delivery of internal audit, insurance and risk management services and the corporate performance management framework. These areas all have a part to play in mitigating the risks facing the Council. The responsibility for these operational areas is recognised by the Deputy Chief Executive, the General Management Team and the Governance, Audit and Standards Committee.

Otherwise Internal Audit will not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair its judgment.

11. Authority and Confidentiality

Internal Audit derives its authority from the Accounts and Audit Regulations 2015 which requires the Deputy Chief Executive (the Section 151 Officer) to undertake an effective internal audit to evaluate the effectiveness of the Council's risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

The Council's Financial Regulations set out that Internal Audit has the authority to:

- enter at all reasonable times on any Council premises or land;
- call for the production of all records, documents (including information recorded in an electronic form), cash, stores, correspondence or other Council property in the custody or under the control of any employee of the Council as are considered necessary by those conducting the internal audit;
- require and receive such explanations as are necessary concerning any matter under examination.

As such, Internal Audit shall have full, free and unrestricted access to all services and functions, premises, assets, employees, elected members, suppliers and contractors, records and other documentation and information that the Chief Audit and Control Officer considers necessary to enable Internal Audit to carry out any engagement.

All employees are required to assist Internal Audit in fulfilling its role and responsibilities. Internal Audit can only be effective if it receives the full co-operation of management. The Governance, Audit and Standards Committee in approving this Charter are mandating management to co-operate with Internal Audit in the delivery of its service by:

- agreeing the terms of reference for an audit no later than the stated deadline, to include duration, scope, reporting and response;
- providing Internal Audit with full support and co-operation, including access to all records, data, property and personnel relevant to the performance of their responsibilities at all levels of operations, without unreasonable delay;
- positively responding to draft reports by providing agreed actions to meet the recommendations within the timescales requested by the Chief Audit and Control Officer;
- implementing agreed actions in accordance with the agreed timescales;
- updating Internal Audit with progress made on agreed actions, informing Internal Audit of proposed changes and developments in processes and systems, newly identified significant risks and cases of a criminal nature.

All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for that purpose. The Chief Audit and Control Officer, Internal Auditors and any external service providers performing work on behalf of Internal Audit are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

12. Internal Audit Management

The Council shall appoint a Chief Audit and Control Officer who shall determine the priorities of Internal Audit and effectively manage and deliver the service in accordance with this Charter.

The Chief Audit and Control Officer shall:

- be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with elected members, senior management and other professionals.
- have a comprehensive understanding of the Council's systems, structures and operations so allowing the preparation of strategic and annual risk based audit plans that are closely aligned to the need to provide assurance against the Council's corporate priorities and objectives, strategic risks and governance framework.
- review and adjust the audit plans as necessary, in response to changes in the Council's risks, operations, programs, systems and controls.
- report the impact and consequence of any resource limitations across the plan period to the Governance, Audit and Standards Committee, that will then determine whether or not to accept the consequence identified or recommend onto the relevant Committee for an increase in audit resources.

- ensure that all audit work is completed to high standards and in accordance with the standards, practices and procedures as set out in the audit manual.
- undertake an annual review of the development and training needs of Internal Auditors and arrange for appropriate training to be provided.
- put in place arrangements that ensure that Internal Audit is notified of all suspected or detected instances of fraud, corruption or impropriety and to determine the most appropriate method of investigating allegations.
- establish effective relationships with managers at all levels.

13. Internal Audit Planning

The Chief Audit and Control Officer will produce an annual Internal Audit Plan that will be submitted to the Governance, Audit and Standards Committee for approval, including details of the risk assessment criteria. The Internal Audit Plan will include timing as well as budget and resource requirements for the next financial year. The Chief Audit and Control Officer will communicate the impact of resource limitations and significant interim changes to the Deputy Chief Executive and the Governance, Audit and Standards Committee.

The Internal Audit Plan will be developed based on a prioritisation of the 'audit universe' using a risk-based methodology, including input of the Deputy Chief Executive, the General Management Team and the Governance, Audit and Standards Committee. Prior to submission to Committee for approval, the Internal Audit Plan may be discussed with appropriate senior management. Any significant deviation from the approved Internal Audit Plan will be communicated through the periodic activity reporting process.

14. Role and Responsibilities

The scope of Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of the Council's entire governance, risk management and internal control processes. The Financial Regulations state that it is the responsibility of Internal Audit to review, appraise and report upon:

- the soundness, adequacy and application of governance, financial and other management controls and risk management arrangements;
- the extent of compliance with, relevance and financial effect of, established policies, plans and procedures;
- the extent to which the Council's assets and interests are accounted for and safeguarded from losses of all kinds arising from:
 - o fraud and other offences
 - waste, extravagance and inefficient administration, poor value for money or other cause;
- the suitability and reliability of financial and other management data developed within the Council;

• the implications on financial procedures and controls arising from value for money and service reviews.

Internal Audit shall achieve this through the following:

Assurance Activity

The results of assurance work will influence the opinion on the adequacy and effectiveness of the entire control environment. This will comprise of:

- Risk-based audits of systems, functions and departmental areas the documentation, evaluation and testing of financial, operational and management information systems.
- Fundamental financial systems reviews undertaken as part of the Deputy Chief Executive's priority areas focusing on agreed key controls.

Advisory Activity

The results of advisory work will contribute to the opinion on the adequacy and effectiveness of the control environment. This will include:

- Advice on systems and procedures providing advice on controls required for new and developing systems.
- Value for money reviews performance improvement work surrounding the economy, efficiency and effectiveness of systems and processes.
- Consultancy services reviews conducted at the request of management that add value and improve governance, risk management and control processes.

Fraud and Corruption Activity

Internal Audit will be proactive in leading and co-ordinating anti-fraud and corruption activities for the Council in accordance with the Anti-Fraud and Corruption Policy.

Internal Audit is responsible for the ongoing assessment of the risk to the Council of financial or other loss resulting from fraud and corruption. The risk assessment will be conducted in conjunction with Senior Management and will take into account published guidance and information from Central Government, CIPFA, the National Fraud Initiative or similar relevant organisations. The risk assessment will provide the basis for ongoing detective and a preventative work programme.

The role of Internal Audit will be to act as a co-ordinating and investigating service for all non-benefit related fraud and corruption reports and to manage the Council's response to such reports. Internal Audit will perform initial enquires to develop a complete understanding of the suspected fraudulent or corrupt activity as reported. This may involve interviewing the person making the report, other individuals and/or a review of corporate financial systems and/or other systems and records. The Chief Audit and Control Officer will then determine the appropriate response to the report, which may involve:

- Primary investigation by Internal Audit;
- Referral to specialist fraud investigators, including local authority partners;
- Referral to the Police and/or the National Crime Agency.

Internal Audit will act as the point of contact for participation in National Fraud Initiative programmes.

15. Reporting and Monitoring

Internal Audit Reports

An Internal Audit report shall be prepared and issued to the appropriate manager(s) at the conclusion of a review that will:

- include an overall opinion on the adequacy of controls within the system to provide assurance that risks material to the achievement of the system's objectives are adequately managed;
- identify inadequately addressed risks and non-effective control processes;
- detail the actions agreed with management and the timescales for completing those actions;
- identify issues of good practice.

Management shall provide an explanation of any corrective action that will not be implemented. When corrective action has not been agreed, reporting will be escalated to a level consistent with the Chief Audit and Control Officer's assessment of the risk.

The Chief Audit and Control Officer will be responsible for establishing appropriate follow-up arrangements and shall regularly review and report on the progress made by managers in introducing the agreed actions. Senior management shall ensure that agreed actions are introduced.

Reporting to the Committee

The Chief Audit and Control Officer shall present regular progress reports and an annual review report to the Governance, Audit and Standards Committee that meets the requirements of the Standards. The annual review report shall be timed to support the Council's Annual Governance Statement and include an opinion on the overall adequacy and effectiveness of the whole control environment.

16. Quality Assurance and Improvement Programme

The Chief Audit and Control Officer shall develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspect of the Internal Audit activity and will communicate the results of the QAIP as part of the review of the effectiveness of internal audit that is reported to the Governance, Audit and Standards Committee. The QAIP will include both internal and external assessments. Internal assessments are both ongoing and periodical. Ongoing reviews will provide assurance that the processes in place are working effectively so as to ensure that quality is delivered on each and every audit. This includes engagement planning and supervision; consistent working practices, quality checks, feedback from clients and stakeholders and performance metrics to measure completion of the Internal Audit Plan.

The Chief Audit and Control Officer will undertake a periodic quality review of the work of Internal Audit to provide assurance that it complies with the Standards and meets the requirements of the Internal Audit Charter. The results of the self-assessment will be reported to the Deputy Chief Executive and the Governance, Audit and Standards Committee.

The Chief Audit and Control Officer will arrange for an external assessment of the efficiency and effectiveness of the internal audit service to be undertaken at least once every five years, in order to meet statutory requirements. The independent review will be conducted by a suitably qualified assessor. The results of the review and any subsequent improvement plans will be reported to the Deputy Chief Executive and the Governance, Audit and Standards Committee as appropriate.

17. Relationships with External Audit and Other Assurance Activities

Internal Audit will establish and maintain an open relationship with the external auditors and any other assurance provider. The internal audit activity shall be planned so that there is adequacy of audit coverage and to minimise duplication of assurance effort. External audit will have full and free access to all Internal Audit plans, working papers and reports.

18. Review of the Charter

The Internal Audit Charter will be subject to review by the Chief Audit and Control Officer on an annual basis and the outcomes of these reviews shall be shared with the Deputy Chief Executive. Approval of the Internal Audit Charter shall be the responsibility of the Governance, Audit and Standards Committee.

Report of the Chief Audit and Control Officer

INTERNAL AUDIT PROGRESS REPORT

1. <u>Purpose of report</u>

To inform the Committee of the recent work completed by Internal Audit.

2. <u>Detail</u>

Under the Council's Constitution and as part of the overall corporate governance arrangements, this Committee is responsible for monitoring the performance of Internal Audit.

A summary of the reports issued since April 2017 and progress against the agreed annual Internal Audit Plan for 2017/18 is included at appendix 1. A brief narrative of the work completed by Internal Audit since the previous meeting of this Committee is also summarised at appendix 1.

Further requests have been received from senior management for Internal Audit to complete work that is not currently included in the Internal Audit Plan. There is flexibility within audit planning arrangements to allow for areas of increasing risk to be considered sooner for assurance work, subject to approval by this Committee. A revision is proposed for the Internal Audit Plan and this is considered in appendix 2.

Internal Audit has undertaken a review of progress made by management in implementing agreed actions within six months of the completion of the audit. Details of follow-up work are included at appendix 3. Where agreed actions to address significant internal control weaknesses have not been implemented this may have implications for the Council. A key role of the Committee is to review the outcome of audit work and oversee the prompt implementation of agreed actions to help ensure that risks are adequately managed.

Further progress reports will be submitted to each future meeting of this Committee. A final report will be prepared for Members' consideration after the end of the financial year detailing the overall performance and productivity of Internal Audit for 2017/18.

Recommendation

The Committee is asked to CONSIDER the report and to RESOLVE that the revisions to the Internal Audit Plan for 2017/18 be approved.

Background Papers Nil

INTERNAL AUDIT REPORTS ISSUED SINCE MARCH 2017

APPENDIX 1

	Report				Actions		IA Plan
No	Audit Title	SIA	Issued	Opinion	Significant	Merits Attention	2017/18 Complete
27	Key Reconciliations 2016/17	WL	20/04/17	Substantial	0	1	-
28	Rent Arrears – Evictions 2016/17	WL	21/04/17	Substantial	-	-	-
29	Erewash BC - Risk Management	CF	21/04/17	n/a	-	-	-
30	Rents 2016/17	WL	24/04/17	Substantial	0	0	-
31	Bank Reconciliation 2016/17	WL	24/04/17	Substantial	0	0	-
01	Erewash BC – Health and Safety	CF	09/05/17	n/a	-	-	-
32	Flexi-time Management 2016/17	CF	11/05/17	Reasonable	1	2	-
33	Information Management 2016/17	CF	12/05/17	Reasonable	0	4	-
34	Shared Services 2016/17	CF	23/05/17	Substantial	0	0	-
35	Benefits 2016/17	CF	24/05/17	Reasonable	1	1	-
36	Beeston Square 2016/17	WL	05/07/17	Reasonable	0	3	-
02	Capita OPEN Housing System Users	WL	10/07/17	n/a	-	-	-
37	Chilwell Olympia 2016/17	WL	20/07/17	Substantial	0	0	-
03	Cash Receipting	CF	31/07/17	Reasonable	1	3	3%
38	Sundry Debtors 2016/17	CF	10/08/17	Reasonable	1	0	-
04	Local Auth. Housing Statistics Return	WL	08/09/17	Substantial	0	0	-
05	Asset Register (Estates Management)	CF	15/09/17	Reasonable	1	2	6%
06	Creditors and Purchasing	WL	15/09/17	Reasonable	1	2	8%
07	Land Charges	CF	15/09/17	Substantial	0	0	11%
08	Payroll	WL	15/09/17	Reasonable	1	1	14%
09	Car Parking	CF	15/09/17	Substantial	0	1	17%
10	Disabled Facilities Grants	WL	19/10/17	Substantial	0	0	19%
11	Prospective Tenant at The Square	CF	26/07/17	n/a	-	-	-
12	Willow Court Social Fund	WL	02/11/17	n/a	-	-	-
13	Capital Works	CF	10/11/17	Substantial	0	1	22%
14	NNDR	WL	17/11/17	Substantial	0	0	25%
15	Planning Applications and Income	CF	20/11/17	Substantial	0	1	28%
16	Treasury Management	WL	20/11/17	Substantial	0	2	31%
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REMAINING INTERNAL AUDIT PLAN 2017/18

No	Audit Title	SIA/ Days	Progress	IA Plan 2017/18 Complete
	Stores	CF	Draft report issued	33%
	Computer/ICT	WL	Draft report issued	36%
	Housing Repairs	CF	Ongoing (Nearing completion)	39%
	Parks and Grounds Maintenance	WL	Ongoing (Nearing completion)	42%
	Trade Waste Refuse Collection	CF	Ongoing (Nearing completion)	44%
	HMO Licences	WL	Ongoing (Nearing completion)	47%
	Leisure Membership Scheme	CF	Ongoing (Nearing completion)	50%
	Kimberley Leisure Centre	CF	Commenced	53%
	Financial Resilience	8	Expected to commence in Q3	56%

No	Audit Title	SIA/ Days	Progress	IA Plan 2017/18 Complete
	Choice Based Lettings	12	Expected to commence in Q3	58%
	Corporate Governance	8	Expected to commence in Q3	61%
	Human Resources	8	Expected to commence in Q3	64%
	Local Authority Trading Company	5	Expected to commence in Q3	67%
	Communications	5	Expected to commence in Q3	69%
	Administration - Miscellaneous	5	Expected to commence in Q3	72%
	CCTV	5	Expected to commence in Q3	75%
	Procurement	10	Expected to commence in Q4	78%
	Risk Management/Business Continuity	5	Expected to commence in Q4	81%
	Rents	10	Expected to commence in Q4	83%
	Information Governance (Management)	8	Expected to commence in Q4	86%
	Council Tax	15	Expected to commence in Q4	89%
	Bank Reconciliation	3	Expected to commence in Q4	92%
	Key Reconciliations	2	Expected to commence in Q4	94%
	Benefits	20	Expected to commence in Q4	97%
	Sundry Debtors	15	Expected to commence in Q4	100%

REMAINING INTERNAL AUDIT PLAN 2017/18 (Continued)

COMPLETED AUDITS

A report is prepared for each audit assignment and issued by the Chief Audit and Control Officer to relevant senior managers at the conclusion of a review that will:

- include an overall opinion on the adequacy of controls within the system to provide assurance that risks material to the achievement of objectives are adequately managed – the opinion being ranked as either 'Substantial', 'Reasonable', 'Limited' or 'Little' assurance;
- identify inadequately addressed risks and non-effective control processes;
- detail the actions agreed with management and the timescales for completing those actions, and;
- identify issues of good practice.

The recommendations made by Internal Audit are risk assessed, with the agreed actions being categorised accordingly as follows:

- Fundamental urgent action considered imperative to ensure that the Council is not exposed to high risks (breaches of legislation, policies or procedures)
- Significant action considered necessary to avoid exposure to significant risk.
- Merits Attention (Necessary Control) action considered necessary and should result in enhanced control or better value for money.
- Merits Attention action considered desirable to achieve enhanced control or better value for money.

Completed Audits

The following audit reports have been issued with key findings as follows:

1. <u>Disabled Facilities Grants (DFG)</u>

Assurance Opinion – Substantial

Management has established an appropriate framework for the administration of operations in respect of DFG. No significant areas of concern were noted during the course of the audit. A minor point of practice was raised with the Head of Public Protection and will be satisfactorily resolved.

An agreed action from the previous audit to undertake a competitive tender exercise to create a framework of contractors to complete grant aided works has been disregarded. Discussions with the Procurement team concluded that there was no legal requirement to complete formal tendering for these works which are essentially a matter between the grant applicant and the contractor. Internal Audit is satisfied that all quotations received for grant purposes are assessed for reasonableness and value.

2. Financial Appraisal of Prospective Tenant

Internal Audit reviewed the financial details and accounts of a company expressing an interest to lease a unit on The Square, Beeston. The result of the appraisal was considered to be satisfactory.

In view of the potential rental level and profile of the premises, it was highly recommended that the Council obtain further sufficient reassurances from the company prior to the award of any tenancy, as is standard practice on all proposed tenancies, such as obtaining satisfactory bank references, trade references and current landlord references. There should also be consideration of a deposit or rental payment in advance.

The review findings were reported to the Head of Property Services and the Estates Manager to enable them to proceed with the letting process.

3. <u>Retirement Living Scheme Social Fund</u>

A review of the financial records of a Social Activity Group Fund has been completed at the request of the Interim Head of Housing. Internal Audit made a number of recommendations, including the need to remind all Social Fund Treasurers of their responsibilities and the importance of maintaining full, accurate and up-to-date financial records to mitigate against the risk of error or allegations of fraud.

It was suggested that management should consider whether further training and/or resources are required to ensure the effective financial management of these Social Funds. This may be an ideal opportunity to review the Retirement Living Social Activity Group Guidelines and to provide refresher training to Treasurers where appropriate. Internal Audit offered its support to Housing management in this regard.

4. Capital Works

Assurance Opinion – **Substantial**

Internal Audit reported that the Council has an appropriate framework in place for the administration of operations in respect of the Capital Works activity.

The review did indicate an area for improvement, with one 'Merits Attention – Necessary Control' action being agreed to review procedures for checking contract valuations to ensure that any material errors are detected prior to payment. An action plan was agreed by the Head of Property Services, the Capital Works Manager and the Modernisations Manager.

5. <u>NNDR</u>

Assurance Opinion – Substantial

Internal Audit reported that the Council has an appropriate framework in place for the administration of Business Rates. Overall, the review did not indicate any significant weaknesses or areas for improvement and, accordingly, a clearance report was duly issued.

6. <u>Planning Applications and Income</u> Assurance Opinion – **Substantial**

Internal Audit sought to confirm whether adequate management control exists to provide assurance that:

- Planning applications are processed in accordance with appropriate established procedure.
- Planning decisions are taken in accordance with appropriate established procedure and with an appropriate level of examination and scrutiny.
- Income received relating to the planning applications process is appropriately controlled.

The overall conclusion was that the Council has an appropriate framework in place for operations in respect of Planning applications and income. The review did indicate an area for improvement, with one 'Merits Attention – Necessary Control' action being agreed relating to the need to ensure that the monthly reconciliation of the respective Planning systems to the General Ledger is undertaken promptly and subject to formal review by a senior officer.

An action plan was agreed by the Head of Neighbourhoods and Prosperity and the Planning Regeneration and Development Manager.

7. <u>Treasury Management</u>

Assurance Opinion – **Substantial**

The Council has an established framework in place for the administration of treasury management operations. The short and medium term cash flow forecasting processes were examined and found to be working sufficiently well on a day-to-day basis.

The review did indicate an area for improvement, with one 'Merits Attention – Necessary Control' action being agreed to increase the number of authorised officers in order to improve business continuity arrangements.

A further 'Merits Attention' observation was made with a view to improving the efficiency of the approval of daily treasury management decisions by electronic means, thereby reducing reliance on paper evidence and 'wet' signatures.

An action plan was agreed by the Head of Finance Services and the Chief Accountant.

Further reviews in respect of Computer, Housing Repairs, HMO Licences, Parks and Grounds Maintenance, Stores and Trade Waste Refuse Collection are ongoing and the reports have yet to be finalised. These will be included in the next progress report to Committee.

Current Audit Performance

Overall 50% of planned audits for 2017/18 are near to completion. This level of performance is slightly below what was achieved at this stage in the previous year, although the target of 90% is still expected to be achieved.

APPENDIX 2

REVISION TO THE INTERNAL AUDIT PLAN

The Chief Audit and Control Officer has received requests from the Chief Executive and the General Management Team for Internal Audit to complete work that is not currently included in the Internal Audit Plan for 2017/18.

The audits that have been requested are:

- Gas Safety (Gas Servicing and Maintenance)
- Compliance with Construction Design and Maintenance (CDM) Regulations
- Review of Fees and Charges
- Serious and Organised Crime Audit

The relevant strategic risks are 'failure to obtain adequate resources to achieve service objectives' (risk 2); 'not complying with domestic or European legislation' (risk 6); and 'high volumes of employee or client error or fraud' (risk 26).

There is flexibility within Internal Audit planning arrangements to allow for areas of increasing risk to be considered much sooner for assurance work, subject to approval by this Committee.

It is envisaged that these audits will take around 18 audit days in total to complete. There are not currently sufficient resources available within the Internal Audit Plan to take on this additional work. It would therefore be prudent to revise the Internal Audit Plan in order to release the audit resources necessary to undertake these reviews.

The Chief Audit and Control Officer has reviewed the remaining audits and identified the planned audits of CCTV, Administration – Miscellaneous, and Communications (including Media, Website and Social Media) as being potential audits to postpone and defer for consideration in future years. This would free up 15 days with the balance to be found from the remaining audit work programme.

It is proposed that the Internal Audit Plan is revised accordingly to enable these new audits to be completed in 2017/18.

APPENDIX 3

INTERNAL AUDIT FOLLOW-UP

Internal Audit has undertaken a review of progress made by management in implementing agreed actions within six months of the completion of the audit.

The table below provides a summary of the progress made with agreed actions for internal audit reports issued between September 2014 and April 2017 (i.e. within six months of completion), excluding clearance reports. Those audits where all actions have previously been reported as completed have also been excluded from this list.

				A	ctions
No	Audit Title	Report Issued	Opinion	Significant/ Merits Attention	Progress
14	Leasehold Service Charges 2014/15	19/09/14	Reasonable	6 (0/6)	1 Outstanding
01	Procurement 2015/16	28/05/15	Reasonable	3 (1/2)	1 Outstanding
45	Housing Repairs 2014/15	21/07/15	Reasonable	4 (1/3)	1 Outstanding
10	CCTV 2015/16	09/09/15	LIMITED	3 (2/1)	2 Outstanding
36	Household Refuse/Bulky Waste 2015/16	06/06/16	Reasonable	5 (1/4)	3 Outstanding
37	Trade Waste Refuse Collection 2015/16	06/06/16	Reasonable	7 (1/6)	1 Outstanding
12	Members Allowances 2016/17	06/10/16	Substantial	3 (0/3)	1 Outstanding
23	Counter Fraud Arrangements 2016/17	28/02/17	LIMITED	1 (1/0)	Completed
24	Cash Receipting 2016/17	01/03/17	Reasonable	7 (0/7)	Next Audit
25	Council Tax 2016/17	02/03/17	Substantial	1 (0/1)	Completed
27	Key Reconciliations 2016/17	20/04/17	Substantial	1 (0/1)	Completed

Further details of progress being made with agreed actions that have not yet been fully implemented are included below along with comments from management reflecting any updates on progress. Evidence of implementation will not be routinely sought for all actions as part of this monitoring process. Instead, a risk-based approach will be applied to conducting further follow-up work.

Where the agreed actions to address significant internal control weaknesses have not been implemented this may have implications for the Council. A key role of the Committee is to review the outcome of audit work and oversee the prompt implementation of agreed actions to help ensure that risks are adequately managed.

OUTSTANDING ACTIONS

1. LEASEHOLD SERVICE CHARGES	April 2014, Reasonable Assurance, Agreed Actions – 6		
1.1. Repair Cost Apportionment	Progressing		
Agreed Action (Merits Attention – Necessary Control)	Management Progress Report of the Housing Repairs Manager		
A commitment to improve the arrangements for apportioning repair charges with a view to increasing billing accuracy ('right first time'). A temporary solution will involve the Maintenance Inspector assessing each repair enquiry from a leaseholder by surveying the site and duly reporting his recommendations.	The Capita system upgrade is in the process of implementation. This w provide the capability to fully address all recommendations within the audit. The Leaseholder Officer post, which is responsible for the management of leasehold properties, was approved as part of the recer Housing Restructure and the post will be advertised in November. For 2016/17 the apportionment of repair costs has been checked by the		
The Leasehold Officer, going forward, shall quality check the detail of all repair works recharged to the leaseholders.	Housing Repairs Manager prior to bills being sent out. This has resulted in a reduced number of queries.		
Managers Responsible Housing Allocations & Options Manager/Housing Repairs Manager			
2. PROCUREMENT Apri	I 2014, Reasonable Assurance, Agreed Actions – 3 (with 1 Significant)		
2.1 Procurement e-Learning Package	Progressing		
Agreed Action (Merits Attention – Necessary Control)	Management Progress Report of the Head of Finance Services		
An e-Learning package will be developed to raise awareness of the law, regulations and other matters surrounding procurement and	There were substantial issues experienced following the upgrade of the e-procurement system that delayed its implementation.		
the systems in place at the Council. This will complement the existing support and guidance that is provided by the Procurement and Technical Officer.	Although approval has been given to recruit a new Procurement and Contracts Officer, the role currently remains vacant. As such, there will be delays to all but the highest priority matters, meaning that the revised		
Managers Responsible Head of Finance Services	target date for launch is now June 2018. The e-Learning package will be developed after this time.		
Procurement and Technical Officer	In the meantime, regular reminder emails and procurement newsletters serve to remind officers of basic procurement requirements.		

3. CCTV Septe	CTV September 2015, Limited Assurance, Agreed Actions – 3 (with 2 Significant)				
3.1 CCTV Management and Control		Progressing			
3.2 CCTV Policy		Progressing			
Agreed Actions (Significant) There is consideration of establishing a central management and control function in respect of CCTV at Broxtowe, with the proposal to create this expertise under the revised remit of the Parking Manager. A comprehensive policy/guidance document covering the operation of CCTV systems across the Council will be created having due regard to the relevant legislation, regulations and codes of practice. To support this process, the Parking Manager will initially complete a schedule of visits to all satellite sites with CCTV systems to offer guidance and support. These visits will include a summary review of the respective systems in place and, where appropriate, immediate restrictions will be applied if found to be necessary. Whilst the Parking Manager will be identified for individual systems at each site. <u>Managers Responsible</u> Head of Property Services Parking Manager	Management Progress Report of the Head of Property S Parking Manager Centralised management has taken place for 90% of the camera surveillance stock. All sites have been visited w and need for each system being reviewed. Recommend been made regarding the appropriateness, centralisation monitoring responsibilities of each system. All officers a surveillance systems have received guidance on approp with the Government's Camera Surveillance Commissio The Council is working in accordance with Government policies need updating to reflect changes in circumstand. The Parking Manager has made progress with centralisa advised Liberty Leisure on its operations. The centralisa systems is difficult and will require further dedicated rese complete this process. A lack of officer resources does alternative site visit-based monitoring and enforcement of savings have been achieved by reducing monitoring cos service. Negotiations in relation to shared control room maintenance management is taking place. This will hop funding for additional resource to support CCTV, Securit Services. The process of developing updated and more accurate of policies to reflect surveillance activities has been delaye	e Council's vith the purpose dations have n and continued associated with oriate use in line oner's principles. guidance, but ces. ation and has ation of all ources to fully not allow an option. Some sts for the shared and CCTV befully secure ty and Parking			

4. HOUSING REPAIRS	July 2015, Reasonable Assurance, Agreed Actions – 4 (with 1 Significant)
4.1 Rechargeable Works – Protocol	Progressing
Agreed Action (Merits Attention – Necessary Control)	Management Progress Report of the Housing Repairs Manager
A written policy for rechargeable works relating to housing rep will be prepared and communicated to the relevant teams.	The group has scrutinised policies and procedures with the aim of
A further training programme will be provided for front-line sta involved in this area, including Customer Services, Housing Inspectors and Retirement Living Officers. In addition, a diag package within the Housing Repairs system is being reconfigu- to potentially support the recharging process.	nostic meetings have taken place and a tenant consultation exercise completed. The final report is due to go to the Housing Performance Group on 5
Manager Responsible Housing Repairs Manager	
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5. HOUSEHOLD AND BULKY WASTE June 2016	Reasonable Assurance, Agreed Actions – 5 (including	g 1 'Significant')	
5.1 Missed Bin Collections		Progressing	
Agreed Action (Merits Attention – Necessary Control) Missed bin reports will be provided to management for review. These reports will be used to identify issues relating to particular rounds or addresses in order for suitable action to be taken to reduce the number of missed collections. There will be further evaluation of the policy relating to missed bin collections with a view to reducing costs in this area.	Management Progress Report of the Environment and Business Development Manager The policy relating to missed bin has been reviewed. Proposed changes could see the Council only returning for genuine missed collections. A report to the Leisure and Environment Committee has been postponed pending further work into the reasons why bins are missed. It is hoped to take a revised report to Committee in March 2018.		
Managers Responsible Environment and Business Development Manager Operations Manager			

5. HOUSEHOLD AND BULKY WASTE (Continued)	
5.2 Review of Collection Rounds	Progressing
Agreed Action (Merits Attention – Necessary Control) A review of the current rounds has been completed with a view to optimising routes and improving working efficiencies. A report has been produced for consideration by the Chief Executive and General Management Team. Further works are in-hand with regards to briefing Members and consulting with the public. The new rounds are anticipated to commence in Spring 2017. <u>Managers Responsible</u> Head of Environment Environment and Business Development Manager Operations Manager	Management Progress Report of the Environment and Business Development Manager The proposed new rounds for both north and south of the borough have now been created. Any concerns raised by the Trade Unions and operatives have been addressed. The implementation date is on schedule for 4 December 2017.
5.3 Income Reconciliation for Special Collections	Outstanding
Agreed Action (Merits Attention – Necessary Control) The formal reconciliation of special collection income (bulky items) will be reinstated and completed on a monthly basis to ensure that all monies received agree to the amounts expected and to the transactions posted on the general ledger. This check will be evidenced by way of a signature. <u>Managers Responsible</u> Environment and Business Development Manager	Management Progress Report of the Environment and Business Development Manager Due to resource issues and work priority this has still not been actioned. Discussions are taking place to determine how best this can be done within existing resources.

6.	TRADE WASTE	June 2016,	Reasonable Assurance, Agreed Actions – 7 (including 1 'Significant')
6.1	Review of Collection Rounds		Progressing
A rev optim been Furth public 2017 <u>Mana</u> Head Envir	ed Action (Merits Attention – Necessary Control) iew of the current rounds has been completed with hising routes and improving working efficiencies. A produced for consideration by General Manageme er works are in-hand to brief Members and consult c. The new rounds are anticipated to commence ir agers Responsible of Environment onment and Business Development Manager ations Manager	report has ent Team. t with the	Management Progress Report of the Environment and Business Development Manager The revised rounds have been amended due to the mainstream recycling rounds now including Schedule 1 establishments. The revised trade refuse rounds will now be implemented at the same time as the revised mainstream rounds, week commencing 4 December 2017.
7.	MEMBERS ALLOWANCES		October 2016, Substantial Assurance, Agreed Actions – 3
7.1	Advertisement – Independent Remunerat	ion Panel	Outstanding
Agree	ed Action (Merits Attention)		Management Progress Report of the Head of Administrative Services
Remu section the P	e will be consideration of adding details about the I uneration Panel as part of a dedicated Members' A on on the Council's website. These could include o anel's constitution and membership, along with do	llowances details of wnloadable	Appropriate webpages will be produced by 31 December 2017 or, if required earlier, in advance of any recruitment exercise.
copie	s of the latest minutes of meetings and recommen		
Alterr	native ways of attracting interest from volunteers to bendent Remuneration Panel will also be considered	join the	

Report of the Interim Deputy Chief Executive

REVIEW OF STRATEGIC RISK REGISTER

1. <u>Purpose of report</u>

To recommend approval of amendments to the Strategic Risk Register and the action plans identified to mitigate risks.

2. <u>Detail</u>

Following the report to the last meeting of this Committee and in accordance with the timescales set out in the Risk Management Strategy, the Strategic Risk Management Group met on 17 October 2017 to review the Strategic Risk Register. The General Management Team considered the proposals from the Strategic Risk Management Group on 16 November 2017. The objectives of the review were to:

- Identify the extent to which risks included in the Strategic Risk Register are still relevant
- Identify any new risks to be included in the Strategic Risk Register
- Review action plans to mitigate risks.

Details of proposed amendments to the Strategic Risk Register and action plans resulting from the above process are attached in the appendix. A risk map is also included in the appendix to assist the understanding of scores allocated to risks within the Strategic Risk Register.

A revised copy of the Strategic Risk Register incorporating the proposed amendments is available on the intranet. Details of further reviews of the Strategic Risk Register will be reported to future meetings of this Committee.

Recommendation

The Committee is asked to RESOLVE that the amendments to the Strategic Risk Register and the action plans to mitigate risks as set out in the appendix be approved.

Background papers Nil

APPENDIX

	Risk Map								
High	Important risks - which may potentially affect the provision of key services or duties	Key risks - which may potentially affect the provision of key services or duties	Immediate action - to prevent serious threat to provision and/or achievement of key services or duties						
	6	7	9						
Impact	Monitor as necessary - less important but still could have a serious effect on the provision of key services or duties	Monitor as necessary - less important but still could have a serious effect on the provision of key services or duties	Key risks - which may potentially affect the provision of key services or duties						
	3	5	8						
Low	No action necessary	Monitor as necessary - ensure being properly managed	Monitor as necessary - less important but still could have a serious effect on the provision of key services or duties						
	1	2	4						
	Low	Likelihood	High						

Summary of proposed amendments to strategic risks and action plans

Inherent Risk – Gross risk before controls and mitigation

Residual Risk – Risk remaining after application of controls and mitigating measures

STRATEGIC RISK REGISTER

List of risks in order of significance

	Risk	Inherent Risk	Residual Risk	Changes
1.	Failure to maintain effective corporate performance management and implement change management processes	9	5	No change.
2.	Failure to obtain adequate resources to achieve service objectives	9	9	 The Commercial Strategy 2017-2020 has been added as a key control. Five new actions have been added to: Update the Commissioning and Procurement Strategy Obtain approval for a Land and Property Disposals Policy Consider whether to apply to pilot 100% business rates retention Agree the lease and necessary processes for a new public car park at Technology Drive, Beeston Consult with relevant stakeholders on the future of the Town Hall. Actions to monitor income from the collection of garden waste and to seek approval for the proposed Commercial Strategy 2017-2020 have been deleted.
3.	Failure to deliver the Housing Revenue Account (HRA) Business Plan	9	7	 Three new actions have been added to: Implement the Housing department restructure agreed by Policy and Performance Committee on 3 October 2017 Seek approval for a new Void Management Policy Review the terms and conditions of the Tenancy Agreement. Actions to develop a new Older Persons Strategy and to assess the likely implications of the Housing White Paper issued in February 2017 have been deleted.

	Risk	Inherent Risk	Residual Risk	Changes
4.	Failure of strategic leisure initiatives	9	9	The action to produce a new financial plan for the delivery of the Leisure Facilities Strategy has been replaced with an action to produce a new Leisure Facilities Strategy. An action point to make provision for the replacement of the Combined Heat and Power (CHP) Unit at Bramcote Leisure Centre when the extended warranty expires in 2020/21 has been added.
5.	Failure to complete the re- development of Beeston town centre	9	9	The action point to appoint a specialist project manager for Beeston Square Phase 2 has been deleted.
6.	Not complying with domestic or European legislation	9	7	Complaints following the Equality Act 2010 implementation has been deleted as a risk indicator.
				An action to maintain a programme of gas inspection/maintenance works for the Council's housing stock has been amended to include reference to electrical inspection and maintenance works for these properties.
				An action has been added to recruit a Procurement and Contracts Officer.
7.	Failure of financial management and/or budgetary control and to implement agreed budget decisions	9	7	The Vacancy Control Panel has been deleted as a key control.
8.	Failure to maximise collection of income due to the Council	9	7	A new action to seek approval for a revised Rent Recovery Policy has been added.
9.	Failure of key ICT systems	9	6	No change.
10.	Failure to implement private sector element of Housing Strategy in accordance with Government and Council expectations	9	5	An action to deliver a Warm Homes on Prescription (WHOP) scheme in Broxtowe has been added.
11.	Failure to engage with partners/community to implement the Broxtowe Sustainable Community Strategy 2010 – 2020	9	5	No change.

Risk	Inherent Risk	Residual Risk	Changes
12. Failure to implement effective Crime and Disorder Reduction Strategy	9	5	An action to undertake consultation with regards to making a Public Spaces Protection Order at Chilwell Retail Park has been added.
 Failure to provide housing in accordance with the Local Development Framework 	9	9	The action point to develop partnership working with Nottingham Community Housing Association and other providers to identify suitable housing proposals has been amended to refer to housing providers generally.
			The action point to support parish and town councils in the production of their neighbourhood plans has been amended to include neighbourhood forums.
			The action point to prepare for a likely public examination of the Part 2 Local Plan in 2017 has been amended to reflect that this is now expected to take place in 2018.
			The action to work with developers to secure an acceptable development at Field Farm has been deleted.
 Natural disaster or deliberate act, which affects major part of the Authority 	9	7	No change.
15. Failure to mitigate the impact of the Government's welfare reform agenda	9	7	The Homelessness Strategy 2017- 2021 has been added as a key control.
			An action to recruit to the Financial Inclusion Officer and Tenancy Sustainment Officer posts in the Housing Department has been added.
 Failure to maximise opportunities and to recognise the risks in shared services arrangements 	9	7	The integrated Revenues and Benefits Service Framework Agreement has been added as a key control.
17. Corporate and/or political leadership adversely impacting upon service delivery	9	7	The action to support an external investigation into complaints and grievances involving the conduct of officers has been replaced with an action point to address the findings of

Risk	Inherent Risk	Residual Risk	Changes
			the external investigation.
			An action to monitor any potential or actual impact upon the Council following the recent change in administration at Nottinghamshire County Council has been deleted.
18. High levels of sickness	8	7	The Stress Management Policy has been added as a key control.
			See further details below.
19. Lack of skills and/or capacity to meet increasing initiatives	8	5	The vacancy control process has been deleted as a key control.
and expectations.			A completed action to implement a core abilities framework, including the Personal Development Review (PDR) process has been replaced with a new action to ensure that all employees receive an annual Performance Appraisal, including a Core Abilities Assessment.
20. Inability to attract or retain key individuals or groups of	8	5	The vacancy control process has been removed as a key control.
staff			An action to consider and evaluate options for flexible working needs has been replaced with an action to progress the New Ways of Working Project.
21. Failure to fully utilise investment in ICT infrastructure	7	5	The completed action to produce a new ICT Strategy has been deleted.
22. Processes or procedures not followed leading to ill informed decisions and/or abuse of Council facilities	7	5	The Grievance Policy, the Bullying and Harassment Policy and the Personal Relationship Policy have all been added as key controls.
			A new action has been added to update the Whistleblowing Policy.
23. Failure to comply with duty as a service provider and employer to groups such as children, the elderly, vulnerable adults etc.	7	5	An action point has been added to monitor the effect of actions taken in response to water safety concerns at Beeston Weir.
			An action to seek approval for a new 'Customers with Additional Support

	Risk	Inherent Risk	Residual Risk	Changes
				Needs Policy' has also been added.
	Failure to ensure appropriate levels of data quality	7	5	The data quality e-Learning package has been added as a key control.
25. l	Unauthorised access of data	7	5	The e-Learning packages have been added as a key control.
	High volumes of employee or client fraud	6	5	No change.
(Failure to effectively communicate either externally or internally	5	5	No change.

Further Details

The following item is highlighted for the attention of Members.

1. Risk Management Policy Statement and Risk Management Strategy

During the review of the Strategic Risk Register at the Governance, Audit and Standards Committee meeting on 25 September 2017, some Members questioned the continuing validity of the current nine score matrix (3x3) for the Risk Map. In some cases the inherent risk score remains at the same level as the residual risk score despite the raft of control measures and mitigating actions that have been put in place. This could, in theory, bring into question the cost and benefits of applying the various controls and mitigating actions.

The Strategic Risk Management Group agreed that, as the Risk Management Policy Statement and Risk Management Strategy were last updated in June 2016, now would be an appropriate time to review these documents. This would include consideration of the Risk Map. A number of alternatives were available including the application of a 20 score matrix (5x4) or a 25 score matrix (5x5) for the Risk Map to allow for risks to be more accurately scored. The support and advice of the Council's insurers (Zurich Municipal) sourced through the Risk Management Fund will be sought to assist with this.

It is intended that a revised Risk Management Policy Statement and Risk Management Strategy be presented to the next meeting of the Strategic Risk Management Group. Any feedback received will be incorporated before the documents are presented to the Governance, Audit and Standards Committee for approval.

2. <u>High levels of sickness (Risk 18)</u>

The Strategic Risk Management Group noted that a new action should be added to the Strategic Risk Register being the forthcoming report to the Finance and Resources Committee on attendance management and the rising level of sickness absence.

Given the increasing levels of sickness absence, particularly in the Environment and Housing departments, and the impact upon performance levels, employee salary budgets and the individuals themselves, the Group agreed that the residual risk score be increased from 5 to 7.

Report of the Interim Strategic Director

WORK PROGRAMME

1. <u>Purpose of report</u>

To consider items for inclusion in the Work Programme for future meetings.

2. <u>Background</u>

Items which have already been suggested for inclusion in the Work Programme of future meetings are given below. Members are asked to consider any additional items that they may wish to see in the Programme.

3. <u>Work Programme</u>

26 March 2018	8 Annual Counter Fraud Report		
	External Audit Plan 2017/18		
	Internal Audit Review of Effectiveness		
	Internal Audit Plan 2018/19		
	Internal Audit Progress Report		
	Review of Strategic Risk Register		

4. <u>Dates of future meetings</u>

The following additional dates for future meetings have been agreed:

• To be confirmed.

Recommendation

The Committee is asked to CONSIDER the Work Programme and RESOLVE accordingly.

Background papers Nil