

OVERVIEW AND SCRUTINY COMMITTEE

Thursday 31 July 2014 at 6.30 pm

Council Chamber, Ryedale House, Malton

Agenda

1 **Emergency Evacuation Procedure.**

The Chairman to inform Members of the Public of the emergency evacuation procedure.

2 **Apologies for absence**

3 **Minutes of the meeting held on the 26 June 2014**

(Pages 3 - 6)

4 **Urgent Business**

To receive notice of any urgent business which the Chairman considers should be dealt with at the meeting as a matter of urgency by virtue of Section 100B(4)(b) of the Local Government Act 1972.

5 **Declarations of Interest**

Members to indicate whether they will be declaring any interests under the Code of Conduct.

Members making a declaration of interest at a meeting of a Committee or Council are required to disclose the existence and nature of that interest. This requirement is not discharged by merely declaring a personal interest without further explanation.

6 **Annual Internal Audit report 2013/14**

(Pages 7 - 46)

7 **Internal Audit - Progress Report**

(Pages 47 - 52)

8 **Annual Governance Statement 2013/14**

(Pages 53 - 62)

9 **Treasury Management Annual Report 2013/14**

(Pages 63 - 72)

10 **Any other business that the Chairman decides is urgent.**

Overview and Scrutiny Committee

Held at Council Chamber, Ryedale House, Malton
on Thursday 26 June 2014

Present

Councillors Acomb, P J Andrews, Raper, Mrs Shields (Vice-Chairman) and Wainwright (Chairman)

In Attendance

Jos Holmes, Jane Robinson, Clare Slater and Faye Snowden

Julia Mulligan, Police and Crime Commissioner for North Yorkshire
Sarah Graham, Office of the Police & Crime Commissioner for North Yorkshire

Minutes

1 **Apologies for absence**

Apologies for absence were received from Councillors Cussons, Collinson and Ward.

2 **Minutes of the meeting held on the 10th April 2014**

Decision

That the minutes of the meeting of the Overview and Scrutiny Committee held on the 10 April 2014 be approved and signed by the Chairman as a correct record.

3 **Urgent Business**

There were no items of urgent business.

4 **Declarations of Interest**

There were no declarations of interest.

5 **Police and Crime Consultation Update**

A presentation was given by Julia Mulligan, Police and Crime Commissioner for North Yorkshire. The presentation included updates on Community Safety Partnerships, the Police and Crime Consultation and Victim Support Services.

6 Safer Ryedale Partnership Plan

Considered – Report of the Head of Economy and Infrastructure.

Decision

That the report and appendices be received.

7 The Council's Priorities 2014-18

Considered – Report of the Chief Executive.

Decision

That Members note the progress made by the Council in delivering its priorities in 2013/14 and that Members agree the aims and strategic objectives of the Council Business Plan for 2014/18, including the resolutions made by the Policy and Resources Committee and amendments to the order of the aims and strategic objectives outlined in the report to be considered by Full Council.

8 Customer Complaints Q4

Considered – Report of the Business Support Manager.

Decision

That Members accept the report.

9 **Attendance at Policy Committees**

Considered – Report of the Council Solicitor.

Decision

That Members agree the rota for attendance at Policy Committees.

10 **Decisions from other Committees**

The minutes of the Policy and Resources Committee held on the 19 June 2014 were presented.

Decision

That the minutes be received.

11 **Any other business that the Chairman decides is urgent.**

There being no items of urgent business the meeting closed at 7:55pm.

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REPORT TO:	OVERVIEW AND SCRUTINY COMMITTEE (AUDIT)
DATE:	31 JULY 2014
REPORT OF THE:	FINANCE MANAGER (s151) PETER JOHNSON
TITLE OF REPORT:	ANNUAL INTERNAL AUDIT REPORT 2013/14
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 The purpose of the report is to present the Annual Internal Audit Report for 2013/14. That report is prepared by Veritau North Yorkshire (VNY), based on work carried out during the period April 2013 to March 2014.

2.0 RECOMMENDATION(S)

- 2.1 It is recommended that the attached report for 2013/14 be approved.

3.0 REASON FOR RECOMMENDATION(S)

- 3 It is recommended that the report is considered by the Overview and Scrutiny Committee as it summarises the audit work undertaken during the year. It also encompasses the overall internal audit opinion of the internal control framework which forms part of the Annual Governance Statement.

4.0 SIGNIFICANT RISKS

- 4.1 The Council will fail to comply with proper practice requirements for internal audit if the results of audit work are not considered by an appropriate Committee.

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 This report supports the Council's Corporate Aim to Transform the Council and the Strategic Objective to develop the leadership, capacity and capability to deliver future improvements.

6.0 REPORT DETAILS

- 6.1 The purpose of the report is to provide a statement of assurance regarding the adequacy and effectiveness of the internal control system; and a summary of the internal audit work carried out during the year to 31 March 2014. The Statement of

Assurance will support the Annual Governance Statement (AGS) which forms part of the Council's Financial Statements.

- 6.2 Within the report there is also a summary of the audit opinions for the individual audits completed in the year, to support the overall opinion. It also includes a synopsis of the performance of Veritau in delivering internal audit to Ryedale DC.
- 6.3 There is no direct linkage to any of the Council's Priorities, as internal audit is a support service, which provides internal control and activity assurance to Director/Heads of Service on the operation of their services, and specifically to the Council's S151 Officer on financial systems.
- 6.4 The overall opinion of the Head of Internal Audit on the risk management, governance and controls operated in Ryedale District Council is that they provide **Substantial Assurance**. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion.
- 6.5 Although a substantial assurance opinion can be given, we are aware of some weaknesses in the control environment which have been identified around Payroll (TIC's), Debtors, Benefits, HR Recruitment, Performance Management/Data Quality and Planning/Development Control. We have recommended that Payroll (TIC's), Benefits, HR Recruitment and Planning/Development Control be considered for inclusion in the report on the Annual Governance Statement, prepared by the S151 Officer.
- 6.6 To comply with the new professional standards, the Head of Internal Audit is also required to develop and maintain an ongoing quality assurance and improvement programme (QAIP). The objective of the QAIP is to ensure that working practices continue to conform to the required professional standards. The results of the QAIP should be reported to senior management and the Audit Committee along with any areas of non-conformance with the Standards. The QAIP consists of various elements, including:
- maintenance of a detailed audit procedures manual and standard operating practices
 - ongoing performance monitoring of internal audit activity
 - regular customer feedback
 - training plans and associated training and development activities
 - periodic self-assessments of internal audit working practices (to evaluate conformance to the Standards).

In addition, a formal external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

- 6.7 The results of customer feedback and the self-assessment are used to identify any areas requiring further development and/or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan. Specific actions may also be included in the Veritau business plan and/or individual personal development action plans.

7.0 IMPLICATIONS

7.1 The following implications have been identified:

- a) Financial
None
- b) Legal
None
- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
None

Peter Johnson
Finance Manager (s151)

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Background Papers:

Public Sector Internal Audit Standards
CIPFA Local Government Application Note (for the United Kingdom Public Sector Internal Audit Standards)

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Ryedale District Council

Annual Internal Audit Report

2013/14

Audits Completed	
High Assurance	8
Substantial Assurance	2
Moderate Assurance	2
Limited Assurance	4
No Assurance	0

Audit Opinion

Substantial Assurance

Audit Manager: John Barnett
Client Relationship Manager: Roman Pronyszyn
Head of Internal Audit: Max Thomas

Circulation List: Members of the Overview & Scrutiny Committee
Finance Manager (s151 Officer)

Date: 31 July 2014

Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2011 and the Public Sector Internal Audit Standards (PSIAS). In accordance with these standards, the Head of Internal Audit is required to report to those charged with governance the findings of audit work, provide an annual opinion on the effectiveness of the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement.
- 2 During the financial year the Council's internal audit service was provided by Veritau North Yorkshire Ltd, which is part of the Veritau Group.

Internal Audit Work Carried Out 2013/14

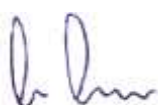
- 3 During the 2013/14 year, internal audit work was carried out across the full range of activities of the Authority. The main areas of internal audit activity included:
 - **Fundamental/Material Systems;** work in this area provides both assurance to Ryedale DC and helps support the work of external audit in providing assurance that the 'key' systems within the Council have a sound control environment. During the year three audits fell below Substantial Assurance in their rating. The Payroll – TIC's system was rated as 'limited assurance' (risks around the recording, calculation and payments to officers). The Debtors system was rated as 'moderate assurance' (risks around authorisation under delegated authority) and the Benefits system which was rated as 'limited assurance' (risks around claim processing times and quality assurance checks).
 - **Regularity;** During the year three audits fell below Substantial Assurance in their rating. Human Resources – Recruitment was rated as 'limited assurance' (risks around compliance with legislation and retention of records). Performance Management/Data Quality was rated as 'moderate assurance' (risks around the lack of up to date information on the intranet and the dissemination of information). Planning/Development Control was rated as 'limited assurance' (risks around use of the IT systems and incomplete information).
 - **Technical/Projects;** to consult and advise on the control and risk environment on various projects the Council is involved in.
 - **Follow Up;** this work covers those audits where significant risk has been identified and is intended to provide assurance that the agreed recommendations are being properly implemented. The areas reviewed are highlighted in Appendix 2.
- 4 **Appendix 1** shows the final table of audit work carried out, and the audit opinion associated with the audits completed. **Appendix 2** provides a summary of the findings of our audit work, and **Appendix 3** an explanation of our assurance levels and finding priorities.

Compliance with Standards

- 5 Veritau has developed a quality assurance and improvement programme (QAIP) to ensure that internal audit work is conducted to the required professional standards. As well as undertaking a survey of senior management in each client organisation and completing a detailed self assessment to evaluate performance against the Standards, the decision was taken to arrange for an external assessment to be carried out. The assessment was conducted by the South West Audit Partnership (SWAP) and completed in April 2014. The results of the assessment provide evidence to support the QAIP as well as helping to inform the Improvement Action Plan for 2014/15.
- 6 The outcome of the QAIP demonstrates that the service conforms to *International Standards for the Professional Practice of Internal Auditing*. Further details of the QAIP and Improvement Action Plan prepared by Veritau are given in **Appendix 4**.

Audit Opinion and Assurance Statement

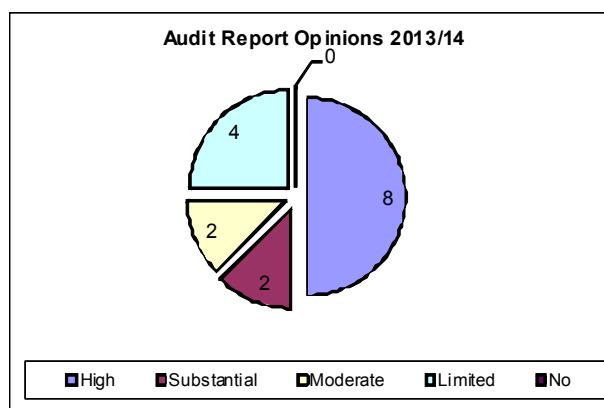
- 7 The overall opinion of the Head of Internal Audit on the risk management, governance and controls operated in Ryedale District Council is that they provide **Substantial Assurance**. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion.
- 8 Although a substantial assurance opinion can be given, we are aware of some weaknesses in the control environment which have been identified around Payroll (TIC's), Debtors, Benefits, HR Recruitment, Performance Management/Data Quality and Planning/Development Control. We have recommended that Payroll (TIC's), Benefits, HR Recruitment and Planning/Development Control be considered for inclusion in the report on the Annual Governance Statement, prepared by the S151 Officer.



Max Thomas
Director and Head of Internal Audit
Veritau Ltd

31 July 2014

Table of 2013/14 audit assignments completed



Audit	Status	Audit Committee
<i>Fundamental/Material Systems</i>		
General Ledger	Completed ~ High Assurance	July 2014
Payroll – TIC's	Completed ~ Limited Assurance	July 2014
Debtors	Completed ~ Moderate Assurance	July 2014
Creditors	Completed ~ Substantial Assurance	July 2014
Treasury Management	Completed ~ High Assurance	December 2013
Benefits	Completed ~ Limited Assurance	July 2014
Council Tax/NNDR	Completed ~ High Assurance	July 2014
Income/Cash Receipting	Completed ~ High Assurance	July 2014
<i>Regularity Audits</i>		
Human Resources – Recruitment	Completed ~ Limited Assurance	July 2014
Elections	Completed ~ High Assurance	October 2013
Performance Management/Data Quality	Completed ~ Moderate Assurance	February 2014
Partnerships	Completed ~ High Assurance	December 2013
Health and Safety	Completed ~ Substantial Assurance	October 2013
Fleet Management	Completed ~ High Assurance	October 2013
Planning/Development Control	Completed ~ Limited Assurance	February 2014
Tax Management	Completed ~ High Assurance	February 2014
<i>Technical/Project Audits</i>		
ICT – Policy Review (advise)	N/A	
<i>Follow Ups:</i>	Completed – see below for follow up action against 'key weaknesses'.	

Appendix 2

Summary of Key Issues from audits completed; not previously reported to Committee

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
General Ledger	Substantial Assurance	A limited review to provide assurance that the key controls around budget setting, monitoring processes and reconciliations are working as intended and that adequate budgetary control is exercised.	9 May 2014	<p>Strengths It was found that the arrangements for managing risk were very good and that an effective control environment appears to be in operation.</p> <p>Key Weaknesses It was found that the budget monitoring reports are unclear as to what is included in the end column "Left to spend Full Year Budget".</p>	A note will be applied to the budget monitoring sheets, and Managers advised/reminded about what is included in the "Left to spend" figure. <i>Due 30/6/14</i>
Payroll - TIC	Limited Assurance	Payments to TIC staff were accurate and that the system and processes for paying TIC officers was robust.	21 May 2014	<p>Strengths There has been an established system in place for a number of years for paying TIC officers.</p> <p>Key Weaknesses Timesheets are confusing and difficult to interpret.</p>	A review of the way that the TIC staff are being paid has now been undertaken. Staff are now paid the same weekly fixed hours, with any overtime or additional hours being paid in

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>One of the employees was absent for more than three days and therefore SSP became payable. This was paid on top of (i.e. in addition to) their full gross pay which was paid during their sickness absence, which lasted for several weeks.</p> <p>Hours worked under 37 per week are being paid at enhanced rates.</p> <p>It appears that a large amount of annual leave is</p>	<p>arrears the following month. <i>Immediate</i></p> <p>Checks are made of other staff who have incurred sickness absences of more than three days since 1 April 2013 to ascertain how SSP has been paid, with particular attention being paid to those employees who are paid by timesheets. Contact is made with the payroll provider to correct the SSP payment for the individual employee concerned and any others that may have arisen as part of the above checking. Steps are taken to correct the process with the payroll provider so that it does not recur. <i>Due 30/6/14</i></p> <p>A review of the way that TIC staff are remunerated is currently being undertaken, with consideration being given to paying all hours worked between Monday and Friday at plain time rates until more than 37 hours have been work. The necessary consultations will be undertaken. <i>Due 31/12/14</i></p> <p>Annual leave is more tightly controlled. Staff actually take the</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				being paid to employees rather than it being taken as annual leave.	days as leave and are not paid for it unless there are exceptional circumstances <i>Immediate</i>
Debtors	Moderate Assurance	A limited review around the key risks to the system.	12 May 2014	<p>Strengths The system(s) and processes are managed by experienced officers.</p> <p>Key Weaknesses The current delegated authority limits are out of line with the current financial standing orders and financial regulations.</p>	<p>We are currently reviewing the delegated authority system and specific limits will be given to all financial tasks undertaken by officers. The format of the form has been reviewed to ensure that it can be easily reviewed for routine checking.</p> <p>A review of the constitution will be carried out and the financial standing orders and financial regulations will be revised accordingly. All delegated authority levels will be checked, and evidence to support officers delegated from the s151 officer will be revised and an updated memo (if appropriate) completed. <i>Due 31/7/14</i></p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Creditors	Substantial Assurance	A limited review around the key risks to the system of paying the Council's creditors.	9 May 2014	<p>Strengths Arrangements for managing the system are efficiently managed.</p> <p>Key Weaknesses Purchase orders are not always being raised when expenditure is committed.</p>	Officers should be reminded that purchase orders should be raised for all goods and services at the time the expenditure is committed, excluding permitted exceptions. <i>Due 30/6/14</i>
Benefits	Limited Assurance	A limited review of the key risks/controls involved in awarding and paying benefits.	19 May 2014	<p>Strengths Arrangements for managing the system are efficiently managed.</p> <p>Key Weaknesses The average days taken to process a new claim is currently 61.5 days and for a change in circs it is 8.7 days (March 2014). Although the number of days to process a new claim is still well above the current target of 25 days, it has reduced significantly from 79 days (which is was in October 2013). The target number of days for a change of circs is 12 days so the</p>	The department has been identified by the DWP that they are currently in the top 10 authorities in the country for the highest new claims processing times. The department has received approval from the Chief Executive to employ the services of a consultant to undertake a review of the current processes to identify ways to improve new claims

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>service is currently meeting this target.</p> <p>There is little quality assurance on claims where the payment value is less than £500.</p>	<p>processing times. New Claims processing times have improved but are still above the national average. <i>Due 30/11/14</i></p> <p>Following the consultants visit it is hoped that Quality Assurance and Management checks of the department can be developed and used more effectively. Management checks are required to help identify any training needs from within the assessment team. The department has changed the way in which it works by moving from an alpha split to a drip feed caseload. This change has developed informal 'Peer Reviews' as the staff can work on any claim from across the caseload and not just a particular alpha split. <i>Due 30/11/14</i></p>
Council Tax/NNDR	High Assurance	A review of the key risks/controls for the setting and collection of local tax.	21 May 2014	<p>Strengths The controls and processes are effectively managed.</p> <p>Key Weaknesses There were no key weaknesses identified.</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Income/Cash Receipting	High Assurance	To ensure that monies received are accounted for and allocated correctly within the accounts of the Authority.	20 May 2014	<p>Strengths The controls and processes are effectively managed.</p> <p>Key Weaknesses Lack of guidance to staff on precautions against money laundering.</p>	Anti-money laundering documentation will be drawn up <i>Due 31/8/14</i>
Human Resources – Recruitment	Limited Assurance	To ensure that the key controls it has put in place to manage key risks relating to Human Resources and Recruitment are effective.	20 May 2014	<p>Strengths</p> <p>Key Weaknesses The Council does not have an implemented Agency Workers Policy, in compliance with the Agency Workers Regulations Act 2010.</p> <p>Medical clearance is not obtained prior to commencement of employment for all appointments.</p> <p>Disclosure and Baring Service (DBS) information is not kept up to date. Staff in the Bureau might not have the necessary DBS</p>	<p>An Agency Workers Policy needs to be formulated and agreed, with a procedure implemented to monitor the use of Agency workers and ensure that the Regulations are being complied with. <i>Due 30/9/14</i></p> <p>A reminder to be issued to managers to stress that, for all appointments, employment does not commence until medical clearance has been received. <i>Due 31/5/14</i></p> <p>A system needs to be introduced to ensure that DBS clearances are received and checked prior to employment commencing. The current list of posts requiring</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>clearance.</p> <p>The Immigration, Asylum and Nationality Act 2006 states that employers must check and keep copies of the original documents before employment commences, and that this should be kept for a minimum duration of the employment plus 2 years. This does not always happen.</p> <p>The Recruitment and Selection policy states that a short listing matrix should be completed to assess which candidates fulfil most of the essential and desirable criteria to produce a shortlist for interview, and that these matrices should be returned to HR where they are retained for six months. This does not always happen.</p> <p>The policy states that 'the same questions are to be</p>	<p>DBS clearance should be reviewed and updated. All posts requiring DBS clearance to be checked to confirm that clearance has actually been received. Immediate</p> <p>Ensure that the necessary documentation is checked and retained before employment commences. Immediate</p> <p>Issue a reminder to Managers that evidence of short listing candidates for interview should be compiled and sent to HR for retention for six months. <i>Due 30/9/14</i></p> <p>A reminder to be issued to Managers that interview</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				posed to candidates and copies of selection notes are retained for six months. This does not always happen.	questions should be recorded, and, together with completed interview selection evidence, sent to HR where they will be retained for six months. <i>Due 30/9/14</i>

Summary of Key Issues from audits previously reported to Committee

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Performance Management/Data Quality	Moderate Assurance	The purpose of the audit was to provide assurance to management that the controls it has put in place to manage key risks relating to Performance Management are effective and that service delivery continues to be unaffected.	20 January 2014	<p>Strengths The system(s) and processes are managed by experienced officers.</p> <p>Key Weaknesses The Council's performance management system is based around the 'golden thread' whereby the community strategy (Imagine Ryedale) and the corporate plan objectives are cascaded down into service plans and individual employee work plans. The key document, the Performance Management Framework which outlines these principles was last revised in June 2007. In 2013 the new Council Plan for 2013-17 was</p>	The performance management pages of the intranet will be refreshed to include revisions of the performance management framework. <i>Due 30/4/14</i>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>approved by Members. The performance management framework should reflect the actions and priorities for the core objectives in the new Council plan.</p> <p>This is the first year that all service planning has been carried out on Covalent. Feedback on this process is important to ensure that a consistent approach is followed by officers. There is clear evidence that performance reporting is being carried out across the Council, however examples of effective performance management were not so clear.</p> <p>There is currently no joint performance and financial monitoring report presented to Members.</p>	<p>Feedback from performance review boards (PRB's) will be shared by the Head of Service with relevant Service Unit Manager's and officers. Notes will be added to the PRB reports on Covalent and this will provide feedback from the meetings but also provide evidence of performance management (decisions, actions etc). <i>Due 30/1/14</i></p> <p>It has already been agreed with Members that the quarterly reports on delivering the Council's priorities will be taken to the Overview and Scrutiny committee. <i>Next meeting 20/2/14</i></p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Planning/Development Control	Limited Assurance	The purpose of the audit was to provide assurance to management that the controls it has put in place to manage key risks relating to Development Control – Section 106 Agreements, are effective and to ensure that the processes in place are fit for purpose.	15 January 2014	<p>Strengths S106 agreements are monitored on an ongoing basis.</p> <p>Key Weaknesses The Development Management team does not currently use the section 106 module on their main Uniform System. The Finance team maintain a spreadsheet of section 106 agreements and information can also be obtained from Legal Services. However, the information is incomplete to enable effective monitoring. Relevant trigger points are also not systematically monitored.</p>	<p>Management will aim to implement the section 106 module. A timetable will then be prepared for the completion of all outstanding Section 106 agreements to be input into the system (all agreements with a financial obligation will be a priority). The Uniform system will then form the central register of all section 106 agreements which will be reconciled to financial records on a quarterly basis. <i>Due 30/11/14</i></p> <p>The reporting function on the section 106 module of Uniform (once implemented) will be reviewed to ensure that the correct reports are run at the appropriate times and distributed to the correct officers. Local arrangements will be made to ensure that the information is input onto the system on a regular basis to ensure that the reports produced are based on accurate up to date information. <i>Due 30/11/14</i></p> <p>All information will be recorded centrally through the section 106 module (when implemented).</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
					This will allow for proactive monitoring of all trigger and repayment dates (when entered into the system). In the short term we are aware of the agreements where monies need to be spent and the timescales involved. <i>Due 30/11/14</i>
Tax Management	High Assurance	The purpose of the audit was to provide assurance to management that the controls it has put in place to manage key risks relating to the Construction Industry Scheme are effective and to ensure processes in place are fit for purpose.	17 January 2014	<p>Strengths The management of tax through CIS has been efficiently managed with only a few minor issues raised. Since the completion of the audit the Council has 'de-registered' from the Construction Industry Scheme – having CIS expenditure less than £1m per annum. Therefore no further action is required with regard to these matters.</p> <p>Key Weaknesses There were no key weaknesses identified.</p>	
Treasury Management	High Assurance	A review of the systems and processes involved in the operation of the Council's Treasury Management function.	24 October 2013	<p>Strengths Treasury Management duties are undertaken effectively by an experienced officer within Finance under the guidance of the Finance Manager.</p> <p>Key Weaknesses</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				There were no key weaknesses identified.	
Elections	High Assurance	The purpose of the audit was to provide assurance that recouping of election costs is maximised and thus any cost to Ryedale minimised. The 2012 canvass for the Register of Electors was also reviewed.	16 July 2013	<p>Strengths The controls and processes are effectively managed.</p> <p>Key Weaknesses There were no key weaknesses identified.</p>	
Partnerships	High Assurance	A review of the governance arrangements in place for partnerships.	5 November 2013	<p>Strengths The management of partnership arrangements are carried out effectively by experienced officers.</p> <p>Key Weaknesses There were no key weaknesses identified.</p>	
Health and Safety	Substantial Assurance	A review of the arrangements in place for the facilitation and co-ordinating of all aspects of Health and Safety.	2 July 2013	<p>Strengths Arrangements for complying with health and safety requirements are efficiently managed.</p> <p>Key Weaknesses The Corporate Health, Safety & Wellbeing Policy posted on the Health & Safety home page of the Council's intranet is identified as having been revised in November 2008.</p>	When the Health & Safety Officer has new or revised policies or guidance she will send them to the Business Support Manager for posting on the intranet. <i>Immediate</i>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				There is a version that was revised in May 2012, but it has yet to be published on the intranet.	<i>21/1/14 Completed - The current version of the Corporate Health, Safety & Wellbeing Policy (reviewed August 2013) has been posted on the Health & Safety home page of the Council's intranet.</i>
Fleet Management	High Assurance	An audit to test the soundness of systems associated with Fleet Management.	8 August 2013	<p>Strengths The management of the Council's vehicle fleet is effectively carried out.</p> <p>Key Weaknesses There were no key weaknesses identified.</p>	

Audit Opinions and Priorities for Actions

Audit Opinions	
<i>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</i>	
<i>Our overall audit opinion is based on 5 grades of opinion, as set out below.</i>	
Opinion	Assessment of internal control
<i>High Assurance</i>	<i>Overall, very good management of risk. An effective control environment appears to be in operation.</i>
<i>Substantial Assurance</i>	<i>Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.</i>
<i>Moderate assurance</i>	<i>Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.</i>
<i>Limited Assurance</i>	<i>Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.</i>
<i>No Assurance</i>	<i>Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.</i>

Priorities for Actions	
<i>Priority 1</i>	<i>A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management</i>
<i>Priority 2</i>	<i>A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.</i>
<i>Priority 3</i>	<i>The system objectives are not exposed to significant risk, but the issue merits attention by management.</i>

VERITAU GROUP**INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME – 2014****1.0 Background**Ongoing quality assurance arrangements

Veritau maintains appropriate ongoing quality assurance arrangements designed to ensure that internal audit work is undertaken in accordance with relevant professional standards (specifically the Public Sector Internal Audit Standards). These arrangements include:

- the maintenance of a detailed audit procedures manual
- detailed job descriptions and competency profiles for each internal audit post
- regular performance appraisals
- regular 1:2:1 meetings to monitor progress with audit engagements
- training plans and associated training activities
- the maintenance of training records and training evaluation procedures
- the objectives, scope and expected timescales for each audit engagement subject to agreement with the client before detailed work commences (audit specification)
- the results of all audit testing work documented using the company's automated working paper system (Galileo)
- file review by an audit manager and sign-off of each stage of the audit process
- post audit questionnaires (customer satisfaction surveys) issued following each audit engagement
- performance against agreed quality targets reported to each client on a regular basis.

On an ongoing basis, a sample of completed audit files is also subject to internal peer review by a second audit manager to confirm quality standards are being maintained. The results of this peer review are documented and any key learning points shared with the internal auditors (and the relevant audit manager) concerned.

The Head of Internal Audit will also be informed of any general areas requiring improvement. Appropriate mitigating action will be taken (for example, increased supervision of individual internal auditors or further training).

Annual self-assessment

On an annual basis, the Head of Internal Audit will seek feedback from each client on the quality of the overall internal audit service. The Head of Internal Audit will also update the PSIAS self assessment checklist and obtain evidence to demonstrate conformance with the standards. To support this process, each internal auditor is required to assess their current skills and knowledge against the competency profile relevant for their role.

The results of the annual client survey and PSIAS self-assessment are used to identify any areas requiring further development and/or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan. Specific actions may also be included in the Veritau business plan and/or individual personal development action plans.

The outcomes from this exercise, including details of the Improvement Action Plan are also reported to each client. The results will also be used to evaluate overall conformance with the PSIAS, the results of which are reported to senior management and the board¹ as part of the annual report of the Head of Internal Audit.

The process followed is also intended to enable council clients to discharge their responsibilities for evaluating the effectiveness of internal audit each year as set out in the Accounts and Audit (England) Regulations 2011 section 6(3).

External assessment

At least once every five years, internal audit working practices are subject to external assessment to ensure the continued application of professional standards. The assessment is conducted by an independent and suitably qualified person or organisation and the results are reported to the Head of Internal Audit. The outcome of the external assessment also forms part of the overall reporting process to each client (as set out above). Any specific areas identified as requiring further development and/or improvement will be included in the annual Improvement Action Plan for that year.

2.0 Customer Satisfaction Survey – 2014

Feedback on the overall quality of the internal audit service provided to each client was obtained in March 2014. Where relevant, the survey also asked questions about the counter fraud and information services provided by Veritau. A total of 96 surveys were issued to senior managers in client organisations. 21 surveys were returned (a response rate of 22%). Respondents were asked to rate the different elements of the audit process, as follows:

- Excellent (1)
- Good (2)
- Satisfactory (3)
- Poor (4)

Respondents were also asked to provide an overall rating for the service.

¹ As defined by the relevant audit charter.

The results of the survey are set out in the table below:

	1	2	3	4	N/A
1 The quality of planning and the overall coverage of the audit plan	2	10	7	1	1
2 The provision of advice and guidance	5	13	3		
3 The conduct and professionalism of audit staff	10	11			
4 The ability of audit staff to provide unbiased and objective opinions	7	13	1		
5 The ability of audit staff to establish a positive rapport with customers	7	11	3		
6 The auditors' overall knowledge of the system / service being audited	4	7	8	1	1
7 The auditors' ability to focus on the areas of greatest risk	2	15	3		1
8 Agreeing the scope and objectives of the audit	4	11	5		1
9 The auditors' ability to minimise disruption to the service being audited	7	9	4		1
10 The communication of issues found by the auditors during their work	4	13	3		1
11 The quality of feedback at the end of the audit	4	14	2		1
12 The accuracy, format, length and style of audit reports	6	12	1	1	1
13 The time taken to issue audit reports	3	12	5		1
14 The relevance of audit opinions and conclusions	2	14	4		1
15 The extent to which agreed actions are constructive and practical	3	13	4		1
Overall rating for the Internal Audit services provided by Veritau	2	17	1		1

The ratings were broadly in line with the previous year and suggest that the service is well regarded by clients. However, there is a need to focus on some of the areas where the ratings are lower. In particular, auditors need to demonstrate a better understanding of the systems and services being audited. There is also scope to improve the quality of planning and the overall coverage of audit plans.

3.0 Self Assessment Checklist – 2014

The checklist prepared by CIPFA to enable conformance with the PSIAS and the Local Government Application Note to be assessed was completed in March 2014. Documentary evidence was provided where current working practices were considered to fully or partially conform to the standards.

In most areas the current working practices were considered to be a standard. However, the following areas of non-conformance were identified. None of the issues identified are considered to be significant. In addition, in some cases, the existing arrangements are considered appropriate for the circumstances and hence require no further action.

<u>Conformance with Standard</u>	<u>Current Position</u>
Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Head of Internal Audit?	The Head of Internal Audit's performance appraisal is the responsibility of the board of directors. The results of the annual customer satisfaction survey exercise are however used to inform the appraisal.
Is feedback sought from the chair of the audit committee for the Head of Internal Audit's performance appraisal?	See above
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the audit committee before the engagement was accepted?	Consultancy services are usually commissioned by the relevant client officer (generally the s151 officer). The scope (and charging arrangements) for any specific engagement will be agreed by the Head of Internal Audit and the relevant client officer. Engagements will not be accepted if there is any actual or perceived conflict of interest, or which might otherwise be detrimental to the reputation of Veritau.
Has the Head of Internal Audit reported the results of the QAIP to senior management and the audit committee?	As this is the first full year of the PSIAS, the results of the QAIP still need to be reported to senior management and the board of each respective client. The expectation is that this stage will be completed by 30 June 2014 (and each subsequent year).
Has the Head of Internal Audit included	See above – still to be done for this year.

<u>Conformance with Standard</u>	<u>Current Position</u>
the results of the QAIP and progress against any improvement plans in the annual report?	The outcomes of the QAIP and details of any specific development needs (as set out in the annual Improvement Action Plan) will be included in the annual report.
Has the Head of Internal Audit stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?	See above – still to be done for this year.
Has the Head of Internal Audit reported any instances of non-conformance with the PSIAS to the audit committee?	See above – still to be done for this year.
Has the Head of Internal Audit considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?	See above – still to be done for this year.
Does the risk-based plan set out the - (b) respective priorities of those pieces of audit work?	Audit plans detail the work to be carried out and the estimated time requirement. The relative priority of each assignment will be considered before any subsequent changes are made to plans. Any significant changes to the plan will need to be discussed and agreed with the respective client officers (and reported to the audit committee).
Are consulting engagements that have been accepted included in the risk-based plan?	Consulting engagements are commissioned and agreed separately.
Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	Whilst reliance may be placed on other sources of assurance there is no formal process to identify and assess other sources of assurances. <i>Action: the use of assurance mapping will be further developed and, where appropriate, future audit plans will highlight where other sources of assurance are being relied upon.</i>
Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party about the	In future, specifications will set out the expectations on Veritau and the client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care

<u>Conformance with Standard</u>	<u>Current Position</u>
following – (c) the respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records)?	provided to third parties). <i>Action: the audit manual and standard working papers will be changed to reflect this requirement</i>
For consulting engagements, have internal auditors established an understanding with the engagement clients about the following – (c) the respective responsibilities of the internal auditors and the client and other client expectations?	In future, specifications (and reports) will set out the expectations on Veritau and the client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care provided to third parties). <i>Action: the audit manual and standard working papers will be changed to reflect this requirement</i>
When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?	This has not been done previously. In future, specifications and reports will set out the expectations on Veritau and the client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care provided to third parties). The Audit manual has already been amended to reflect this requirement. <i>Action: the audit manual and standard working papers will be changed to reflect this requirement</i>

4.0 External Assessment

As noted above, the PSIAS require the Head of Internal Audit to arrange for an external assessment to be conducted at least once every five years to ensure the continued application of professional standards. The assessment is intended to provide an independent and objective opinion on the quality of internal audit practices.

Whilst the new Standards were only adopted in April 2013, the decision was taken to request an assessment at the earliest opportunity in order to provide assurance to our clients.

The assessment was conducted by Gerry Cox and Ian Baker from the South West Audit Partnership (SWAP). Both Gerry and Ian are experienced internal audit professionals. The Partnership is a similar local authority controlled company providing internal audit services to over 12 local authorities (including county, unitary and district councils across

Somerset, Wiltshire and Dorset). The Partnership was established in 2005 and currently employs over 60 members of staff.

The assessment consisted of a review of documentary evidence, including the self-assessment, and face to face interviews with a number of senior client officers and Veritau auditors. The assessors also interviewed an audit committee chair. The fieldwork was completed in early April 2014.

A copy of the assessment report is attached at **Annex A**.

The conclusion from the external assessment was that the current working practices conform to the required professional standards. The assessors made a number of observations and recommendations which will now be taken forward in the Improvement Action Plan (see below).

5.0 Improvement Action Plan

The following changes and improvements to working practices will be made:

Change / improvement	Target completion date
The use of assurance mapping will be further developed and, where appropriate, future audit plans will highlight where other sources of assurance are being relied upon.	31 March 2015
The audit manual and standard working papers will be changed to ensure that the expectations on Veritau and the relevant client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care provided to third parties) are fully understood. The standard templates for audit specifications and reports will be amended to reflect this change. Where appropriate, information sharing agreements will also be established with client organisations.	30 September 2014
Further comparative benchmarking information will be sought from other internal auditor providers in order to help demonstrate that the current internal audit service provides value for money.	31 March 2015
Whilst the current outsourced arrangement with Audit North is working well further efforts will be made to develop the capacity of the 'in-house' IT audit provision in order to be able to offer a more cost effective option to client organisations.	31 March 2015
The standard Audit Charter will be amended to make it clear that auditors will not be used on internal audit engagements where they have had direct involvement in the area within the previous 12 months.	30 September 2014

Current internal audit working practices will continue to be reviewed to ensure that there is consistency in service delivery across the different teams.

31 March 2015

External Validation



SELF-ASSESSMENT WITH EXTERNAL INDEPENDENT VALIDATION

VERITAU GROUP

MAY 2014

**COMPLETED BY:
THE SOUTHWEST AUDIT PARTNERSHIP**



INTRODUCTION

In accordance with the International Standards for the Professional Practice of Internal Auditing “The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity” (*Performance Standard 1300*). In order to achieve this, the Head of Internal Audit Partnership commissioned a Quality Review of Veritau.

There are two suggested approaches to conducting the review:

- External Quality Assessment
- Self-Assessment with Independent Validation

Due to the prohibitive costs of an External Quality Assessment, recognised as achieving the highest level of quality assurance, Veritau opted for the second option, with independent validation being carried out through peer review. For the process to pass the ‘independence’ test the Manual recommends that “at least three organisations come together to form a pool of professionals, all of whom are qualified to conduct external assessments”.

In order to achieve this Veritau worked together with the South West Audit Partnership (SWAP), the Devon Audit Partnership (DAP) and Hertfordshire’s Shared Internal Audit Service (SIAS), whereby each Audit Team would carry out a self-assessment and then SWAP would act as Validators for Veritau, Veritau for SIAS, SIAS for DAP and DAP for SWAP.

SCOPE AND METHODOLOGY

As part of the preparation for the Quality Assurance Review (QAR), Veritau prepared a self-assessment document (utilising the Checklist for Assessing Conformance with the Public Sector Internal Auditing Standards (PSIAS) and the Local Government Application Note), providing links to necessary evidence to support their findings. The self-assessment team conducted a QAR of the internal audit (IA) activity undertaken by Veritau across its client organisations in preparation for validation by an independent assessor. The team also reviewed the IA activity’s risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes as well as the service Procedure Manuals for the delivery of Internal Audit reviews.

The principal objective of the QA was to assess the IA activity’s conformance to the International Standards for the Professional Practice of Internal Auditing (Standards).

The QA Review Team from SWAP was made up of their Company Chief Executive – Gerry Cox who is a Chartered Auditor and Certified Auditor with over 25 years management experience in Internal Auditing. The second member of the team was SWAP’s Director of Quality - Ian Baker, a Fellow Member of the Institute of Management Services with over 10 years management experience in Internal Auditing.

In addition to reviewing the evidence supplied by the Self-Assessment Team the Review Team were on site for three days meeting with Veritau staff, client officers and Committee Members. In addition to interviewing the Head of Internal Audit a further thirteen interviews were held, with eight of these representing client organisations and the other five being staff members.

OPINION AS TO CONFORMITY TO THE STANDARDS

It is our overall opinion that the Veritau IA activity ‘Generally Conforms’ to the *Standards* and Code of Ethics.

For a detailed list of conformance to individual standards, please see Attachment A. The QAR team identified opportunities for further improvement, details of which are provided in this report.

The guidance suggests a scale of three ratings, “generally conforms,” “partially conforms,” and “does not conform.” “Generally Conforms” is the top rating and means that an IA activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*. “Partially Conforms” means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the IA activity from performing its responsibilities in an acceptable manner. “Does Not Conform” means deficiencies in practice are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

SUMMARY OF POSITIVE OBSERVATIONS

The IA activity environment is well-structured and progressive, where the Standards are clearly understood and management is endeavouring to provide useful audit tools and implement appropriate practices to ensure the service remains current and provides added value to its clients; summarised by one client officer as a “*modern internal audit service focussing on what’s important*”. Other positive observations include:

- The Head of Internal Audit is highly respected by both staff and client representatives.
- Interviews indicate that the service has a good organisational profile.
- We asked each of the eight client representatives to rate the internal audit service provided by Veritau, out of 10. The service received an average score of 8.4 which indicates it is highly valued by its clients.
- Annual feedback from the client survey indicates a positive view on the conduct, professionalism and approach of Veritau staff.
- The service receives a high level of satisfaction from individual audit review feedback forms.
- Veritau offer good internal training and development for new auditors.
- The service has a comprehensive procedure manual to guide its staff.

Consequently, the observations and recommendations by the QA Review Team captured below are intended to build on the foundations already in place in the IA activity.

OBSERVATIONS AND RECOMMENDATIONS

PART I – MATTERS FOR CONSIDERATION OF VERITAU MANAGEMENT

1. The self-assessment identified the need for specifications to set out expectations on Veritau and the client organisation in terms of access to records and the distribution of reports (including the extent of any duty of care provided to third parties). It would be beneficial to have an agreed Audit Charter (or some form of engagement agreement) with all client organisations engaged with and other related documents such as Information Sharing Protocols (*Attribute Standard 1000*).
2. Whilst guidance exists on a Quality Assurance Improvement Programme, we were not provided evidence of a maintained Action Plan. The matters arising from this Assessment should be used as a basis for starting such a plan which should be maintained as a live document and periodically reported to the Board for progress (*Attribute Standard 1300*).
3. With the financial pressures faced by Local Authority clients it is essential for all service providers to demonstrate value for money. Where possible, management should try to obtain comparative benchmarking data that demonstrates to its owners that Veritau represents VFM (*Performance Standard 2000*).

PART II – ISSUES SPECIFIC TO THE INTERNAL AUDIT ACTIVITY OF VERITAU

1. In our opinion the coverage of IT Audit in annual plans is low. Reliance on ICT and related risks will only increase and it is essential that a balanced proportion of the Annual Plan should reflect this (*Performance Standard 2010*).
2. The Audit Charter states that the service is “ensuring staff are not involved in auditing areas where they have recently been involved in operational management, or in providing consultancy and advice”. This is good practice, however, the term ‘recently’ can be seen to be ambiguous and should be specified i.e. 12 months (*Attribute Standard 1130*).
3. Internal audit plans and activities are coordinated with the external auditors of each client organisation. However, it is recognised that there is further scope for coordination of other internal providers of assurance (*Performance Standard 2050*).
4. Some staff raised concerns over consistency across the Company; an example cited was the follow up processes. This is a challenge for any growing organisation. Veritau has a comprehensive Procedure Manual and utilises Galileo to perform reviews and so should expect consistency. The production of management reports which are regularly monitored to ensure Company practice is enforced should help to address this perceived issue.

RECOMMENDATIONS

We recommend that:

- the Head of Internal Audit presents this report to the Veritau Board and each of its client organisations Audit Committees;
- the Head of Internal Audit uses the Observations and Recommendations from this report to develop a Quality Assessment Improvement Programme (QAIP) that is maintained as a live document;
- the Head of Internal Audit presents the QAIP to the Veritau Board and each of its client organisations Audit Committees and thereafter reported periodically to monitor progress and on-going development of the service.

ATTACHMENT A STANDARDS CONFORMANCE EVALUATION SUMMARY

SOUTH WEST AUDIT PARTNERSHIP

Standards Conformance Evaluation Summary		("X" Evaluator's Decision)		
		GC	PC	DNC
OVERALL EVALUATION				
ATTRIBUTE STANDARDS				
1000	Purpose, Authority, and Responsibility	X		
1010	Recognition of the Definition of Internal Auditing	X		
1100	Independence and Objectivity	X		
1110	Organisational Independence	X		
1111	Direct Interaction with the Board	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
1200	Proficiency and Due Professional Care			
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	Quality Assurance and Improvement Program			
1310	Requirements of the Quality Assurance and Improvement	X		
1311	Internal Assessments	X		
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement Program	X		
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
1322	Disclosure of Non-conformance	X		
PERFORMANCE STANDARDS				
2000	Managing the Internal Audit Activity			
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination		X	
2060	Reporting to Senior Management and the Board	X		

Standards Conformance Evaluation Summary

		("X" Evaluator's Decision)		
		GC	PC	DNC
2100	Nature of Work			
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200	Engagement Planning			
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	Performing the Engagement			
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	Communicating Results			
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of "Conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
2431	Engagement Disclosure of Non-conformance	X		
2440	Disseminating Results	X		
2500	Monitoring Progress	X		
2600	Management's Acceptance of Risks	X		
IIA Code of Ethics		X		

Definitions

GC – “Generally Conforms” means the assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformity to the others, within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, “successful practice,” etc.

PC – “Partially Conforms” means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

DNC – “Does Not Conform” means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity’s effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.

ATTACHMENT B INDEPENDENT VALIDATOR STATEMENT

The validator was engaged to conduct an independent validation of the Veritau self-assessment. The primary objective of the validation was to verify the assertions made by the self-assessment team concerning adequate fulfilment of the organisation's basic expectations of the IA activity and its conformity to the International Standards for the Professional Practice of Internal Auditing (Standards).

In acting as validator, I am fully independent of the organisation and have the necessary knowledge and skills to undertake this engagement. The validation, started in February 2014 and culminated with a three day site visit on 11th April. The validation consisted primarily of a review and testing of the procedures and results of the self-assessment. In addition, interviews were conducted with fourteen individuals, including the Head of Internal Audit. Apart from five members of Veritau staff, we met with four Section 151 Officers, two Assistant Directors, a Chief Executive and an Audit Committee Chairman.

I concur fully with the IA activity's conclusions in the self-assessment from where some of the observations were identified.

Implementation of all the recommendations contained in this report will serve only to improve the effectiveness and enhance the value of the IA activity, which is already highly regarded, and ensure its full conformity to the *Standards*.



Gerry Cox CMIIA

Chief Executive – South West Audit Partnership

Date 3rd June 2014

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REPORT TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	31 July 2014
REPORT OF THE:	FINANCE MANAGER (s151) PETER JOHNSON
TITLE OF REPORT:	INTERNAL AUDIT – PROGRESS REPORT
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 The report summarises the outcome of internal audit work undertaken between April 2014 and June 2014, inclusive.

2.0 RECOMMENDATION(S)

- 2.1 It is recommended that the Committee note the results of audit and fraud work undertaken so far during 2014/15.

3.0 REASON FOR RECOMMENDATION(S)

- 3.1 To enable the Committee to fulfil its responsibility for considering the outcome of internal audit work.

4.0 SIGNIFICANT RISKS

- 4.1 The Council will fail to comply with proper practice requirements for internal audit if the results of audit work are not considered by an appropriate Committee.

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 This report supports the Council's Corporate Strategic Objective of providing strong Community Leadership, by demonstrating a commitment to local democracy and accountability.

6.0 REPORT DETAILS

- 6.1 The work of internal audit is governed by the Accounts and Audit (England) Regulations 2011 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS) and CIPFA guidance on the application of those standards in Local Government. In accordance with the standards, the Head of Internal Audit is required to report on the results of audit work undertaken, to this Committee

6.2 Within the report there is a summary of progress made against the plan and a summary of the audit opinions for the individual audits completed thus far.

6.3 It is important that agreed actions are formally followed-up to ensure that they have been implemented by management. This is carried out throughout the year with appropriate testing being completed as required.

7.0 IMPLICATIONS

7.1 The following implications have been identified:

- a) Financial
None
- b) Legal
None
- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
None

Peter Johnson
Finance Manager (s151)

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Background Papers:

Public Sector Internal Audit Standards
CIPFA Local Government Application Note (for the United Kingdom Public Sector Internal Audit Standards)



Ryedale District Council

Internal Audit Progress Report 2014-15

Period to 30 June 2014

Audits Completed to 30 June 2014	
High Assurance	
Substantial Assurance	
Moderate Assurance	
Limited Assurance	
No Assurance	

Audit Manager:

John Barnett

Head of Internal Audit:

Max Thomas

Circulation List:

Member of the Overview and Scrutiny Committee
Corporate Director (S151 Officer)

Date: 31 July 2014

Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2011 and the Public Sector Internal Audit Standards. In accordance with the Public Sector Internal Audit Standards, the Head of Internal Audit is required to regularly report progress in delivery of the Internal Audit Plan to the Overview and Scrutiny Committee and to identify any emerging issues which need to be brought to the attention of the Committee.
- 2 Members approved the Internal Audit Plan 2014/15 at their meeting on the 10 April 2014. The total number of planned audit days for 2014/15 is 225. The performance target for Veritau is to deliver 93% of the agreed Audit Plan by the end of the year. This report summarises progress made in delivering that plan.

Internal Audit Work Carried Out 2014/15

- 3 A summary of the internal audit reports issued is attached at **Appendix A**. This is the first progress report to be received by the committee during 2014/15.
- 3.1 Veritau officers are involved in a number of other areas relevant to corporate matters:
 - **Support to the Overview and Scrutiny Committee**; this is mainly ongoing through our support and advice to Members. We assist by facilitating the attendance at Committee of managers to respond directly to Members' questions and concerns over the audit reports and the actions that managers are taking to implement agreed actions.
 - **Risk Management**; Veritau advise on the Council's Risk Management processes.
 - **Systems Development**; Veritau attend development group meetings in order to ensure that where there are proposed changes and new ways of delivering services, that the control environment is not overlooked which could lead to the Council being exposed.
 - **Investigations**; Special investigations into specific sensitive issues.
- 3.2 As with previous audit reports an overall opinion has been given for each of the specific systems under review. The opinion given has been based on an assessment of the risks associated with any weaknesses in controls identified.
- 3.3 The opinions used by Veritau are provided for the benefit of Members below:

High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Moderate Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.

Limited Assurance

Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.

No Assurance

Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

3.4 The following categories of opinion are also applied to individual actions agreed with management:

Priority 1 (P1) – A fundamental system weakness, which represents unacceptable risk to the system objectives and requires urgent attention by management.

Priority 2 (P2) – A significant system weakness, whose impact or frequency presents risk to the system objectives, which needs to be addressed by management.

Priority 3 (P3) – The system objectives are not exposed to significant risk, but the issue merits attention by management.

3.5 It is important that agreed actions are formally followed-up to ensure that they have been implemented. This is carried out throughout the year with appropriate testing being completed, the results shown in the Summary of Key Issues – Management Actions Agreed column below.

3.6 In the period between April and June, inclusive, there were **4** audits in progress.

Table of 2014/15 audit assignments completed

Audit	Status	Audit Committee
<i>Fundamental/Material Systems</i>		
Council Tax/NNDR	Not started	
Benefits	Not started	
Creditors	Not started	
Income/Cash Receipting	Not started	
Sundry Debtors	Not started	
General Ledger & Budgetary Control	Not started	
Payroll	In progress	
Capital Accounting/Asset Management	Not started	
<i>Risk Register</i>		
Affordable Housing/New Homes Bonus	In progress	
Community Infrastructure Levy	Not started	
Capital Programme	In progress	
<i>Regularity Audits</i>		
Risk Management Process	Not started	
Development Control	Not started	
Member Development	In progress	
<i>Technical/Project Audits</i>		
ICT	Not started	
Project Management	Not started	
<i>Follow-Ups</i>		



REPORT TO:	OVERVIEW AND SCRUTINY COMMITTEE (AUDIT)
DATE:	31 JULY 2014
REPORT OF THE:	FINANCE MANAGER (s151) PETER JOHNSON
TITLE OF REPORT:	ANNUAL GOVERNANCE STATEMENT 2013/14
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 For members to consider the Council's review of its system of internal control and approve the Annual Governance Statement (AGS) as required by the Accounts and Audit Regulations 2011.

2.0 RECOMMENDATION

- 2.1 It is recommended that members approve the Annual Governance Statement for inclusion in the Statement of Accounts.

3.0 REASON FOR RECOMMENDATION

- 3.1 The Accounts and Audit Regulations require councils to approve an Annual Governance Statement. In Ryedale approval of the AGS is the responsibility of the Audit Committee.

4.0 SIGNIFICANT RISKS

- 4.1 The Council would not comply with the requirements of the Accounts and Audit Regulations 2011 if it failed to review its system of internal control at least annually, or did not approve and publish an Annual Governance Statement.

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 Production of the AGS is a mandatory requirement. Senior Council officers have contributed to the review of controls and preparation of the statement.

REPORT

6.0 REPORT DETAILS

- 6.1 Good governance is important to the proper operation of all organisations, and is

essential for local authorities and other bodies with a responsibility for managing public funds. In recognition of this importance, the Accounts and Audit Regulations require all councils to annually review their systems of control and prepare an annual governance statement setting out their governance arrangements. The statement should include any significant issues relevant to an understanding of the governance framework. The AGS forms part of a Council's Statements of Accounts and is considered by the external auditor during their review of the accounts.

- 6.2 The Corporate Management Team and other appropriate officers have reviewed the Council's system of controls. In addition, comments, evidence, and feedback from a number of internal and external sources have been considered in compiling the statement. The Council has adopted the Cipfa framework for producing the AGS, and the attached AGS (See Annex A) has been prepared in accordance with proper practice, including the latest addendum to the guidance on good governance published by Cipfa / Solace.

7.0 IMPLICATIONS

7.1 The following implications have been identified:

- a) Financial
None
- b) Legal
None
- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
None

Peter Johnson
Finance Manager (s151)

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E-Mail Address: peter.johnson@ryedale.gov.uk

Background Papers:

CIPFA – Annual Governance Statement in Local Government – meeting the requirements of the Accounts and Audit (Amendment) (England) Regulations 2006 The 'rough guide'
Cipfa Finance Advisory Network – AGS 'Rough Guide' for practitioners.
Cipfa/Solace – Delivering Good Governance in Local Government Framework 2012
The Accounts and Audit (England) Regulations 2011

Background Papers are available for inspection at:

Finance – Ryedale House
Contact Peter Johnson

1. Scope of Responsibility

The Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Authority is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

2. The Purpose of the Governance Framework

Corporate Governance is the system by which local authorities direct and control their functions and relate to their communities. The framework for corporate governance recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) identifies three underlying principles of good governance, namely:

- Openness and Inclusivity
- Integrity
- Accountability

The principles of corporate governance should be embedded into the culture of each local authority. Furthermore each local authority has to be able to demonstrate that it is complying with these principles. To achieve this, the framework document recommends that all local authorities should develop a local code of corporate governance, comprising the following elements:

- Community Focus
- Service Delivery Arrangements
- Structures and Processes
- Risk Management and Internal Control
- Standards of Conduct

The Authority has formally adopted a local code of corporate governance, consequently the principles and standards contained in the framework document are recognised as good working practice, and hence are supported and followed. To this end both Officers and Members have had externally provided training to ensure governance arrangements are understood and embedded. This Statement forms part of the overall process within the Authority for monitoring and reporting on the adequacy and effectiveness of the corporate governance arrangements, particularly those in respect of risk management and internal control.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on a continuous process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives,

ANNUAL GOVERNANCE STATEMENT 2013/14

to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. This has been in place within the Authority for the year ended 31 March 2014 and up to the date of approval of the Statement of Accounts.

3. The Governance Framework

The requirement to have a governance framework, incorporating a sound system of internal control covers all of the Authority's activities. The internal control environment within the Authority consists of a number of different key elements, which taken together contribute to the overall corporate governance framework. The key elements of internal control within the Authority consist of

Policies and Guidance:

Specific policies and written guidance exist to support the corporate governance arrangements and include:

- The Council's Constitution, including Financial Regulations, Procurement Regulations and Contract Standing Orders
- Codes of Conduct for Members and Officers
- The Corporate Plan
- Medium Term Financial Plan
- Member and Officer Schemes of delegation
- Registers of interests, gifts and hospitality
- Corporate policies, for example those relating to Whistleblowing and Counter Fraud and Corruption
- Asset Management Plan/Capital Strategy Statement
- Strategic Risk Register
- Council Procurement Strategy

Political and Managerial Structures and Processes

The Authority is responsible for agreeing overall policies and setting the budget. The Policy and Resources Committee and Commissioning Board are responsible for decision making within the policy and budget framework set by the Council. The Authority's Corporate Management Team has responsibility for implementing Authority's policies and decisions, providing advice to Members and for co-ordinating the use of resources. The Corporate Management Team meet regularly and the Committees usually every two months. Both the Committees and the Corporate Management Team monitor and review Authority activity to ensure corporate compliance with governance, legal and financial requirements. In addition, the Authority has scrutiny arrangements, through the Scrutiny and Audit Committees that include the review of policies, budgets and service delivery to ensure that they remain appropriate. A forward plan detailing the main work of Committees over the next year has been devised to ensure decisions are taken in a timely manner. Urgent items will be debated as appropriate.

The Authority has developed a process that is intended to reflect political and

ANNUAL GOVERNANCE STATEMENT 2013/14

community objectives as expressed in the Community Strategy (“Imagine Ryedale”) and acts as a basis for corporate prioritisation. The process has identified the Authority’s corporate aims together with a number of associated objectives. These will be reviewed annually to ensure that they continue to meet the needs of the community. The Authority has linked the performance management process across all service areas to provide an integrated performance management system. Each service has developed a performance improvement plan as part of their Service Delivery Plan showing how that service will work to achieve the Authority’s objectives.

Financial Management

The Finance Manager (s151 Officer) has the overall statutory responsibility for the proper administration of the Authority’s financial affairs, including making arrangements for appropriate systems of financial control. The Authority operates within a system of financial regulations, comprehensive budgetary control, regular management information, administrative procedures (including the segregation of duties) and management supervision.

The Finance Manager (s151 Officer) is a member of the Authority’s Corporate Management Team, and is directly responsible to the Chief Executive. The Authority is therefore fully compliant with the requirements of the 2010 CIPFA/SOLACE Application Note to Delivering Good Governance.

Compliance Arrangements

Monitoring and review of the Authority’s activities is undertaken by a number of Officers and external regulators to ensure compliance with relevant policies, procedures, laws and regulations. They include:

- The Chief Executive Officer
- The Finance Manager who is the s.151 Officer of the Authority and the Chief Finance Officer (CFO)
- The Monitoring Officer
- The Heads of Service
- The External Auditor and various other external inspection agencies
- Internal Audit (provided by Veritau North Yorkshire Limited from 1 April 2012)
- Finance Officers and other relevant service managers

Value for Money

Through reviews by external auditors, external agencies, internal audit and the Financial Services Manager the Authority constantly seeks ways of ensuring the economic, effective and efficient use of resources, and securing continuous improvement in the way in which its functions are exercised.

Risk Management

The Authority has adopted a formal system of Risk Management. This is effectively delivered through widespread use of Covalent, the Authority’s Performance and Risk Management software. Although responsibility for the identification and management of risks rests with service managers, corporate arrangements are co-ordinated by the

ANNUAL GOVERNANCE STATEMENT 2013/14

Heads of Service Group. The process serves to ensure that:

- The Authority identifies, prioritises and takes appropriate mitigation for those risks it identifies as potentially preventing achievement of the Corporate and Community Plan
- The Authority's assets are adequately protected
- Losses resulting from hazards and claims against the Authority are mitigated through the effective use of risk control measures
- Service managers are adequately supported in the discharge of their responsibilities in respect of Risk Management

The system of Risk Management requires the inclusion of risk evaluation assessments in all Committee reports and the maintenance of a corporate risk register. Relevant staff within the Authority have received training and guidance in Risk Management principles.

Internal Audit & Fraud

The Authority operates internal audit and internal (non Housing Benefit) fraud investigation functions. From 1 April 2012 internal audit and counter fraud services have been provided by Veritau North Yorkshire Limited – a company partly owned by the Authority. Internal audit services are provided in accordance with the Accounts and Audit Regulations 2011 and the CIPFA Code of Practice for Internal Audit in Local Government. An annual programme of reviews covering financial and operational systems is undertaken, to give assurance to Members and managers on the effectiveness of the control environment operating within the Council. The work of internal audit compliments and supports the work of the external auditors (Deloitte LLP for 2013/14). In addition, internal audit provides assurance to the Finance Manager as the Authority's s.151 Officer in discharging his statutory review and reporting responsibilities. The Authority also undertakes an annual review of the effectiveness of its internal audit arrangements as required by the Accounts and Audit Regulations. The results of the review are reported to the Overview & Scrutiny (Audit) Committee.

Internal audit also has an advisory role that provides:

- Advice and assistance to managers in the design, implementation and operation of controls
- Support to managers in the prevention and detection of fraud, corruption and other irregularities

Housing Benefit Counter Fraud work is undertaken within the Benefits Office through contractual arrangements with Veritau. A pro-active approach is taken to supplement referrals, both internal and external, with any leads arising from participation in the National Fraud Initiative, the Housing Benefits Matching Service, and internal data matching.

Performance Management

The Authority has established effective performance management arrangements. The Chief Executive has overall responsibility for the function and the Corporate Management Team undertakes an ongoing monitoring role. Heads of Service and their Service Unit Managers are expected to deliver improvements or maintain

ANNUAL GOVERNANCE STATEMENT 2013/14

performance standards where appropriate. The Covalent performance management system is used to record and monitor performance.

4. Review of Effectiveness

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its systems of internal control. In preparing this Statement a review of corporate governance arrangements and the effectiveness of the Authority's systems of internal control has been undertaken, by the Corporate Management Team. This review has included consideration of:

- Reports received from the Authority's external auditors and other inspection agencies
- The results of internal audit and fraud investigation work
- The views of senior managers, including Chief Executive, the s151 Officer and the Monitoring Officer
- The work of the Heads of Service Group in compiling the Authority's Corporate Risk Register.
- Outcomes of service improvement reviews and performance management processes
- Compliance with the CIPFA Statement on the role of the CFO

In addition, the Authority through its Committees especially the Scrutiny and Audit Committees considers corporate governance issues as they arise throughout the year and agree recommendations for improvement as necessary.

A comprehensive review has been undertaken to support the preparation of this AGS document as required by the Accounts and Audit Regulations 2011. The Authority has produced a detailed statement along with a targeted action plan to ensure that full compliance is achieved. This has followed the best practice framework suggested by CIPFA and adopted by the Authority. An action plan schedule has been produced to ensure compliance and a list of those Officers having responsibility is available.

An Action Plan is appended which identifies and notes progress with previous year's matters of concern, and includes those arising from this year's review. The Annual Governance Statement for 2014/15 will provide details of the work completed against this Plan.

We have been advised on the implications of the results of the review of the effectiveness of the system of internal control by the Overview & Scrutiny (Audit) Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

A review of the internal control arrangements in place within the Authority has identified areas where improvements could be made. Specific actions are proposed to address the issues identified. Attached is the action plan for 2013/2014 incorporating those issues brought forward from the previous plan, which are still outstanding.

The Authority will continue to seek to improve performance and take action on agreed recommendations by both internal and external agencies.

ANNUAL GOVERNANCE STATEMENT 2013/14

Signed: Dated: XX
Janet Waggott
Chief Executive

Signed: Dated: XX
Cllr Linda Cowling
Leader of the Council.

ANNUAL GOVERNANCE STATEMENT 2013/14

AGS Action Plan 2013/2014

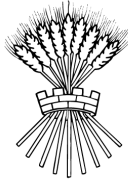
STATUS	CONTROL ISSUE	ACTION PROPOSED	RESPONSIBILITY	TARGET DATE	CURRENT POSITION & COMMENTS
Brought Forward	Risk of compromise and weaknesses in operational systems as a consequence of continuing reductions in staffing as Government funding cuts made.	Where changes in staffing occur, that changes in operating arrangements are reviewed prior to reducing the controls. Internal audit will be included in working groups reviewing operating systems and arrangements, including commissioning, partnership arrangements etc. <i>Also see delegated authority limits below.</i>	Finance Manager (s151 Officer)	Continuing	This will be a continuing issue in 2014/2015
Brought Forward	Procurement Risk as the Council undertakes a significant OJEU procurement for Leisure Management.	The Authority is part of the North Yorkshire Procurement Partnership and will ensure advice is taken supplemented by service specific advice for both procurements.	Corporate Director, Head of Environmental Services	September 2014	The Leisure Management Procurement is at final bidder stage. The council has set aside adequate financial resource to manage this process.

ANNUAL GOVERNANCE STATEMENT 2013/14

2013/14	Impact of Business Rate Appeals on the Council's financial position	Close monitoring of outstanding business rate appeals. Review of the adequacy of reserves.	Finance Manager (s151 Officer)	Monitoring Ongoing Review of Reserves September 2014	Currently 4 significant appeals outstanding with the potential to have a significant impact on the councils financial position should they be successful.
2013/14	In year Internal Audits offering limited assurance.	Management to specifically monitor the progress on agreed actions from these Internal Audit Reports.	Heads of Service and Finance Manager.	In line with the dates for completion for agreed actions from the audit reports	Bi-monthly monitoring through Management Team
2013/14	Delegated authority limits	As a result of the change in s151 officer, the authority will review the current scheme of delegation, starting with the constitution through to individual authorisation levels.	Head of Corporate Services, Finance Manager (s151 Officer)	December 2014	Review of the constitution completed

OVERVIEW AND SCRUTINY ITEM, FOR CONSIDERATION PRIOR TO FULL COUNCIL

**RYEDALE
DISTRICT
COUNCIL**



REPORT TO:	COUNCIL
DATE:	4 SEPTEMBER 2014
REPORT OF THE:	FINANCE MANAGER (s151) PETER JOHNSON
TITLE OF REPORT:	TREASURY MANAGEMENT ANNUAL REPORT 2013-14
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2013/14. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.0 RECOMMENDATIONS

2.1 That Council is recommended to:

- (i) Note the annual treasury management report for 2013/14; and
- (ii) Approve the actual 2013/14 prudential and treasury indicators in this report.

3.0 REASON FOR RECOMMENDATIONS

3.1 The Council has adopted the Code. A provision of the Code is that an annual review report must be made to the Full Council relating to the treasury activities of the previous year.

4.0 SIGNIFICANT RISKS

4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

5.0 POLICY CONTEXT AND CONSULTATION

5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this code.

5.2 The Council uses the services of Capita Treasury Services Limited to provide treasury management information and advice.

REPORT

6.0 REPORT DETAILS

6.1 During 2013/14 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council 26 February 2013)
- A mid year (minimum) treasury update report (Council 9 January 2014)
- An annual review following the end of the year describing the activity compared to the strategy (this report).

In addition, treasury management update reports were received by the Policy and Resources Committee.

6.2 Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

6.3 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Overview and Scrutiny Committee before they were reported to the full Council. Member training on treasury management issues was undertaken on 5 October 2011 in order to support Members' scrutiny role.

6.4 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Overall treasury position and the impact on investment balances;
- Summary of interest rate movement in the year;
- Detailed investment activity.

The Council's Capital Expenditure and Financing 2013/14.

6.5 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

- 6.6 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2013/14 Actual (£)	2012/13 Actual (£)
Total Capital Expenditure	3,331,140	1,968,149
Resourced by:		
Capital receipts	320,836	0
Capital grants and contributions	1,884,635	532,034
Capital reserves	1,125,669	1,436,115
Total	3,331,140	1,968,149

Treasury Position as at 31 March 2014

- 6.7 The Council's treasury management and investment position is organised by the Finance Section in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Treasury Management Practices. At the beginning and the end of 2013/14 the Council's treasury position was as follows:

	31 March 2014 (£)	31 March 2013 (£)
Internally Managed Investments	4,910,000	5,750,000
Total	4,910,000	5,750,000

- 6.8 The maturity of the investment portfolio was as follows;

	31 March 2014 (£)	31 March 2013 (£)
On-call Investments	60,000	50,000
Fixed Term Deposits:		
Repayable within 1 month	0	0
Repayable 1 month to 3 months	2,850,000	3,200,000
Repayable 3 months to 6 months	500,000	1,500,000
Repayable 6 months to 12 months	1,500,000	1,000,000
Repayable 12 months to 24 months	0	0
Total	4,910,000	5,750,000

- 6.9 Investments were placed with the following institutions:

Type of Institution	31 March 2014 (£)	31 March 2013 (£)
UK Clearing Banks	4,910,000	5,750,000
Foreign Banks	0	0
Building Societies	0	0
Local Authorities	0	0
Total	4,910,000	5,750,000

The Strategy for 2013/14

6.10 The Treasury Management Strategy for 2013/14 was approved by members at full Council on 26 February 2013.

6.11 The expectation for interest rates within the strategy for 2013/14 anticipated no movement in the Bank rate within the year, the first anticipated increase being in Q1 of 2015. This forecast rise has now been pushed back to a start in Q3 of 2015.

The Economy and Interest rates

6.12 The financial year 2013/14 continued the challenging investment environment of previous years, namely low investment returns, although levels of counterparty risk had subsided somewhat.

6.13 Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was no additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year. While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.

6.14 The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing into 2013/14. That part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over resurging house prices. The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth has led to a cumulative, (in the Autumn Statement and the March Budget), reduction in the forecasts for total borrowing, of £97bn over the next five years, culminating in a £5bn surplus in 2018-19

6.15 The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the ECB statement in July 2012 that it would do “whatever it takes” to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/14 and led to a move away from only very short term investing. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

Compliance with Treasury Limits

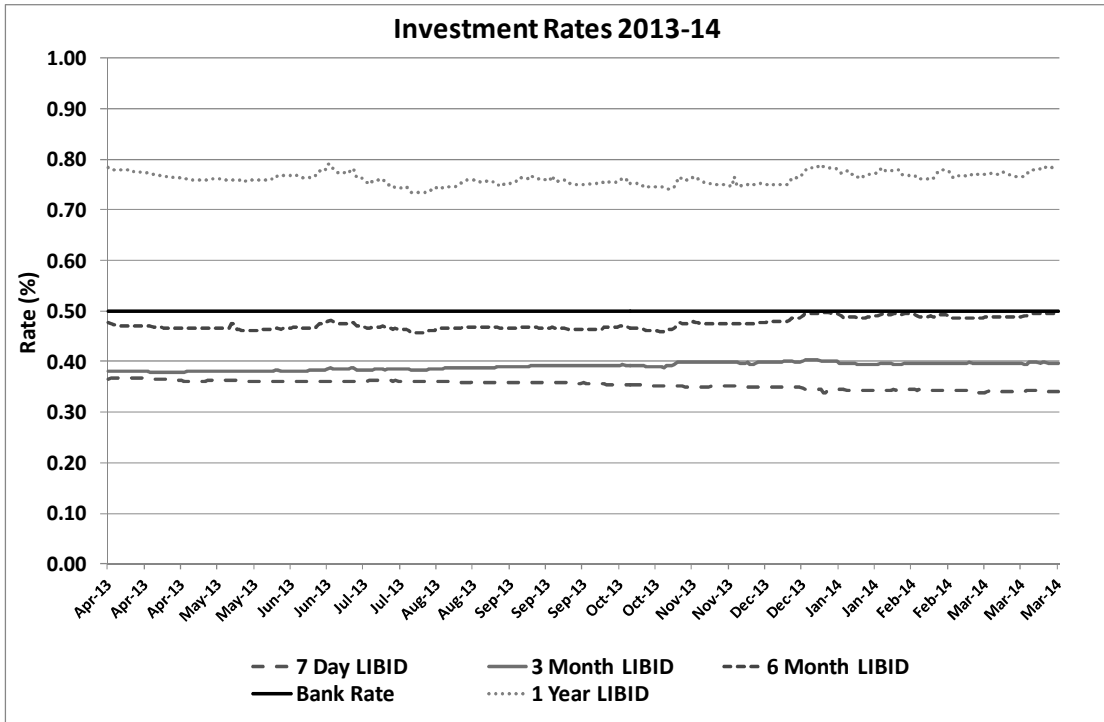
6.16 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council’s Treasury Management Strategy Statement (annex B).

6.17 The Council has no long-term borrowing and there were no temporary borrowing transactions in the year. However, the Council has a number of lease agreements that were initially entered into as operating leases but following the implementation of International Financial Reporting Standards (IFRS) are now reclassified as finance leases. As a consequence the Council does not have a nil Capital Finance Requirement.

Investment Rates in 2013/14

6.18 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for five years. The Funding for Lending Scheme resulted in deposit rates remaining depressed during the whole of the year, although the part of the scheme supporting provision of credit for mortgages came to an end in the first quarter of 2014.

6.19 The summary below shows the movement of investment rates in 2013/14:



Investment Outturn for 2013/14

6.20 The Council's investment policy is governed by DCLG guidance, which was been implemented in the Annual Investment Strategy approved by the Council on 26 February 2013. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).

6.21 The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.

6.22 The following table shows the result of the investment strategy undertaken by the Council and the relative performance of the internally managed funds against the 7-day LIBID un-compounded rate benchmark:

	Average Investment (£)	Gross Rate of Return	Net Rate of Return	Benchmark Return
Internally Managed:				
Temporary & On-Call Investments	4,368,082	0.54%	n/a	n/a
Fixed Term Deposits	844,005	0.79%	n/a	0.35%

6.23 The interest received by the Council from investments and loans in 2013/14 totalled £64k; this compares to an original estimate of £90k.

7.0 IMPLICATIONS

7.1 The following implications have been identified:

- a) Financial
The results of the investment strategy effect the funding of the capital programme.
- b) Legal
There are no legal implications within this report
- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
There are no additional implications within this report.

Peter Johnson
Finance Manager (s151)

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Background Papers:
None

TREASURY MANAGEMENT ANNUAL REPORT 2013-14 - RISK MATRIX – ANNEX A

Issue/Risk	Consequences if allowed to happen	Likelihood	Impact	Mitigation	Mitigated Likelihood	Mitigated Impact
Credit risk - associated with investing with financial institutions that do not meet the credit rating criteria.	Could mean loss of principal sum and interest accrued.	2	D	In response to the economic climate the Council have adopted a more stringent credit rating methodology.	1	D
Market risk - Selection of wrong type of investment for higher return.	The poor performance of the chosen investment.	3	B	The number of investment options have been kept to a minimum within the investment strategy.	3	B
Liquidity risk - Use of fixed term deposits and / or instruments / investments with low marketability may mean a lack of liquidity	Unable to take advantage of better investment options. Funds are unavailable to cover capital spend.	1	B	The maturity profile has shortened for investments. The 2011/12 Investment Strategy reduced the period for non- specified investments and full Council agreed to continue with this policy in 2013/14.	1	B

Score	Likelihood	Score	Impact
1	Very Low	A	Low
2	Not Likely	B	Minor
3	Likely	C	Medium
4	Very Likely	D	Major
5	Almost Certain	E	Disaster

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PRUDENTIAL AND TREASURY INDICATORS

Prudential Indicators

	2012/13 Actual	2013/14 Original	2013/14 Actual
Capital Expenditure	£1.968m	£4.084m	£3.331m
Ratio of financing costs to net revenue stream	1.31%	2.69%	1.80%
Net borrowing requirement	-£5.405m	-£2.351m	-£4.708m
Capital Financing Requirement as at 31 March	£0.295m	£2.327m	£0.254m
Annual change in Capital Financing Requirement	-£0.178m	£2.032m	-£0.041m
Incremental impact of capital investment decisions			
Increase in council tax (band D) per annum	N/a	£4.15	N/a

Treasury Management Indicators

	2012/13 Actual	2013/14 Original	2013/14 Actual
Authorised Limit for external debt -			
borrowing	N/a	£20.0m	N/a
other long term liabilities	N/a	£1.0m	N/a
Total	N/a	£21.0m	N/a
Operational Boundary for external debt -			
borrowing	N/a	£5.0m	N/a
other long term liabilities	N/a	£0.3m	N/a
Total	N/a	£5.3m	N/a
External debt	£0m	£2.070m	£0m
Upper limit for fixed interest rate exposure			
Net principal re fixed rate investments	N/a	100%	N/a
Upper limit for variable rate exposure			
Net principal re variable rate investments	N/a	50%	N/a
Upper limit for total principal sums invested for over 364 days (per maturity date)	N/a	£1.0m	N/a

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