RYEDALE DISTRICT COUNCIL

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OVERVIEW AND SCRUTINY COMMITTEE

Thursday 5 November 2015 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 23 September 2015** (Pages 3 - 4)

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 **Treasury Management Mid Year Review** (Pages 5 - 12)

7 **Deloitte Annual Audit Letter** (Pages 13 - 22)

8 **KPMG - Introduction and Briefing Session (presentation)**

9 **KPMG - External Audit Progress Report and Technical Update** (Pages 23 - 40)

10 **Internal Audit Progress Report** (Pages 41 - 50)

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

Overview and Scrutiny Committee

Held at Council Chamber, Ryedale House, Malton
on Wednesday 23 September 2015

Present

Councillors Acomb, Joy Andrews, Cussons, Duncan, Evans, Jowitt, Sanderson, Shields (Vice-Chairman) and Wainwright (Chairman)

In Attendance

Sarah Anderson, Peter Johnson, Janet Waggott and Will Baines

Minutes

24 **Apologies for absence**

Apologies were received from Councillor Gardiner.

25 **Minutes of the meeting held on the 30 July 2015**

Decision

That the minutes of the Overview and Scrutiny Committee held on the 30 July 2015, be approved and signed by the Chairman as a correct record.

26 **Urgent Business**

There were no items of urgent business.

27 **Declarations of Interest**

There were no declarations of interest.

28 **Final Report to Overview and Scrutiny on the 2015 Audit**

Considered the final report to the Overview and Scrutiny Committee on the 2015 Audit.

Decision

That the report be received

The Chairman thanked Deloitte for the external audit work they had done on the financial statements.

29 **Statement of Accounts 2014/2015**

Considered the Statement of Accounts 2014/2015.

Decision
That the report be received.

30 **Letter of Representation 2014/2015**

Considered the letter of representation 2014/15 for Deloitte LLP.

Decision
That the contents of the letter be noted.

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

There being no items of urgent business, the meeting closed at 7:05pm

OVERVIEW AND SCRUTINY ITEM, FOR CONSIDERATION PRIOR TO FULL COUNCIL

RYEDALE
DISTRICT
COUNCIL

REPORT TO:	**COUNCIL**
DATE:	**10 DECEMBER 2015**
REPORT OF THE:	**FINANCE MANAGER (s151)** **PETER JOHNSON**
TITLE OF REPORT:	**TREASURY MANAGEMENT MID-YEAR REVIEW**
WARDS AFFECTED:	**ALL**

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 To report on the treasury management activities to date for the financial year 2015/16 in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code).

2.0 RECOMMENDATIONS

2.1 It is recommended that:
(i) Members receive this report; and
(ii) The mid-year performance of the in-house managed funds to date is noted.

3.0 REASON FOR RECOMMENDATIONS

3.1 The Council has adopted the Code. A provision of the Code is that a mid-year review report must be made to the Full Council relating to the treasury activities of the current 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.

REPORT

5.0 BACKGROUND AND INTRODUCTION

5.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

5.2 The second major function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide towards whether the Council has a borrowing need, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans or using longer term cash flow surpluses.

5.3 Treasury management in this context is defined as:
"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

5.4 The CIPFA Code of Practice on Treasury Management 2009 was adopted by this Council on 22 February 2010 and this Council fully complies with its requirements.

5.5 The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the Full Council of an annual Treasury Management Strategy Statement (including the Annual Investment Strategy and Minimum Revenue Provision Policy) for the year ahead, a Mid-Year Review Report and an Annual Report covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body, which in this Council is the Overview and Scrutiny Committee.

5.6 This mid-year report has been prepared in compliance with CIPFA's Code of Practice and covers the following:

- An economic update for the first six months of 2015/16;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's investment portfolio for 2015/16;
- A review of compliance with Treasury and Prudential Limits for 2015/16.

6.0 POLICY CONTEXT

6.1 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.

7.0 CONSULTATION

7.1 The Council uses the services of Capita Asset Services (Sector Treasury Services

Limited) to provide treasury management information and advice.

8.0 REPORT DETAILS

Economic Update

8.1 UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y). Growth is expected to weaken to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May Budget. Despite these headwinds, the Bank of England August Inflation Report had included a forecast for growth to remain around 2.4 – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero over the last quarter. Investment expenditure is also expected to support growth. However, since the report was issued, the Purchasing Manager's Index, (PMI), for services on 5 October would indicate a further decline in the growth rate to only +0.3% in Q4, which would be the lowest rate since the end of 2012. In addition, worldwide economic statistics and UK consumer and business confidence have distinctly weakened so it would therefore not be a surprise if the next Inflation Report in November were to cut those forecasts in August.

8.2 The August Bank of England Inflation Report forecast was notably subdued in respect of inflation which was forecast to barely get back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn. There are therefore considerable risks around whether inflation will rise in the near future as strongly as had previously been expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

8.3 The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015. While there had been confident expectations during the summer that the Fed. could start increasing rates at its meeting on 17 September, or if not by the end of 2015, the recent downbeat news about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision to pull back from making that start. The nonfarm payrolls figures for September and revised August, issued on 2 October, were disappointingly weak and confirmed concerns that US growth is likely to weaken. This has pushed back expectations of a first rate increase from 2015 into 2016.

8.4 In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to

September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

8.5 *The Council's treasury advisor, Capita Asset Services, has provided the following forecast:*

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

Capita Asset Services undertook its last review of interest rate forecasts on 11 August shortly after the quarterly Bank of England Inflation Report. Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts and so caused PWLB rates to fall below the above forecasts for quarter 4 2015. However, there is much volatility in rates as news ebbs and flows in negative or positive ways and news in September in respect of Volkswagen, and other corporates, has compounded downward pressure on equity prices. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

Treasury Management Strategy Statement and Annual Investment Strategy Update.

8.6 The Treasury Management Strategy (TMSS) for 2015/16 was approved by this Council on 24 February 2015. There are no policy changes to the TMSS, the details in this report update the position in the light of the updated economic position and budgetary changes already approved. Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of capital
- Liquidity

8.7 The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (maximum loan period of 12 months) and only invest with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, including sovereign rating and credit default swap (CDS) overlay information provided by Sector.

8.8 Investments during the first six months of the year have been in line with the strategy and there have been no deviations from the strategy.

8.9 As outlined above, there is still some uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 24 February 2015 is still fit for purpose in the current economic climate.

Investment Portfolio 2015/16

8.10 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

8.11 As set out earlier in the report, it is a very difficult investment market in terms of earning the level of interest rate commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate.

8.12 The Council's investment position at the beginning of the financial year was as follows:

Type of Institution	Investments (£)
UK Clearing Banks	7,160,000
Foreign Banks	1,000,000
Local Authorities	0
Building Societies	1,000,000
Total	9,160,000

8.13 A full list of investments held as at 30 September 2015, compared to Sectors counterparty list and changes to Fitch, Moodys and S&P's credit ratings during the first six months of 2015/16 is shown in annex B and summarised below:

Type of Institution	Investments (£)
UK Clearing Banks	10,020,000
Foreign Banks	2,000,000
Building Societies	2,500,000
Local Authorities	0
Total	14,520,000

8.14 As illustrated in the economic background section above, investment rates available in the market are at a historical low point. The average level of funds available for investment purposes in the first six months of 2015/16 was £15.2m. These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and the progress of the capital programme.

8.15 The table below compares the investment portfolio yield for the first six months of the year against a benchmark of the average 7 day LIBID rate of 0.36%.

	Average Investment (£)	Average Gross Rate of Return	Net Rate of Return	Benchmark Return	Interest Earned (£)
Cash Equivalents	5,730,710	0.34%	n/a	n/a	9,785
Fixed Term Deposits	1,063,542	0.76%	n/a	0.36%	35,993

8.16 The Council's budgeted investment return for 2015/16 is £59k and performance during the financial year to 30 September 2015 is £46k, **which is on target to out perform the budget.**

8.17 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Compliance with Treasury and Prudential Limits

8.18 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". The Council's approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy Statement (TMSS).

8.19 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's TMSS and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in annex A.

8.20 The level of gross borrowing remains at £1.75m, full details can be found at annex B.. Repayments have been made in line with the loan repayment schedule. In order to fulfil the funding requirements of the current Capital Programme the Council still has a borrowing requirement of £320k, however it is unlikely that we will look to borrow the remaining sum in the current financial year.

9.0 IMPLICATIONS

9.1 The following implications have been identified:

a) Financial
The results of the investment strategy affect the funding of the capital programme. The investment income return to 30 September 2015 was £46k, which is in excess of the profiled budget. The cost of borrowing affects the revenue account. Borrowing costs to 30 September 2015 were £30k, which is below the profiled budget.

b) Legal
There are no additional 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

Background Papers are available for inspection at:
N/a

PRUDENTIAL AND TREASURY INDICATORS

Prudential Indicators

	2014/15	2015/16		
	Actual	Original Estimate	Current Position	Revised Estimate
Capital Expenditure	**£1.331m**	**£1.263m**	**£0.442m**	**£2.129m**
Net borrowing requirement	**-£6.897m**	**-£6.380m**	**-£12.770m**	**-£6.700m**
Capital Financing Requirement as at 31 March (excl borrowing by finance lease)	**£1.010m**	**£2.029m**	**n/a**	**£2.029m**
Annual change in Capital Financing Requirement	**£1.010m**	**£1.019m**	**n/a**	**£1.019m**

Treasury Management Indicators

	2015/16	
	Original Limits	Revised Estimate
Authorised Limit for external debt -		
Borrowing	£20.0m	£20.0m
Other long term liabilities	£1.0m	£1.0m
Total	£21.0m	£21.0m
Operational Boundary for external debt -		
Borrowing	£5.0m	£5.0m
Other long term liabilities	£0.7m	£0.7m
Total	£5.7m	£5.8m

Investment Portfolio as at 30 September 2015

Investment by Institution	Investment £	Duration of Investment	Latest Capita Duration Band Rating	Sovereignty Rating
UK Clearing Banks				
National Westminster Bank	2,520,000	On Call	12 Months	AA+
Bank of Scotland	1,500,000	12 Months	6 Months	AA+
Bank of Scotland	1,000,000	12 Months	6 Months	AA+
Nationwide B.S.	1,500,000	6 Months	6 Months	AA+
Barclays Bank	1,000,000	6 Months	6 Months	AA+
CIC	1,000,000	6 Months	6 Months	AA
Santander	1,000,000	95 Days Notice	6 Months	AA+
Santander	1,500,000	95 Days Notice	6 Months	AA+
Nationwide B.S.	1,000,000	6 Months	6 Months	AA+
CIC	1,000,000	5.5 Months	6 Months	AA
Barclays Bank	1,500,000	5.5 Months	6 Months	AA+
Grand Total	**14,520,000**			

Fitch and Moodys Sovereignty Rating for the UK is AA+ while S&P's is AAA.
All the above borrowers met the required credit rating at the time of investment.

Borrowing Schedule as at 30 September 2015

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£1.00m	Maturity	3.69%	50 years
PWLB	£0.75m	EIP	2.99%	19 years

Deloitte.

Ryedale District Council

Annual Audit Letter

on the 2014/15 Audit

October 2015

Deloitte.

Overview and Scrutiny Committee
Ryedale District Council
Ryedale House
Malton
North Yorkshire
YO17 7HH

22 October 2015

Dear Sirs

We have pleasure in setting out this Annual Audit Letter to summarise the key matters arising from the work that we have carried out in respect of the year ended 31 March 2015.

Although this letter is addressed to the members of Overview and Scrutiny Committee of Ryedale District Council ("the Authority"), it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Public Sector Audit Appointments Limited website at www.psaa.co.uk and also on the Authority's website.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

This letter has been discussed and agreed with the S151 Officer. A copy of the letter will be provided to all Members.

2014/15 is the final year of our appointment as external auditors to the Authority following a national contract tendering exercise.

We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit. Our aim is to deliver a high standard of audit which makes a positive and practical contribution which supports the Authority's own agenda. We recognise the value of your co-operation and support.

Paul Thomson

Engagement Lead

Contents

1. Key messages

Statement of Accounts	
Unqualified opinion issued on 28 September 2015	In 2014/15 the Authority was required to prepare its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which resulted in a number of minor changes to disclosures and one material adjustment of £750k relating to the increase in valuation of a property. The Statement of Accounts was prepared, audited and closed in accordance with the agreed timetable. The Authority achieved a good standard of financial reporting. We issued an unqualified audit opinion on the Statement of Accounts on 28 September 2015.

Value for money conclusion	
Unqualified opinion issued on 28 September 2015	We issued an unqualified value for money conclusion on 28 September 2015.

Annual Governance Statement	
All relevant governance matters were adequately and appropriately disclosed	We considered the contents of the Annual Governance Statement and confirmed that the Statement adequately and appropriately disclosed relevant governance matters arising in the year.

Whole of Government accounts and audit certificate	
Confirmed no audited return required on 28 September 2015	The Whole of Government Accounts return was presented for audit by the deadline set by HM Treasury. We confirmed to the National Audit Office on 28 September 2015 that an audited return was not required for the Authority. The certificate of completion of the audit was issued on 28 September 2015.

Financial reporting systems	
No significant weaknesses noted	We did not identify any significant weaknesses in the financial reporting systems. We identified two control observations in our report presented to the Overview and Scrutiny Committee on 23 September 2015.

2. Responsibilities and scope

Responsibilities of the Authority and Auditors'

The Authority is responsible for maintaining the control environment and accounting records and for preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 based on IFRS and other relevant legislation.

We are appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including District Councils.

As the Authority's appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice ("the Code"). Under the Code, we have responsibilities in two main areas:

- the Authority's accounts; and
- whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

The scope of our work

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts reflects the financial reporting framework adopted by the Authority, being the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 based on IFRS and other relevant legislation. We conducted our work on the value for money conclusion in line with guidance received from the Audit Commission in respect of local authorities for the financial year ended 31 March 2015.

3. The audit of the accounts

Key issues arising from the audit of the accounts

Statement of Accounts	
Unqualified opinion issued on 28 September 2015	Before we give our opinion on the accounts, we are required to report to those charged with governance any significant matters arising from the audit. A detailed report was discussed with the members of the Overview and Scrutiny Committee on 23 September 2015 and there were no significant issues to report. We issued an unqualified opinion on the Authority's 2014/15 accounts on 28 September 2015, in accordance with the deadline set for local authorities. Our opinion confirms that the accounts present a true and fair view of the financial position of the Authority and its income and expenditure for the year.

Key issues from work performed on the Statement of Accounts	
There was one immaterial unadjusted misstatement noted that would impact net assets or the surplus on the provision of services	We received a complete set of draft accounts in advance of the agreed deadline, which were supported by working papers. The finance staff were helpful throughout the process and responded swiftly to all queries. This performance reflects well on the professionalism of the finance staff and their commitment to maintaining high-level controls over financial systems. There was only one material adjustment of £750k relating to increasing the valuation of one property. There was only one unadjusted misstatement (£65k) noted that would impact net assets or the surplus on the provision of services. The details of this were set out in our report presented to the Overview and Scrutiny Committee on 23 September 2015.

Annual Governance Statement	
The Statement includes all appropriate disclosures and is consistent with our understanding of the Authority's governance arrangements	As appointed auditors, we review the Annual Governance Statement ("AGS") and comment on any inconsistencies noted between the AGS and our audit work, other work relating to the Code of Audit Practice, and our understanding of the Authority's Governance arrangements. We have concluded that the Statement includes appropriate disclosures and is consistent with our understanding of the Authority's governance arrangements and internal controls derived from our audit work.

Whole of Government Accounts return	
Confirmed no audited return required on 28 September 2015	For 2014/15 the National Audit Office set a de-minimis of £350 million income, expenditure, asset or liabilities as the threshold for issuing an opinion on the Whole of Government Accounts return. We confirmed to the National Audit Office on 28 September 2015 that on this basis an audited return was not required for the Authority.

Audit Certificate	
Issued on 28 September 2015	When our audit is complete we are required to certify the closure of the audit. The certificate was issued on 28 September 2015.

4. Value for money

Background and approach

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources - this conclusion is known as “the VFM conclusion”.

Specified criteria for auditors’ VFM conclusion	Focus of the criteria for 2015
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Financial resilience

We have considered the financial standing of the Authority as at 31 March 2015. We have assessed this based on current/on-going expenditure demands, expected income levels and the current cash position of the Authority. Following the Government’s Comprehensive Spending Review in 2010 and subsequent local government finance settlements each year, the Authority is facing financial pressures over the next few years. In addition, the changes encompassed in the suite of new Acts – the Localism Act 2011, the Welfare Reform Act 2012 and the Local Government Finance Act 2012 - will put further strains on the planning and budgeting processes.

Whilst the Authority has coped well with previous government funding cuts, the anticipated future reductions in funding from 2015/16 onwards will be a significant challenge involving difficult decisions around resource prioritisation. Upon review of the medium term financial plan, we consider the response of the Authority to the financial pressures to be appropriate.

The VfM conclusion

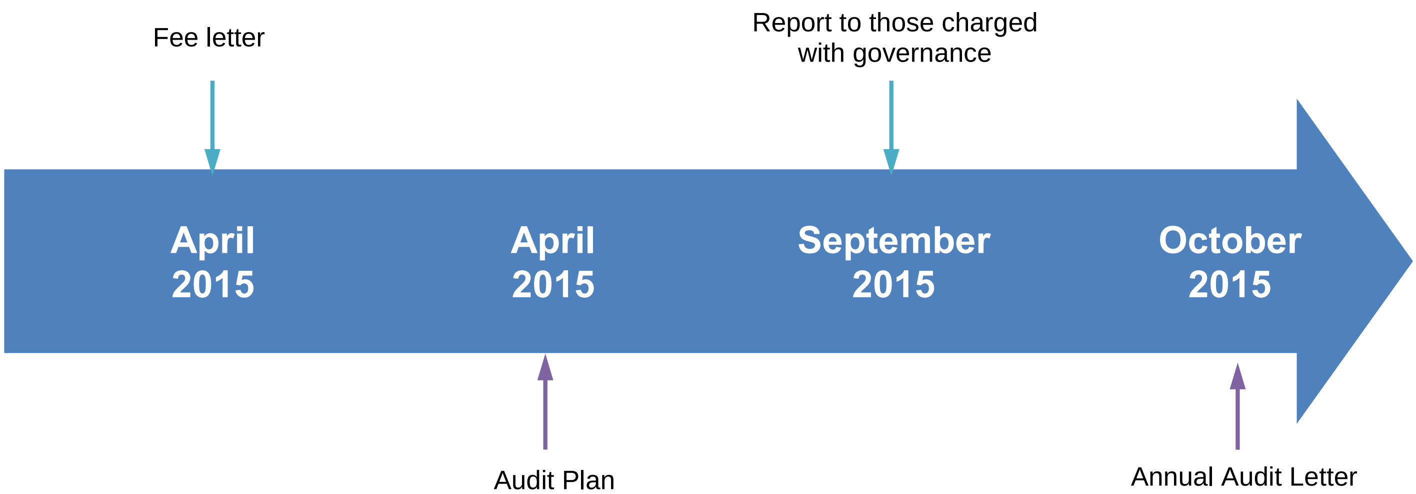
Having performed our work in line with guidance received from the Audit Commission we issued an unqualified value for money conclusion for the 2014/15 financial year. This means that we are satisfied that, in the areas reviewed, the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources during the year.

5. Other matters

Reports issued

Reports issued during the course of the 2014/15 audit included:

- Fee letter;
- Audit plan;
- Report to those charged with governance on the 2014/15 audit; and
- Annual Audit Letter.



Analysis of audit fees

Audit fees charged are as follows:

	2015 £'000	2014 £'000
Total fees for the audit of the annual accounts and whole of government accounts return (excluding VAT)	56	55
Fees payable in respect of grants claims and returns of the authority (estimate)	16	16
Total	**72**	**71**

We have not performed any non-audit services in either the current or prior year. In September 2014 we have performed a grant certification under the Homes & Communities Agency requirements for a fee of £2,000.

Independence and objectivity

In our professional judgement, our policies and safeguards that are in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the Audit Commission.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other party since this report has not been prepared, and is not intended, for any other purpose.

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Annual Audit Letter since first published. These matters are the responsibility of the Authority but no control procedures can provide absolute assurance in this area.

Deloitte.

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cutting through complexity

External audit progress report and technical update

Ryedale District Council

October 2015

External audit progress report and technical update – October 2015

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

- High impact
- Medium impact
- Low impact
- For info

cutting through complexity

KPMG resources

KPMG resources

Area	Comments
KPMG/Shelter report: Fix the housing shortage or see house prices quadruple in 20 years	Without a radical programme of house building, average house prices in England could double in just ten years to £446,000 at current prices, according to research. In twenty years they could quadruple, with the average house price estimated to rise to over £900,000 at current prices by 2034 if current trends continue. The research from KPMG and Shelter also reveals that more than half of all 20-34 year olds could be living with their parents by 2040, as soaring housing costs caused by the shortage of affordable homes leave more and more people priced out of a home of their own. The warning comes in a landmark report from KPMG and Shelter outlining how the 2015 government can turn the tide on the nation's housing shortage within a single parliament. With recent government figures showing that homeownership in England has been falling for over a decade, the consequences of our housing shortage are already being felt. The report sets out a blueprint for the essential reforms that will increase the supply of affordable homes and stabilise England's rollercoaster housing market. It calls on politicians to commit to an integrated range of key measures, including: ■ giving planning authorities the power to create 'New Homes Zones' that would drive forward the development of new homes. Combined with infrastructure, this would be led by local authorities, the private sector and local communities, and self-financed by sharing in the rising value of the land; ■ unlocking stalled sites to speed up development and stop land being left dormant, by charging council tax on the homes that should have been built after a reasonable period for construction has passed; ■ introducing a new National Housing Investment Bank to provide low cost, long term loans for housing providers, as part of a programme of innovative ways to finance affordable house building; ■ helping small builders to get back into the house building market by using government guarantees to improve access to finance; and ■ fully integrating new homes with local infrastructure and putting housing at the very centre of City Deals, to make sure towns and cities have the power to build the homes their communities need. To read the report, visit www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/building-the-homes-we-need–programme-2015.aspx For more information, please contact [insert relevant member of the audit team, with telephone number and email address].

KPMG resources

Area	Comments
Audit Committee Institute: Local Government Seminar Series – Winter 2015	Our Audit Committee Institute ('ACI') events have been designed to provide you with sessions that help you consider the challenges faced by Local Government bodies today, and to help you think about the questions you want to be asking in relation to the assurance you need. Our bespoke seminars are tailored to your needs, offering you the opportunity to discuss and share best practice with your peers. They will encourage and spark debate and give you the opportunity to reflect on your role and how your organisation can meet the challenges ahead. Our Winter Local Government sessions will be led by specialists from our dedicated Local Government practice and will focus on hot topics in the sector. The Leeds event will take place on 15 October 2015 from 6pm. A North West event is currently being arranged. For more information, please contact Rob Walker Rob.Walker@kpmg.co.uk

KPMG resources

Area	Comments
KPMG publication titled: Value of Audit – Perspectives for Government	**What does this report address?** This report builds on the *Global Audit campaign – Value of Audit: Shaping the future of Corporate Reporting* – to look more closely at the issue of public trust in national governments and how the audit profession needs to adapt to rebuild this trust. Our objective is to articulate a clear opinion on the challenges and concepts critical to the value of audit in government today and in the future and how governments must respond in order to succeed. Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) as well as some of our senior government audit clients from Canada, the Netherlands and the US, we have identified a number of challenges and concepts that are critical to the value of audit in government today and in the future. **What are the key issues?** ■ The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements. ■ The importance of trust and independence of government across different markets. ■ How government audits can provide accountability thereby enhancing the government's controls and instigating decision-making. ■ The importance of technology integration and the issues that need to be addressed for successful implementation ■ The degree of reliance on government financial reports as a result of differing approaches to conducting government audits The *Value of Audit: Perspectives for Government* report can be found on the KPMG website at https://home.kpmg.com/xx/en/home/insights.html The *Value of Audit: Shaping the Future of Corporate Reporting* can be found on the KPMG website at www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx

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Technical update

Area	Level of impact	Comments	KPMG perspective
New local audit framework	Medium	The Local Audit and Accountability Act 2014 included transitional arrangements covering the audit contracts originally let by the Audit Commission in 2012 and 2014. These contracts covered the audit of accounts up to 2016/17, and gave the Department for Communities and Local Government (DCLG) the power to extend these contracts to 2019/20. DCLG have now announced that the audit contracts for large local government bodies (including district, unitary and county councils, police and fire bodies, transport bodies, combined authorities and national parks) will be extended to include the audit of the 2017/18 financial statements. From 2018/19, local government bodies will need to appoint their own auditors; it is not yet clear whether there will be a sector-led body that is able to undertake this role on behalf of bodies. NHS and smaller local government bodies (town and parish councils, and internal drainage boards), will not have their contracts extended, and will have to appoint their own auditors for 2017/18, one year earlier than for larger local government bodies.	***We understand guidance is being prepared by CIPFA on the request of the NAO.*** ***We will also be preparing a briefing note for clients.***

Technical update

Area	Level of impact	Comments	KPMG perspective
Reporting developments – Infrastructure assets	● **Medium**	CIPFA/LASAAC, the group that produce the *Code of Practice for Local Authority Accounting*, have confirmed that transport infrastructure assets owned by local authorities will be required to be included in the accounts from 2016/17. This would require prior period adjustments for 2015/16, including the opening position at 1 April 2015. The changes require local authorities to recognise the value of all transport infrastructure assets using the depreciated replacement cost method, i.e. the cost required to replace the asset with a new replacement depreciated over the life of the existing asset. Transport infrastructure assets include: ■ roads, bridges, roundabouts and traffic calming measures; ■ footways, footpaths and cycle tracks; ■ tunnels and underpasses; and ■ water supplies and drainage systems, as they support the assets identified above. Even non-highway authorities will be affected to the extent that footways etc are material to their accounts. Railway assets are not currently included in the proposals, although it is possible that these may be included in subsequent periods. CIPFA have issued a *Code of Practice on Transport Infrastructure Assets* which contains the requirements to be included in the Local Authority Code. This is available to purchase from the CIPFA website. Local authorities should have developed a project plan to identify all of the relevant transport infrastructure they own and a timetable for valuing these. CIPFA expects authorities to have undertaken the 1 April 2015 valuations by 31 December 2015. The Whole of Government Accounts submission includes unaudited data on transport infrastructure assets. 2013/14 data indicates assets of over £400 billion will be accounted for on local authority balance sheets. However, only 93% of authorities provided this information, and of these less than 70% used actual inventory data to complete the return. This indicates that the sector faces a significant challenge in accurately identifying the assets it owns and will have to account for.	***The Committee may wish to enquire of officers whether a project plan has been developed to address the requirements and review progress against this on a regular basis.***

Page 31

Area	Level of Impact	Comments	KPMG perspective
NAO report – Local Government New Burdens	Low	This report from the NAO considers how well central government has applied the New Burdens Doctrine. This sets out how the government would ensure that new requirements that increased local authorities' spending did not lead to excessive council tax increases. The focus of this report is more on central government but includes findings that may also be of interest to local government bodies. The report is available from the NAO website at www.nao.org.uk/report/local-government-new-burdens/	***The Committee may wish to review the report to understand what impact this could have at the local government level***

Page 32

Area	Level of Impact	Comments	KPMG perspective
Local Audit and Accountability Act 2014 – provisions affecting auditors' work from 1 April 2015	Low	With effect from 1 April 2015, certain provisions of the *Local Audit and Accountability Act 2014* (LAAA 2014) came into force and are applicable to auditors' work for the year 2015/16. Whilst the *Audit Commission Act 1998* is transitionally saved for audit work on 2014/15, insofar as auditors are engaged in planning work for 2015/16, or possibly considering public interest reports (PIRs) to be made during 2015/16, they need to be aware of the provisions of LAAA 2014 that are already in force. Provisions affecting auditors' work with effect from 1 April 2015 are: ***1) New duty to publish PIRs on audited bodies' websites*** Under the new audit regime, there is an emphasis on the publication of relevant information on the relevant authority's website. The following provisions are relevant to auditors carrying out work on 2015/16 if they decide to issue a public interest report during the audit. Under Schedule 7 LAAA 2014, the following matters must be published on the relevant authority's website (if it has one): ■ PIRs (relating to the relevant authority or a connected entity); ■ notice of a meeting to consider a PIR/written recommendation; and ■ notice summarising those decisions approved by the auditor as a result of consideration of the PIR/recommendation. Where the relevant authority does not have a website, it is instead generally required to make the relevant publication "in such manner as it thinks is likely to bring the notice or report to the attention of persons who live in its area". This could be, for example, in a local newspaper (as was required in certain cases under the previous legislation).	***The Committee need to be aware of the provisions that are in place from 1 April 2015***

Area	Level of Impact	Comments	KPMG perspective
Local Audit and Accountability Act 2014 – provisions affecting auditors' work from 1 April 2015 (continued)	Low	***2) Prohibition on disclosure*** The prohibition against disclosure that was previously to be found in section 49 of the *Audit Commission Act 1998* has been repealed and replaced by provisions in Schedule 11 of LAAA 2014. This change has not been transitionally introduced and auditors and local authority bodies need to be aware that this applies to all audits, irrespective of the year. Thus, any reference to the prohibition against disclosure needs to be to Schedule 11 and not section 49. There are no material differences between the two sets of provisions. ***3) Connected entities*** LAAA 2014 introduces a new concept into the audit regime, "connected entities". Connected entities are bodies that are separate to the relevant authority, but are associated with the authority in such a manner that requires the authority to record financial information relating to the entity in its accounts. The full definition of "connect entities" is set out in paragraph 8 of Schedule 4 LAAA 2014. For the purposes of this Act, an entity ("E") is connected with a relevant authority at any time if E is an entity other than the relevant authority and the relevant authority considers that, in accordance with proper practices in force at that time: ▪ the financial transactions, reserves, assets and liabilities of E are to be consolidated into the relevant authority's statement of accounts1 for the financial year in which that time falls; ▪ the relevant authority's share of the financial transactions, reserves, assets and liabilities of E is to be consolidated into the relevant authority's statement of accounts for that financial year; or ▪ the relevant authority's share of the net assets or net liabilities of E, and of the profit or loss of E, are to be brought into the relevant authority's statement of accounts for that financial year.	***The Committee need to be aware of the provisions that are in place from 1 April 2015***

Area	Level of Impact	Comments	KPMG perspective
Local Audit and Accountability Act 2014 – provisions affecting auditors' work from 1 April 2015 (continued) Page 35	Low	***3) Connected entities (continued)*** Authorities have a number of duties in relation to their connected entities under LAAA 2014 beyond those which are expanded on below: ■ Auditors have a right to access documents (at all reasonable times) relating to connected entities, as well as those relating to the "parent" relevant authority. The auditor can inspect, copy or take away documents. The auditor can also require people who are in possession or are accountable for the document (or have been in the past) to provide the auditor with any information or explanation that may be needed, and can require a meeting with such persons. Where a document is stored electronically, the auditor can require assistance from the relevant person at the connected entity or relevant authority in accessing the document. The connected entity must provide the auditor with such facilities and information as are reasonably required to carry out the audit functions. ■ The right to information and explanation, or to require a meeting, extends in relation to connected entities to: – any persons elected or appointed to an entity; – any employee of the entity; and – an auditor of the accounts of the entity. Many of the provisions on PIRs and written recommendations in Schedule 7 apply to connected entities. Accordingly, auditors must consider whether a PIR should be made on any matter coming to their attention during the audit and relating to the authority and/or a connected entity. Similarly, an auditor may make a written recommendation to a relevant authority relating to a connected entity.	***The Committee need to be aware of the provisions that are in place from 1 April 2015***

Area	Level of Impact	Comments	KPMG perspective
Local Audit and Accountability Act 2014 – provisions affecting auditors' work from 1 April 2015 (continued)	Low	***4) Power to call for information: exception for legally professionally privileged information*** Section 22(12) LAAA 2014 clarifies that the auditor's right to information and documents cannot be used to compel disclosure of legally privileged information. If a person would be entitled to refuse to produce documents in legal proceedings in reliance on the doctrine of legal professional privilege, they are equally entitled to refuse to provide the relevant information or documents to the auditor. This is a notable new provision and auditors will need to bear this in mind in requesting sight of an audited body's own legal advice. Any provision of such will be voluntary and cannot be compelled.	***The Committee need to be aware of the provisions that are in place from 1 April 2015***

Area	Level of Impact	Comments	KPMG perspective
The Local Government Association's 2015 Spending Review submission Page 37	**Medium**	In June 2015, the Local Government Association (LGA) set out proposals for the Government to consider as part of the Spending Review, aimed at streamlining public services, growth generating investment and social care and health – all while saving the public purse almost £2 billion a year by the end of the Parliament. The submission focusses on five core issues originally highlighted in A Shared Commitment, published in early 2015. The LGA hopes that local government can work with central government to balance the nation's books while improving public services and the local economic environment by delivering new, transformed and high-quality local services while at the same time reducing costs to the public sector. The LGA believes the Spending Review should: ■ enable wider integration of social care and health services to deliver savings and improve outcomes This requires the annual £700 million funding gap in social care services to be closed and a transformation fund worth £2 billion in each year of the Spending Review period be created to allow new ways of working to become commonplace. The Spending Review should also implement a single place-based budget for delivering all local services through a Local Public Services Fund as part of at least five devolution deals; ■ promote growth and productivity by accepting the case for further devolution of powers and funding that stretches beyond 25 November. The LGA is calling for devolution of, or local influence over, more than £60 billion of growth, skills and infrastructure funding over the Spending Review period, including: – the components for an ambitious and effective Local Growth Fund with agreed settlements in devolution deals that last until 2020/21 – a central-local partnership to deliver effective and targeted skills and employment initiatives – unlocking the ability of councils to contribute to the Government's target of 275,000 affordable homes built over the lifetime of the Parliament. ■ help councils adequately resource and deliver high quality public services by transforming the business rate mechanism and providing a four year local government finance settlement; and ■ help councils focus on driving efficiency and value for money through an assessment of the impact of unfunded cost burdens that core council budgets are going to face over the Spending Review period.	***The Committee may wish to seek assurances that the impact for their Authority is understood.***

Area	Level of Impact	Comments
Proposed changes to business rates and core grant	For Information	The Chancellor of the Exchequer has proposed some radical reforms of local government finance. The proposals are that by the end of the decade, councils will retain all locally raised business rates but will cease to receive core grant from Whitehall. The Chancellor set out the landmark changes in a speech to the Conservative party conference in Manchester, saying it was time to face up to the fact that "the way this country is run is broken". Under the proposals, authorities will be able to keep all the business rates that they collect from local businesses, meaning that power over £26 billion of revenue from business rates will be devolved, he said The uniform national business rate will be abolished, although only to allow all authorities the power to cut rates. Cities that choose to move to systems of combined authorities with directly elected city wide mayors will be able to increase rates for specific major infrastructure projects, up to a cap, likely to be set at 2p on the rate. The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state.

Appendix

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RYEDALE
DISTRICT
COUNCIL

REPORT TO:	**OVERVIEW AND SCRUTINY COMMITTEE**
DATE:	**5 NOVEMBER 2015**
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 1 April 2015 and 15 October 2015, 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 2015/16.

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 2015 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 In the period between 1 April 2015 and 15 October 2015 we have fully completed **3** out of **21** internal audit reviews. A further **4** audits are in progress and for 5 audits we have started our audit planning.

6.4 It is important that agreed actions are formally followed-up to ensure that they have been implemented by management. This work is carried out throughout the year with appropriate testing being completed as required. We have no matters to bring to the attention of Members.

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 2015/16

Period to 15 October 2015

Audit Manager:	Stuart Cutts
Head of Internal Audit:	Max Thomas
Circulation List:	Members of the Overview and Scrutiny Committee Chief Executive Finance Manager (S151 Officer)
Date:	15 October 2015

Assurance Services for the Public Sector

Background

1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the PSIAS, the Head of Internal Audit is required to report progress against the internal audit plan and to identify any emerging issues which need to be brought to the attention of the Committee.

2 Members of this Committee approved the 2015/16 Internal Audit Plan at their meeting on the 23 April 2015. The total number of planned audit days for 2015/16 was 225. This report summarises the progress made in delivering the agreed plan.

3 This is the first Internal Audit progress report to be received by the Overview and Scrutiny Committee in 2015/16. This report updates therefore the Committee on the work completed between 1 April 2015 and 15 October 2015.

Internal Audit work completed in 2015/16

4 In the period between 1 April 2015 and 15 October 2015 we have completed **3** out of **21** planned internal audit reviews. A further **4** audits are in progress and detailed planning work has commenced for a further **5** audits.

5 We are on target to deliver the agreed Audit Plan by the end of April 2015. Further information on the progress of the audits from the agreed 2015/16 audit plan is included in **Appendix A**.

6 Further information on the findings from each of the completed audits since the last Overview and Scrutiny Committee are included in **Appendix B**.

7 The reports highlight no significant risks to the Council.

Audit Opinions

8 For all our reports we provide an overall opinion on the adequacy and effectiveness of the controls under review. The opinion given is based on an assessment of the risks associated with any weaknesses in controls identified. We also apply a priority to all actions agreed with management. Details of the opinion and priority ranking are included in **Appendix C**.

Wider Internal Audit work

9 In addition to undertaking assurance reviews, 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 attendance at meetings of the Committee and the provision of advice, guidance and training to Members as required.

- **Ongoing support to management and officers;** we meet regularly with management to identify emerging issues and provide advice on a range of specific business and internal control issues. These relationships help to provide ‘real time’ feedback on areas of importance to the Council.

- **Follow up of previous audit recommendations;** it is important that agreed actions are regularly and formally ‘followed up’. This helps to provide assurance to management and Members that control weaknesses have been properly addressed. In 2015/16, we have followed up agreed actions either as part of our ongoing audit work, or by separate review. We currently have no matters to report as a result of follow up work.

Stuart Cutts
Audit Manager
Veritau Ltd

15 October 2015

Appendix A

Table of 2015/16 audit assignments to 15 October 2015

Audit	Status	Assurance Level	Audit Committee
Strategic Risk Register			
Business Continuity	Not started		
Disaster Recovery	Not started		
Fraud and Corruption	Planning		
Performance Management arrangements and Data Quality	Not started		
Fundamental/Material Systems			
Housing Benefits	Planning		
Payroll	Not started		
Council Tax / NNDR	Planning		
Sundry Debtors	In Progress		
Creditors	Not started		
General Ledger	Not started		
Budgetary Management	Not started		
Regularity Audits			
Risk Management	In Progress		
Contract Management	Not started		
Human Resources	Planning		
Technical/Project Audits			
Projects	Planning		
Payroll budget monitoring development	Completed	**No opinion given**	**November 2015**
Cash Payments Ryedale House	Completed	**No opinion given**	**November 2015**
Server Rooms security	In Progress		
Data Protection and security	Completed	**Limited Assurance**	**November 2015**
Payment Card Industry Data Security Standard	Not started		
Follow-Ups	In Progress		

Summary of Key Issues from audits completed to 15 October 2015; not previously reported to Committee **Appendix B**

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Payroll budget monitoring development	N/A	We provided support and advice on the implementation of the new CIVICA Payroll budgeting software, specifically mapping information from the current iTrent Payroll information obtained from City of York Council to the system requirements of the new module.	September 2015	A number of anomalies had been identified within the main payroll costing file. The main cause of these anomalies was due to incorrect costing being added to the HR forms sent to City of York Council for processing. Recommendations were made to address this and a number of other specific issues.	The Finance Manager is currently considering the recommendations from the review.
Cash Payments	N/A	We reviewed the systems in place at Ryedale House for the receipt of cash payments.	June 2015	Our work highlighted some areas for possible improvement.	Our findings were considered by management as part of the decision making on future arrangements for payments. Since October 2015, cash payments are no longer accepted at Ryedale House but alternative payment methods have been introduced.
Data Protection and security	Limited Assurance	Information is one of the most valuable assets held by any organisation. The Council holds and processes large amounts of personal and sensitive data. Senior management recognise there are information governance risks associated with holding this information, and that appropriate practices need to be followed by RDC staff.	October 2015	**Strengths** The Council had addressed the findings from the 2013 audit with training and measures to improve staff awareness. Council procedures had also been updated. There is now increased awareness of the importance of securing personal and sensitive data. **Weaknesses** We noted a number of instances where documents had not been secured. Council policies were not always being complied with, including the need for clear desks.	Management is taking a number of actions. In the short term the need for all sensitive information to be secured is to be clearly communicated to all staff. Lockable storage where needed will be provided. Management is also considering how best to manage overall data security

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		We performed an unannounced visit and review of Ryedale House in August 2015. The objective of the visit was to assess the extent to which data was being held securely in the Council's offices. This included hard copy personal and sensitive information as well as electronic items such as laptops and removable media. Our previous work in 2013 had noted a number of areas of weakness and non compliance with expected practice.		In some instances lockable storage was not available. There is still a need to fully embed good information security practice at Ryedale House.	on an ongoing basis. Areas such as policy, procedures and ongoing compliance training will form part of that work.

Audit Opinions and Priorities for Actions

Audit Opinions	
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. Our overall audit opinion is based on 5 grades of opinion, as set out below.	
Opinion	**Assessment of internal control**
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.
Reasonable 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.

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

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