



**Ryedale District Council**  
**Internal Audit Progress Report 2016/17**  
**Period to 31 March 2017**

**Audit Manager:** Rebecca Wadsworth

**Head of Internal Audit:** Max Thomas

**Circulation List:** Members of the Overview and Scrutiny Committee  
Chief Executive  
Resources and Enabling Services Lead (s151)

**Date:** April 2017

  
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 2016/17 Internal Audit Plan at their meeting on the 16 April 2016. The total number of planned audit days for 2016/17 was 225. This report summarises the progress made in delivering the agreed plan.
- 3 This is the third Internal Audit progress report to be received by the Overview and Scrutiny Committee in 2016/17. This report therefore updates the Committee on the work completed between 1 April 2016 and 31 March 2017.

## **Internal Audit work completed**

- 4 In the period between 1 April and 31 March 2017 we have completed seven internal audit reviews to final report stage; Data Protection and Security (two reports issued), General Ledger (Banking arrangements), Council Tax & NNDR, Housing Benefits, Risk Management and Strategic Asset Management. A draft report has been issued for a further audit. Work is in progress on eight audits. In addition, work has been completed on Customer Expectations/Delivering Efficiencies, IDEA Data Analytics and Data Matching and Follow Ups. This work has been ongoing throughout the year.
- 5 We are on target to deliver the agreed Audit Plan by the end of April 2017. Further information is included in Appendix A.
- 6 Information on the findings from audits completed since the last Overview and Scrutiny Committee on 26 January 2017 is included in Appendix B.

## **Updates to the 2016/17 Audit Plan**

- 7 Following the last Overview and Scrutiny Committee we have agreed some minor revisions to the 2016/17 plan with the Director of Finance (s151 Officer). We have slightly reduced the number of days initially allocated to certain audits so this time can be reallocated to support additional fraud work. 15 days in total have been reduced across Disaster Recovery, Payroll and Customer Expectations/Delivering Efficiencies.
- 8 No audits have been cancelled as a result. We are still able to give assurance over the areas included in the audit plan.
- 9 We have also combined the work for business continuity and disaster recovery which will now be presented as one report. This will allow us to look at these arrangements in their entirety and consider the extent to which business continuity and disaster recovery plans are fully integrated.

## Audit Opinions

- 10 For most 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

- 11 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. We have been working with senior management as part of the ongoing 'Towards 2020 Programme', providing support, advice and challenge.
  - **LGA Corporate Peer Challenge;** the Head of Internal Audit has supported and was interviewed as part of the October 2016 work undertaken by the LGA.
  - **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 2016/17 we have worked with officers to ensure all findings are now being recorded on the Council's 'Covalent' performance management system. This will allow audit matters to be highlighted, considered and then addressed alongside other relevant performance matters. We are continuing to review agreed actions either as part of our ongoing audit work, or by separate review. We currently have no matters to report to members as a result of our follow up work.

Rebecca Wadsworth  
Audit Manager  
Veritau Ltd

April 2017

## Table of 2016/17 audit assignments to 31 March 2017

<b>Audit</b>	<b>Status</b>	<b>Assurance Level</b>	<b>Audit Committee</b>
<b>Strategic Risk Register</b>			
Business Continuity and Disaster Recovery	In Progress		
Training	Deferred to 2017/18		
Customer Expectations / Delivering Efficiencies	<b>Completed</b>	<b>No opinion given</b>	<b>Not Applicable (ongoing support/advice)</b>
Performance Management and Data Quality	In Progress		
<b>Fundamental/Material Systems</b>			
Housing Benefits	<b>Completed</b>	<b>Substantial Assurance</b>	<b>April 2017</b>
Payroll	In Progress		
Council Tax / NNDR	<b>Completed</b>	<b>High Assurance</b>	<b>April 2017</b>
Sundry Debtors	In Progress		
Creditors	In Progress		
Income	In Progress		
General Ledger – Banking arrangements	<b>Completed</b>	<b>Substantial Assurance</b>	<b>January 2017</b>
<b>Regularity Audits</b>			
Contract Management	In Progress		
Risk Management	<b>Completed</b>	<b>No opinion given</b>	<b>April 2017</b>
Environmental Health	<b>Draft Report</b>		
General Network and Key System Controls	In Progress		
<b>Technical/Project Audits</b>			
Data Protection and Security (1)	<b>Completed</b>	<b>Reasonable Assurance</b>	<b>November 2016</b>
Data Protection and Security (2)	<b>Completed</b>	<b>Substantial Assurance</b>	<b>April 2017</b>
IDEA data analytics and data matching	<b>Completed</b>	<b>No opinion given</b>	<b>Not Applicable (ongoing support/advice)</b>
Strategic Asset Management	<b>Completed</b>	<b>Reasonable Assurance</b>	<b>April 2017</b>
<b>Follow-Ups</b>	<b>Completed</b>	<b>No opinion given</b>	<b>Not Applicable (ongoing support/advice)</b>

Summary of Key Issues from audits completed to 31 March 2017; not previously reported to Committee

Appendix B

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Council Tax & NNDR	High Assurance	<p>Council Tax and National Non Domestic Rates (NNDR) are two of the council's key funding streams for the provision of its services.</p> <p>The audit examined the controls and processes in place to ensure:</p> <ul style="list-style-type: none"> <li>• exemptions, relief and disregards are only applied to eligible individuals and businesses</li> <li>• joint and severable liability are applied correctly for payments of council tax and NNDR</li> </ul> <p>We reviewed exemptions/discounts in respect of small business relief, listed buildings, residents in care and twenty eight day exemption</p>	February 2017	<p><b>Strengths</b> The Council's procedures and controls in place, to ensure that Council Tax and NNDR relief and disregards are only applied to eligible individuals and businesses, were found to have been complied with. The Council have sufficient methods to identify joint and severable liability and apply them to Council Tax and NNDR.</p> <p><b>Areas for improvement</b> No weaknesses were noted.</p>	-
Data Protection and Security (2)	Substantial Assurance	<p>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.</p> <p>We performed a second unannounced visit and review of Ryedale House in January 2017.</p> <p>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</p>	February 2017	<p><b>Strengths</b> We have seen improvements since the visit in 2016. Key safes were being used to ensure information is securely locked away. The Clear Desk policy was being observed in most cases. The number of adverse findings from the January 2017 review is significantly reduced compared with the June 2016 visit.</p> <p><b>Areas for Improvement</b> Whilst the frequency of weaknesses was less than in 2016, we still found some instances where documents had not been secured.</p> <p>In addition to some desks not being clear, there were cases where desks may have been cleared but sensitive information had been put in drawers or cupboards and the drawers or cupboards were not locked. Two</p>	Officers responsible for the areas where unsecured sensitive information was found are to be reminded of their responsibilities with regard to the Data Protection Act and Ryedale policies.

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		<p>well as electronic items.</p> <p>Our previous visit in July 2016 had noted some areas of weakness and non compliance with expected practice. That audit had a Reasonable Assurance opinion.</p>		<p>of the findings from the January 2017 visit were at the same locations as findings at in June 2016.</p>	
Housing Benefits	Substantial Assurance	<p>The audit reviewed the controls and processes for calculating and paying housing benefits. The work specifically reviewed the procedures that ensure:</p> <ul style="list-style-type: none"> <li>• Support applications and changes of circumstances are assessed accurately, calculated correctly and processed within a reasonable timeframe and in accordance with legislation,</li> <li>• regular reconciliations are undertaken to ensure transactions are correctly recorded in the Council's ledger accounts,</li> <li>• Discretionary Housing Payments (DHPs) are awarded appropriately and calculated correctly,</li> <li>• appeals against Housing Benefit and CTS awards are processed according to procedure and within a reasonable timescale.</li> </ul>	March 2017	<p><b>Strengths</b></p> <p>We found the average time taken to process changes in circumstances is well within the current government target of 12 days.</p> <p>Regular reconciliations were undertaken between the HB system and the Council Tax system for Council Tax Support. The benefits system is reconciled on an annual basis with the general ledger.</p> <p>We saw good monitoring of the DHP budget and the funds available using Northgate which incorporates committed weekly payments into the budget figure. Copies of claims relating to DHPs paid are retained on the document management system and supported by all relevant information.</p> <p>The Council has a good system for dealing with cases where an applicant is not happy with a decision.</p> <p><b>Areas for Improvement</b></p> <p>The time taken to process new claims is not meeting the government target of 25 days and a substantial backlog has built up over the last few months of 2016.</p> <p>The officer who processes the majority of DHPs is no longer in post from April 2017. For the future detailed process notes would help ensure a continued consistency in the awarding of these payments.</p>	<p>Management are exploring the option of outsourcing some of the assessing to help improve performance, provide greater flexibility &amp; resilience.</p> <p>Clear procedures for all DHP's will be produced by the Benefits Specialist.</p>

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Risk Management	No opinion	<p>Risk management is a critical part of the strategic management of any organisation.</p> <p>Our work in 2015/16 had highlighted a number of areas for the Council to improve on Risk management. The work this year reviewed the progress made towards implementing the six actions that were agreed by management as part of the 2015/16 audit of Risk Management.</p> <p>The work also consider 'the direction of travel' with regards risk management in light of the ongoing transformation and explore how this could be used as a vehicle for change and further improvement within the existing risk management process.</p>	March 2017	<p><b>Strengths</b> Some progress has been made towards addressing the agreed actions from the 2015/16 report.</p> <p>A risk workshop was held in November 2016 at which senior managers reviewed the corporate risk register. Each corporate risk was assigned to a risk owner from within the Corporate Management Team. This was a significant step in the improvement of risk management arrangements as ownership of risks is vital in ensuring their effective management.</p> <p><b>Areas for Improvement</b> Limited progress has been made in improving risk management procedures. A number of issues from the previous report have not been fully addressed. Effective Risk Management is not embedded or being followed.</p> <p>We saw that corporate risks were not subject to any regular, systematic monitoring and review on the Covalent system.</p> <p>Service risk registers are not relevant or being kept up to date.</p> <p>Medium and high category corporate risks are not being managed or monitored.</p> <p>The way risks are currently captured and structured on Covalent does not encourage effective management of those risks.</p> <p>In total twelve areas for improvement were shared to help the Council make the necessary improvements.</p>	<p>Management have agreed a comprehensive action plan for all twelve recommendations.</p> <p>Six of the findings are planned to be completed by May 2017. The remaining six have a deadline of September 2017.</p>
Strategic Asset Management	Reasonable Assurance	In February 2016 the Council identified a need for its property assets to be reviewed and a Scrutiny Assets Review was completed during	April 2017	<p><b>Strengths</b> During the last 18 months the number of vacant industrial units has been reduced with</p>	Work was completed in January 2017 to give valuations for all industrial units including recommended

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		<p>2016. Full Council agreed a policy on the management of the Council's assets on 6 October 2016.</p> <p>This short review focussed on the Council's landlord responsibilities in respect of Investment properties, which, based on the Council's own definition, relates to the Council's Industrial Units at Showfield Lane in Malton, Westgate Carr Lane in Pickering and at Sheriff Hutton Industrial Park.</p>		<p>all units currently being let out. Invoices for rent and service charges are raised in good time quarterly in advance.</p> <p>There is now an asset register which is populated with all of the Council's assets. There are lease agreements in place for all units let. Credit checks are now carried out for all new tenancies. A key element of the T2020 transformation programme is ensuring all the Council's assets are being optimised and the arrangements for asset management continue to be reviewed by management.</p> <p><b>Areas for Improvement</b> There are some areas of the Service where improvements need to be made. These include the following:</p> <ul style="list-style-type: none"> <li>• Ensuring there is a regular review of rents to maximise income and reflect market trends. There is no evidence that rents have been reviewed for at least five years, and rents have not increased during this time.</li> <li>• Adopting an Asbestos Management Policy</li> <li>• Reviewing the costs billed to tenants as service charges and ensuring the procedure of sending service charge statements to tenants is applied as service charge statements were not issued to tenants for 2015/16</li> <li>• Ensuring the accumulated funds from service charges form the basis of a 10 year repair and maintenance programme for investment properties.</li> <li>• Ensuring the revenue budget for rental income from Investment</li> </ul>	<p>rents to ensure income is maximised. Implementation of the Asset Management Strategy will include regular rent reviews and increasing current rents in accordance with existing lease agreements is being progressed with Legal Services.</p> <p>The risks from asbestos are currently being managed. An asbestos management plan will be drawn up to formalise this to include the frequency of inspections.</p> <p>The procedure for producing year-end service charge statements in accordance with best practice will be reviewed and an appropriate process will be implemented as part of developing the use of the Estates Management module of the IDOX system.</p> <p>Work has been undertaken to commission condition surveys which will enable the production of a 10 year programme of work to ensure there is a planned approach to the repairs and maintenance requirements at the industrial units. A review of the service charges will then be undertaken to align them with the funding contribution</p>



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				<p>Properties accurately reflects the lease agreements in place and is reconciled annually.</p> <p>There is currently no overall IT system used for collating and managing assets, there are three systems used for specific tasks by different services. As part of the current asset review a number of options have been examined including developing the existing IDOX Estate Management module in order for management to decide on the best solution for the efficient and effective management of the Councils assets.</p>	<p>required to deliver the 10 year programme taking into account the accumulated balance.</p> <p>The new asset management policy will ensure that rents are reviewed regularly to ensure market rents are being charged and income is maximised</p>

## 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.