



Public Document Pack

North Devon Council
Brynsworthy Environment Centre
Barnstaple
North Devon EX31 3NP

M. Mansell, BSc (Hons),
F.C.P.F.A.
Chief Executive.

AUDIT COMMITTEE

A meeting of the Audit Committee will be held in the Barum Room - Brynsworthy Environment Centre on **TUESDAY, 5TH MARCH, 2019 at 6.00 pm.**

(NOTE: A location plan for the Brynsworthy Environment Centre is attached to the agenda front pages. There are limited car parking spaces in the Visitors parking area. If no spaces are available, please find an alternative space. Please ensure that you enter your name and car registration details in the book in front of the entrance door)

Members of the Audit Committee Councillor Flynn (Chairman)

Councillors Croft, Haywood, Lovering, Moore, Patrinos and Roome

AGENDA

1. Apologies for absence
2. To approve as a correct record the minutes of the previous meeting (Pages 1 - 10)
3. Items brought forward which, in the opinion of the Chairman, should be considered by the meeting as a matter of urgency.
4. Declarations of Interests
(Please complete the form provided at the meeting or telephone Member Services to prepare a form for your signature before the meeting. Interests must be re-declared when the item is called, and Councillors must leave the room if necessary.)
5. To agree the agenda between Part 'A' and Part 'B' (Confidential Restricted Information)

PART A

6. **Half Yearly Report by the Chair of the Audit Committee.** (Pages 11 - 14)
Report by Chair of the Audit Committee (attached).
7. **Review of the Committee's Terms of Reference.** (Pages 15 - 18)

Report by the Head of Corporate and Community Services (attached).

8. **Review of Governance Arrangements** (Pages 19 - 28)

Report by the Head of Corporate and Community Services (attached).

9. **Major Changes to Accounting Policies Management Procedures to be reported by the Head of Resources** (Pages 29 - 48)

Report by the Head of Resources (Excerpt of Statement of Accounts 2018/19 attached).

10. **Draft Operational Internal Audit Plan.** (Pages 49 - 54)

Report by MAZARS Public Sector Internal Audit Limited (attached).

11. **Internal Audit Progress Report 2018/19.** (Pages 55 - 80)

Report by MAZARS Public Sector Internal Audit Limited (attached).

12. **External Audit Plan** (Pages 81 - 94)

Report by Grant Thornton (attached).

13. **Audit Progress Report and Sector Update.** (Pages 95 - 110)

Report by Grant Thornton (attached).

14. **Audit Recommendation Tracker** (Pages 111 - 120)

Report by Head of Corporate and Community Services (attached).

15. **Draft Work Programme 2019/20.** (Pages 121 - 124)

To consider the work programme (attached).

PART B (CONFIDENTIAL RESTRICTED INFORMATION)

RECOMMENDED :

(a) That, under Section 100A(4) of the Local Government Act 1972, the public and press be excluded from the meeting for the following item as it involves the likely disclosure of exempt information as defined by Paragraph 3 of Part 1 of Schedule 12A of the Act (as amended from time to time), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

(b) That all documents and reports relating to the item be confirmed as "Not for Publication".

16. **Corporate Risk Register.** (Pages 125 - 160)

Report by Head of Corporate and Community Services (attached).

If you have any enquiries about this agenda, please contact Corporate and Community Services, telephone 01271 388253

25.02.19



North Devon Council protocol on recording/filming at Council meetings

The Council is committed to openness and transparency in its decision-making. Recording is permitted at Council meetings that are open to the public. The Council understands that some members of the public attending its meetings may not wish to be recorded. The Chairman of the meeting will make sure any request not to be recorded is respected.

The rules that the Council will apply are:

1. The recording must be overt (clearly visible to anyone at the meeting) and must not disrupt proceedings. The Council will put signs up at any meeting where we know recording is taking place.
2. The Chairman of the meeting has absolute discretion to stop or suspend recording if, in their opinion, continuing to do so would prejudice proceedings at the meeting or if the person recording is in breach of these rules.
3. We will ask for recording to stop if the meeting goes into 'part B' where the public is excluded for confidentiality reasons. In such a case, the person filming should leave the room ensuring all recording equipment is switched off.
4. Any member of the public has the right not to be recorded. We ensure that agendas for, and signage at, Council meetings make it clear that recording can take place – anyone not wishing to be recorded must advise the Chairman at the earliest opportunity.
5. The recording should not be edited in a way that could lead to misinterpretation or misrepresentation of the proceedings or in a way that ridicules or shows a lack of respect for those in the recording. The Council would expect any recording in breach of these rules to be removed from public view.

Notes for guidance:

Please contact either our Corporate and Community Services team or our Communications team in advance of the meeting you wish to record at so we can make all the necessary arrangements for you on the day.

For more information contact the Corporate and Community Services team on **01271 388253** or email **memberservices@northdevon.gov.uk** or the Communications Team on **01271 388278**, email **communications@northdevon.gov.uk**.

North Devon Council offices at Brynsworth, the full address is:
Brynsworth Environment Centre (BEC), Roundswell,
Barnstaple, Devon, EX31 3NP.

Sat Nav postcode is EX31 3NS.

At the Roundswell roundabout take the exit onto the B3232, after about ½ mile take the first right, BEC is about ½ a mile on the right.

Drive into the site, visitors parking is in front of the main building on the left hand side.

On arrival at the main entrance, please dial 8253 for Corporate and Community Services.



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NORTH DEVON COUNCIL

Minutes of a meeting of Audit Committee held at Barum Room - Brynsworthy Environment Centre on Tuesday, 8th January, 2019 at 6.00 pm

PRESENT: Members:

Councillor Flynn (Chairman)

Councillors Croft, Haywood, Lovering, Moore, Patrinos and Roome

Also Present:

Ms R. DeBradney – MAZARS Public Sector Internal Audit Limited.

Mr M. Bartlett – Grant Thornton

Officers:

Chief Executive, Head of Resources, Head of Corporate and Community Services and Head of Place

34. APOLOGIES FOR ABSENCE

No apologies for absence were received.

35. TO APPROVE AS A CORRECT RECORD THE MINUTES OF THE PREVIOUS MEETING

RESOLVED that the minutes of the meeting held on 4th September 2018 (circulated previously) be approved as a correct record and signed by the Chairman.

36. DECLARATIONS OF INTERESTS

There were no declarations of interest announced.

37. GROWTH AGENDA.

The Head of Place presented the Committee with an update on the Growth Agenda.

He advised the Committee of the following:

- The corporate objective to ‘Grow North Devon’ had been presented at Full Council in 2018 when a Cross-party agreement had been made for:
 1. a vision to be developed for transformative growth for the period beyond the emerging Local Plan (2031 onwards), and

2. that the Council engage with Homes England, the Ministry of Housing, Communities and Local Government (MHCLG) and Devon County Council on the topic of future growth.
- 4 Member workshops had been held. Plus further workshops with officers and staff.
 - Aspirations were based around five themes: Housing, Economy, Community, Environment and Natural Capital, and Infrastructure and Digital.
 - The planned timetable for the Growth Agenda was behind schedule due to the submission of an expression of interest made for Barnstaple to the MHCLG to become a Garden Town. This was submitted in November 2018 and the outcome was expected in Spring 2019.
 - The team were preparing North Devon's Vision for 2050, with the following timetable:
 1. Present draft Vision to growth group on 30th January 2019
 2. Stakeholder events from February 2019 onwards
 3. Present to Full Council in March 2019.
 4. Community Engagement post in May 2019.
 - There will be risks in taking steps towards this vision. In addition, innovation and digital strategies had been adopted. These strategies had been implemented across the Northern Devon area in conjunction with Torridge District Council.

In response to questions from the Committee, the Head of Place confirmed:

- There may initially be pressure on resources, but some funding support would be available. There were benefits of working closely with other organisations as it would be possible to pool resources.
- Specialist staff and consultants could be brought in if required. This was standard practice for many projects within Local Government.
- The Growth Group had nominations from each political group, currently the Leaders, together with relevant Lead Members. It was chaired by the Leader.
- The Growth Group would not make any decisions, but they could steer the Draft Vision report.
- The report would then be presented to Full Council after the elections in May.

RESOLVED that the update be noted.

38. 21:21 PHASE 2 REPORT.

The Head of Corporate and Community Services presented the Committee with an update on phase 2 of the 21:21 project.

He advised the Committee of the following:

- The 21:21 project centred on one of the two corporate priorities and Service Improvement.
- Within this there were four original themes of Learning and Transformation of Services, One Site, Income Generation, and Waste and Recycling.

- The 'One Site' works had now freed up the Castle Street property which was now being utilised to house those in need of temporary accommodation. This, in turn, had positive financial implications as it has reduced the need for provision of accommodation in properties such as the Premier Inn, therefore reducing costs.
- The future aim was to move more staff to BEC although this was limited due to constraints on the building and parking areas. It was hoped that the improvements to the ICT systems, by enabling remote/flexible working could free-up office and car-parking spaces.
- Two years had passed since the trials of the new Waste and Recycling scheme were introduced. The trials had been successful, with the recycling rates reaching over 50% within parts of the trial area. The next challenge would be the decision regarding whether the changes be rolled out across the area, and how this would be done.
- If the scheme was rolled out there would be a requirement for investment in new plant as the current equipment was working at capacity and the increase in recycling could not be accommodated without improved infrastructure.
- The recycling rounds had been remodelled by our own staff since the software had been purchased to enable this. They would be looking to remodel the black and green waste rounds.
- The Waste and recycling staff had worked three consecutive Saturdays to deal with the timing of the bank holidays over the Christmas period.
- As part of the Leaning and Transformation of Services, a huge amount of work had been done by the ICT team. Many new systems had been implemented which had also been accompanied by procedural changes.
- New ICT systems included new systems for Planning, Legal, Environmental Health and Housing, Customer Services (Firmstep), Corporate and Community Services (Modern Gov) and new desk-top solutions and telephony throughout the authority.
- Firmstep had been upgraded and could now facilitate further services online, including the application for temporary event licences.
- The Council had purchased four properties which would be used by the Environmental Health and Housing team to house those in need of temporary accommodation. Although this would not generate income, each property would enable savings against current costs of £20k per year for each family housed. The Authority received the Housing Benefit subsidy for these properties.
- The Authority would need to look at opportunities for future income generation and to look to become more commercial.
- Plastic Free North Devon Council had been included in the 21:21 project. The Council had been aware that there were many organisations in the area working towards the same goal, but were not working together. The Council created the Plastic Free Consortium to enable closer working and a more organised approach to the work. The Consortium had recently met and signed their Plastic-Free Strategy.
- Housing Projects had been added to the 21:21 project as a theme. This included Civil Sanctions for Housing, Selective Licensing and a Rough Sleeper Programme.

- There were a number of corporate projects ongoing. These included the New Leisure Centre, Ilfracombe Water-sports Centre and the Museum project.

In response to questions from the Committee, the Head of Resources confirmed that:

- It was likely that more projects would be added to the 21:21 project in future, however, depending on the works involved some may form part of the Growth Agenda.
- The theatres would be under the management of the new company, Selladoor Worldwide, with effect from 12 January 2019. The new company were looking to develop the businesses and the facilities at the Landmark.
- Parkwood had not retained the contract and the new company's bid was successful.
- Although many years ago the subsidy to the Theatres' Trust had been higher, the figures had reduced to the current figure of £140,000 per annum. The new arrangements differed to those previously in place.
- The level of rents charged on the temporary accommodation properties were set in accordance with the Housing Benefit allowance and were not at market rates. He added that these were very short-term tenancies and families were moved to more permanent dwellings as soon as it was possible.
- An updated Corporate Risk Register would be available in March 2019.

In response to questions from the Committee, the Chief Executive confirmed that resources would be distributed as required. There was now a more flexible approach to work in that he had facilitated the provision of four extra staff to waste and Recycling during the start of the service changes, but that now one staff member had been moved to a different role as needed. He felt that a more flexible approach enabled this to be done as priorities change.

RESOLVED that the update be noted.

39. ANTI-FRAUD, CORRUPTION AND BRIBERY POLICY.

The Head of Resources presented the Committee with the updated Anti-fraud, Corruption and Bribery Policy (circulated previously). He advised that the policy applied to both staff and Councillors. He confirmed that there had been a few minor changes to the existing policy, with the main update being that this policy made reference to the Council's "Whistleblowing Policy 2019" which had changed its name (sections 5.4, 6.5 and 7.14).

RECOMMENDED that the Anti-Fraud, Corruption and Bribery Policy be adopted.

40. ANTI-MONEY LAUNDERING POLICY.

The Head of Resources presented the Committee with the updated Anti-Money Laundering Policy (circulated previously). He confirmed that there had been a few changes to the existing policy which included:

- The updated name of the policy
- The reduction of the punishment from a term of 14 years, to 5 years (section 5.5).

RECOMMENDED that the Anti-Money Laundering Policy be adopted.

41. WHISTLE-BLOWING POLICY

The Head of Resources presented the Committee with the updated Whistleblowing Policy (circulated previously). He advised that the only updates had been made to the contact information provided within section 10 of the policy.

RECOMMENDED that the Whistleblowing Policy be adopted.

42. TO CONSIDER THE RECORDING OF AUDIT COMMITTEE MEETINGS (SOUND ONLY).

The Committee considered the implications of recording future Audit Committees.

RESOLVED that future Audit Committee Meetings be recorded (Sound only).

43. DRIVER AND VEHICLE LICENSING AGENCY (DVLA) AUDIT OF NORTH DEVON COUNCIL.

The Committee considered the letter from the Driver and Vehicle Licensing Agency (DVLA) (circulated previously) confirming the outcome of their audit of North Devon Council. It confirmed a decision of an overall rating of 'Green' whereby a high level of compliance was demonstrated.

The Chairman conveyed her congratulations to the team for their good work.

RESOLVED that Driver and Vehicle Licensing Agency (DVLA) Audit of North Devon Council letter be noted.

44. INTERNAL AUDIT PROGRESS REPORT 2018/19.

The Committee considered a report by MAZARS Public Sector Internal Audit Limited regarding the Internal Audit progress report for 2018/19 (circulated previously).

The Committee was advised of the following in relation to the Internal Audit Progress Report 2018/19:

- Four audits had been finalised since the last meeting.
- Two audits had been completed, with final reports issued, since the last meeting. Those were Cash Collection and Housing Benefits.
- There were no 'Priority one' recommendations to be brought to the attention of the Audit Committee.

- The Council Tax / National Non-Domestic Rates (NNDR) report had been finalised today.

RESOLVED that the Internal Audit Progress report for 2018/19 be noted.

45. CERTIFICATION WORK REPORT.

The Committee considered a report by Grant Thornton regarding the Certification Work to certify the Housing Benefit Subsidy claim submitted by the Council for the year ended 31st March 2018 (circulated previously).

The External Auditor advised the following in relation to the report:

- The subsidy claim totalled £25.7m
- Appendix A of the report confirmed a 'Qualified' claim with an amendment of £1129. The errors identified resulted in additional subsidy to the Council as the Department for Works and Pensions (DWP) gives subsidy on an element of overpayments due to Local Authority error.
- The qualifying letter was presented to the DWP on 29th November.
- Appendix B confirmed the fee of £13387 (with no additions) from the Auditors.

The Head of Resources advised the Committee that the DWP had contacted the Council in relation to the subsidy claim and that we had since responded to their request for assurances. No further response had yet been received. The errors identified had been typing errors rather than training issues.

In response to a question from the Committee, the External Auditors confirmed that a random sample of 20 claims were chosen to be checked. Further claims (of a particular type) may be selected for checking should it be required. Some errors had been identified by the Benefits Team and corrected prior to the audit.

RESOLVED that the Certification Work Report be noted.

46. AUDIT PROGRESS REPORT AND SECTOR UPDATE.

The Committee considered a report by Grant Thornton regarding the External Audit Progress report and Sector Update (circulated previously).

The External Auditor confirmed:

- They have started planning for the 2018/19 financial statements audit and were due to commence the interim audit in March 2019.
- The sub criteria for the assessment of the Value for Money decision were unchanged from previous years. The Value for Money conclusion will be given prior to July 2019.
- The report detailed the Annual Certification Letter of 2017/18 as completed, with the dates planned for the 2018/19 deliverables.

- The sector update provided various reports and weblinks, including reports from the Ministry of Housing, Communities and Local Government (MHCLG) regarding Business Rate Pilots and the Social Housing Green Paper.

The Head of Resources confirmed that the Authority had not been successful in its application to be part of the Business Rate Pilot again in 2019/20.

RESOLVED the External Audit Progress Report and Sector Update be noted.

47. AUDIT RECOMMENDATION TRACKER.

The Committee considered the Audit Recommendation Tracker report by the Head of Corporate and Community in respect of actions taken to address internal and external audit recommendations (circulated previously).

The Committee noted the following updates:

- Table B detailed the six recommendations completed since the last meeting of the Audit Committee.
- Table C detailed six recommendations for which time extensions were being requested. A report had been provided by the Head of Environmental Health and Housing providing further information regarding 15 HN (CBL) 01.
- Table D detailed three outstanding recommendations.
- The recommendations in Table E (Annual Governance Statement) could not be completed until others had been finished.
- Recommendation 16 C & CE02 could not be fully finalised until the Constitution had been updated.

In response to questions from the Chair, the Chief Executive confirmed that recommendation 15 HN (CBL) 01 was not a high priority for the team, despite the length of time it had been on the register, as the increased numbers of those presenting as homeless to the Authority had been the main priority. He added that many of the older items may no longer be relevant due to their age. The themes and issues within them may have now been superseded.

RESOLVED;

- (a) that the actions completed since the 4th September 2018 Committee meeting be noted;
- (b) that the oldest recommendations be checked and those which may no longer be required be identified and reported at the next meeting.
- (c) that the Audit Recommendation Tracker be noted.

48. WORK PROGRAMME 2018/19.

The Committee considered the work programme for 2018/19 (circulated previously).

RESOLVED that the work programme for 2018/19 be noted.

49. EXCLUSION OF PUBLIC AND PRESS AND RESTRICTION OF DOCUMENTS

RESOLVED:

- (i) That, under Section 100A(4) of the Local Government Act 1972, the public and press be excluded from the meeting for the following item as it involved the likely disclosure of exempt information as defined by Paragraph 3 of Schedule 12A of the Act (as amended from time to time), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).
- (ii) That all documents and reports relating to the item be confirmed as "Not for Publication".

50. CORPORATE RISK REGISTER

The Committee considered the Corporate Risk register report by the Head of Corporate and Community (circulated previously).

The Head of Corporate and Community Services advised the Committee that the officers had met recently in relation to the risks. Each risk had been reassessed and re-evaluated with updated notes added.

The Head of Resources advised the Committee that the Covalent Management system would be updated to include any missing details of who each risk had been managed by and assigned to. This detail would then be pulled into the report in future.

In response to a question from the Committee, the Chief Executive confirmed that the Authority had given G CRR 52 a relatively low risk rating as the Government had confirmed that a 'no deal Brexit' was not an option.

The Head of Corporate and Community Services added that the effects on North Devon Council were expected to be less than the effects on a County Council or Councils with areas which included ports or those in the South East; nearer to the Channel Tunnel.

Members expressed concern about local security if there was no military base in the area. The Chief Executive noted that having a base could be a two edged sword in this respect as it could also represent a target.

He added that there had been difficulty in obtaining clear decisions over the future of the site. He had been provided with a copy of the letter from the local Member of Parliament to the Government which had demanded answers about RMB Chivenor. He had not been aware of any response at that stage.

The Committee noted that the local MP had been in the press recently in relation to the possible closure of the base.

RESOLVED that the Corporate Risk Register be noted.

Chairman

The meeting ended at 7.38 pm

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North Devon Council Audit Committee

Date: March 2019

Half Yearly Report of the Chair of Audit Committee

The Audit Committee resolved in May 2014 that the Chair would report half yearly to Council in March and September to highlight key issues that have arisen in the previous period.

The last report was presented in September 2018. Since then the Committee had met on 8th January 2019. The programmed meeting of 6th November 2018 had been cancelled.

Growth Agenda

The Committee received a presentation from the Head of Place with regards to the Growth Agenda. He advised that the Growth Agenda corporate objective had been presented to Full Council in 2018. At that meeting a cross-party agreement had been made for:

1. a vision to be developed for transformative growth for the period beyond the emerging Local Plan (2031 onwards), and
2. the Council to engage with Homes England, the Ministry of Housing, Communities and Local Government (MHCLG) and Devon County Council on the topic of future growth.

His team were preparing North Devon's Vision for 2050, with the following timetable:

- Present draft Vision to growth group on 30th January 2019
- Stakeholder events from February 2019 onwards
- Present to Full Council in March 2019.
- Community Engagement post May 2019.

He advised there would be risks in taking steps towards this vision. In addition, innovation and digital strategies had been adopted. These strategies had been implemented across the Northern Devon area in conjunction with Torridge District Council.

21:21 Phase 2 Report

The Head of Corporate and Community Services presented the Committee with an update on phase 2 of the 21:21 project. He advised the 21:21 project centred on Service Improvement. Within this there were four original themes of Leaning and Transformation of Services, One Site, Income Generation, and Waste and Recycling. He advised that Castle Street had now been freed up and had been utilized to house those in need of temporary accommodation and that the future aim was to move more staff to BEC. He updated the Committee with the projects being undertaken to transform services, especially in relation to the demands on ICT.

Anti-Fraud, Corruption and Bribery Policy,

Anti-Money Laundering Policy,

and Whistleblowing Policy

The Head of Resources presented the three policies, as above, to the Committee for consideration. The very few changes to these policies related to the names of the policies themselves, and a reference to the reduction of the punishment for money laundering from a term of 14 years to 5 years. The Committee recommended that the three policies be adopted.

To Consider the Recording of Audit Committee Meetings (Sound only)

The Committee considered the implications of recording future Audit Committees and agreed to the recording of the future meetings.

Driver and Vehicle Licensing Agency (DVLA) Audit of North Devon Council

The Committee considered the letter from the Driver and Vehicle Licensing Agency (DVLA) confirming the outcome of their audit of North Devon Council. It confirmed a decision of an overall rating of 'Green' whereby a high level of compliance was demonstrated.

External and Internal Audit

The Internal Audit Progress Report 2018/19, Certification Work report and the External Audit Progress Report and Sector Update were presented at the January meeting.

Internal Audit Progress Report 2018/19 confirmed that four audits had been finalised since the previous meeting. Two further audits had been completed, with the final reports issued: Cash Collection and Housing Benefits.

The External Auditor explained that the Certification Work Report confirmed the Housing Benefit subsidy claim totalled £25.7m. The report confirmed a 'Qualified' claim with an amendment of £1129. The qualifying letter was presented to the Department of Works and Pensions (DWP) on 29th November 2018.

The Audit Progress Report and Sector Update: the External Auditors had started planning for the 2018/19 financial statements audit and were due to commence the interim audit in March 2019. The Value for Money conclusion would be given prior to July 2019. The report detailed the Annual Certification Letter of 2017/18 as completed, with the dates planned for the 2018/19 deliverables.

Audit Recommendation Tracker

The Committee was advised in January that six recommendations had been completed since the last meeting of the Committee (in September 2018). Details of those items requiring time extensions were presented to the Committee. The Committee agreed to extend these.

Corporate Risk Register

The Committee was presented with the Corporate Risk Register. The Committee discussed the possible effects of Brexit on the region, along with a withdrawal of the Royal Marines from the local base at Chivenor.

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REPORT TO: AUDIT

Date: 5th March 2019

TOPIC: REVIEW OF TERMS OF REFERENCE

REPORT BY: HEAD OF CORPORATE AND COMMUNITY SERVICES

1 INTRODUCTION

1.1 The Audit Committee is required to annually review the terms of reference under which it operates.

2 RECOMMENDATIONS

2.1 That Audit Committee make no changes to the terms of reference.

3 REASONS FOR RECOMMENDATIONS

3.1 The terms of reference do not require alteration.

4 REPORT

4.1 The current terms of reference are shown attached.

4.2 It is not considered that any changes are required at this point in time.

5 RESOURCE IMPLICATIONS

5.1 There are no resource issues.

6 EQUALITY and HUMAN RIGHTS

6.1 An EINA has not been completed as no equality issues are affected.

7 CONSTITUTIONAL CONTEXT

Article and paragraph	Appendix and paragraph	Referred or delegated power?	A key decision?
Annexe 1 Part 3		Referred	No

8 BACKGROUND PAPERS

Background papers will be available for inspection and will be kept by the author of the report.

9 STATEMENT OF INTERNAL ADVICE

9.1 The author (below) confirms that advice has been taken from all appropriate Councillors and officers.

Executive Member:

Author: Ken Miles

Date: 13th February 2019

Reference: Document1

APPENDIX 1 CURRENT TERMS OF REFERENCE

4. AUDIT COMMITTEE

Number of Members	Special Requirements	Quorum	Notes
7	<p>Membership of the Committee cannot include Executive Members.</p> <p>The Chairman of this Committee cannot be the Chairman or Vice-Chairman of the Overview and Scrutiny Committee.</p> <p>Members of the Committee must be trained prior to sitting on the Committee (NOTE: Failure to attend the required training will result in exclusion from sitting on the Committee)</p>	3 – Provided at least two political groups are represented	

Audit Activity

- (a) To consider the Internal Audit annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.
- (b) To consider summaries of specific internal audit reports as requested.
- (c) To consider reports dealing with the management and performance of the providers of internal audit services.

Agenda Item 7

- (d) To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
- (e) To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- (f) To consider specific reports as agreed with the external auditor.
- (g) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- (h) To liaise with the appropriate body over the appointment of the Council's external auditor.
- (i) To commission work from internal and external audit.

Risk Management

- (j) To make recommendations as appropriate to the Ethics Committee in respect of contract procedure rules, and financial regulations.
- (k) To monitor the effective development and operation of risk management and corporate governance in the Council, including the confidential reporting policy.
- (l) To oversee the production of the Council's Annual Governance Statement and to recommend its adoption by Council.
- (m) To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
- (n) To consider the Council's compliance with its own and other published standards and controls.

Accounts

- (o) To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- (p) To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

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NORTH DEVON COUNCIL

REPORT TO: FULL COUNCIL

Date: 25th February 2019

TOPIC: Community Governance Review

REPORT BY: HEAD OF CORPORATE AND COMMUNITY

1 INTRODUCTION

- 1.1 Members will recall that Full Council approved the commencement of a Community Governance Review and also agreed to carry out a consultation on the draft Proposals.
- 1.2 The consultation has taken place and the purpose of this report is to set out the results and to seek approval to proceed with the Review

2 RECOMMENDATIONS

- 2.1 That Council note the consultation responses received and the recommendations from Ethics Committee.
- 2.2 That Council approve the making of an Order in the form, or in a similar form, as shown in Appendix 1.

3 REASONS FOR RECOMMENDATIONS

- 3.1 To give effect to recommendations of the Ethics Committee
- 3.2 To ensure that community governance within the affected areas reflects the identities and interests of the areas and is effective and convenient.
- 3.3 To ensure that Parish and District Ward boundaries are the same.

4 REPORT

- 4.1 Following previous decisions consultation was undertaken on the draft Proposals approved by members. The consultation involved public notice in the press, correspondence with affected Parishes, a letter sent direct to all addresses affected and also an online consultation supported by social media.
- 4.2 The consultation concluded on 2nd January 2019 and a summary of the responses for each affected area is attached (Appendix 2).
- 4.3 Members will note that the responses that have been received relate only to the Gunn and Mill on the Mole proposals. No responses were received in respect of the other proposals.

- 4.4 In respect of Mill on the Mole, members will see that one of the responses has raised the issue of whether there would be any additional financial impact. As mentioned in previous reports, the impact on the residents would be that a higher Council tax would be paid as from 20/21.
- 4.5 In respect of the proposals affecting Mill on the Mole, 2 responses could be considered to be against the proposals and 1 is in favour.
- 4.6 In respect of Gunn, all responses are in favour of the proposals.
- 4.7 The consultation responses were reported to Ethics Committee on the 23rd January and it recommended to proceed with the Order.
- 4.8 As has been referred to before, 3 of the proposed changes (Mill on the Mole, Mount Sandford Green and Westacott) will bring parish boundaries into line with the boundaries of the new District Council wards. The other, Gunn, has been driven by the local community who wish to see the area move to the Goodleigh Parish. If Council approve that proposal a recommendation will be made to the Local Government Boundary Commission to alter the District Ward boundary to ensure that the boundaries are the same. It will be for the LGBC to determine whether they wish to do this or not.

5 RESOURCE IMPLICATIONS

- 5.1 The carrying out of the CGR is being managed within existing budgets.

6 CONSTITUTIONAL CONTEXT

Article or Appendix and paragraph	Referred or delegated power?
Article 4	Delegated

7 STATEMENT OF CONFIDENTIALITY

- 7.1 This report contains no confidential information or exempt information under the provisions of Schedule 12A of 1972 Act.

8 BACKGROUND PAPERS

- 8.1 The following background papers were used in the preparation of this report :
- Terms of reference
 - Legislation and Guidance
 - Responses from Parish Councils
 - Consultation responses
 - Recommendations from Ethics

The background papers are available for inspection and kept by the author of the report.

9 STATEMENT OF INTERNAL ADVICE

9.1 The author (below) confirms that advice has been taken from all appropriate Councillors and officers.

Author: Ken Miles

Date:

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LOCAL GOVERNMENT AND PUBLIC INVOLVEMENT IN HEALTH ACT 2007

The North Devon District Council (Reorganisation of Community Governance) (No1) Order 2019

Made:

Coming in force: In accordance with articles

North Devon District Council (“the Council”), in accordance with section 82 of the Local Government and Public Involvement in Health Act 2007 (“the 2007 Act”), has undertaken a community government review and made recommendations dated 23rd January 2019.

The Council has decided to give effect to those recommendations and, in accordance with section 93 of the 2007 Act, has consulted with the local government electors and other interested persons and has had regard to the need to secure that community governance reflects the identities and interests of the community and is effective and convenient.

The Council, in accordance with section 100 of the 2007 Act, has had regard to guidance issued under that section.

The Council has had regard to the 2018 Order as defined below.

The Council makes the following Order in exercise of the powers conferred by sections 86 and 240(10) of the 2007 Act.

Citation and Commencement

1. (1) This Order may be cited as the North Devon District Council (Reorganisation of Community Governance) (No 1) Order 2019
- (2) Subject to paragraphs (3) and (4) below, this Order comes into force on the 1st April 2019.
- (3) Articles 4 and 5 below shall come into force on the ordinary day of election of Councillors in 2019.
- (3) For the purposes of this Article, Article 6 and proceedings preliminary to or relating to the elections of parish councillors for Barnstaple, Landkey, Swimbridge, Goodleigh and South Molton parishes to be held on the ordinary day of elections of councillors in 2019, this Order shall come into force on the day after that on which it is made.

Interpretation

2. In this Order:-
“2018 order” means the North Devon (Electoral Changes) Order 2018 (SI 2018/1178);

“district” means the district of North Devon District Council;
“existing” means on the date this Order is made;
“map” means the map marked “Map referred to in the North Devon District Council (Reorganisation of Community Governance)(No1) Order 2019” and deposited in accordance with section 9694) of the 2007 Act; and any reference to a numbered sheet is a reference to the sheet of the map which bears that number;
“ordinary day of election of councillors” has the meaning given by section 37 of the Representation of the People Act 1983, and
“registration officer” means an officer appointed for the purpose of, and in accordance with, section 8 of the Representation of the People Act 1983.

Effect of the Order

3. (1) This Order has effect subject to any agreement under section 99 (agreements about incidental matters) of the 2007 Act relevant to any provision of this Order.
- (2) Save as set out in this Order the existing parishes in the district and the existing names, boundaries, council size grouping and other parish governance arrangements in respect of those parishes shall remain as existing.
- (3) Where any provision of this Order conflicts with the 2018 order, the provisions of this Order shall prevail.

Alteration of Parish Areas

4. (1) The area coloured and designated by the letter A on sheet 1 of the map shall cease to be part of the parish of Bishops Nympton and shall become part of the unwarded parish of South Molton
- (2) The area coloured and designated by the letter B on sheet 2 of the map shall cease to be part of the warded parish of Landkey and shall become part of the ward of Forches being part of the parish of Barnstaple.
- (3) The area coloured and designated by the letter C on sheet 3 of the map shall cease to be part of the warded parish of Landkey and shall become part of the ward of Newport being part of the parish of Barnstaple.
- (4) Subject to article 5 below, the area coloured and designated by the letter D on sheet 4 of the map shall cease to be part of the unwarded parish of Swimbridge and shall become part of the ward of Gunn being part of the parish of Goodleigh.

Wards of the Parish of Goodleigh and number of Parish Councillors

5. (1) The Parish of Goodleigh shall be divided into 2 wards which shall be named as set out in column (1) of schedule 1.
- (2) Each ward shall comprise the area designated on sheet 5 by reference to the name of the ward and demarked by blue lines.
- (3) The number of councillors to be elected for each ward shall be the number specified in respect of the ward in column (2) of Schedule 1.

Electoral register

6. The registration officer for the district shall make such rearrangement of, or adaptation of the register of local government electors as may be necessary for the purposes of, and in consequence of, this Order.

Order Date

7. 1st April 2019 is the order date for the purposes of the Local Government (Parishes and Parish Councils)(England) Regulations 2008.

Sealed with the seal of the Council on
The 2019

In the presence of

Authorised Office Signatory

Schedule 1

Article 5

WARDS OF THE PARISH OF GOODLEIGH

Column (1)	Column (2)
Ward	Number of Councillors
Goodleigh	7
Gunn	1

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Appendix 2 – Consultation responses

Move Gunn from Swimbridge to Goodleigh	
Number of Properties consulted - 37	Number of responses - 7
Summary of content of responses	
<ul style="list-style-type: none"> - No objection - No objection as more in common with Goodleigh - Change will be positive - Lack of representation from Swimbridge 	

Move Mount Sandford Green from Landkey to Barnstaple	
Number of Properties consulted - 23	Number of responses - 0
Summary of content of responses	

Move Westacott from Landkey to Barnstaple	
Number of Properties consulted - 13	Number of responses - 0
Summary of content of responses	

Move Mill on the Mole from Bishops Nympton to South Molton	
Number of Properties consulted - 121	Number of responses - 3
Summary of content of responses	
<ul style="list-style-type: none"> - Happy with current arrangements and can't see need for change. - Against the change if it involves an increase in expenditure, such as Council Tax. - Fully supportive of proposal. Moving to South Molton would give residents more of a say in issues affecting them. 	

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NOTES TO THE ACCOUNTS**1. ACCOUNTING POLICIES****i. General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position at the year-end of 31st March 2018. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non current assets and financial instruments.

These statements have been compiled on the basis of the Council remaining a going concern and all amounts have been rounded to the nearest £1,000.

ii. Comprehensive Income and Expenditure Statement

Expenditure on services and income relating to or derived from those services is classified in the Comprehensive Income and Expenditure Statement in accordance with CIPFA Code of Local Authority Accounting in the UK. The 2018/19 Code requires that authorities present expenditure and income on services on the basis of its reportable segments. These reportable segments are based on the authority's internal management reporting structure. This is a change from the previous requirement to present expenditure and income in accordance with the Service Expenditure Code of Practice (SERCOP).

iii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risk and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Revenue from council tax and business rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received including services provided by employees are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance sheet of debtors is written down and a charge made to revenue for the income that might not be collected.
- A de minimis level of £5,000 is normally applied to any manual adjustments made.

iv. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

v. Material Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

vi. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimate are accounted for prospectively i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vii. Charges to Revenue for Non Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible fixed assets attributable to the service

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance).

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement In Reserves Statement for the difference between the two.

viii. Employee BenefitsBenefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority.

An accrual is made for the cost of holiday entitlements and time off in lieu earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Post Employment Benefits

Employees of the Authority are members of the Local Government Pension Scheme (LGPS), administered by Devon County Council.

The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Devon County pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.55% (annualised yield on the Merrill Lynch AA rated corporate bond yield curve).
- The assets of the Devon County pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
 - Quoted securities – current bid price
 - Unquoted securities – professional estimate
 - Unitised securities – current bid price
 - Property – market value
- The change in the net pensions liability is analysed into the following components:
 - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statements to the services for which the employees worked
 - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
 - Net interest cost – the net interest expense for the authority – the change during the period in the net defined benefit liability that arises from the passage of time; charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
 - Return on plan assets – excluding amounts included in net interest on the net defined benefit liability - charged to the

Pensions Reserve as Other Comprehensive Income and Expenditure

- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Devon County pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

ix. Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect,

disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

x. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Financial Assets

Financial assets are subsequently measured in one of two ways:

- amortised cost – assets whose contractual terms are basic lending arrangements (i.e. they give rise on specified dates to cash flows that are solely payments of principal or interest on the principal amount outstanding, which the Council holds under a business model whose objective is to collect those cash flows)
- fair value – all other financial assets

Amortised cost assets are measured in the Balance Sheet at the outstanding principal repayable (plus accrued interest). Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) are based

on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument. Any gains or losses in fair value that might arise are not accounted for until the instrument matures or is sold.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances outstanding at the date of derecognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES.

Changes in the value of assets carried at fair value (described as Fair Value through Profit or Loss) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

xi. Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31st March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Authority has a policy to deal in sterling only; therefore there are no foreign currency transactions in 2018/19.

xii. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or

Taxation and Non Specific Grant Income (non ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

xiii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion and they are, therefore, carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

There were no impairments, disposals or abandonment of intangible assets during 2018/19.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiv. Interests in Companies and Other Entities

The Authority has no material interests in companies and other entities that have the nature of Subsidiaries, Associates and Joint Ventures and requiring the preparation of group accounts.

Although the Council does not have arrangements that give rise to the full adoption of Group Accounts the North Devon Crematorium has been treated as a Joint Operation with Torridge District Council.

The arrangements are based upon an estimated 60:40 split of all assets and liabilities. The Comprehensive Income and Expenditure Statement and Balance Sheet include this Authority's share (60%) of the income, expenditure, assets and liabilities of the Crematorium.

xv. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO costing formula.

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services and the value of works and services received under the contract during the financial year.

xvi. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods.

Investment properties are measured initially at cost and subsequently at fair value, based on the highest and best price at which the asset could be exchanged between knowledgeable parties at arms length. Properties are not depreciated but are re-valued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General fund balance. The gains and losses are, therefore, reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xvii. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership

of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment and accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority As Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution on the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated

to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xviii. Overheads and Support Services

Costs of overheads and support services are not recharged to front line services and are shown in the Comprehensive Income and Expenditure Statement in the cost of services, which is line with our internal reporting method.

xix. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Expenditure is treated as revenue expenditure in nature unless the expenditure exceeds £10,000. (Exceptions to this would include where schemes cross financial years and where we have projects attracting specific grant income that must be applied to capital expenditure).

Measurement

Assets are initially measured at cost, comprising:

- The purchase price

- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at current value. The difference between current value and any consideration paid is credited to the Taxation and Non Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost
- All other assets – existing use value – Where prices for comparable properties are available in an active market, properties are valued at market value taking into account the existing use. Where no market exists or the property is specialised, current value is measured at depreciated replacement cost (DRC).

Assets included in the Balance Sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service).

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight line allocation over the useful life of the property as estimated by the valuer, ranging from 5 up to 100 years
- Vehicles, plant, furniture and equipment – straight line allocation ranging from 3 to 25 years
- Infrastructure – straight line allocation ranging from 5 to 100 years

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

The Authority holds one asset containing major components, namely Brynsworthy Environment Centre. The valuation of this asset has been accounted for separately with different estimated lives and thus been depreciated separately within the financial statements.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Surplus Assets and Disposals

Surplus assets are measured for their economic benefit at fair value under IFRS 13.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to Government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment (or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement (England and Wales))). Receipts are

appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xx Heritage Assets

Heritage assets are valued at cost, insurance valuation or other appropriate methods depending on the nature of the asset.

The Authority's Heritage Assets are held in the Authority's Museum and surrounding grounds. The Museum has a number of collections of heritage assets, which are held in support of the primary objective of the Authority's Museum, ie increasing the knowledge, understanding and appreciation of the Authority's history and local area.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The Authority's collections of heritage assets are deemed to have indeterminate lives hence the Authority does not consider it appropriate to charge depreciation.

The carrying amount of heritage assets are reviewed where there is evidence of impairment for heritage assets, eg where an item has suffered physical deterioration or breakage or where doubts arise to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see above note on property, plant and equipment in this summary of significant accounting policies. The Museum may occasionally dispose of heritage assets that have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment.

xxi. Provisions, Contingent Liabilities And Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer or economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxii. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

xxiii. Revenue Expenditure Funded From Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxiv. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from her Majesty’s Revenue and Customs. VAT receivable is excluded from income.

xxv. Minimum Revenue Provision

The Prudential code requires that all capital expenditure is financed by a credit to the Capital Adjustment Account. If funding is not immediately available then a capital financing requirement (CFR) arises.

Essentially the CFR has to be mitigated over time on a prudent basis by making a “minimum revenue provision”. This is a charge to the General Fund made from the “Adjustments between Accounting Basis and Funding Basis under Regulation” and the Capital Adjustment account. The basis of estimation adopted by the Authority comprises of the following elements:

1. Finance leases have the capital financing applied on a straight line basis over the life of the lease contract.

All other assets that are not finance leases have their capital financing calculated on a straight line basis over the life of the asset.



North Devon District Council

Draft Operational Internal Audit Plan – 2019/20

February 2019

This report has been prepared on the basis of the limitations set out on page 6.

Report issued to:

Mike Mansell - Chief Executive
Jon Triggs - Head of Resources
Audit Committee

This report ("Report") was prepared by Mazars LLP at the request of North Devon District Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

This Report was prepared solely for the use of North Devon District Council and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance based on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility for further information about responsibilities, limitations and confidentiality.

1. Background

1.1 This document sets out the planned internal audit activity for the year 2019/20 for North Devon District Council and is based on:

- Schedule B of Mazars LLP proposal dated 26 February 2016;
- Review of the strategic and departmental risk registers;
- Meetings with the Head of Resources;
- Review of key performance indicators;
- Our assessment of emerging and known risks in the public sector; and
- Review of our previous internal audit coverage.

1.2 The purpose of internal audit is to provide Members and the Chief Executive, through the Audit Committee, with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving North Devon District Council's agreed objectives. In order to provide this opinion, we are required to review annually the risk management and governance processes within North Devon District Council and on a cyclical basis, the operation of internal control systems within the organisation.

1.3 Internal audit is not a substitute for effective internal control. The proper role of internal audit is to contribute to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness.

1.4 This plan has been discussed and agreed with the Council's Senior Management at one of their weekly meetings. They have indicated some specific months where it would be particularly appropriate to hold some audits and this has been shown in the proposed quarter column.

2. Action Required

2.1 The Audit Committee are asked to approve the contents and timings for the Operational Internal Audit Plan for 2019/20 in Section One.

Draft Annual Operational Plan for 2019/20

	Audit Title	Corporate Risk Register	2019/20	Work Planned
1.	Risk Management and Corporate Governance	Medium Based on our audit work	10	Q4
2.	Main Accounting System & Budgetary Control	High - Risk 00 A lack of clear direction in relation to significant budgetary challenges	12	Q3
3.	Debtors	Medium Based on our audit work	8	Q1
4.	Payroll	Medium Based on our audit work	10	Q1
5.	Treasury Management	Medium Based on our audit work	8	Q1
6.	Council Tax & NNDR (including NNDR maximisation)	Medium Based on our audit work	15	Q2
7.	Housing Benefits	Medium Based on our audit work	10	Q2
8.	Human Resources (including recruitment, retention, apprenticeships, equality and diversity, work-life balance, succession planning)	Medium Based on our audit work	10	Q3

Appendix A

	Audit Title	Corporate Risk Register	2019/20	Work Planned
9.	Housing Needs, including Choice Based Lettings	Medium Based on our audit work	10	Q2
10.	New Housing Schemes (inc. PFI where applicable)	Medium Based on our audit work	10	Q2
11.	Building Control	Medium Based on our audit work	10	Q3
12.	Information Technology Audit (inc. PCI Compliance (payment card industry))	High	22	Q4
13.	CCTV	Medium Based on our audit work	8	Q2
15.	Contracts & Capital Expenditure	High Risk 00	10	Q3
16.	Performance Management (inc. performance and financial management report, KPIs, service planning)	Medium Based on our audit work	10	Q3
17.	Safeguarding	Low Risk 45	8	Q4
18.	Crematorium	Low Based on previous audit work	3	Q4

Appendix A

	Audit Title	Corporate Risk Register	2019/20	Work Planned
19.	Follow Up	N/A	10	Q4
20.	Contingency	N/A	14	
21.	Audit Management	N/A	22	
			220	

Statement of Responsibility

We take responsibility to North Devon District Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, re-interpretation amendment and/or modification by any third party is entirely at their own risk.

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North Devon District Council Internal Audit Progress Report 2018/19

March 2019

Distribution List:

Mike Mansell	-	Chief Executive
Jon Triggs	-	Head of Resources
Audit Committee		

This report ("Report") was prepared by Mazars LLP at the request of North Devon District Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix III of this Report for further information about responsibilities, limitations and confidentiality.

1. INTRODUCTION

- 1.1 The purpose of internal audit is to provide Members and the Chief Executive, through the Audit Committee, with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving North Devon District Council's agreed objectives. In order to provide this opinion, we are required to review annually the risk management and governance processes within North Devon District Council and on a cyclical basis, the operation of internal control systems within the organisation.
- 1.2 This report sets out the internal audit activity since the last Audit Committee meeting in January 2019 for North Devon District Council.

2. COMPLETION OF THE INTERNAL AUDIT PLAN

- 2.1 Appendix I details the 2018/19 Audit Plan and shows the status of work to date and the number of days delivered.

The following tables summarise progress against the plan:

Number of audits in plan	17	
Number of audits finalised	6	36%
Number of audits issued at draft	2	12%
Number of audits in progress	5	29%
Number of audits with agreed planned dates	3	17%
Number of audits to be planned	1	6%

- 2.2 We can report that 77% (based on the number of days in the plan excluding contingency) of the 2018/19 Operational Internal Audit Plan has been completed.
- 2.3 We have issued the following final reports since the last Committee meeting.

Council Tax and NNDR
Email and Exchange Server
GDPR

- 2.4 Appendix II details the 2018/19 Audit recommendations for individual reports with a full or substantial overall opinion finalised since the last Audit Committee meeting. Recommendations with a priority rating of 2 are detailed in full, whilst those with a rating of 3 are not shown in detail. In addition, an overall audit opinion is given for each report. If we have issued a report with a limited overall opinion, the report is attached in full rather than summarised in Appendix II. As our Email and Exchange Server report has a limited overall audit opinion it has been attached in full.

Management responses are only included where there is a substantial comment. Where management has accepted the recommendation this has not been included.

Significant Control Weaknesses 2018/19

2.5 Based on the work we have undertaken, there are no priority one recommendations to bring to the attention of the Audit Committee.

Performance of the Internal Audit Service

2.6 The following table details the Internal Audit service performance for the 2018/19 year measured against the key performance indicators set out in the Internal Audit Quality Plan.

No.	Performance indicator	Target	Actual
1.	A close out meeting to be held for each audit	100%	100%
2.	Average period between the close out meeting and issue of the draft report	10 days	4.4 days
3.	Average period between the receipt of final management responses and issue of the final report	10 days	1 day
4.	Average customer satisfaction score (measured by survey for each audit) – (Target is 80% or 4 or above) 5=Very good; 4=Good; 3=Satisfactory; 2=Poor; 1= Very poor	4	3.83

3. Action Required

3.1 The Audit Committee is asked to note our progress report.

Appendix I – Progress against the Internal Audit Plan 2018/19

	Audit Title	Proposed Quarter	Planned Days	Anticipated Risk Level	Assurance	Priority One	Priority Two	Priority Three	Status
1.	Risk Management and Corporate Governance	Q4	10	Medium					Draft Report 12 th February 2019
2.	Main Accounting System and Budgetary Control	Q3	12	High					Draft Report February 2019
3.	Creditors	Q3	10	Medium	Substantial	0	1	2	Final Report 16 th August 2018
4.	Payroll	Q1	10	Medium	Substantial	0	0	1	Final Report 16 th August 2018
5.	Cash Collection	Q2	8	Medium	Substantial	0	0	1	Final Report 13 th December 2018
6.	Council Tax and NNDR (including NNDR maximisation)	Q3	15	Medium	Substantial	0	0	1	Final Report 8 th January 2019
7.	Housing Benefits	Q1	10	Medium	Substantial	0	0	1	Final Report 12 th December 2018
8.	Efficiency savings	Q2	10	Medium					Fieldwork completed
9.	Waste Management (Refuse and Recycling)	Q3	10	Medium					Programmed in for week commencing 25 th February 2019
10.	Regeneration Projects	Q1	10	Medium					Fieldwork in progress
11.	Business Continuity	Q2	10	High					Programmed in for week commencing 18 th March 2019
12.	Civil Contingencies Plan	Q1	10	High					Programmed in for week commencing 18 th March 2019
13.	IT Audits:	Q4		High					
	- GDPR		11		Substantial	0	1	5	Final Report 19 th February 2019
	- Email Exchange		11		Limited	0	3	1	Final Report 24 th January 2019

	Audit Title	Proposed Quarter	Planned Days	Anticipated Risk Level	Assurance	Priority One	Priority Two	Priority Three	Status
14.	Fraud, Bribery & Ethics National Fraud Initiative	Q2	8	Low					Fieldwork in progress
15.	VAT	Q1	10	Low					Fieldwork completed
16.	Crematorium	Q4	3	Low					
17.	Follow Up	Q4	10	N/A					Fieldwork completed
18.	Contingency		20	N/A					
19.	Audit Management		22	N/A					
	Total		220			0	5	12	

Appendix II – Internal Audit Recommendations 2018/19

Council Tax and NNDR

Substantial
Assurance



Scope

The audit covered the following areas:

- Policies and procedures;
- Convenient Methods of Payment;
- Reconciliation between the Debit and Valuation List;
- Discount and Reduction Applications;
- Billing and Receipts;
- Clearance from Suspense Accounts;
- Income Maximisation and Recovery Action;
- Writing Off Irrecoverable Income;
- Monitoring Collection Rates;
- Refunds and Void Allowances; and
- IT systems security and access.

One priority 3 recommendation was raised

Priority 3 The Revenues team should prioritise their review of 'single person discount' through their National Fraud Initiative (NFI) facility, to ensure that the annual review for Council Tax discounts is completed.



Scope

The audit covered the following areas:

- Awareness;
- Information you hold;
- Communicating privacy information;
- Individual's rights;
- Subject access requests;
- Lawful basis for processing personal data
- Consent;
- Children;
- Data Breaches;
- Data Protection by Design and Data Protection Impact Assessments ;
- Data Protection officers; and
- International.

One priority 2 and five priority 3 recommendations were raised

Priority 2

Recommendation	Rationale	Management Response
<p>The Council should look to develop a formal action plan to ensure a continued commitment to embedding the GDPR within the Councils BAU process. The plan should include an overview of:</p> <ul style="list-style-type: none"> • what has been completed; • what needs to be completed; • projected implementation timescales; and • responsible officer for action, as an example. 	<p>A detailed action plan will articulate commitment to, and evidence of, the required progress from the council against the new GDPR regulations.</p> <p>Whilst we noted that a “preparing for GDPR document” was produced initially back in 2017, no formal action plan exists to manage and monitor the progress of the GDPR project on an ongoing basis and to assist with embedding the principles within the Council’s BAU process.</p> <p>Without a formal action plan to manage and monitor progress the Council may fail to achieve compliance with the GDPR principles.</p>	<p>Agreed - A live action plan will be developed with planned GDPR actions, plus those actions that arise from the Information Management Asset Group (IMAG) of which the DPO, SIRO and ICT Security Officer attend and the Information Group of which all DP Leads attend. This plan and progress against it will also be reported to our Senior Management Team as part of IMAG’s quarterly reporting.</p>

Priority 3

Management in cooperation with the HR department should consider implementing a schedule of refresher training to ensure staff remain fully aware of their GDPR responsibilities. This can be in the form of one to ones with the DP leads or as previously carried out, refresher workshops. The Council should also explore the possible introduction of an e-learning package which would enable them to incorporate all mandatory training into one easy to use application and allow them to manage and monitor staff compliance

Information asset owners and data protection leads should be reminded of the importance of maintaining and updating the Information Asset Registers (IAR’s) on the Pentana system. They should be asked to carry out a brief review to ensure they are completed consistently and the correct information is entered to the correct screens. Management should also ensure that the assigned information asset owners details are entered correctly to ensure accountability arrangements are clear. Consideration should be given to formally documenting the process for completing the IAR’s on the system along with the process for ensuring updates.

The Council should continue to undertake a data cleansing exercise of both paper and electronic records to provide assurance that personal information is not being retained for longer than there is a business need and records are disposed of in a safe and secure manner.

A documented internal process for staff to follow when a subject access request is received should be developed and disseminated to the relevant individuals to ensure that in the event a subject access request is received, the Council can respond effectively and as efficiently as possible within the new reduced timescales.

Appendix III - Statement of Responsibility

We take responsibility to North Devon District Council for this report which is prepared on the basis of the limitations set out below.

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We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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North Devon District Council

Internal Audit Report

Email & Exchange Server 2018/19

January 2019

This report has been prepared on the basis of the limitations set out on page 21.

Report issued to:

Chief Executive	Mike Mansell
Head of Resources	Jon Triggs
Business Information Systems Manager	Nina Lake
Senior Technical Analyst	Paul Shears

Contents

Executive Summary	1
Audit Opinion & Summary of Findings	2
Appendix A – Audit Framework	11
Appendix B – Reporting Definitions	12
Appendix C – Staff Interviewed.....	13
Statement of Responsibility.....	14

This report (“Report”) was prepared by Mazars LLP at the request of North Devon District Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix D of this Report for further information about responsibilities, limitations and confidentiality.



Executive Summary

Background

North Devon District Council (NDDC), like all other organisations relies on e-mail as a primary means of communication with the public, internally and with other partnership bodies to help support critical operations as well as delivering business as usual (BAU) functions.

Poor design of the e-mail and the Microsoft exchange environment, may compromise the confidentiality, integrity or availability of the system which may result in reputational risk to the Council or loss of personal, sensitive or confidential data. Absence of e-mail communications may also restrict the Council's ability to deliver services and effectively communicate.

Currently the Council operate two e-mail systems, the normal GOV.UK e-mail used for public sector organisations and the secure GCSX e-mail which they use to send secure files (only secure if the recipient is on the GCSX network, as the GCSX e-mail is not transmitted over the internet as such, but is transmitted over the PSN). It has been noted that use of the GCSX email is due to cease in March 2019 and in preparation for this the Council have formal plans to move to Office 365 prior to March 2019.

Currently the Council are utilising Exchange 2013 on premise with all incoming and outgoing e-mail scanned for virus, malware and spam by Symantec message labs software.

Audit Opinion & Summary of Findings

Through the work undertaken, the following opinion has been provided:

Audit Opinion



Limited Assurance

Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk. For a key to the assurance ratings, see Appendix B – Reporting Definitions.

Summary of Findings

As a result of this Internal Audit, we have raised the following recommendations:

Priority	Number of Recommendations	Area of Scope / Recommendation
	0	
	3	<i>Email Policy</i> <i>Email Management</i> <i>User Access</i>
	1	<i>Email Security</i>

Section 1 – Detailed Summary of Key Findings

Area 1: E-Mail Acceptable Use Policy and Procedures

There is a clearly defined Email policy in place applicable to all employees, elected members and any individual or partnership organisation. The policy includes acceptable usage of email, compliance, defined roles and responsibilities, confidentiality, email monitoring arrangements and security awareness with regards to spam emails, viruses and phishing. The policy is disseminated to all staff at induction and is also available on the Council intranet, however, we noted that there is no formal ongoing awareness raising or refresher training given to users following initial receipt. Therefore, a recommendation had been raised. **(Recommendation 1)**

The Email policy was produced in 2016 and formally approved by the Senior Management Team in 2017. It has recently been reviewed (May 2018) and updated to reflect the new General Data Protection Regulation (GDPR).

We also noted that an appropriate legal disclaimer which protects and limits Council liability was in use on and appended to outbound emails from the Council. This defines the contents as confidential and deters abuse by warning and raising awareness of the email monitoring arrangements in place.

Area 2: E-Mail Management

E-Mail message management, administration rules and policy settings were appropriately established and applied on the Exchange Server 2013 platform with a 51MB limit applied to email messages and attachment size.

The Council have set size limits to individual mailboxes which range between 1.5 and 4 Gb (Gigabytes). However, we noted that no standardised Exchange mailbox size storage policy has been formally established, agreed or formally documented within the ICT Email Policy. Furthermore, through enquiry with the Senior Technical Analyst we noted that there is no archiving or formal records retention schedule set within the email and exchange server. This is primarily due to the fact that the current licensing arrangements do not allow for the use of PST (Personal Storage) files for export of emails to local file storage. Effectively the email system is being utilised as a storage system which in itself creates a risk with regards to data protection and also due to the current disaster recovery (DR) arrangements there is the potential for significant data loss in the event of disaster. **(Recommendation 2)**

Area 3: E-Mail Security

Access to the Outlook email client and Exchange mailbox was restricted to users with a valid Council Active Directory (AD) network login which adhered to the requirements of the IT Security Policy established at the Council. Furthermore, powerful high level administrative access to the Exchange infrastructure was restricted to the in-house IT Infrastructure Team plus one account for the Antivirus provider Clarinet. Exchange roles assigned were commensurate with the job, restricted to individual user accounts with accountability and transparency in place.

The use of encryption was not enforced using the local Exchange 2013 and Outlook email system, however, the email policy does make clear under section 8.2 that *“Files containing Restricted information as defined in the Council’s IT Acceptable Usage policy, or containing personal information about an individual, must never be transferred using email without encryption. If there is a business need for any such information to be transferred using email, the ICT Service Desk must be consulted to ensure that an approved process is followed”*. However, given that staff may only see this policy at induction they may not be fully

aware of the correct procedure to follow (see **Recommendation 1** Awareness of Council Policy). Support is also available from the ICT Service Desk when handling and transmitting sensitive and confidential information contained in emails.

We noted that the current e-mail system does not fully meet the Governments Digital Service guidelines. Which include the following best practice and can be located at the following address <https://www.ncsc.gov.uk/guidance/email-security-and-anti-spoofing>:

- The email service is capable of sending and receiving email using Transport Layer Security (TLS) – TLS is an encryption protocol used to protect data in transit between computers. When two computers send data they agree to encrypt the information in a way they both understand.
- Domain-based Message Authentication, Reporting and Conformance (DMARC) – DMARC) is an email standard that checks that inbound emails came from where they say they came from using a combination of Sender Policy Framework (SPF) and DomainKeys Identified Mail (DKIM). It also tells the recipient’s email service what to do with emails that fail the check and asks recipient email services to send back reports of where the email is coming from
- Sender Policy Framework (SPF) – SPF validates the email domain a message was sent from by listing valid sending IP addresses or domains in the DNS record. This lets recipient email services check if an email came from a valid IP or domain and mark it as spam if it didn’t.
- Domain-Keys Identified Mail (DKIM). – DKIM verifies the domain an email came from and helps show that it hasn’t been tampered with in transit. The receiving email service can then filter out email that fails the DKIM check.

At present from the above key areas the Council have applied SPF and TLS. Currently DMARC and DKIM are not applied.

We also noted that the Council does not use any 3rd party secure file sharing tools such as Egress, Cryptshare or Huddle. To share sensitive files the Council is encouraging staff to password protect documents when needed (**Recommendation 4**). We noted there is very little value in implementing anything additional in line with the above, as these should be addressed when migrating to and implementing Office 365

Area 4: E-Mail Usage Monitoring and Virus Controls

The Council are using Kaspersky anti-malware endpoint protection for desktops and laptops. Emails are screened using Symantec provided by Claranet. Anti-virus and anti-spam reports are provided weekly by the supplier and reviewed, investigated and remediated by ICT at the Council.

To allow access to email from mobile phones, the Council are using Active Sync and Kaspersky and are reliant on the phone’s operating system standard security. However, it has been noted a business case has been approved and funded for the Council to move to “Airwatch MDM” as part of the migration to Office 365, which will further improve control, security and resilience.

Email traffic containing attachments are scanned for content, viruses, phishing, malicious software and spam, as per the policies defined at the Council. This is performed at the external perimeter by the third-party contractor (Symantec Cloud based managed service) on behalf of the Council. Anti-virus protection was up-to-date on the email server and updates of the latest virus signatures deployed.

In addition to an annual IT Health Check assessment carried out by a 3rd party provider (Sapphire), the Council also receive quarterly vulnerability scans of their internal networks to ensure they remain aware of their current position with regards to known vulnerabilities and patch updates and can take appropriate action

where necessary. The Council have developed an action plan to address the vulnerabilities highlighted in the reports and continue to update and action as appropriate.

Area 5: Back up & Recovery

The Exchange Server is backed up onsite, however, there is no replicated Exchange server at the back up location (Lynton House). Therefore, if the primary data centre were to be lost in the event of a disaster then there is the potential for all new e-mails to be lost and a delay in accessing existing e-mails. The risk to data loss is increased due to the way that the Council are currently using the email system as a storage facility. It has been noted that whilst the Symantec scanning software retains emails for up to 5 days, the council would need to rebuild a server within that timescale. Given the previous issues raised with regards to Business Continuity and Disaster Recovery in previous audit reports (no full DR test has been carried out, no prioritisation of service restore agreed by the Council to enable the DR plan to be updated and no firewalls at the back up facility), there is no guarantee that this timescale is achievable or that it would be effective. Given that Email is key to effective communication both internally and externally at the Council there are a number of potential issues that need to be considered as part of the Disaster Recovery process for example, is the exchange server rebuild process documented and who would take responsibility, has additional funding been identified should it be required, and would the rebuilt server run efficiently, as without restore testing the back-ups may be corrupt.

It has been noted that with a move to Office 365 some of the risk would be mitigated because of the move to a cloud.

Given that Business Continuity and Disaster Recovery has been covered extensively in previous audits, is high priority on the risk register and the Council continue to address this issue **no recommendation** has been raised within this report.

Area 6: Change Control

Whilst access to the Exchange administration console is restricted to authorised users only, it has been noted that there are no formal change control procedures in place. For example, if a member of staff terminates employment from the Council, a line manager may request access to their mail box to obtain information otherwise unavailable, however once IT have granted access there is no process to limit how long access is granted for or that access is removed. Failure to remove access may lead to the continued inappropriate access to personal or sensitive information. Therefore, a recommendation has been raised (**Recommendation 3**)

Section 2 – Recommendations / Matters Arising

1. Email Policy

Priority 3

Recommendation	Rationale	Responsibility
<p>Continued awareness raising and refresher training on Council policy should be undertaken annually as a minimum. This could be in the form of emails to staff, updates on the intranet or formal training sessions.</p> <p>Management should consider revising the line in section 5.2 of the policy which reads “Any email which has a subject line of “Unison Private and Confidential” will not be inspected”. To provide further clarification as to the Council’s position in relation to the monitoring of emails and to ensure this caveat is not used inappropriately.</p>	<p>Continued awareness ensures all staff adhere to the Council’s current working arrangements, legal requirements and individual responsibilities.</p> <p>We noted that there are a number of policies and procedures in relation to ICT services within the Council; these include, Information Security, Email, Internet Acceptable Usage (next review in 2019). However, staff are only presented with these policies at induction or at the time of review (potentially every 3 years depending on the review schedule).</p> <p>By highlighting the fact that there are exceptions to the rule it could result in misuse of the system, and inappropriate mails could be sent under the guise of Unison business or marked as “confidential”.</p> <p>If staff are not reminded of the Council policies, they may not be fully aware of the responsibilities and could potentially be working to out of date practices, putting themselves and the organisation at unnecessary risk of reputational damage, legal implications and financial risk.</p>	<ol style="list-style-type: none"> 1. Business Information Systems Manager 2. Senior ICT Project Support Officer 3. HR Manager
Management response		
<p>Agreed:</p> <ol style="list-style-type: none"> 1. With the already commenced migration of emails to Office 365, we will use this as an opportunity to refresh staff on their responsibilities in relation to e-mails and the associated policies. 2. We will schedule dates in the ICT Service Desk to prompt some form of communication on e-mail good practice. 3. The Email, Internet & Acceptable Usage Policy will need to be revised as GCSX mail will no longer be available by the end of March 2019 and our move to Office 365. Changes to this policy will need to be approved initially by Workforce Matters (Unison) where we can highlight this risk and request that this is removed. 		<p>May 2019</p>

2. Email Management

Priority 2

Recommendation	Rationale	Responsibility
<p>Management should consider agreeing and applying formal retention periods to the mailbox settings and document this as part of the Email Policy to encourage staff to manage these more efficiently.</p> <p>The Council should also inform staff that email is not to be used as a storage function and any sensitive documents or emails that need to be retained should be stored within the Council's secure network folders.</p> <p>We noted that due to the current licensing arrangements the export of email is currently unavailable as they do not have the authority to utilise PST files as part of the agreement with Microsoft.</p>	<p>By formally documenting retention periods to the mail box, it will prompt staff to periodically cleanse their individual mail box and discourage staff from storing information inappropriately and for longer than is necessary.</p> <p>We noted that the Council have not formally documented or applied retention periods within the exchange server or the ICT Email Policy. Furthermore, through enquiry with the Senior Technical Analyst we noted that there is no archiving or formal records retention set within the email and exchange server, this is primarily due to the fact that the current licensing arrangements do not allow for the use of PST files for export of emails to local file storage. Effectively the email system is being utilised as a storage system which in itself creates a risk with regards to data protection and also due to the current DR arrangements there is the potential for significant data loss in the event of disaster.</p> <p>It should be noted that some of the above risk will be mitigated with a move to Office 365 however it will still need to be managed appropriately and in line with updated Council policy and procedure.</p>	<p>Senior Management Team</p>
Management response		
<p>Agreed:</p> <p><u>That SMT discuss the viability of applying a formal retention period to the mailbox settings, plus an agreed phased approach of reducing this retention period of a phased time.</u></p> <p>SMT to advise their teams that:</p> <ol style="list-style-type: none"> 1. Their e-mail should not be used as a storage function for sensitive documents/information, 2. They need to apply the same formal retention periods they apply to their information asset registers. 		<p>Ongoing</p>

As Phase II of our move to Office 365 we intend to look at the feasibility of moving away from our traditional team / corporate drives and moving to SharePoint, but again staff would need to ensure that the information they were transferring was categorised and time bound.	
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3. Access requests and changes to the mailboxes

Recommendation	Rationale	Responsibility
<p>A formal process should be developed to ensure that any changes to the email and exchange service are formally documented and authorized appropriately. This includes requests for access to mailboxes (to include access requests following termination of employment) and also removal of temporary access. Access should only be granted if there is a justified business need and should only be granted for a set period of time (up to 30 days following termination for example).</p>	<p>Having a documented change and access process will enable the ICT department to more efficiently manage user access to accounts following staff termination or removal of temporary access.</p> <p>From enquiry with the Senior Technical Analyst, we noted that if access is granted to a user following termination or as a temporary access request there is no formal procedure to review or remove access after a set period. As a result, the process currently relies on line managers to inform them once access is no longer required. It was also noted that managers are requesting access permanently</p> <p>Without a sufficient review process in place, there is a potential risk of inappropriate access to Council information systems and/or personal/sensitive data which could result in reputational damage, legal action and potential financial loss.</p>	<p>Senior ICT Project Support Officer</p>
<p>Agreed:</p> <p>All requests will be asked to advise why they require access and for how long, these will then be discussed at our Change Advisory Board (CAB), decisions documented on our Service Desk and termination dates set and followed through to ensure access or closure of those accounts are actioned.</p>		<p>Complete</p>

4. E-Mail Security

Priority 2

Recommendation	Rationale	Responsibility
<p>Security settings should be reviewed as part of the Office 365 implementation project to ensure they align with the NSCS email security guidance and all the relevant controls are applied.</p> <p>Consideration should also be given to utilising an encrypted file sharing application if and when confidential or sensitive files need to be shared outside the Council or Government networks.</p>	<p>We noted that the current e-mail system does not fully meet the Governments Digital Service guidelines. Which include the following best practice and can be located at the following address https://www.ncsc.gov.uk/guidance/email-security-and-anti-spoofing:</p> <ul style="list-style-type: none"> • The email service is capable of sending and receiving email using Transport Layer Security (TLS); • Domain-based Message Authentication, Reporting and Conformance (DMARC); • Sender Policy Framework (SPF); • Domain-Keys Identified Mail (DKIM). <p>SPF and TLS is applied however only after the e-mail leaves Symantec’s Message Labs software. They do not currently apply DMARC/DKIM. There is very little value in implementing anything additional in line with the above, however all of the above should be considered, when migrating and setting up Office 365.</p> <p>We also noted that the Council does not use any 3rd party secure file sharing software like Egress, Cryptshare or Huddle. To share sensitive files the Council is encouraging staff to password protect documents when needed.</p>	<p>Senior Technical Analyst</p>
Management response		
Agreed:		April 2019

We are moving to Office 365 to ensure we align with the NSCS e-mail guidance and plan to start off giving very limited access to ensure that we apply the correct rules and appropriate controls. To mitigate the loss of GCSX mail, we also plan to use the Office 365 Message Encryption (OME) when the business wants to send sensitive business information.	
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Appendix A – Audit Framework

Audit Objectives

The audit was designed to ensure that management have implemented adequate and effective controls over Cyber Security at North Devon District Council.

Audit Approach & Methodology

The audit approach was developed with reference to the Internal Audit Plan and by an assessment of risks and management controls operating within each area of the scope. The following procedures were adopted:-

- Identification of the role and objectives of each area;
- Identification of risks within the systems, and controls in existence to allow the control objectives to be achieved; and
- Testing of controls within the systems.

From these procedures we have identified weaknesses in the systems of control, produced specific proposals to improve the control environment and have drawn an overall conclusion on the design and operation of the system. See Appendix B for details of the Audit team and staff interviewed.

Areas Covered




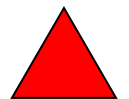
Audit work was undertaken to cover the following areas and control objectives: -

- Email Policy & Procedures
- Email Security
- Email Mailbox Management
- Email Monitoring & Virus Scanning
- Back up & Recovery
- Change Management

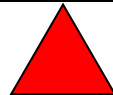

Appendix B – Reporting Definitions

In order to assist management in using our reports:

a) We categorise our **audit opinion** according to our assessment of the controls in place and the level of compliance with these controls:

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
	Substantial Assurance	While there is a basically sound system, there are weaknesses which put some of the system objectives at risk, and / or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
	Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
	Nil Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

b) We categorise our **recommendations** according to their level of priority.

	<p>High Priority Recommendation Major issues that we consider need to be brought to the attention of senior management and the audit committee.</p>
	<p>Medium Priority Recommendation Important issues which should be addressed by management in their areas of responsibility.</p>

**Low Priority Recommendation**

Detailed problems of a minor nature resolved on site through discussions with local management.

Appendix C – Staff Interviewed

Audit Team	Staff Consulted
Mark Towler – Engagement Director	Nina Lake – Business Information Systems Manager
Rachel De Bradeny – Engagement Manager	Paul Shears - Senior Technical Analyst
John Wakefield – IT Audit Manager	
Contact Details: Rachel.DeBradney@mazars.co.uk	

An exit meeting was held with the Business Information Systems Manager and Senior Technical Analyst in November 2018.

Acknowledgement

We would like to thank the Management and staff involved in the audit work for their assistance.

Statement of Responsibility

We take responsibility to North Devon District Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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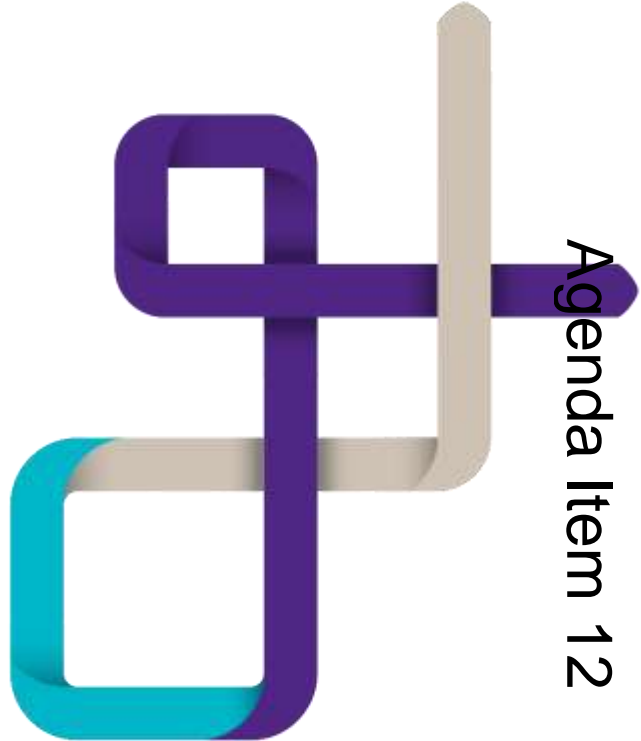
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External Audit Plan

Year ending 31 March 2019

North Devon District Council
21 February 2019

Page 81



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Page
82

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Section

1. Introduction & headlines
2. Key matters impacting our audit approach
3. Significant risks identified
4. Other matters
5. Materiality
9. Value for Money arrangements
10. Audit logistics, team & fees
11. Early Close
12. Independence & non-audit services

Page

- 3
- 4
- 5
- 7
- 8
- 9
- 10
- 11
- 12

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Agenda Item 12

Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of North Devon District Council ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out [in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of North Devon District Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Significant risks

Page 83

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls.
- Valuation of land and buildings.
- Valuation of the pension fund net liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.153m (PY £1.097m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £58k (PY £55k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Financial sustainability
- 21:21 Programme

Audit logistics

Our interim visit will take place in April and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be £36,499 (PY: £47,401) for the Authority, subject to the Authority meeting our requirements set out on page 11.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Key matters impacting our audit

External Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents.

The 2019/20 budget and refreshed Medium Term Financial Strategy (MTFS) will be presented to the Council in February. This shows a balanced budget in 2019/20 but identifies budget gaps in the next three years, with a cumulative budget gap of £666k by 2022/23. The Council will need to identify further savings and efficiencies in order to produce a balanced position in the medium term.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

Internal Factors

New audit methodology

We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the Authority into our risk assessment and testing approach.

21:21 Programme

The 21:21 Programme is a programme of change originally covering the transformation of processes, One Site (accommodation), improving the waste and recycling service and income generation. This is a significant transformation project for the Council and is a key component to how it intends to achieve the required savings and efficiencies in the medium and long term.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- You will see changes in the terminology we use in our reports that will align more closely with the ISAs
- We will ensure that our resources and testing are best directed to address your risks in an effective way.

- We will review the progress being made on the 21:21 Programme, which is a key project for the Council. We will also consider the savings achieved against those originally planned.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including North Devon District Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for North Devon District Council.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	<p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (over £80 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
Valuation of the pension fund net liability	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£63 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability and assessing how management have challenged assumptions made by the actuary, including the impact of the Brexit decision on the pension fund investments. • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtain assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Page 87

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

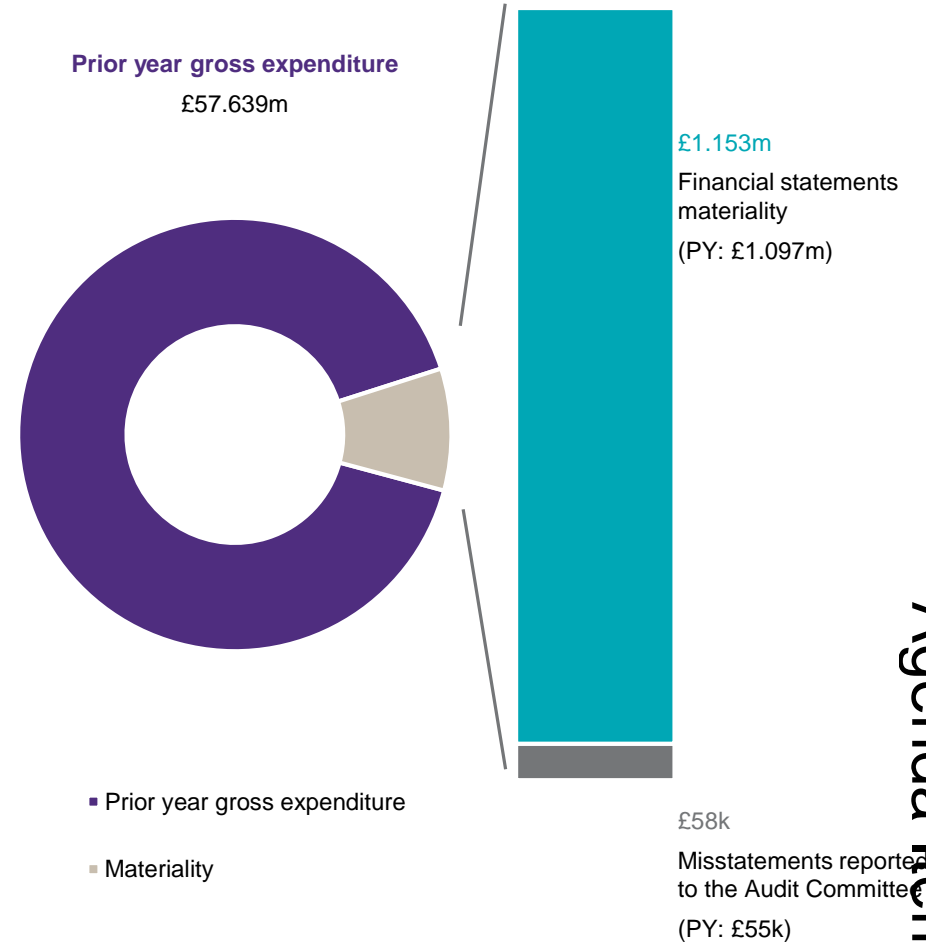
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.153m (PY £1.097m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £50k for senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £58k (PY £55k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

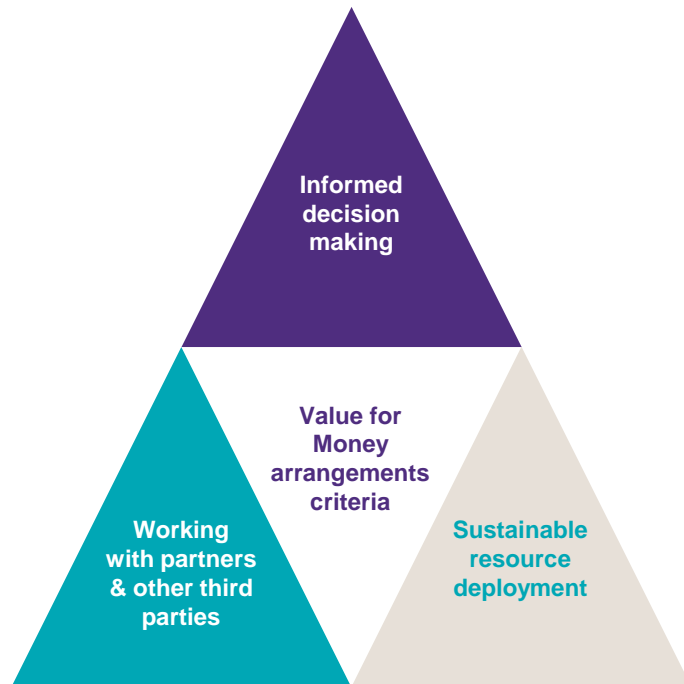
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Page 89

Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Financial sustainability

The Council has recently refreshed its Medium Term Financial Strategy (MTFS). This shows a cumulative budget gap of £666k by 2022/23.

We will review the Council's latest MTFS and budget, including the assumptions and the savings plans reflected within them. We will also review the 2018/19 savings achieved against those planned.



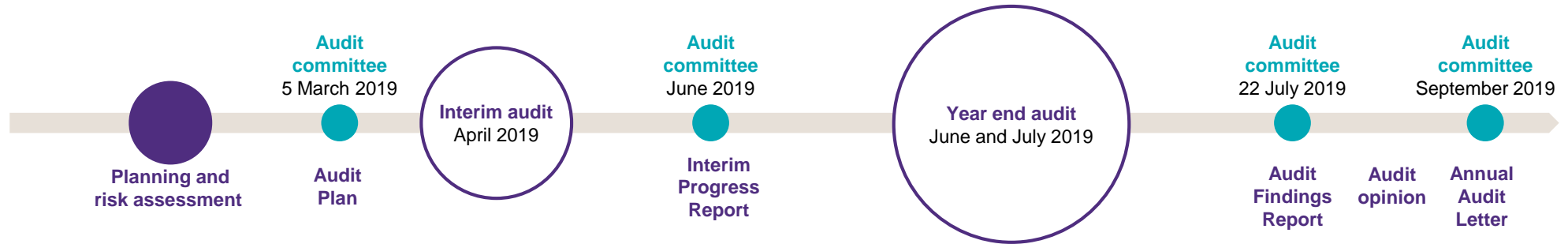
21:21 Programme

The 21:21 Transformation Programme is a significant project for the Council and is critical to the way it will deliver its services in the medium term.

We will review the progress being made on this key project for the Council, which cuts across the VFM sub-criteria. We will also consider the savings achieved against those originally planned.

Agenda Item 12

Audit logistics, team & fees



Geraldine Daly, Engagement Lead

Geraldine is responsible for the overall delivery of the audit. She will meet regularly with senior management of the Council and will attend Audit Committee meetings.



Mark Bartlett, Audit Manager

Mark oversees day to day planning and manages the work of the Audit Incharge and associates to ensure that the audit work is focused on the key areas of the financial statements risks and compliance with relevant accounting standards and guidance.



Stephen Clarke, Audit Incharge

Stephen is responsible for the on-site delivery of the audit work. He assigns activities across the team and ensures it is completed satisfactorily.

Audit fees

The planned audit fees are £36,499 (PY: £47,401) for the financial statements audit completed under the Code, which are in line with the scale fee published by PSAA. £21,253 of fees are planned for the housing benefits reporting accountant's work, which constitutes non Code work by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

The Authority approved their draft accounts on 29 May 2018, meeting the earlier deadline for the preparation of its accounts.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 10). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing benefits grant	21,253	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is estimated to be £21,253 in comparison to the total fee for the audit of £36,499 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is an indicative fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related - None			

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Authority's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.



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Audit Progress Report and Sector Update

North Devon District Council
Year ending 31 March 2019

Page 95
5 March 2019



Contents

Section	Page
Introduction	3
Progress at 13 February 2019	4
Audit Deliverables	6
Grant Thornton's External Audit commitment	7
Sector Update	9
Links	15

Introduction



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Page 97



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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at 13 February 2019

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

We are due to commence our interim audit in April 2019. Our interim fieldwork visit will include:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We will discuss our plan and timetable with officers.

The final accounts audit will take place in July with findings reported to you in the Audit Findings Report by the deadline of July 2019.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach are included in our Audit Plan. This is included as a separate agenda item.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim was concluded in November 2018.

Meetings

We meet with the Chief Executive and Head of Resources as part of our regular liaison meetings, with our most recent meeting being in January 2019, and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our Financial Reporting Workshop helps to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts. Our Bristol and Plymouth workshops were on 7 February and 12 February respectively.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Progress at 13 February 2019 (continued)

PSAA Contract Monitoring

North Devon District Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts in 2018/19. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers.

Details of PSAA's audit quality monitoring arrangements are available from its website, www.psa.co.uk.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the attached presentation. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	February 2019	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	June 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditor's Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

Local Government audits 2018/19 and beyond

Grant Thornton's External Audit commitment

Audit 2018/19

Our team

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"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".

Director of Finance, local audited body

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Page 102

"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."

Director of Finance, County Council

Our relationship with our clients – why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLACE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

Public Sector Audit Appointments – Report on the results of auditors’ work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors’ work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors’ local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

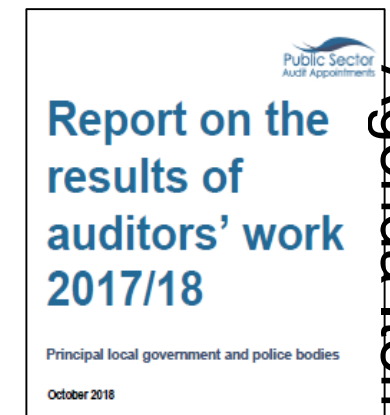
The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts.

The report is available on the PSAA website:

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>



CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

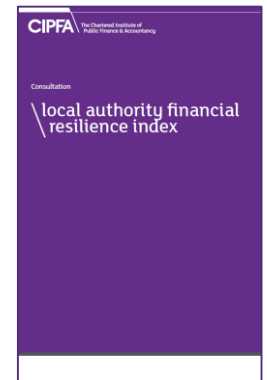
The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.



ICAEW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICAEW) has published a paper on the 'expectation gap' in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What's the problem?

- **Short-term solvency vs. Longer-term value:**
 - LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Future financial viability of local public bodies

Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below

<https://www.icaew.com/-/media/corporate/files/about-icaew/policy/local-public-audit-expectation-gap.ashx?la=en>



Financial Foresight: Our sustainable solution for cash-strapped councils

Grant Thornton's new Financial Foresight platform helps provide local councils with financial sustainability.

Launched in early January, Financial Foresight is a unique platform that can help us provide financial sustainability to under-pressure local councils, using a combination of data, statistics and our expertise.

Page 107 In December 2018, the Chartered Institute of Public Finance and Accountancy (CIPFA) estimated that 15% of councils are showing signs of financial distress. If the rate at which these councils are dipping into their financial reserves continues, the National Audit Office estimates that 10% of councils will have depleted their reserves by 2021. The latest figures from our Insights and Analytics team suggest this could be closer to 20%.

Alarm bells started to chime at Somerset, Surrey, Lancashire and Birmingham councils last year. Yet it was the catastrophic near-collapse of Northamptonshire County Council - after it chose for five years not to raise council tax to cover its spiralling costs - that shone the spotlight on this widespread problem.

Unless local councils can get to grips with the situation, we'll all feel the effects of deeper cutbacks in public spending.

What's causing the problem?

After eight years of government austerity which followed the financial crash of 2008, many councils are now digging deep into their financial reserves in order to provide public services to their communities – from social care to fixing potholes in the road.

Pressure on funding is further impacted by rapidly rising costs – especially for demand-led services as populations grow and age. Within just a few years, many councils will not have any reserves left to fall back on, and some have already said they will be unable to provide any non-statutory services at this time. Overlay Brexit onto this situation, along with the anticipated financial pressures this will bring, and the outlook for local authorities is extremely challenging.

How can we help?

The investments we have made in analytics coupled with the commercial success of our CFO Insights tool has enabled us to develop credible financial forecasts for every local authority in the country. From this platform we developed Financial Foresight; a unique, forward-looking financial analytics and forecasting platform designed to support financial sustainability in local government.

Financial Foresight takes account of factors such as population growth, development forecasts and demand drivers to project local authority spend, income and operating costs. It provides a baseline view on the financial sustainability of every local authority in England and allows leaders in each authority to benchmark their own outlook against others. This will help councils move on from resilience – or just getting by – to financial sustainability.

Head of Local Government Paul Dossett said: "Through Financial Foresight and our associated strategy workshops, we can support local authorities to test and appraise a range of financial strategies and levers to develop a plan for a sustainable future. The critical importance of authorities understanding their financial resilience is only going to increase, so we're proud to be leading the market with this offering."

For more information, follow the links below:

<https://www.grantthornton.co.uk/en/insights/councils-are-at-risk-but-do-they-really-know-why/>

<https://www.grantthornton.co.uk/en/insights/from-resilience-to-financial-sustainability/>

Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for councils to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies.

Whatever happens over the coming weeks and months, it is important that councils identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

Your organisation – including considerations on workforce, funding, and changes to legislation

Your services and suppliers – ensuring that critical services are protected and building resilience within supply chains

Your place – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/councils-are-at-risk-but-do-they-really-know-why/>

<https://www.grantthornton.co.uk/en/insights/from-resilience-to-financial-sustainability/>

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

Page 109

Public Sector Audit Appointments

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

ICAEW

<https://www.icaew.com/-/media/corporate/files/about-icaew/policy/local-public-audit-expectation-gap.ashx?la=en>

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NORTH DEVON DISTRICT COUNCIL

REPORT TO: AUDIT COMMITTEE

Date: 5th March 2019

TOPIC: AUDIT RECOMMENDATION TRACKER

REPORT BY: HEAD OF CORPORATE AND COMMUNITY SERVICES

1 Introduction

- 1.1 This is the regular progress report to the Committee in relation to action taken to address internal and external audit recommendations.

2. Recommendations

- 2.1 That the Committee note the actions that have been taken to address identified risks since the 4th September Committee meeting.
- 2.2 That the Committee raises any areas of concern arising from the list of outstanding recommendations.

3. Reasons for Recommendations

- 3.1 To give assurance to the Committee that audit recommendations are being actively managed, and to give the Committee a full opportunity to review any areas of concern.

4. Report

- 4.1 SMT has reviewed the high and medium risk audit recommendations to assess progress and instigate any required actions.
- 4.2 Since the last meeting the number of recommendations now tracked has risen to 1,182.


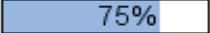
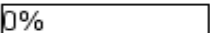
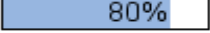
Table A) Live Audit Reports, Status & Numbers

Code	Title	Status	Progress	High Risk	Medium Risk	Low Risk
14 AP	Action Plan 2013/14	● Overdue	92%	0	1	1
14 E&D	Equality & Diversity 2013/14	● Overdue	50%	0	1	2
15 AH	Affordable Housing 2014/15	● Overdue	93%	0	1	4
15 APAP	Audit Plan Action Plan Yr End Mar 2015	● Overdue	92%	0	1	1
15 DR	Disaster Recovery 2015/16	● Overdue	89%	0	6	0
15 HN (CBL)	Housing Needs (Choice Based Lettings) 2015/16	● Overdue	80%	0	1	0
15 PSR (DFG)	Private Sector Renewal (Disability Facilities Grants) 2015/16	● Overdue	90%	0	1	2
16 BCM	Business Continuity Management 2015/16	▶ In Progress	85%	0	8	1
16 EP	Emergency Planning 2015/16	● Overdue	92%	0	5	6
16 CC	Cash Collection 2015/16	● Overdue	95%	0	0	2
16 HN (CBL)	Housing Needs (Choice Based Lettings) 2016/17	● Overdue	85%	0	0	5
16 PL	Planning Applications 2015/16	● Overdue	91%	0	3	0
16 SP	Severance Packages 2015/16	● Overdue	50%	0	1	1
16 C&CE	Contracts and Capital Expenditure	● Overdue	83%	0	2	1
17 C	Creditors (including ordering process) 2016/17	● Overdue	97%	0	0	4
17 ITAM	IT Asset Management 2016/17	▶ In Progress	87%	1	6	0
17 C&P	Commissioning and Procurement 2017/18	▶ In Progress	0%	0	2	1
17 CS	Cyber Security 2016/17	● Overdue	78%	0	3	3
17 HB	Housing Benefits 2017/18	● Overdue	50%	0	0	2
17 SRR	Security Review Report 2017/18	▶ In Progress	95%	4	5	0
17 L	Licencing 2017/18	▶ In Progress	74%	0	1	3
17 G	Grants 2017/18	▶ In Progress	71%	0	2	5
17 CSC	Customer Service Centre 2017/18	● Overdue	85%	0	1	3
17 MAS & BC	Main Accounting System & Budgetary Control 2017/2018	● Overdue	0%	0	0	2
17 PO	Parking Operations 2017/18	▶ In Progress	0%	0	2	0
18 C	Creditors (including ordering process)	▶ In Progress	50%	0	1	1

Table B) Audit recommendations setting completed since the last Audit Committee

Recommendation	Closure Note	Original Due Date	Completed Date
	None		

Table C) Outstanding Audit Recommendations where Head of Service have requested a revision to the due date

Code	Description	Progress	Latest Note	Original Due Date	Due Date
15 HN (CBL) 01 Housing Team to review the housing waiting list to confirm details are still correct / change in circumstances, that they wish to remain on the register + review all Band B every 6 months	<p>Housing Waiting List Review</p> <p>The Housing team should undertake a review of all applicants to:</p> <ul style="list-style-type: none"> Confirm that the details on the register are still correct Check whether there have been any changes in an applicant's circumstances Confirm that the applicant wants to stay on the housing register. The Housing team should also contact, or at least review, all applicants in Band B every 6 months, although this would exclude those for prevention of homelessness or statutory homelessness as these are reviewed weekly as standard. 		12-Dec-2018 Please see attached report. Request revised due date: 31st December 2019.	31-Oct-2015	31-Oct-2018
16 PL 03 S106 Agreements	We recommend that as part of the Contract audit 2016/17 a review the administration of Section 106 Agreements is completed to assess the effectiveness of service delivery.		12-Dec-2018 The S106 module of DEF (new IT system) is being developed; we don't anticipate this will be done by go live (08/05/19). Request revised due date: 31st December 2019	31-Dec-2016	30-Sep-2018
17 C&P 03 Analysis of Key Supplier Spend	Reports detailing the Council's spend per creditor should be produced on a regular basis, at least quarterly. This would enable the Council to ensure that the Contract Procedure Rules are being followed.		12-Dec-2018 Work on-going to produce this report quarterly, we will then need to engage with the Procurement team to come up with a suitable way forward. Request revised due date: 31 March 2019	31-Oct-2018	31-Oct-2018
17 SRR 06 Policies and Procedures	The Council should develop and communicate a Staff Safety & Security Policy containing at least the following themes: <ul style="list-style-type: none"> Building access and security; 		12-Dec-2018 New Violence and Aggression Policy has been drafted; run through the Union and has been cascaded at Manager Forum in December 2018. Corporate training at 2	31-Mar-2018	31-Dec-2018

	<ul style="list-style-type: none"> • Frontline officer safety; • Visiting officers/lone workers; • Unreasonable and persistent customer behaviour; • Violence and aggression markers; • Supporting staff dealing with distressing situations; • Incident reporting; • Risk assessments; and • Information sharing. <p>The reporting of all incidents should be promoted to enable an informed risk assessment of genuine risks according to local issues and to help with future planning. Documented pathways for staff exposed to incidents and how they will be supported should also be provided.</p>		<p>levels being run February 2019 with new policy adopted by end of March 2019. Health & Safety Service Lead has drafted revised Lone Working Policy and Driving for Work Policy, both being finalised. Drug and Alcohol Policy being worked on.</p> <p>Request revised due date: 31 March 2019.</p>		
<p>SRR 08 Information Sharing</p> <p>Page 115</p>	<p>The Council should ensure that the Customer Record Management system is fit for purpose and is accessible by all staff dealing with the Council's service users, especially those with violence markers. As the reporting, recording and maintaining of information on incidents will always be user dependant, it is vital that all users are trained up and encouraged to make use of and update the CRM system regularly.</p> <p>The Council should also consider a regular group email updating users on both incidents and markers.</p>	<p>75%</p>	<p>12-Dec-2018 Following revised Violence and Aggression Policy being updated, New CRM system (Firmstep) is going to be used and process has been cascaded at Manager Forum in December 2018. Level 1 and 2 access being determined on Firmstep for appropriate officers.</p> <p>Request revised due date: 31 March 2019.</p>	30-Jun-2018	30-Jun-2018
<p>17 CS 04 Policy Development and Awareness</p>	<p>The Council should develop a mobile device and remote access control working policy (to include Smartphones and Tablets) to be agreed and disseminated to all staff throughout the organisation. Alternatively this could be incorporated into the IT security policy.</p> <p>The Information Security Policy should also be updated to reflect the Council's current minimum password controls as set within Active Directory. This should then be disseminated throughout the organisation to ensure all additional applications that have access controls outside of Active Directory adhere to these requirements.</p>	<p>50%</p>	<p>Human Resources have produced a first draft. ICT have now received their Airwatch Mobile Device Management Training, which will now give us the technical ability to manage mobile devices and feed into this draft policy. Staff profiling is now complete, so we can review what our staff plan to do working from home or remotely and ensure the Policy and its communications meets the needs of the business.</p> <p>Extension of Time Request: 31 March 2019</p>	31-Mar-2018	30-Sep-2018

Table D: Outstanding Audit Recommendations

Code	Description	Progress	Latest Note	Original Due Date	Due Date
15 DR 05	Undertake new Business Impact Assessment to ensure critical systems in DR Plan are correct. Include SMT in development of DR Plan + annual BIA conducted to ensure criticality of system in line with business need	60%	14-Aug-2018 Extension of Time: A further extension of time will be required for this audit recommendation, but until all BIAs have been received, analysed and critical services identified for recovery a due date cannot be set. This is linked to 13 BCM 06.	12-Oct-2015	30-Apr-2018
15 DR 06	Test DR Plan annually. Test reports documented with lessons learn & incorporated in DR Plan. SMT be informed for DR test results to inform their decision making	75%	10-Sep-2018 Extension of Time: A further extension of time will be required for this audit recommendation, but until all BIAs have been received, analysed and critical services identified for recovery a due date cannot be set. This is linked to 13 BCM 06. 08 September 2018: The Data Centre was impacted by One Phase of the Three Phase electrical supply failing. This completely shut down the Data Centre. The ICT over the weekend brought back up all servers and associated services.	31-Dec-2015	30-Apr-2018
16 C & CE 02	Due Diligence of Consultants	50%	12-Dec-2018 This was going to be picked up as part of a review of the constitution, which has not happened as of yet. A separate report will be going to Full Council in January 2019 revising the Contract Procedural rules.	30-Sep-2016	31-Jan-2019
17 CS 02	Network Security	0%	14-Aug-2018 An extension of time is required for this action, but until the BIAs have been completed and potential	30-Apr-2018	30-Apr-2018

	<p>implemented. Reviews for existing firewall rules should be done on annual basis as a minimum. Formal training on the management of the firewalls should also be considered for at least 2 members of staff to ensure continuity of service in the event that the Senior Technical Analyst is absent for an extended period of time.</p> <p>Consideration should also be given to implementing a firewall at the Disaster Recovery site at Lynton House to ensure that the services, however limited, can be fully utilised with as minimal risk possible in the event of a disaster or loss of the main data centre at Brynsworthy.</p>		<p>mitigating action approved this action will remain overdue.</p> <p>SMT agreed (19/06) that the business impact assessments need to be reviewed again. As an output of this SMT will determine the priorities for the Disaster Recovery Plan for days 1 through to 5. ICT mitigating actions will then be determined based on the loss of each site, including the implementation of firewalls in Lynton House and an email server or whether Office 365 may be more appropriate</p>		
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 117</p> <p>G 01 Historic grant funding agreements</p>	<p>Formal funding agreements should be redefined for South Molton Swimming Pool, North Devon +, the Exeter Area Rail Project and the Biosphere Partnership. These should include grant values, rolling annual cost reductions where appropriate, payment dates, funding review mechanism, and relevant grant monitoring processes, in order to better safeguard and provide for the projects that the Council supports.</p>	<p style="text-align: center;">75%</p>	<p>For the current year (18/09) South Molton Swimming Pool grant is 100% complete. A report was taken to Executive on 4 September 2019, which approved a one year grant payment. A funding agreement was prepared and signed. The grant was paid. Service level agreement with Biosphere Foundation is in progress. 25% complete..The Exeter Area Rail Grant was paid for 2018/19 year and a review has taken place which is proposing for the funding to be removed from 2019/20 onwards, hence no requirement for a funding agreement to be in place. This is subject to Full Council ratification 25/02/19.</p>		<p>31-Dec-2018</p>

5. Progress tracking of Annual Governance Statement

5.1 An annual review of NDC's governance arrangements leads to the Annual Governance Statement, which forms part of the Statement of Accounts.

5.2 In addition to any other issues the review captures recommendations from external and internal audit and inspections and sets out an action plan. This plan is tracked through Covalent.

2013/14 AGS action plan is 98 % complete

2014/15 AGS action plan is 96 % complete

6. Constitution Context




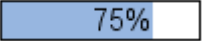
Appendix and paragraph	Referred or delegated power?
5.5	Delegated

7. Statement of Internal Advice

7.1 The author (below) confirms that advice has been taken from all appropriate Councillors and officers.

Author: Sarah Higgins Date: 19th February 2019
Reference: Audit Recommendation Report March 2019 V.1.1

Table E: Annual Governance Statement

Code	Description	Status	Progress Bar	Latest Note	Original Due Date	Due Date
14 AGS 02 Review & update the IT Disaster Recovery Plan	To have in place an adequate plan and policy to deal with major ICT risks	 In Progress	 90% No Change	11-May-2018 Following a workshop delivered by Zurich on a possible Cyber Scenario in November 2017, Managers were tasked with re-writing their plans by December 2017 to enable analysis to be carried out. Not all of these plans were completed. JM now taking responsibility for their completion and analysis. I don't believe a realistic deadline date can be set for this action until the above piece of work has been completed.	31-Mar-2015	30-Apr-2018
15 AGS 08 Complete audit recommendations to comply with agreed deadlines		 Overdue	 75% No Change	12-Jan-2017 There are some 2015/16 audit recommendations outstanding that are currently still being working on.	31-Mar-2016	31-Mar-2016

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Audit Committee Work Programme 2018/19

This work programme provides structure for the Audit Committee to ensure it receives reports and updates at the appropriate meetings throughout the year. It is reviewed and updated at each committee meeting.

	6/3/18	12/6/18	23/7/18	4/9/18	6/11/18	8/1/19	5/3/19
North Devon Council items			New Date 14/8/18		Cancelled		
Review of the Committee's Terms of Reference							
Annual Review of the Committee's effectiveness (JT)							
Half Yearly Report from the Chair of the Audit Committee (KJ).							
Annual Governance Statement							
Statement of Accounts							
Letter of Representation (JT)							
Corporate Risk Register (SH)				Moved to 8/1/19			
Major changes to Accounting Policies Management procedures to be reported by the Head of Resources							
Review on Governance Arrangements							
21:21 Phase 2 Report (KM)			Moved to 4/9/18	Moved to 8/1/19			
Update on Business Continuity (AP)						To follow in June 2019/20	
Growth Agenda Update (Ec Dev))							

	6/3/18	12/6/18	23/7/18	4/9/18	6/11/18	8/1/19	5/3/19
Internal Audit items			New Date 14/8/18		Cancelled		
Internal Audit Annual report							
Internal Audit Strategy and Plan							
Internal Audit Charter							
External Audit items					Cancelled		
External Audit Fee Letter							
External Audit Findings Report							
External Audit Annual Audit Letter				(JT)			
External Audit Plan							As agreed 14/8/18
Certification Work Report							
External Audit Progress Report and Sector Update				(JT)			
Standing Items					Cancelled		
Internal Audit Progress Report							
Audit Recommendation Tracker							
Work Programme							

Audit Committee Work Programme 2019/20

This work programme provides structure for the Audit Committee to ensure it receives reports and updates at the appropriate meetings throughout the year. It is reviewed and updated at each committee meeting.

	Jun 2019	Jul 2019	Sep 2019	Nov 2019	Jan 2020	Mar 2020
North Devon Council items						
Review of the Committee's Terms of Reference						
Annual Review of the Committee's effectiveness (JT)						
Half Yearly Report from the Chair of the Audit Committee (KJ).			Sept each year			March each year
Annual Governance Statement						
Statement of Accounts						
Letter of Representation (JT)						
Corporate Risk Register (SH)						
Major changes to Accounting Policies Management procedures to be reported by the Head of Resources						
Review of Governance Arrangements t.b.a.						
21:21 Phase 2 Report (KM) t.b.a.						
Update on Business Continuity t.b.a.						
Growth Agenda Update (Ec.Dev) t.b.a.						

	Jun 2019	Jul 2019	Sep 2019	Nov 2019	Jan 2020	Mar 2020
Internal Audit items						
Internal Audit Annual report						
Internal Audit Strategy and Plan						
Internal Audit Charter						
External Audit items						
External Audit Fee Letter						
External Audit Findings Report						
External Audit Annual Audit Letter						
External Audit Plan						
Certification Work Report						
External Audit Progress Report and Sector Update						
Standing Items						
Internal Audit Progress Report						
Audit Recommendation Tracker						
Work Programme						

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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