



# North Devon District Council

## Internal Audit Annual Report 2018/19

August 2019

This report has been prepared on the basis of the limitations set out on page 11.

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*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 at the end of this Report for further information about responsibilities, limitations and confidentiality*

# Introduction

## Purpose of this Report

This report summarises the work that Internal Audit has undertaken and the key control environment themes identified across North Devon District Council (the Council) during 2018/19, the service for which is provided by Mazars LLP.

The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2011). The PSIAS requirements are that the report must include:

- An annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (the control environment);
- A summary of the audit work from which the opinion is derived (including reliance placed on the work by other assurance bodies); and
- A statement on conformation with the PSIAS and the results of the Internal Audit Quality Assurance and Improvement Programme (QAIP), if applicable.

The report should also include:

- The disclosure of any qualifications to that opinion, together with reasons for the qualification;
- The disclosure of any impairments or restriction in scope;
- A comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets;
- Any issues judged to be particularly relevant to the preparation of the annual governance statement; and
- Progress against any improvement plans resulting from QAIP external assessment.

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

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.

## Overview of Internal Audit Approach

As Internal Audit, our role is to provide an annual assurance statement on the adequacy and effectiveness of the Council's systems of governance, risk management and internal control.

## Overview of Work Done

The Audit Plan for 2018/19 included 18 internal audit projects. We have liaised with senior management throughout the year to ensure that internal audit work undertaken continues to focus on the high risk areas and, in the light of new and ongoing developments in the Authority, help ensure the most appropriate use of our resources.

We generally undertake individual internal audit projects with the overall objective of providing Members, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls over a number of management's objectives. Other audit projects are geared more towards the provision of specific advice and support to management to enhance the economy, efficiency and effectiveness of the services and functions for which they are responsible. We also undertake IT audits, probity audits and anti-fraud work. All internal audit work was performed in compliance with the PSIAS.

All internal audit reports include our recommendations and agreed actions that, if implemented by management, will enhance the control environment and the operation of the key management controls.

## Compliance with the PSIAS

During our internal audit work we practice the principles of the PSIAS. The PSIAS require periodic self-assessment and an assessment by an external person every five years. Our self-assessment with the PSIAS is complete.

The outcome of this external assessment is stated within the resulting report as:-

“From the evidence reviewed as part of the external quality assessment, no areas of noncompliance with the public sector internal audit standards have been identified that would affect the overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance.

***On this basis, it is our opinion that Mazars GRIC - Public Services conforms to the requirements of the Public Sector Internal Audit Standards and the Local Government Application Note.***”

This report sets out the results of the work performed as follows:

- **Overall summary** of work performed by Internal Audit including an analysis of report gradings; and
- **Key themes identified** during our work in 2018/19.

In this report, we have drawn on the findings and assessments included in all internal audit reports issued in 2018/19, including those that, at this time, remain in draft. It should be noted therefore that the comments made in respect of any draft reports are still subject to management response.

## Overall Summary

As illustrated in the tables below, we have noted an overall consistency in North Devon District Council's control environment during the audit year. During 2018/19, 8 out of 18 internal audit projects, where an assurance rating was relevant, were rated 'substantial assurance' compared with 11 out of 18 in the prior year. One out of 18 has been rated with 'full assurance', in comparison with none in the prior year. Two audit reports (Crematorium and Follow up) do not provide an opinion. We have also noted that at this point in time, the Council has one internal audit projects rated 'limited assurance' in comparison to nil in the previous year.

### Report Ratings

As in 2017/18, we have noted areas of improvement throughout the Council. All financial audit reports were issued with substantial assurance and the overall number of recommendations decreased favourably from 34 to 22.

We are pleased to report that, to date, we have not issued any 'nil assurance' or 'Limited Assurance' opinions in 2018/19.

Assurance Gradings	Number of Projects			
	2018/19		2016/18	
Full	1	6%	0	0%
Substantial	8	50%	11	69%
Limited	1	6%	0	0%
Nil	0	0%	0	0%
<i>Still in Draft</i>	6	38%	5	31%
<b>Sub-Total</b>	<b>16</b>		<b>16</b>	
Merged Audits / No Opinion Audits	2		2	
<b>Total Audits Delivered</b>	<b>18</b>		<b>18</b>	
Audits Cancelled / Deferred (IT)	0		1	
<b>Total</b>	<b>18</b>		<b>19</b>	

## Opinion 2018/19

From the Internal Audit work undertaken in compliance with the PSIAS in 2018/19, it is our opinion that we can provide **Substantial Assurance** that the system of internal control in place at North Devon District Council for the year ended 31 March 2019 accords with proper practice, except for the significant control environment issues as documented in Appendix 1. The assurance can be further broken down between financial and non-financial systems, as follows:



## Key Themes Identified

**As Internal Audit continues to apply a risk based approach, our audit projects assess the governance framework, the risk management process as well as the effectiveness of controls across a number of areas. Our findings on these themes are set out below. Overall, we have seen a good improvement in the control environment and whilst further remedial action needs to take place, we have noted that management has already started addressing our most significant findings.**

### Corporate Governance

As part of our work this year, we have again completed an evaluation of the governance arrangements in order to assist the Council and the S.151 officer in the preparing the Annual Governance Statement for 2018/19.

As in 2017/18, we have concluded that there is reasonable assurance that the Council's governance arrangements are largely compliant with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on:

- The external auditor's annual audit letter 2016718, where no significant weaknesses in the internal control arrangements were identified, and
- Our audit of the Council's corporate governance arrangements that provided an overall substantial assurance rating.

### Risk Management

Based on an internal audit of the Council's risk management framework, we have concluded that there is reasonable assurance that the Council's risk management processes are sufficiently formalised and provide information on key risks and issues relating to directorates and the Council as a whole. We found there are processes for identification, recording, and reporting risks, controls, and to help identify action plans to mitigate risks to an acceptable level. The audit provided an overall substantial assurance rating, and we have raised recommendations to further enhance and embed risk management processes.

### Internal Control - Key Financial Systems

Each year Internal Audit carries out audit projects of the Council's key financial systems, working in accordance with the managed audit process agreed with the external auditors.

The control environment around key financial systems is similar to 2017/18 with all financial audit reports continuing to have substantial assurance.

A summary of key findings for all 2018/19 Internal Audit projects rated as nil/limited is included at Appendix 1.


### Performance of Internal Audit

At the start of the contract, a number of performance indicators were formulated to monitor the delivery of the Internal Audit service to the Council. The table below shows the actual and targets for each indicator for the period:

Performance Measure	Target	Actual
A close out meeting to be held for each audit	100%	100%
Average period between the close out meeting and issue of the draft report	10 days	4.4 days
Average period between the receipt of final management responses and issue of the final report	10 days	1 day
Average customer satisfaction score (measured by survey for each audit) – (Target is 85% of 3 or above) 5=Very good; 4=Good; 3=Satisfactory; 2=Poor; 1= Very poor	4	3.83







## Appendix 1 - Audit Projects with Limited and Nil Assurance 2018/19

Project	Grading	Summary of Key Findings
Email Exchange	Limited  	<p><b>Email Policy</b></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><b>Email Management</b></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><b>Access requests and changes to the mailboxes</b></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><b>Email Security</b></p> <p>We noted that the current e-mail system does not fully meet the Governments Digital Service guidelines.</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>

## Appendix 2 - Key to Assurance Levels




### Assurance Gradings

We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

Assurance Level	Evaluating and Testing Conclusion
 <b>Full</b>	<p>There is a sound system of internal control designed to achieve the Council's objectives</p> <p>The control processes tested are being consistently applied.</p>
 <b>Substantial</b>	<p>While there is a basically sound system of internal control, there are weaknesses, which put some of the Council's objectives at risk.</p> <p>There is evidence that the level of non-compliance with some of the control processes may put some of the Council's objectives at risk.</p>
 <b>Limited</b>	<p>Weaknesses in the system of internal controls are such as to put the Council's objectives at risk.</p> <p>The level of non-compliance puts the Council's objectives at risk.</p>
 <b>Nil</b>	<p>Control processes are generally weak leaving the processes/systems open to significant error or abuse.</p> <p>Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.</p>

### Recommendation Gradings

In order to assist management in using our internal audit reports, we categorise our recommendations according to their level of priority as follows:

Priority Level	Definition
<b>1</b>  <b>High</b>	Major issues for the attention of senior management and the audit committee.
<b>2</b>  <b>Medium</b>	Important issues to be addressed by management in their areas of responsibility.
<b>3</b>  <b>Low</b>	Minor issues resolved on site with local management.

## Appendix 3 - Progress against the Annual Operational 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	<b>Substantial</b>	<b>0</b>	<b>1</b>	<b>2</b>	Final Report 21 <sup>st</sup> August 2019
2.	Main Accounting System and Budgetary Control	Q3	12	High	<b>Substantial</b>	<b>0</b>	<b>0</b>	<b>1</b>	Final Report 5 <sup>th</sup> March 2019
3.	Creditors	Q3	10	Medium	<b>Substantial</b>	<b>0</b>	<b>1</b>	<b>2</b>	Final Report 16 <sup>th</sup> August 2018
4.	Payroll	Q1	10	Medium	<b>Substantial</b>	<b>0</b>	<b>0</b>	<b>1</b>	Final Report 16 <sup>th</sup> August 2018
5.	Cash Collection	Q2	8	Medium	<b>Substantial</b>	<b>0</b>	<b>0</b>	<b>1</b>	Final Report 13 <sup>th</sup> December 2018
6.	Council Tax and NNDR (including NNDR maximisation)	Q3	15	Medium	<b>Substantial</b>	<b>0</b>	<b>0</b>	<b>1</b>	Final Report 8 <sup>th</sup> January 2019
7.	Housing Benefits	Q1	10	Medium	<b>Substantial</b>	<b>0</b>	<b>0</b>	<b>1</b>	Final Report 12 <sup>th</sup> December 2018
8.	Efficiency savings	Q2	10	Medium	<b>Full</b>	<b>0</b>	<b>0</b>	<b>0</b>	Final Report 23 <sup>rd</sup> August 2019
9.	Waste Management (Refuse and Recycling)	Q3	10	Medium					Draft Report
10.	Regeneration Projects	Q1	10	Medium					Draft Report
11.	Business Continuity	Q2	10	High					Draft Report
12.	Civil Contingencies Plan	Q1	10	High					Draft Report
13.	IT Audits: - GDPR - Email Exchange	Q4	11 11	High	<b>Substantial</b> <b>Limited</b>	<b>0</b> <b>0</b>	<b>1</b> <b>3</b>	<b>5</b> <b>1</b>	Final Report 19 <sup>th</sup> February 2019 Final Report 24 <sup>th</sup> January 2019
14.	Fraud, Bribery & Ethics National Fraud Initiative	Q2	8	Low	2pm 30/4/19				Draft Report
15.	VAT	Q1	10	Low					Draft Report

	Audit Title	Proposed Quarter	Planned Days	Anticipated Risk Level	Assurance	Priority One	Priority Two	Priority Three	Status
16.	Crematorium	Q4	3	Low					Draft Report
17.	Follow Up	Q4	10	N/A			1		Final Report 22 <sup>nd</sup> August 2019
18.	Contingency		20	N/A					
19.	Audit Management		22	N/A					
	<b>Total</b>		<b>220</b>			<b>0</b>	<b>7</b>	<b>15</b>	

## 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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