



North Devon District Council  
Internal Audit Annual Report 2019/20

May 2020

This report has been prepared on the basis of the limitations set out on page 13.

## Contents

Introduction.....	1
Key Themes Identified .....	6
Appendix 1 - Audit Projects with Limited and Nil Assurance 2019/20 .....	8
Appendix 2 - Key to Assurance Levels .....	10
Appendix 3 – Summary of the Annual Operational Internal Audit Plan 2019/20 .....	11
Statement of Responsibility.....	13

*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 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 2019/20, the service for which was provided by Mazars LLP.

The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit (HOIA) annual reporting requirements set out in the UK Public Sector Internal Audit Standards (PSIAS). 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 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 2019/20 included 18 internal audit projects, which due to various factors including resourcing constraints, the contract ending on 31 March 2020 and the impact of Coronavirus pandemic (Covid-19) was reduced to 11. However, together with the 9 audits from 2018/19 that were finalised after the last Internal Audit Annual Report in August 2019, we consider sufficient work has been conducted to provide the enclosed HOIA opinion. We have liaised with senior management throughout the year regarding the factors impacting on delivery and to ensure that internal audit work undertaken continues to focus on the high risk areas in order to 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 2019/20.

In this report, we have drawn on the findings and assessments included in all internal audit reports issued in 2019/20, 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, based on the audit work performed the overall assurance levels of assignments are broadly similar year on year. During 2019/20, 8 out of 11 internal audit projects, where an assurance rating was relevant, were rated 'Substantial Assurance' compared with 10 out of 18 in the prior year. In 2019/20, 2 were rated with 'Full Assurance', in comparison with 3 in the prior year. We have not issued any 'Limited Assurance' or 'Nil Assurance' reports during 2019/20 but had issued 3 'Limited Assurance' and 1 'Nil Assurance' opinions during 2018/19. One audit report (Follow up) does not provide an opinion.

### Report Ratings

As in 2018/19, we have noted areas of improvement throughout the Council. The financial audit reports were all issued with a 'Substantial Assurance', except for Treasury Management which had a 'Full Assurance'. The overall number of recommendations contained in 2019/20 reports was 24 compared to 36 in 2018/19 reports.

Assurance Gradings	Number of Projects			
	2019/20		2018/19	
Full	2	20%	3*	17.5%
Substantial	4	40%	10*	59%
Limited	0	0%	3*	17.5%
Nil	0	0%	1*	6%
<i>Still in Draft (all assessed as Substantial)</i>	4	40%	0	0%
<b>Sub-Total</b>	<b>10</b>		<b>17</b>	
Merged Audits / No Opinion Audits	1		1	
<b>Total Audits Delivered</b>	<b>11</b>		<b>18</b>	
Audits Cancelled / Deferred (HR, Housing Needs, New Housing Schemes, Building Control, Performance Management, Safeguarding, IT)	7		0	
<b>Total</b>	<b>18</b>		<b>18</b>	

\* 2018/19 audits where report was issued during 2019/20 from which we are taking assurance:

Efficiency savings	Full
Waste Management (Refuse and Recycling)	Substantial
Regeneration Projects	Full
Business Continuity	Nil
Civil Contingencies Plan	Limited
Fraud, Bribery & Ethics National Fraud Initiative	Limited
VAT	Substantial
Crematorium	Full
Follow Up	N/A

## Opinion 2019/20

From the Internal Audit work undertaken in compliance with the PSIAS in 2019/20, it is our opinion that we can provide **Substantial Assurance** that the system of internal control in place at the Council for the year ended 31 March 2020 accords with proper practice, except for Business Continuity management where a Nil assurance grading was issued, see details 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 consistent level of assurances across the control environment and whilst further remedial action needs to take place, we have noted that management continue to address 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 2019/20.

As in 2018/19, we have concluded that there is reasonable assurance that the Council's governance arrangements are largely compliant with the good practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on:

- The external auditor's annual audit letter 2018/19 (dated 19 July 2019), 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 2018/19 with all financial audit reports continuing to have substantial assurance, except Treasury Management which was given a Full Assurance.



### 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	28.2 days *
Average period between the receipt of final management responses and issue of the final report	10 days	2.2 days

\* Performance in this metric was impacted by the absence and personal issues of the Engagement Manager, of which the Council were aware.

## Appendix 1 - Audit Projects with Limited and Nil Assurance 2019/20

There were no 'Limited Assurance' or 'Nil Assurance' reports issued in 2019/20 from the 2019/20 Audit Plan but the following audits from the 2018/19 Audit Plan were finalised during the 2019/20 year and were not included in our 2018/19 Annual Internal Audit Report.





Project	Grading	Summary of Key Findings
Business Continuity	Nil 	<p><a href="#">Business Continuity Policy and Plan</a></p> <p>Examination of the Business Continuity Management (BCM) Policy and Business Continuity Incident Management (BCIM) Plan noted that both were dated July 2016 and that there was a requirement to review both in June 2017. No evidence of any review was evident.</p> <p><a href="#">Resilience Direct user access</a></p> <p>Discrepancies between those individuals with access to Resilience Direct and those identified as owners of Service Resumption Plans were identified, including no access for four key officers and access still being in place for a former senior Council officer.</p> <p><a href="#">Service Resumption Plans</a></p> <p>We noted that the 11 Service Resumption Plans were all dated 2016 with a requirement for review in 2017 but no such review was evident.</p> <p><a href="#">Testing of Service Resumption Plans</a></p> <p>Examination of the Service Resumption Plans confirmed that these had not been reviewed or updated to include any findings from any test, not did these record a test as having been completed. There were no records of tests / exercises on Resilience Direct.</p>
Civil Contingencies Plan	Limited 	<p><a href="#">Emergency Incident Plans</a></p> <p>The Major Incident Response and Recovery Plan was produced in January 2016 and included a requirement for it to be reviewed annually, or as a result of any recommendations arising as a result of an incident / exercise. No review or update of the plan was evident.</p> <p>The Small Rest Centre Plan was produced in January 2015 and was required to be updated following any incident or exercise, or within three years of the date of the plan, yet no review or update was evident.</p> <p>The Standby Manual, dated January 2018, showed changes from a previous version but had not been updated to reflect the details for Councillor changes from the May 2019 election.</p> <p><a href="#">Silver Team Details</a></p> <p>We established that the Council's Silver Team contact details was dated November 2015 and contained out of date information.</p> <p><a href="#">Resilience Direct</a></p>

Project	Grading	Summary of Key Findings
		<p>We noted that the Devon, Cornwall and Isles of Scilly Resilience Forum (CAERP) emergency plan was not held in the folders within Resilience Direct, neither was the Devon County Council or Local Resilience Forum (LRF) plans relevant to the Council.</p> <p><a href="#">Exercise Shark</a></p> <p>We established that whilst the Council completed Exercise Shark on 14 March 2019 and the Adler &amp; Allan Ltd report on the exercise concluded that there was a positive ability to respond to an incident, it identified some areas of improvement to be made but as the lessons learnt from the exercise had not been fed into the Major Incident Response &amp; Recovery Plan as it had not been reviewed and updated.</p>
<p>Fraud, Bribery &amp; Ethics</p>	<p>Limited</p> 	<p><a href="#">Service Risk Registers</a></p> <p>It was identified that 9 of the 15 Red RAG rated service risks detailed in the Pentana system were recorded as last being assessed in 2017.</p> <p><a href="#">Monitoring Fraud awareness e-learning</a></p> <p>The Council has a fraud awareness e-learning module which is mandatory for all employees, who have not received any other training. We noted that the Exchequer Manager is required to issue an email reminder to all staff requesting those who had not completed the training to do so but this had not been done since December 2017.</p> <p><a href="#">Documented Procedures</a></p> <p>We requested details of any detailed procedures for the actual conduct of investigations, but these were not received therefore we concluded that these did not exist.</p> <p><a href="#">Reporting Management Information</a></p> <p>We requested evidence to support that periodic reports are produced which summarise the numbers of irregularities referred, nature of these irregularities, outcome of the investigations and actions taken, but none was received so it was concluded that such reports did not exist.</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> 	Major issues for the attention of senior management and the Governance Committee.
<b>2</b> 	Important issues to be addressed by management in their areas of responsibility.
<b>3</b> 	Minor issues resolved on site with local management.

## Appendix 3 – Summary of the Annual Operational Internal Audit Plan 2019/20

	Audit Title	Proposed Quarter	Planned Days	Anticipated Risk Level	Assurance	Priority One	Priority Two	Priority Three	Status
1	Council Tax and NNDR	Q2	15	Medium	Substantial	0	1	1	Final Report 17 March 2020.
2	Housing Benefits	Q2	10	Medium	Substantial	0	1	1	Final Report issued 23 April 2020.
3	Payroll	Q1	10	Medium	Substantial	0	0	1	Final Report issued 6 April 2020.
4	Debtors	Q1	8	Medium	Substantial	0	2	2	Final Report Issued 27 February 2020.
5	Treasury Management	Q1	8	Medium	Full	0	0	0	Final Report 11 February 2020.
6	Corporate Governance and Risk Management	Q3	10	Medium	Substantial	0	3	2	<i>Draft Report</i>
7	Human Resources	Q3	10	Medium	N/A				**
8	Main Accounting System and Budgetary Control	Q3	12	High	Substantial	0	0	2	<i>Draft Report</i>
9	Housing Needs	Q3	10	Medium	N/A				**
10	New Housing Schemes	Q4	10	Medium	N/A				**
11	Building Control	Q4	10	Medium	N/A				**
12	CCTV**	Q4	8	Medium	Substantial	0	1	2	<i>Draft Report</i>
13	Contracts & Capital Expenditure	Q4	10	High	Substantial	0	5	0	<i>Draft Report</i>
14	Performance Management	Q4	10	Medium	N/A				**
15	Safeguarding	Q3	8	Low	N/A				**
16	Follow Up	Q4	10	N/A	N/A	N/A	N/A	N/A	<i>Draft Report</i>
17	Crematorium	Q4	3	N/A	Full	0	0	0	Final Report issued 7 April 2020
18	IT	Q4	22	High	N/A				**

	Audit Title	Proposed Quarter	Planned Days	Anticipated Risk Level	Assurance	Priority One	Priority Two	Priority Three	Status
	Audit Management		22	N/A	N/A				
	<b>Total</b>		<b>206</b>			<b>0</b>	<b>13</b>	<b>11</b>	

\*\* Audit not conducted due to resource constraints, the contract ending and Covid-19.

## 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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