

9. INTERNAL AUDIT ANNUAL REPORT 2012/13

Report from: Audit Manager
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Wards Affected: All
Key Decision No

EXECUTIVE SUMMARY AND RECOMMENDATIONS

1. Purpose of Report.

This is the annual report of the Internal Audit function of Mid Sussex District Council for 2012/13.

2. Summary

- 2.1 The Internal Audit section completed the programme of audits for the year ended 31st March 2013 in accordance with the CIPFA Code of Practice for Internal Audit. In carrying out its work the full cooperation of management and staff was gratefully received throughout the year.
- 2.2 All of the audits within the plan have now been completed. There were no high priority recommendations for any of the audits carried out by Internal Audit. However, one high priority recommendation was raised as part of the Council Tax audit conducted on behalf of the CenSus Partners by Adur's Internal Audit team.
- 2.3 No significant special investigations were performed during the year.
- 2.4 It is the opinion of Internal Audit that on the whole the Council had an adequate, effective and reliable framework of internal control.
- 2.5 We welcome the Audit Committee's role in monitoring the implementation of these recommendations.

3. Recommendations

The Committee is asked to receive the report.

INTERNAL AUDIT ANNUAL REPORT FOR 2012/13

1 Introduction and Background

- 1.1 Internal Audit is a key part of the Council's internal control environment. Central to its role is assessing the adequacy and effectiveness of the systems and controls that have been put in place by management. To this end the work undertaken is designed to:

- inform the members and senior management to what extent they can rely on the internal controls;

- to make recommendations to enhance controls where weaknesses are identified; and
 - advise individual managers on the reliability of the systems and associated controls for which they are responsible.
- 1.2 The internal control environment comprises the whole network of systems and controls established to ensure that the Council's objectives are met. It includes financial and other controls and also arrangements for ensuring that the Council is achieving value for money from its activities.
- 1.3 There have been no restrictions imposed on the scope of the internal audit function.

Specific requirements for Internal Audit

- 1.4 The Accounts and Audit (England) Regulations 2011 require the Council to comply with proper practices regarding its arrangements for internal audit and internal control. The regulations cite the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) as proper practice in relation to internal audit. This report is therefore prepared in compliance with the CIPFA Code of Practice (CoP).
- 1.5 The Code defines the way in which the internal audit service should be established and undertakes its functions and applies equally to internal audit services provided by in-house audit teams and by external contractors, who provide either partial services in support of an in-house team or the whole internal audit service.
- 1.6 The Code consists of standards in two groupings. The first encompasses the organisational and structural aspects of internal audit; the second encompasses the activity and operation of internal audit.

Organisational standards

- 1 Scope of internal audit;
- 2 Independence;
- 3 Audit committees or equivalent;
- 4 Relationships with management, other auditors and other review bodies; and
- 5 Staffing, training and development.

Operational standards

- 6 Audit strategy;
- 7 Management of audit assignments;
- 8 Due professional care;
- 9 Reporting; and
- 10 Quality assurance.

- 1.7 It should be noted that with effect from 1st April 2013 the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) has been replaced by the new UK Public Sector Internal Audit Standards (PSIAS) that now apply across the whole of the public sector. The Internal Audit function is therefore operating in compliance with the PSIAS from 2013/14 onwards.

Annual Governance Statement

- 1.8 Regulation 4 of the Accounts and Audit (England) Regulations 2011 requires the Council to carry out an annual review of its systems of internal control, and for a committee of the Council to consider the outcome of the review. This requirement has now been replaced by the Annual Governance Statement (AGS). The Annual Governance Statement was included within the Statement of Accounts for the Year ended 31st March 2012.

This report

- 1.9 This annual report has been produced in accordance with the requirements of the Code of Practice. It covers the effectiveness of internal control for the period 1st April 2012 to 31st March 2013.
- 1.10 Whilst the report contributed towards the process outlined above, it should be noted that the Annual Governance Statement can provide only reasonable assurance that, for example: assets are safeguarded; transactions authorised and properly recorded; and that material errors or irregularities are either prevented or would be detected within a timely period.
- 1.11 It should be noted that it is not Internal Audit's responsibility to operate the system of internal control; that is the responsibility of management. Furthermore, it is management's responsibility to determine whether to accept and implement recommendations made by internal audit or, alternatively, to recognise and accept any risks arising from not taking action.

2. Internal Audit activity during 2012/13

Significant events during the year

- 2.1 The most significant events and circumstances during the year, from a control perspective, were:
- the processing of the MSDC Bank Reconciliations;
 - continued development of the CenSus Partnership arrangements for both ICT and Revenues & Benefits; and
 - continuing pressure on resources impacting on segregation of duties in a small number of areas.

Factors affecting the extent of our internal audit work

- 2.2 There were no factors, which have affected the extent of our internal audit work during the year. However, the continued working arrangements with the external auditors (Ernst & Young) have reduced the duplication of some aspects of the audit coverage. Our work included specific testing in respect of the Fundamental Audits to ensure the external auditors were able to place the relevant assurances on the areas covered.

The Audit Plan

- 2.3 The 2012-2013 audit plan was agreed by the Head of Finance (Council's s151 officer) and the Audit Committee was asked to receive the report.

- 2.4 The 2012-2013 audit plan was completed in full and included audits of the Council's fundamental systems, operational audits and computer audits, along with ad-hoc reviews.

3. Assurance

- 3.1 As the provider of an internal audit service to Mid Sussex District Council we are required by the CIPFA Code of Practice to provide the Council with assurance on the whole system of internal control. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the whole system of internal control. In assessing the level of assurance to be given we have taken into account:

- (a) the findings arising from audits undertaken during 2012/13 and in previous years;
- (b) the results of management action taken in respect of recommendations made in audits from the current and previous years;
- (c) whether or not any high or medium recommendations have not been accepted by management, and the consequent risks;
- (d) the effects of any material changes in the Council's objectives or systems;
- (e) matters arising from previous reports of the external auditor;
- (f) whether or not any limitations have been placed on the scope of internal audit;
- (g) whether or not there have been any resource constraints that may impinge on the Head of Finance's ability to meet the full audit needs of Mid Sussex District Council; and
- (h) what proportion of the audit needs has been covered to date.

- 3.2 The matters raised in this report are only those that came to our attention during our internal audit work during the course of the year, and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all improvements that may be required.

- 3.3 This report is prepared by HW Controls & Assurance LLP solely for the use of Members and Officers of Mid Sussex District Council. Details may be made available to the specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

Overall assurance

- 3.4 In our opinion, for the 12-month period to 31st March 2013, Mid Sussex District Council had an adequate, effective and reliable framework of internal control that provides reasonable assurance regarding the effective and efficient achievement of the Council's objectives.

- 3.5 Internal Audit made only one recommendation classed as high priority during 2012/13. This is detailed in separate monitoring reports provided to the Audit Committee throughout the year.

Operational assurance

- 3.6 The internal audit service examined systems operating to achieve the Council's objectives in several areas.
- 3.7 During the conduct of our audit work we have had regard to the following objectives of internal audit:
- (a) to review and appraise the soundness, adequacy and application of the whole system of internal control;
 - (b) to ascertain the extent to which the whole system of internal control ensures compliance with established policies and procedures;
 - (c) to ascertain the extent to which the assets and interests entrusted to or funded by the Council are properly controlled and safeguarded from losses of all kinds;
 - (d) to ascertain that management information is reliable as a basis for the production of financial, statistical and other returns;
 - (e) to ascertain the integrity and reliability of information provided to management including that used in decision making; and
 - (f) to ascertain that systems of control are laid down and operate to achieve the most economic, efficient and effective use of resources.
- 3.8 The level of assurance given by an individual audit is directly related to the significance of the findings and categories given to the resultant recommendations. The findings and recommendations ranked as high were reported in detail to the Audit Committee.

Policy Context

4. This report explains how Internal Audit contributed to the work of the Council, which is in accordance with the Corporate Plan.

Financial Implications

5. This is a report on the activity of Internal Audit in the previous year and as such does not have any financial implications. The budget for Internal Audit relating to work undertaken during 2012/13 has been discussed previously in the Revenue Budget Management reports for the year.

Background Papers

Internal Audit reports in 2012/13
Agendas, papers and minutes for the Audit Committee during 2012/13.

