

7. INTERNAL AUDIT ANNUAL REPORT 2016/2017

Report from: Audit Manager
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Wards Affected: All
Key Decision No
Date of Meeting 1st August 2017

EXECUTIVE SUMMARY AND RECOMMENDATIONS

1. Purpose of Report.

This is the annual report of the Internal Audit function of Mid Sussex District Council for 2016/2017.

2. Summary

- 2.1 The Internal Audit section completed the programme of audits for the year ended 31st March 2017 in accordance with the UK Public Sector Internal Audit Standards (PSIAS). 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 and we can report that no high priority findings were identified during the financial year in question.
- 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. Recommendation

The Committee is asked to receive the report.

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 undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Proper practices as stated within the Regulations are now defined as the Public Sector Internal Audit Standards (PSIAS). The PSIAS replaced the CIPFA Code of Practice for Internal Audit in Local Government (2006) with effect from 1 April 2013.

1.5 The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced. The PSIAS included an updated definition of internal auditing, further emphasising the role of internal audit in reviewing all systems of risk, governance and internal control. The definition also focuses on the role of Internal Audit in assisting the organisation to achieve its objectives.

1.6 The PSIAS require the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter. Additionally, internal auditors must conform to a Code of Ethics: Integrity; Objectivity; Confidentiality; and Competency. The Code of Ethics includes two components:

- 1) Principles that are relevant to the profession and practice of internal auditing; and
- 2) Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

1.7 The PSIAS are split into two groupings. The 'Attribute' Standards address the characteristics of organisations and parties performing internal audit activities. The 'Performance' Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated:

Attribute standards

- 1 Purpose, Authority and Responsibility;
- 2 Independence and Objectivity;
- 3 Proficiency and due professional care; and
- 4 Quality assurance and improvement programme.

Performance standards

- 5 Managing the internal audit activity;
- 6 Nature of work;
- 7 Engagement planning;
- 8 Performing the engagement;
- 9 Communicating results;
- 10 Monitoring progress; and
- 11 Communicating the acceptance of risks.

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 2017.

This report

- 1.9 This annual report has been produced in accordance with the requirements of the PSIAS. It covers the effectiveness of internal control for the period 1st April 2016 to 31st March 2017.
- 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 the responsibility of Internal Audit to operate the system of internal control; rather, this 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 2016/2017

Significant events during the year

- 2.1 During the financial year under review, there were no significant events to report on during the year.

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.

The Audit Plan

- 2.3 The 2016-2017 audit plan was agreed by the Head of Finance and ICT (Council's S151 Officer) and the Audit Committee was asked to receive the report.
- 2.4 The 2016-2017 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 Statement by the Internal Audit Provider

- 3.1 As the provider of an internal audit service to Mid Sussex District Council I am required by the PSIAS to provide the Council with assurance on the whole system of internal control. In giving my 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 2016/2017 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 Corporate Resources' 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 Gillian Edwards, Audit and Risk Manager at Crawley Borough Council, acting as Head of Audit for Mid Sussex District Council as part of a shared service arrangement. 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 my opinion, for the 12-month period to 31st March 2017, 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 During this period we raised seven recommendations classed as high priority, six of which arose from the Procurement audit and one from the Anti-Fraud audit. These have been reported to the Audit Committee throughout the year and testing has been undertaken by Internal Audit to confirm that appropriate action has been taken, in a timely manner.

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.

4 Policy Context

- 4.1 Receiving this report enables the Committee to perform its duties under the Accounting and Auditing regulations

5. Other Options Considered

- 5.1 None.

6. Financial Implications

- 6.1 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 2016/2017 has been discussed previously in the Revenue Budget Management reports for the year.

7 Risk Management Implications

- 7.1 None.