

INTERNAL AUDIT ANNUAL REPORT 2020/2021

Report from: Audit and Risk Manager
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Wards Affected: All
Key Decision No
Date of Meeting

EXECUTIVE SUMMARY AND RECOMMENDATIONS

1. Purpose of Report

This is the annual report of the Audit and Risk Manager of Mid Sussex District Council for 2020/2021.

2. Summary

- 2.1 The Internal Audit section completed the programme of audits for the year ended 31st March 2021 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 I can report that one high priority finding was identified during the financial year in question and that action to address the weakness was agreed and is being implemented by Management.
- 2.3 It is the opinion of Audit and Risk Manager that on the whole, the Council had an adequate, effective and reliable framework of internal control for the year 2020/2021.
- 2.4 We are grateful for the Audit Committee's role in monitoring the implementation of these recommendations.

3. Recommendation

The Committee is asked to receive the report.

INTERNAL AUDIT ANNUAL REPORT FOR 2020/2021

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 Regulations 2015 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.
- 1.8 Section 1320 of the PSIAS - Reporting on the Quality Assurance and Improvement Programme – states that ‘the chief audit executive (Audit and Risk Manager) must communicate the results of the quality assurance and improvement programme to senior management and the board’.
- 1.9 These standards require the Audit and Risk Manager to undertake an annual self-assessment of the internal audit service against a Quality Assurance and Improvement Plan (QAIP) checklist and to outline the results as part of the Annual Audit Report. This has been undertaken as at 31st March 2021 and I can confirm that the Internal Audit Service was compliant for the period under review.

Annual Governance Statement

- 1.10 The Audit Committee receives the Annual Governance Statement annually in the Statement of Accounts. This report forms the basis for the Council’s Management Team and the Audit Committee to undertake their annual review of internal control and to approve the Annual Governance Statement for 2020/2021.

This report

- 1.11 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 2020 to 31st March 2021.
- 1.12 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 2020/2021

Significant events during the year

- 2.1 The Council's overall internal control framework is considered to have operated effectively during the year. We have completed all of our planned audit work and responded to requests from the Head of Corporate Resources to undertake alternative or additional work, as part of our audit programme. Where internal audit work has highlighted instances of none or part compliance, none are understood to have had a material impact on the Authority's affairs.
- 2.2 For a second year, the opinion provided must be considered in light of the current (at time of writing) ongoing COVID-19 pandemic, and the impact of this on the Council. My opinion is based on internal audit work undertaken during 2020/2021, all of which took place during the pandemic and the continuing emergency measures being implemented.
- 2.2 COVID-19 measures have continued to pose a significant level of challenge to the Council and put pressure on the expected control environment; the need for prompt and urgent action by officers has required changes to some procedures and control arrangements for example, Business Grant Funding. However, it is considered that, informed by the work that we have undertaken, the control environment remained strong.
- 2.3 It is expected that the incoming Internal Auditor will seek to provide assurance to stakeholders in the coming months that the internal control environment continued to be sound and that risk management and governance arrangements were operating satisfactorily.

Factors affecting the extent of our internal audit work

- 2.3 There were no factors which have affected the extent of our internal audit work during the year.

Summary of Internal Audit Work Undertaken in 2020/2021

| INTERNAL AUDIT ASSURANCE OPINIONS | |
|---|--------------|
| AUDITS | |
| Disabled Facility Grants | Substantial |
| Contract Register | Satisfactory |
| Council Tax | Satisfactory |
| NNDR | Substantial |
| Housing Benefits | Substantial |
| Payroll System XCD Post Implementation Review | Substantial |
| Payroll | Substantial |
| Income Collection (Cash and Bank) | Substantial |
| Creditors | Substantial |
| Sundry Debtors | Substantial |
| Treasury Management | Substantial |
| FMS | Substantial |
| Small Business Grants | Substantial |
| Discretionary Grants | Substantial |
| NFI | N/A |
| Budgetary Control | Substantial |
| Capital Accounting and Asset Management | Substantial |

The Audit Plan

- 2.3 The 2020-2021 audit plan was agreed by the Head of Corporate Resources (Council's S151 Officer) and the Audit Committee was asked to receive the report.
- 2.4 The 2020-2021 audit plan was completed in full and included audits of the Council's fundamental systems, and operational 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 2020/2021 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) the proportion of the audit needs that have 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, in the capacity of 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 2021, and subject to any subsequent issues arising from the ongoing COVID-19 pandemic, 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.

Operational assurance

- 3.5 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;
- (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 2020/2021 has been discussed previously in the Revenue Budget Management reports for the year.

7 Risk Management Implications

7.1 None.