

INTERNAL AUDIT ANNUAL REPORT 2021/2022

Report from: Head of Internal Audit
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Wards Affected: All
Key Decision No
Date of Meeting 26 July 2022

EXECUTIVE SUMMARY AND RECOMMENDATIONS

1. Purpose of Report

- 1.1 This report contains the Head of Internal Audit (HOIA) annual assurance opinion on the control environment of Mid Sussex District Council (Council) based on internal audit work undertaken during the 2021/22 financial year.
- 1.2 This opinion forms one of the key sources of assurances within the Council. It is used to inform the compilation of the Council's Annual Governance Statement, which is included in the Financial Statements. The Internal Audit function of the Council, incorporating the HOIA, is outsourced to Mazars LLP via the APEX framework.

2. Summary

- 2.1 Mazars engagement with the Council commenced on 9 July 2021, when the Engagement Letter was signed. Before this date, the Internal Audit function was delivered by the former Internal Auditor at Crawley Borough Council.
- 2.2 The 2021/22 Plan was inherited from the former Internal Audit. It comprised of mostly Key Financial Audits that were historically delivered in the latter stages of the financial year by the former Internal Auditor. For the 2022/23 FY, we will employ a risk-based approach to determining the audit needs of the Council and use a risk-based methodology in planning and conducting our audit assignments.
- 2.3 At the time of drafting this report, there are two audits in progress (IT related) and two audits where the fieldwork was completed, with the report being at draft stage. All other audits in the Plan were finalised.
- 2.4 During the year, internal audit services were delivered remotely using tools such as screen-sharing functionalities. These arrangements and the current work in progress (at 2.3 above) were not considered to have a material impact on our ability to provide an annual opinion.
- 2.5 During the year, we consulted the Head of Corporate Resources and informed the Committee about changes to the audit plan, in particular, deferral of work for the Covid-19 Grants Assurance audit.
- 2.6 Based on our audit work, our HOIA opinion on the governance, risk management, and control framework is Moderate in its overall adequacy and effectiveness. Some improvements are required to enhance the adequacy and effectiveness of the governance, risk management and control framework.

3. Recommendation

The Committee is asked to receive the report.

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 has no financial implications. The Plan for Internal Audit relating to work undertaken during 2021/2022 had been discussed and approved in the March 2021 Audit Committee meeting.

7 Risk Management Implications

7.1 None.

Mid Sussex District Council

Internal Audit Annual Report 2021/22

Prepared by: Mazars LLP

Date: July 2022



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Disclaimer

This report ("Report") was prepared by Mazars LLP at the request of Mid Sussex District Council (MSDC) 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.

The Report was prepared solely for the use and benefit of MSDC 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 placed 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 in this report for further information about responsibilities, limitations and confidentiality.

Appendices

- A1** High Priority Recommendations
- A2** Definitions of Assurance

01 Introduction

Mazars LLP provides internal Audit services to Mid Sussex District Council (Council) through the APEX framework with Croydon Council. The purpose of Internal Audit is to provide the Council, through the Audit Committee (Committee) and the Head of Corporate Resources (as the S151 Officer), with an independent and objective opinion on risk management, control and governance and their effectiveness.

This Annual Report covers the internal audit work we have undertaken in respect of the 2021/22 Plan and incorporates our internal audit opinion. It forms part of the framework of assurances received by the Council. It should be used to help inform the Annual Governance Statement within the Financial Statements. Internal Audit also has an independent and objective consultancy role to help line managers improve risk management, governance, and control.

Our professional responsibilities as internal auditors are set out within UK Public Sector Internal Audit Standards (PSIAS).

Performance against the Internal Audit Plan

The Committee approved the three-year Internal Audit Plan covering the 2021/22 to 2023/24 period on 2 March 2021. The 2021/22 Plan was for 220 days, including 30 days for NFI work, 20 days for IT audits and ten days for the Head of Internal Audit role.

Mazars engagement with the Council commenced on 9 July 2021, when the Engagement Letter was signed. Before this date, the Internal Audit function was delivered by the former Internal Auditor at Crawley Borough Council. The 2021/22 Plan comprised of mostly Key Financial Audits that were typically delivered in the latter stages of the financial year by the former Internal Auditor.

As reported in our most recent Progress Report presented to the Committee in March 2022, management requested to defer the audit of Covid-19 Grant Assurance from Q4 to 2022/23 due to a key member of Council staff becoming unavailable at very short notice. Subsequent to this meeting, following discussions with the Head of Corporate Resources, the "Risk Management Awareness and Training" advisory work was also replaced with a Business Continuity Review. The replacement was to optimize Council resources as the former Head of Corporate Resources indicated that training on Risk Management was recently delivered at the Council. The Business Continuity Review is in the form of three workshops focused on the design and approach taken to develop the current Business Continuity Management System (BCMS) and Business Continuity Plan (BCP), and the alignment to the international standard for Business Continuity Management (ISO 22301:2019).

There are two engagements in progress (IT related) and two audits where the fieldwork was completed with the report being at draft stage. All other audits in the Plan were finalised.

A summary of the reports we have issued is included in Section 03 of this Report.

Appendix A2 describes the levels of assurance we have provided in assessing the control environment and effectiveness of controls, and the classification of our recommendations.



Acknowledgements

We are grateful to the Head of Corporate Resources, Council's Management Team, Business Unit Leaders, and other staff throughout the Council and the Committee for the assistance provided during the year.

Sampling methodology

As part of our auditing methodology, we use various sampling techniques to provide a robust basis for our audit opinions. Where possible, we favour conducting whole data set testing using data analytics software such as IDEA. Where this is not possible or practical, we look to conduct sampling through the use of random number generators, stratified or systematic sampling as appropriate to ensure that our findings are both representative and relevant. Sample sizes are driven by the level of assurance being provided and, where not dictated as part of the audit scope, are at the discretion of the internal auditor in conjunction with the Engagement Manager.

02 Internal Audit Opinion

Remote Working

All of our audits were completed remotely, with walkthroughs and client interviews held virtually and all evidence being requested and provided digitally. The annual internal audit opinion provided below reflects the agreed-upon audit plan. It is not limited in scope to the extent that the assurance provided by Internal Audit can only ever be reasonable, not absolute.

Our opinion

Based on our audit work, our opinion on the governance, risk management, and control framework is **Moderate** in its overall adequacy and effectiveness. Some improvements are required to enhance the adequacy and effectiveness of the governance, risk management and control framework.

While there are some areas of activity where the expected levels of control have not been fully achieved, actions have been taken or are in progress in response to internal audit recommendations made.

Impact of Covid-19 on internal audit work during the year

During 2021/22, internal audit services were delivered remotely and using tools such as screen-sharing functionalities. This was in part due to the continued impact from Covid-19.

During the year, we consulted the Council and informed the Committee about any changes to the audit plan. Whilst the Grant Assurance review on Covid-19-related grants was delayed, this deferral was not due to Covid-19 specifically.

For the remaining audits in the Plan, whilst completed, we did encounter some delays during Q4 mostly due to resources becoming unavailable at short notice due to the impact of the Omicron variant.

Reliance Placed on Third Parties

Internal audit has not relied on third parties to assess the controls operated by the Council. Our opinion solely relies on our work and the results of the controls testing we have undertaken.

Scope of Opinion

In giving our annual audit opinion, it should be noted that assurance can never be absolute. The internal audit service can provide the Council with a reasonable assurance that there are no major weaknesses in risk management, governance, and control processes.

The matters raised in this report are only those that came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the existing weaknesses or the improvements that may be required. In arriving at our opinion, we have taken the following matters into account:

- The impact on the Plan as a result of Covid-19;
- The results of all internal audits undertaken as part of the Plan;
- The results of follow-up action in respect of previous internal audits;
- Whether or not any previously raised recommendations by the former Internal Auditor have not been implemented by management and the consequent risks;
- The effects of any material changes in the organisation's objectives or activities;
- Matters arising from previous reports to the Committee;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the entire internal audit needs of the organisation; and
- What proportion of the organisation's internal audit needs has been covered.

Follow Up

Internal audit recommendations are categorised according to priority (High, Medium, and Low). Five recommendations were raised in the 2020/21 FY by the former Internal Auditor. Three of which related to Council Tax which we followed up this year. For the remaining two recommendations, we will request updates from Management to monitor the implementation status. This will also be made for recommendations raised through the 2021/22 and 2022/23 financial year. Spot checks in the service area can supplement this to confirm that the recommendation is being implemented in practice. In addition, a procedure will be in place to escalate recommendations that have not been implemented to the Head of Corporate Resources and Business Unit Leaders and finally to this Committee where necessary. At the time of drafting this report, no high-priority recommendations raised were outstanding (past their due date). Further detail of the high-priority recommendations raised in 2021/22 is included in Appendix A1 of this report..

03 Internal Audit Work Undertaken in 2021/22

The audit findings in respect of each review, our recommendations for action and the management responses are set out in our detailed reports issued to the Service.

We have carried out two advisory reviews concerning Business Continuity Plans, and an IT Audit Needs Assessment. We undertook 9 audit reviews in which an assurance rating was provided, covering several important control systems, processes, and risks and reviewing the implementation of recommendations from prior years. The results of this work are summarised below:

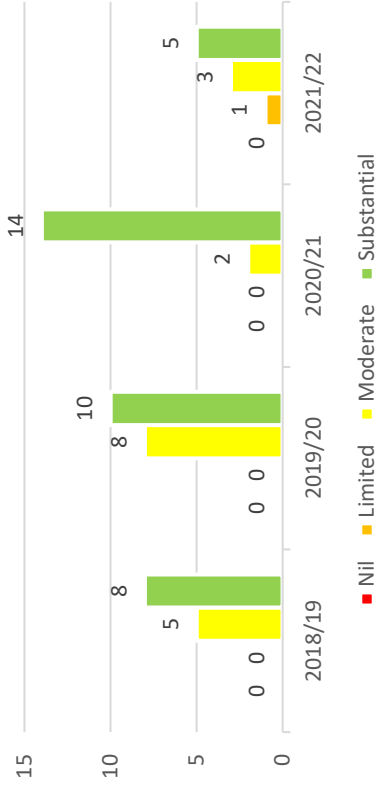
Audit Area	Assurance Level	Recommendations			Total
		High	Medium	Low	
Business Rates	Limited	1	1	1	3
Council Tax	Substantial	-	1	-	1
Budgetary Control	Substantial	-	-	1	1
Income Collection (Cashiers)	Substantial	-	-	1	1
Payroll	Draft*	-	-	-	-
Payments (Creditors)	Moderate	-	1	1	2
Capital Accounting and Asset Management	Substantial	-	-	-	-
Treasury Management	Substantial	-	-	1	1
Financial Management System (FMS)	Moderate	-	3	1	4
Sundry Debtors	Moderate	-	2	2	4
Housing Benefits and Council Tax Support	Draft*	-	-	-	-
Business Continuity Plans	N/A –Advisory	-	-	-	-
IT Audit Needs Assessment (ANA)	In Progress	-	-	-	-
Cyber Security	In Progress	-	-	-	-
Total		1	8	8	17

*Draft Report

04 Benchmarking

This section compares the Assurance Levels (where given) and categorisation of recommendations made at MSDC.

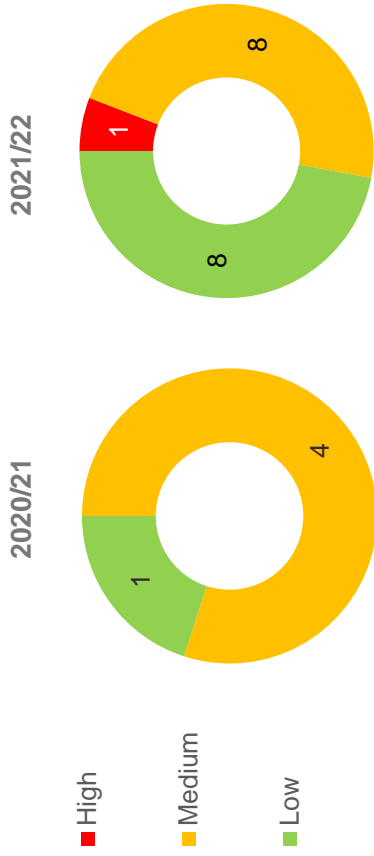
Assurance Opinions Since 2018/19



This chart shows the distribution of assurance over the past four years. The former Internal Auditor also had four levels of assurance opinions. However, with a slight change in terminology with our Moderate level equating what Satisfactory used to be.

Compared to 2020/21, based on Final Reports issued to date there was a decrease of Substantial opinions and a slight increase in Moderate opinions. We also provided a Limited Assurance Opinion related to the Business Rates audit undertaken in January 2022.

Comparison of Recommendation Gradings



During 2021/22 (and based on current Final Reports issued) to date, we have made a total of 17 new recommendations. One was High Priority, eight Medium Priority, and eight categorised as Low Priority. It should be noted that number may change with three assurance based reports due to be issued.

Compared to 2020/21, the total number of recommendations increased (five recommendations made in total during 2020/21). There were also five more assurance opinions given in 2020/21. Reasons behind the increased number of recommendations could be due to a fresh perspective/change in provider in conducting work.

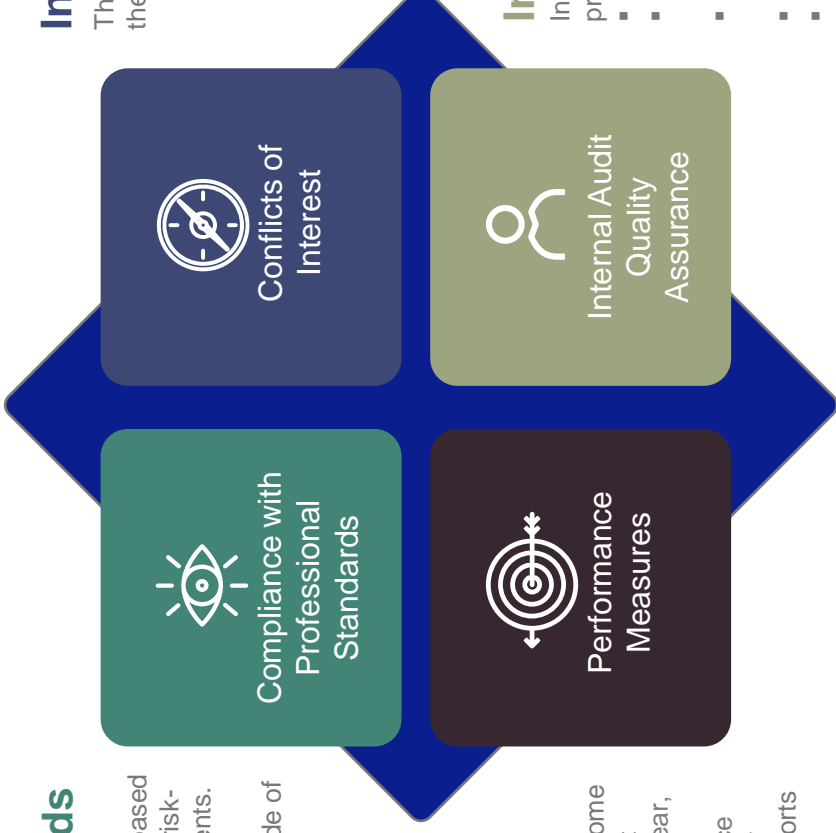
The distribution of priorities has varied. Alongside the new High Priority recommendation, there were four more Medium Priority recommendations raised and seven more Low Priority recommendations raised when compared to 2020/21 activity. The High Priority recommendation relates to the Business Rates audit and more details are provided in Appendix A1.

05 Performance of Internal Audit

We have provided some details below outlining our scorecard approach to our internal performance measures, which supports our overall annual opinion.

Compliance with Professional Standards

The 2021/22 Plan was inherited from the former Internal Audit at Crawley Borough Council. For the 2022/23, we will employ a risk-based approach to determining the audit needs of the Council and use a risk-based methodology in planning and conducting our audit assignments. Our work performed conforms to PS/IAS which includes the Core Principles for the Professional Practice of Internal Auditing and Code of Ethics.



Independence and Objectivity

There have been no impairments to independence and objectivity during the year covered by this Annual Report.

Performance Measures

Further to Section 01, there are four areas where reports are to be finalised at the time of drafting this report. We also did encounter some delays during Q4 mostly due to resources becoming unavailable at short notice due to the impact of the Omicron variant. During the year, we have consulted the Council and informed the Committee about changes to the audit plan including deferral of the Grants Assurance work. With the exception of these matters, we have completed our audit work in accordance with the agreed Plan and each of our reports issued had been shared with the service area and the Head of Corporate Resources.

Regular planned discussions on progress against the Plan have taken place with the Head of Corporate Resources and a meeting arranged with the Management Team to discuss progress and future work.

Internal Audit Quality Assurance

- In order to ensure the quality of the work we perform; we have a programme of quality measures which includes:
- Supervision of staff conducting audit work;
 - Review of files of working papers and reports by Managers and Partners;
 - Annual appraisal of audit staff and the development of personal development and training plans;
 - Sector specific training for staff involved in the sector;
 - Issuance of technical guidance to inform staff and provide instruction regarding technical issues; and
 - The maintenance of the firm's Internal Audit Manual.

Appendices

A1 High Priority Recommendations

A2 Definitions of Assurance



A1 High Priority Recommendations

Business Rates 2021/22			
Finding	Recommendation	Management Response	Timescale / Responsibility
<p>Refunds – Accounts in Credit</p> <p>There is currently no documented policy in place for treating accounts in credit where overpayments had been received (i.e., notifying taxpayers and/or write-offs.)</p> <p>We reviewed a list of credit accounts to confirm if credits had been processed back to customers appropriately (e.g., refunded or rolled over).</p> <p>Our review of the above list found 537 transactions dating from the 1995/96 FY to the 2020/21 FY. The total value of these transactions is £1,045,851, with a one-off transaction of £526,823 related to the 2019/20 FY (Account ref 68438585).</p> <p>Credits shown on accounts have not been written-off or potentially allocated to other areas that may require funding due to a lack of a Policy.</p> <p>The Head of Corporate Resources and the Business Unit Leader for Revenues and Benefits confirmed the lack of treatment/policy for these cases indicating that it is an exercise requiring increased work and resources.</p> <p>Risk: If there is no policy in place on dealing with credits, there is a risk that credit write-offs cannot be processed. This may lead to financial loss to the Council.</p>	<p>The Council should develop and document a Policy that stipulates how credit accounts should be managed, including timeframes for writing off credits and potential allocation following a transparent prioritisation and approval method.</p> <p>As a minimum, this Policy should be developed considering:</p> <ul style="list-style-type: none"> - Legal implications and advice; - Whether funds could be kept by the Council or passed to Central Government given the dates of some; - Income recognition and money laundering implications; - Prioritisation of funds to be distributed if deemed appropriate to keep; - Processes for the Revenues team, including contacting taxpayers and updating accounts in Academy. <p>Following the policy approval, the Revenues Team should conduct an exercise that identifies any 'live' accounts from the credits list and exhaust all avenues of contacting the taxpayers to arrange a refund.</p>	<p>Agreed. We are keen to work on the accounts in credit but the Revenues Team have worked on over the last 24 months not only the day job but a large number of complex additional COVID duties have stopped the team from doing this as quickly as we ourselves wanted.</p> <p>These additional duties are continuing with the £150 Energy Rebate.</p> <p>We will however on the credits try and action the accounts in credit recommendations in this financial year (subject to not continuing to get additional COVID work).</p>	<p>31 March 2023</p> <p>Business Unit Leader – Revenues and Benefits</p>

A2 Definitions of Assurance

Assurance Gradings

We use categories to classify our assurance over the processes we examine, and these are defined as follows:

Level	Description
Substantial	The framework of governance, risk management and control is adequate and effective.
Moderate	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendation Gradings

To assist management in using our reports, we categorise our recommendations according to their level of priority, as follows :

Priority	Description
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.
Low	Scope for improvement in governance, risk management and control.

Annual Opinion

For annual opinions we use the following classifications within our audit reports:

Opinion	Definition
Substantial	The framework of governance, risk management and control are adequate and effective.
Moderate	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

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We take responsibility to MSDC 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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