

INTERNAL AUDIT STRATEGY AND PROPOSED OPERATIONAL PLAN 2022/2023

Report from: Head of Internal Audit
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Wards Affected: All
Key Decision No
Date of Meeting 20 September 2022

EXECUTIVE SUMMARY AND RECOMMENDATIONS

1. Purpose of Report

- 1.1 This report sets out the Internal Audit Strategy and proposed Operational Plan (Plan) for 2022/23 and which details how the Council will meet its statutory requirements for Internal Audit.
- 1.2 The report explains that the overall level of audit coverage has been developed by applying a risk-based approach to provide Members, management, and other external bodies with independent assurance on the adequacy of the Council's risk management, governance, and internal control framework.

2. Recommendation

The Committee is asked to comment on the detailed Internal Audit Plan for 2022/2023.

3 Policy Context

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

4 Other Options Considered

- 4.1 None.

5. Financial Implications

- 5.1 There are financial implications related to the delivery of the proposed Plan for 2022/23 and the days included. A sufficient budget needs to be set aside to cover delivery costs.
- 5.2 There may be financial implications regarding implementing internal audit recommendations depending on the nature of the area and recommendations made. Some audit recommendations are also designed to improve value for money and financial control. However, any such implications are considered by Management as part of the consideration of the recommendations raised.

6 Risk Management Implications

- 6.1 Internal Audit identifies weaknesses in the control environment. Therefore, the implementation of recommendations improves the control environment and risk management.



Mid Sussex District Council

Internal Audit Strategy and Proposed Operational Plan 2022-23

September 2022

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Disclaimer

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

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01 Introduction

This report sets out the Internal Audit Strategy (Strategy) and proposed Operational Plan (Plan) for 2022/23, and which details how Mid Sussex District Council (Council) will meet its statutory requirements for Internal Audit.

02 Background

The fundamental role of Internal Audit is to provide senior management and Members with independent assurance on the internal control system's adequacy, effectiveness, and efficiency and report major weaknesses together with recommendations for improvement. The role is fulfilled by carrying out appropriate audit work following consideration and approval of the Operational Plan (Plan) by the Head of Corporate Resources (as the Section 151 Officer) and the Council Audit Committee (Committee). As Internal Audit is a major source of assurance that the Council is effectively managing its risks, a key rationale for developing the Plan was the Council's Risk Register.

The Council's Internal Audit Service is delivered following a regulatory framework comprising:

- The Local Government Finance Act 1972 requires Councils to 'make arrangements for the proper administration of their financial affairs';
- The Accounts and Audit Regulations 2015. These require that all local authorities must 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'; and
- The UK Public Sector Internal Auditing Standards (PSIAS). These standards set out what is meant by appropriate internal audit practices. These mandatory standards replaced the former CIPFA Code of Practice for Internal Audit in Local Government 2006.

The Strategy is a high-level statement that outlines how the Internal Audit Service will be delivered to meet the requirements set out above. The PSIAS no longer make specific reference to a strategy document. However, they require that the information be communicated to the Audit Committee (or equivalent) to support audit planning and resources discussion.

03 Internal Audit Strategy

This Strategy recognises that management's responsibility is to establish and maintain a sound internal control system and ensure that risks are appropriately managed. Internal audit work aims to establish areas requiring improvement and recommend solutions to enable the Council to achieve its objectives.

The Strategy and planning process reflects that the control environment constantly changes, requiring continuous review and re-evaluation to ensure that emerging risks are identified, assessed, and included as appropriate in the audit plan. Specifically, recognising the unprecedented challenges facing Public Sector finances, the strategy must have in-built flexibility to consider:

- Greatest risks to the achievement of the Council's objectives;
- New areas of activity;
- Issues of local significance and importance;
- Changing issues and priorities;
- Changes to models for service delivery and partnership working; and
- The impact of changes on existing control structures.

The purpose of the Strategy is to establish an approach that will enable Internal Audit to be responsive to change and managed in a way that will facilitate:

- An understanding of assurance needs to enable the provision to Members and management of an overall opinion each year on the Council's risk

management, control and governance framework, to support the Annual Governance Statement;

- Internal Audit of the Council's risk management, control and governance systems through an approach which assesses risks to Council objectives and prioritises internal audits accordingly;
- The identification of internal audit resources required to deliver a service which meets the PSIAS and achieves the necessary level of audit coverage to enable an opinion to be given on the Council's control environment;
- The identification of other sources of assurance from other assurance providers which can be relied upon to inform the focus of internal audit activity;
- Co-operation and working protocols with the external auditors (EY) and any other relevant review bodies to ensure that assurance functions work effectively together; and,
- Identification of responsibilities for providing assurance where services are delivered in partnership.

Based on the budget available for internal audit work, the Strategy and internal audit work make provision for:

- Sufficient coverage of all significant financial systems to provide the necessary audit assurance;
- New systems and emerging high-risk areas;
- Cross-cutting reviews for a selection of corporate themes which link to the Risk Register;
- Support for corporate governance, with particular focus on governance issues identified in the Council's annual governance statement, ensuring that proposed actions are taken;
- Monitoring the implementation of internal audit recommendations categorised as high; and
- An element for a contingency to enable the audit service to provide ad hoc advice and to respond to management requests for support.

The Plan is prepared based on a risk assessment combined with an understanding of other sources of assurance which are then compared to the internal audit resources available. Given the level of internal audit resources available, internal audit work must be planned and focused to ensure efficient and effective use of resources directed at those areas of most significant risk to the Council.

The Internal Audit function, including the Head of Internal Audit role, is outsourced by the Council to Mazars LLP under the London Borough of Croydon APEX Framework.

04 Development of the Operational Plan 2022/23

The Council agreed an overall three year plan for Internal Audit at the Audit Committee in March 2021, at a resource level of 220 days for each of 2020/21, 2021/22 and 2022/23. Historically a significant proportion of these days were used by the previous Internal Auditor for coverage of Fundamental financial systems and processes.

The Plan for 2022/23 was developed by applying a risk-based approach to provide Members, management, and other external bodies with independent assurance on the adequacy of the Council's risk management, governance, and internal control framework.

The main factors taken into account in compiling the Plan consist of:

- Materiality and significance based upon budgets and volume of transactions;
- Historical knowledge and experience accumulated in Internal Audit, based upon the results of previous audits;
- Changes to the control environment or legislative changes since the previous internal audit;
- A review of internal audit themes against the Council's Risk Register and corporate objectives;

- Other sources of assurance available to the Council;
- Concerns and emerging risks as identified by the management team, including the Head of Corporate Resources and attendance and presentation to the Management Team; and,
- Mazars Horizon Scanning of issues affecting all Local Authorities (<https://www.mazars.co.uk/Home/Industries/Public-Social-Sector/Transforming-your-organisation/Horizon-Scanning>).

The total number of internal audit days allocated for 2022/23 is 220, including 20 days for IT audit, 10 days for the Head of Internal Audit role and 16 days Contingency to be used in the event of any changes required to the Plan in year i.e., new/emerging risk areas, additional testing, etc. The resources are allocated to ensure that sufficient high-risk areas are audited to allow the Head of Internal Audit to provide an effective annual opinion on the internal control environment. The proposed 2022/23 Plan is presented in **Appendix A1**.

A1 Proposed Operational Plan 2022/23

	Title	Source	Scope/Notes	Indicative Days
Risk-Based Internal Audits				
1	Data Protection Act/ Freedom of Information	Management Team	Policies and Procedures; Scheme of Publication; Recording and Processing of Requests; Exemptions; Appeals; and Management Information	12
2	Commercial & Industrial Property Portfolio	Management Team	Strategy; Asset Register and Management Plan; Acquisitions; Disposals; Determination of Rents; Cyclical Maintenance	15
3	Accounts Receivable	Key Financial - Based on the previous year's outcome	Organisational Requirements; Raising of Invoices; Refunds; Debt Management, Recovery and Enforcement; Write-Offs; Reconciliations	12
4	Accounts Payable	Key Financial - Based on the previous year's outcome	Policies and Procedures; New and Amended Details; Orders, Good Receipting and Payments Authorisation; Reconciliations; BACS	12
5	Financial Management System	Key Financial - Based on the previous year's outcome	Policies and Procedures; Roles and Responsibilities; System Access and Security; Journals and Financial Statements; Suspense Accounts; Financial Management and Reporting	12
6	Business Rates	Key Financial - Based on the previous year's outcome	Transactions and Records; Valuation; Business Rate Multiplier; Liability; Billing; Refunds; Debt Recovery and Write Offs; Reconciliations	15
7	Building Controls	Corporate Risk 6.1 and 6.2	Procedural Guidance; Applications; Inspections; Fee Income; Enforcement;	12

	Title	Source	Scope/Notes	Indicative Days
Risk-Based Internal Audits				
			Dangerous Structures; Performance Monitoring and Financial Management	
8	Disabled Facilities Grant (DFG)	Corporate Risk 7.1	Policies and Procedures; Accessing to Funding; Works Performed; Performance and Financial Monitoring	12
9	HR – Recruitment and Retention	Corporate Risk 9.3 and 11.2	Strategy, policies, and procedures; Advertising, Recruitment and Selection process; Integrity checks and employment history; Calculation and authorisation of employee salaries; Pre-employment induction tasks; Exit interviews; and Monitoring and reporting	12
10	NFI – Data Matching	Counter Fraud Work	Testing of data produced by the NFI	30
IT Audits				
11	IT Disaster Recovery	Audit Needs Assessment	Scope to be determined.	10
12	Data Security	Audit Needs Assessment	Scope to be determined.	10
Other Work				
13	Follow Up Reviews	Ongoing	N/a	10
14	Management	Ongoing	N/a	20
15	Head of Internal Audit	Ongoing	N/a	10
16	Contingency	Subject to nature of request	Subject to nature of request	16
Total Audit Days				220

A2 Statement of Responsibility

We take responsibility to Mid Sussex 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 preventing and detecting 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 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 applying sound management practices.

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