

Mid Sussex District Council

Internal Audit Annual Report 2022/23

Prepared by: Mazars LLP

Date: November 2023



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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, re-interpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, re-interpretation, 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 Outstanding High Priority Recommendations

A2 Definitions of Assurance

01 Introduction

Internal Audit services to Mid Sussex District Council (Council) are provided by Mazars LLP through the APEX framework with Croydon Council.

The purpose of internal audit is to provide the Council, through the Audit Committee (Committee) and the Director – Resources and Organisational Development and the Assistant Director Corporate Resources (as the Chief Finance 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 Internal Audit Plan for 2022/23 (Plan) and incorporates our internal audit opinion. It forms part of the framework of assurances received by the Council and 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 Plan was considered and approved by the Committee on 20 September 2022. The Plan was for 220 days, including 20 days for IT audits and 10 days for the Head of Internal Audit role. The audits in the Plan comprised a mixture of key financial systems, service-specific (operational and financial), corporate-wide, and IT reviews.

There were two IT audits deferred from the Plan to 2023/24 due to resource and capacity constraints in the teams that would have been involved in the fieldwork in Q4 of 2022/23. It is worth mentioning that these two audits (IT Asset Management and IT Resilience) are at fieldwork stage as of November 2023.

Except for the two IT audits, all other audits in the Plan were delivered.

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, whilst defining the classification of our recommendations.



Acknowledgements

We are grateful to the Director – Resources and Organisational Development and the Assistant Director Corporate Resources, Council's Directors, and other staff throughout the Council as well as the Committee for the assistance provided during the year.

Sampling methodology

As part of our auditing methodology, we use a range of sampling techniques to provide a robust basis for our audit opinions. Where possible we favour conducting whole data set testing using data integrity analysis. Where this is not possible or practical, we look to conduct sampling through 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

Scope of Opinion

In the capacity of the Head of Internal Audit, we provide an objective and independent assessment of the Council's governance, risk management, and control processes.

In giving our annual audit opinion, it should be noted that assurance can never be absolute. The internal audit service can provide to the Council a reasonable assurance whether there are 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 or from the Council's current environment and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that may be required. In arriving at our opinion, we have taken the following matters into account:

- 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 High or Medium Priority recommendations have not been accepted 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 have been covered to date.

Our opinion

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

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.

Reliance Placed on Third Parties

Internal audit has not placed any reliance on third parties in order to assess the controls operated by the Council. Our opinion solely relies on the work we have performed and the results of the controls testing we have undertaken.

Follow Up

Internal audit recommendations are categorised according to priority (High, Medium, and Low). We request updates from management to monitor the status of implementation. At the time of drafting this report, two high priority recommendations from prior years are outstanding. Relevant Officers assigned to implement outstanding recommendations were requested to provide updates to the Director – Resources and Organisational Development and the Council's Management Team. Further detail of outstanding high priority recommendations is included in **Appendix A1** of this report.

03 Internal Audit Work Undertaken in 2021/22

The internal audit findings in respect of each review, together with our recommendations for action and the management responses are set out in our detailed reports issued to the Service and the Summary Reports shared with Members.

At the time of writing this report, we undertook nine audit reviews in which an assurance rating was provided, covering a number of important control systems, processes, and risks and a review of implementation of recommendations from prior years. The results of this work are summarised below :

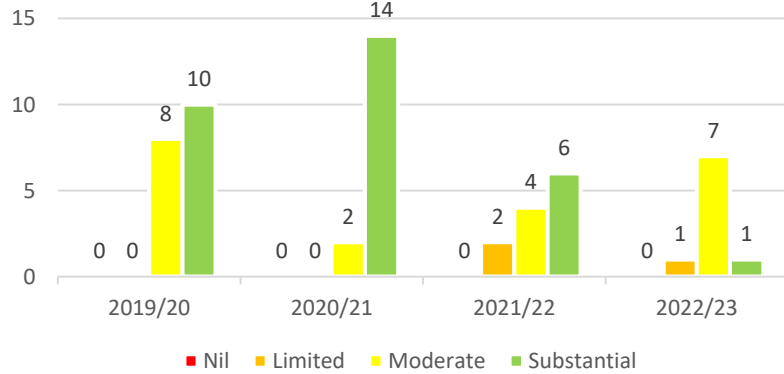
Audit area	Assurance level	Recommendations			
		High	Medium	Low	Total
Freedom of Information (Fol) Requests	Moderate	-	3	1	4
Commercial Property Estate	Moderate	-	3	1	4
Accounts Receivable (Debtors)	Moderate	-	2	1	3
Accounts Payable (Creditors)	Moderate	-	1	-	1
Financial Management System (FMS)	Moderate	-	1	2	3
Business Rates	Limited	1	2	-	3
Building Controls	Moderate*	-	3	1	4
Disabled Facilities Grants (DFG)	Substantial	-	-	1	1
HR – Recruitment and Retention	Moderate	-	1	-	1
Total		1	16	7	24

*Draft Report – Subject to Management Responses - Further detail on the implementation of recommendations is provided at **Appendix A1**.

04 Benchmarking

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

Assurance Opinions Since 2019/20

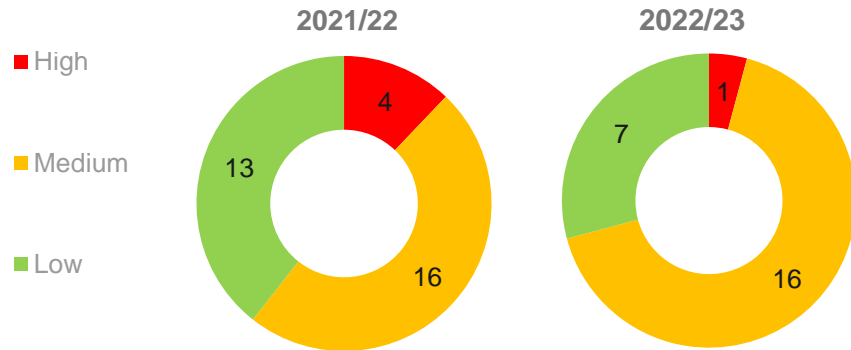


This chart shows the distribution of assurance over the past four years. The former Internal Auditor also had four levels of assurance opinions (relevant to 2019/20 and 2020/21). However, with a slight change in terminology with our Moderate level equating what Satisfactory used to be.

Compared to 2021/22, there was a decrease of Substantial opinions and an increase in Moderate opinions. This could be due to our risk-based approach when developing the 2022/23 Plan, including new areas that were not previously subject to internal audits, moving away from cyclical audits in areas where a Substantial assurance opinion was provided in multiple years (i.e., Capital Accounting).

We also provided a Limited Assurance Opinion related to the Business Rates audit undertaken in 2022/23, which was also Limited in 2021/22 due to a high priority recommendation raised for accounts in credit. More details are provided in Appendix A1.

Comparison of Recommendation Gradings



During 2022/23, we have made a total of 24 new recommendations. One was High Priority, 16 Medium Priority, and seven categorised as Low Priority. It should be noted that number may change with one report waiting for management responses (Building Controls).

Compared to 2021/22, the total number of recommendations decreased (33 recommendations made in total for 2021/22). The distribution of priorities also has varied.

Although we raised a new High Priority recommendation, there were less High and Low Priority recommendations raised when compared to 2021/22 activity. However, the number of assurance opinions given in 2022/23 decreased due to the two IT audits deferred to the current 2023/24 Plan.

The High Priority recommendation raised in 2022/23 relates to the Business Rates audit and it is related to the 2021/22 recommendation outlined in Appendix A1 below.

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

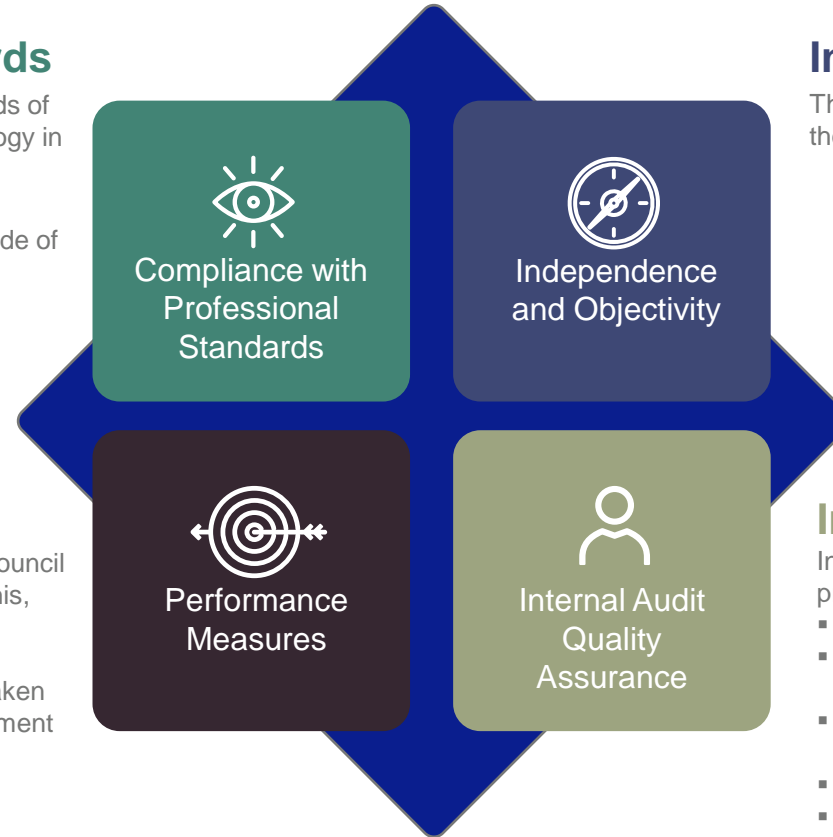
We employed a risk-based approach to determining the audit needs of the Council at the start of the year and use a risk-based methodology in planning and conducting our audit assignments.

Our work performed conforms to PSIAS which includes the Core Principles for the Professional Practice of Internal Auditing and Code of Ethics.

Performance Measures

Further to 01, two IT audits were deferred to 2023/24 due to the Council not being able to accommodate these reviews in Q4. Other than this, we have completed all other reviews in the agreed Plan.

Regular planned discussions on progress against the Plan have taken place with the Director for Resources and Organisational Development and the Assistant Director for Corporate Resources.



Independence and Objectivity

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

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 Implementation of Recommendations
A2 Definitions of Assurance



A1 Outstanding High Priority Recommendations

Business Rates 2021/22		
Recommendation	Management Response	Timescale and Responsibility
<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>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>November 2023 update:</p> <p>There is a policy regarding the authorisation of refunds on credit accounts. Refunds are processed by the team and are then authorised by Senior Officers for credits Under £500, Head of Revs and Bens for credits under £100,000 and AD for over £100,000. There are no restrictions that can be set within academy to restrict refund amounts but there is an audit trail which confirms the policy is adhered to. A further policy is being worked on to deal with credit appropriation.</p>	<p>Head of Revenues, Benefits and Housing Options</p> <p>Initial Timescale: March 2023</p> <p>Revised timescale: March 2024</p>

A1 Outstanding High Priority Recommendations (continued)

Cyber Security 2021/22		
Recommendation	Management Response	Timescale and Responsibility
<p>The Council to develop cyber security incident response strategic tools with a high-level plan as part of a framework to manage and resolve cyber security incidents.</p>	<p>MSDC to identify resources and funding required to work with security partners to develop the strategic toolset required to create and test a flexible incident response strategy</p> <p>We have already purchased incident logging and monitoring tools which will be implemented before the end of the year.</p> <p>November 2023 update</p> <p>We are actively now working with an external security provider (or managed SOC) which also provides incident management services. This supplier is already providing 365 monitoring for us. Our current contract expires next year, and we're looking at tying these needs together in future procurement. This is an approach that works financially, and will provide a better, more effective outcome.</p>	<p>Assistant Director, Digital & People Services</p> <p>Initial Timescale: March 2023</p> <p>Revised timescale: December 2024</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.

Contacts

Graeme Clarke

Partner, Mazars

graeme.clarke@mazars.co.uk

Juan Fosco

Manager, Mazars

juan.fosco@mazars.co.uk

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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