

Annual Internal Audit Report & Opinion

2016 - 17

Hampshire County Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

Contents

Section	Page
1. Role of Internal Audit	3
2. Internal Audit Approach	4
3. Internal Audit Opinion	5
4. Internal Audit Coverage and Output	6-7
5. Key Observations	8
6. Anti Fraud and Corruption	9-10
7. Quality Assurance and Improvement	11
8. Disclosure of Non-Conformance	12
9. Quality control	12
10. Internal Audit Performance	13
11. Acknowledgement	13

1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body 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.’

The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [the Standards] which were updated in 2016.

The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The County Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the County Council that these arrangements are in place and operating effectively.

The County Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

2. Internal Audit Approach

To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the County Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the County Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of Hampshire County Council's audit need that has been covered within the period

Audit Opinion

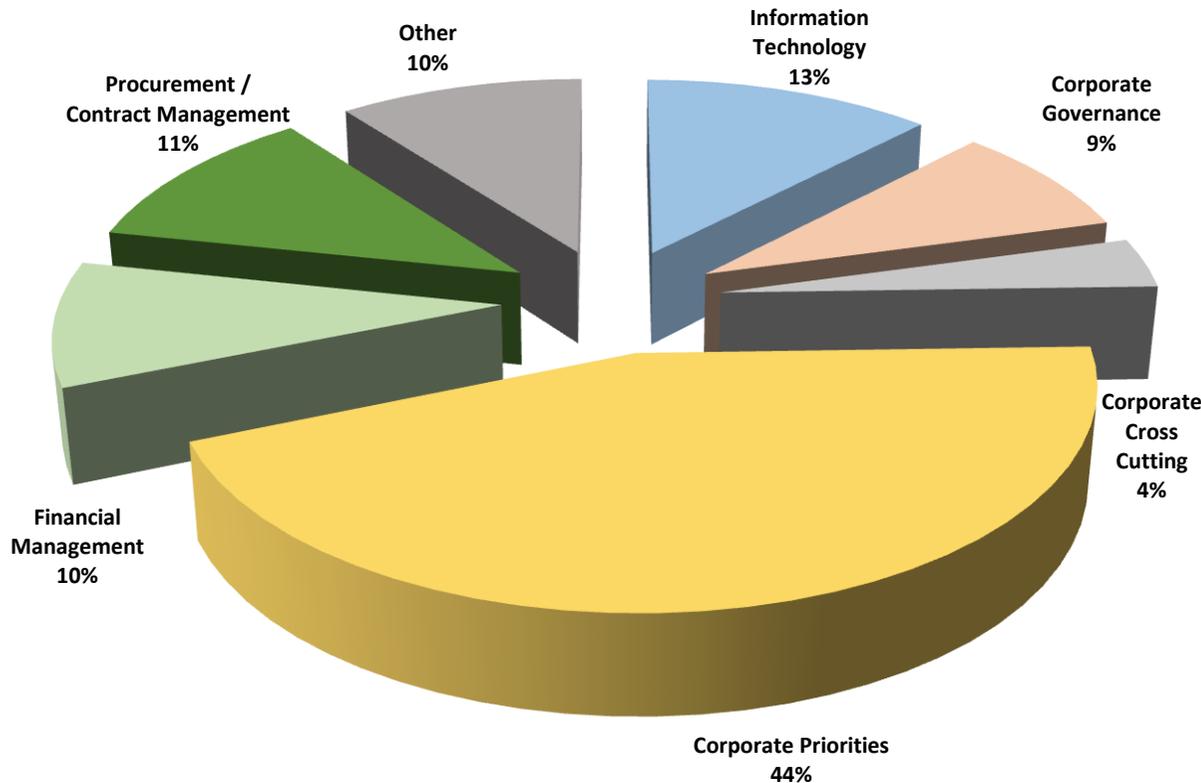
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Hampshire County Council's internal control environment.

In my opinion, Hampshire County Council's framework of governance, risk management and management control is 'Adequate' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2016-17 Internal audit plan, approved by the Audit Committee in June 2016, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

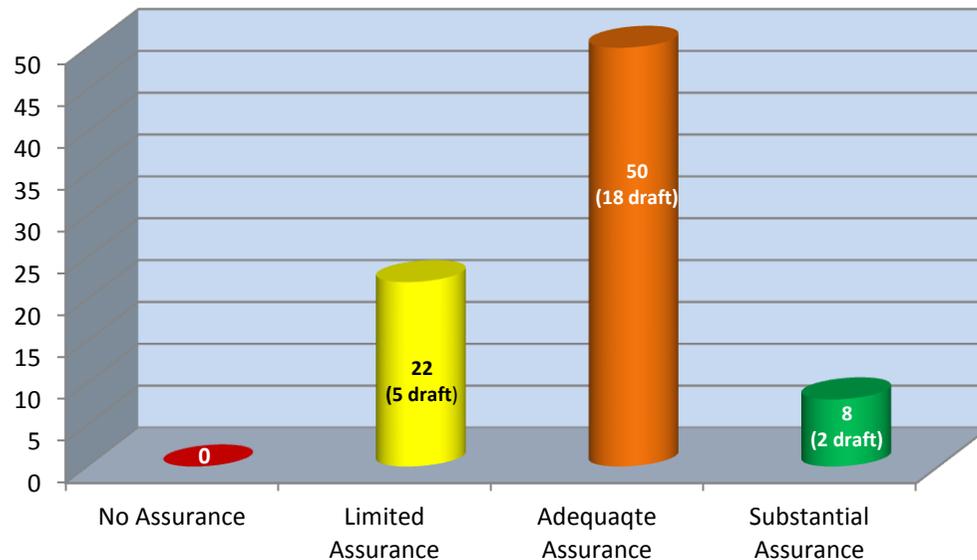
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion the Southern Internal Audit Partnership have undertaken 106 reviews during the year ending 31 March 2017.

The revised 2016-17 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed for 25 reviews, however, final reports have not yet been agreed with management;
- Fieldwork remains in progress in respect of 3 reviews (Respite for learning / physical disability; Property Management; and Governance – Pre Contract Approvals)

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:



Substantial - A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified;

Adequate - Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified;

Limited - Significant weakness (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk; or

No - Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives

*23 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, assurance mapping, grant certification or investigations

5. Key Observations

The were no 'No Assurance' opinions issued during the year. In general internal audit work found there to be a sound control environment in place across a majority of review areas that were working effectively to support the delivery of corporate objectives, however, there were some common themes identified that provide challenge to the organisations risk environment:

Contract Management – Whilst review of major contracts with assigned ownership and dedicated teams were found to be operating effectively, those contracts managed by officers alongside the 'business as usual' responsibilities provided less rigor in the level of performance reporting / monitoring, increasing the risk of service delivery not achieving the necessary standards agreed and expected by the County Council.

Data Quality / Compliance - Whilst in the main service areas were found to maintain a sound control framework, a number of 'limited assurance' reviews found documentation to support process / procedures (including legislative requirements) were absent, incomplete, untimely or not consistently recorded. Non-compliant behaviours provide an increasing risk and can adversely impact the quality and integrity of management information in addition to leaving the County Council and its officers vulnerable and exposed to challenge.

Establishment Reviews - A number of the 'Limited Assurance' reviews issued throughout the year relate to individual and thematic reviews undertaken at schools / council establishments. Issues centred on compliance with policy and procedure (in particular procurement, authorisation, segregation of duties, governance and cash handling) As a result of the autonomy with which they operate, departure from established policy and practice can become common place. Management must remain vigilant to such risk / compliance issues.

Information Management - Observations within some audit reviews highlighted concerns over the governance, retention, access and security of data held by or on behalf of the County Council including data relating to reciprocal arrangements the County Council has in place to manage the provision of disaster recovery. A visit to the disaster recovery site highlighted concerns over the retention of non encrypted data in addition to weaknesses in areas of physical security protecting the premises.

6. Anti Fraud and Corruption

The County Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the County Council and damage both its reputation and image. Policies and strategies are in place setting out the County Council's approach and commitment to the prevention and detection of fraud or corruption.

The County Council continues to conform to the requirements of the National Fraud Initiative (NFI). The NFI matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information analysed that indicate a fraud, an error or an overpayment may have taken place, signaling the need for review and potential investigation.

The Cabinet Office assumed responsibility for the National Fraud Initiative following the demise of the Audit Commission in March 2015.

As part of the 2016/17 NFI exercise the County Council submitted required data sets in October 2016 receiving feedback on potential matches in January 2017 (as detailed in figure 1). Work will be carried out during 2017-18 to review identified 'recommended matches' for fraudulent activity.

Dataset	Recommended Matches
Pensions	477
Payroll	612
Blue Badge	1,843
Concessionary Travel	5,706
Private Residential Care Homes	106
Personal Budgets	69
Creditors	3,716
VAT	106
Total	12,635

Fig.1

* resource has been allocated to prioritise review and clearance of recommended matches.

In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of any allegations of fraud, corruption or improper practice. In accordance with the Local Government Transparency Code 2014 the details of internal audits involvement in counter fraud work is summarised below:

Local Government Transparency Code 2014	01.04.16 – 31.03.17
Part 2 Requirements - Fraud	
Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used	Nil
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud	2 fte*
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists	4 fte*
Total amount of time spent by the authority on the investigation and prosecution of fraud	136 days*
Total number of fraud cases investigated	10**

*relates to internal audit staff across the wider SIAP only (does not include other areas of the Council that may affect reported figures i.e. legal, HR, Trading Standards, departmental investigating officers, housing benefits etc.)

**the definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse - 'the intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss.'*

7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within ‘the Standards’.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against ‘the Standards’ and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An external assessment of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015. In considering all sources of evidence the external assessment team concluded:

It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to **all** of the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).

There are **no instances** across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.

In accordance with PSIAS, a further self-assessment was completed in April 2017, concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors that

‘the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’

There are no disclosures of Non-Conformance to report.

9. Quality control

Our aim is to provide a service that remains responsive to the needs of the County Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2016-17 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard complimented by a comprehensive set of audit and management procedures;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- A self-assessment against the Public Sector Internal Audit Standards.

10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Annual performance indicators			
Aspect of service	2015-16 Actual (%)		2016-17 Actual (%)
Revised plan delivered (including 2015/16 c/f)	97		97
Positive customer responses to quality appraisal questionnaire *	97		96
Compliant with the Public Sector Internal Audit Standards	Yes		Yes

*Customer satisfaction has been assessed through response to questionnaire issued to a wide range of stakeholders including Members, senior officers, key contacts and SIAP staff.

11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout Hampshire County Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman
Head of Southern Internal Audit Partnership
June 2017