

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

|                        |                                       |
|------------------------|---------------------------------------|
| <b>Decision Maker:</b> | Audit Committee                       |
| <b>Date:</b>           | 30 June 2010                          |
| <b>Title:</b>          | Annual internal audit opinion 2009/10 |
| <b>Reference:</b>      | 1822                                  |
| <b>Report From:</b>    | County Treasurer                      |

**Contact name:** Karen Shaw

**Tel:** 01962 846194

**Email:** Karen.shaw@hants.gov.uk

### 1. Executive Summary

1.1. The purpose of this paper is to provide an independent opinion on the adequacy and effectiveness of the system of internal control operating in each department and in the County Council as a whole. This opinion supports the process of producing the annual governance statement.

1.2. The report summarises:

- the annual internal audit opinion for 2009/10
- significant matters arising from 2009/10 internal audit work
- action taken by management in response to recommendations made
- delivery against the Hampshire County Council internal audit plan for 2009/10.

### 2. Contextual information

2.1. It is a management responsibility to develop and maintain the internal control framework, and to ensure that the County Council's resources are properly applied. Internal audit is an assurance function that primarily provides an independent and objective opinion to the County Council on the control environment by evaluating its effectiveness in achieving the County Council's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. (source: CIPFA - Code of Practice for Internal Audit in Local Government in the United Kingdom 2006).

### **3. Internal audit opinion**

- 3.1. It is Internal Audit's opinion that Hampshire County Council has an appropriate framework of control that provides reasonable assurance regarding the effective, efficient and economic achievement of the County Council's objectives. Audit testing has shown controls to be working in practice. Where improvements to controls or compliance are required, we are satisfied that appropriate action has been agreed by relevant managers and that they will be resolved in an appropriate manner.
- 3.2. There has been no change in the overall level of assurance provided compared to that given in our 2008/09 annual internal audit opinion. However, testing during the year highlighted an improvement in the overall level of compliance with controls.
- 3.3. An overall assurance statement for the County Council as a whole is attached at Annex A. The following paragraphs explain how we arrived at this opinion.

### **4. Objectives**

- 4.1. This report will outline the level of assurance that we are able to provide, based on the internal audit work completed during the year. It will:
  - give an opinion on the overall adequacy and effectiveness of the County Council's internal control environment
  - disclose any qualification to that opinion, together with the reasons for the qualification
  - present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies
  - draw attention to any issues the Chief Internal Auditor judges particularly relevant to the preparation of the statement on internal control
  - compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against performance measures and criteria
  - comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

### **5. Audit approach**

- 5.1. A summary outlining the audit approach and audit delivery during 2009/10 is provided in Annex B.
- 5.2. Detailed reports, giving our conclusion on each of the systems examined have been issued to individual managers who have considered each report and provided a management response. This report provides an opinion on the overall control framework using the following terms which are defined in Annex C:
  - appropriate

- incomplete
- inadequate.

## **6. Issues raised during 2009/10**

### **Main findings**

- 6.1. Details of the audit opinions and the main issues identified across all departments in 2009/10 are given in Annex D which is not for publication by virtue of paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972. Issues regarding the system of internal control were raised in respect of the areas outlined below. Appropriate action has been agreed by relevant managers to address these issues and progress is being monitored. Management commentaries are included where appropriate to provide further context.
- 6.2. Our follow-up of audit findings raised in 2008/09 audit reports confirmed that progress had been made during 2009/10 and appropriate action had generally been taken in respect of the recommendations made. An update on the issues raised in the 2008/09 annual audit report is included below.
- 6.3. We will review the implementation of audit recommendations made in 2009/10 as part of our 2010/11 audit plan.

### ***SAP access controls***

- 6.4. We have previously raised issues regarding the alignment of SAP access to meet business needs. This has been the subject of research and discussion by the SAP Steering Group and the Security Managers Group have been advised accordingly. During 2009/10 a proposal to implement role-based security has been presented to the SAP Steering Group and subject to their endorsement a solution will be developed which may form part of the corporate identity management project dealing with access to systems and data.

### ***Human Resources (Chief Executive's)***

- 6.5. Our annual report for 2008/09 highlighted the need for ensuring the appropriate electronic authorisation of payroll changes as well as training and guidance for recruiting managers to enable effective checking of eligibility to work in the UK.
- 6.6. Our follow-up work in 2009/10 confirms that appropriate action has been taken, including the development of robust self-checking mechanisms by the department.

### ***High cost placements (Adult Services)***

- 6.7. We have previously highlighted that there is not always clear evidence on Swift that annual reviews of high cost placements for adult clients are being carried out. As a result, placements may no longer be suitable for the client or alternative placements may have become available which offer better value for money. Whilst there has been improvement over the years, our follow-up

work in 2009/10 showed that this issue has not yet been fully resolved. A review of cases and Swift data entry procedures has been recommended.

*Management commentary*

- 6.8. Managers have been made aware of the necessity of ensuring that high cost placements are regularly reviewed. In addition, an action plan is in place to make sure that high cost placement cases have continual contact which is recorded on Swift and additional checks will be made to ensure that financial assessments have been made for high cost placements. From a value for money perspective in 2009/10 we have overachieved our high cost placement budget efficiencies target of £370,000.

***Worker profiles for agency staff (Adult Services and Children's Services)***

- 6.9. In 2008/09 we raised issues relating to evidence held on site at establishments to confirm the pre-employment checks (worker profiles) that are required to be carried out as part of the contracts with suppliers for the employment of agency staff. We found nothing to suggest that any staff were working without the appropriate checks having taken place and the retention of evidence by establishments is not a regulatory requirement. This additional internal administrative control was established by departmental management to provide a local form of double check against the contract conditions and management have taken robust action to ensure compliance with this control. Further testing during 2009/10 confirmed compliance with these procedures.

***Safeguarding (Children's Services)***

- 6.10. Our 2008/09 review of a sample of child protection plans and social care records found that robust procedures were in place but there was some non-compliance with nationally-set timescales. Since that review a number of actions have been taken, including the introduction of detailed file reviews, additional budgets to enable the recruitment of safeguarding administrative posts to help support social workers and changes at Hantsdirect. Some of the previously referred to national timescales have now been amended or withdrawn by government. Further audit testing has been undertaken and we found that controls relating to timescales and the recording of information in Swift are adhered to.

***Compliance with Contract Standing Orders and European Union directives***

- 6.11. As a result of previous findings, we concluded that there was a clear need to review and update Contract Standing Orders, raise general awareness of procurement rules across the County Council and to provide appropriate training and guidance to staff involved in the procurement process. There has been on-going work within Legal Services and the Corporate Procurement Team to address this issue. Key issues are summarised below:
- Contract Standing Orders are being reviewed and updated by Legal Services
  - a Procurement Improvement Programme is underway to deliver the recommendations arising from the corporate services review, with the aim

of delivering a strategic and systematic approach to procurement across the County Council. The programme aims to drive out sustainable cost and process reductions and support the delivery of cost effective services. A detailed project plan is in place, to deliver outcomes by 2013

- action is being taken to implement wider governance training across the County Council to address governance, ethical, policy and legal issues to ensure that managers are aware of their obligations. An e-learning package has been developed and will be launched to staff in June.

*Management commentary*

- 6.12. Over 1,000 places on a variety of tailored procurement courses have been delivered since 2003 to include procurement and commissioning for Children's Services, procurement briefing for schools, specification writing and partnership procurement. Delivering a skills and competency framework for procurement roles is a key outcome of the Procurement Improvement Programme.

**Irregularities**

- 6.13. During 2009/10 10 irregularities were either investigated directly by, or involved the provision of advice by internal audit. Of these, three did not involve County Council employees; two of which resulted in repayment to the Council of losses and one case was not pursued due to the death of the individual involved.
- 6.14. The remaining seven cases related to employees and these involved either the failure to adhere to formal procedures, the misuse of County Council resources or overclaiming of expenses. Two cases are the subject of ongoing investigation and outcomes for the five concluded investigations included dismissal, formal warnings and procedural changes.
- 6.15. The level of irregularities investigated has reduced compared to the number of cases in 2008/09. In part this is due to the fact that we have worked with departmental management to identify cases that should be dealt with under performance or disciplinary procedures rather than an internal audit investigation.
- 6.16. The Audit Commission's National Fraud Initiative (NFI) main data matching exercise for 2009/10 is substantially complete. The exercise included the review of the mandatory reports covering payroll and pensions, UK visas, blue badges, private residential care homes, insurance claimants and creditor payments. The NFI exercise has not identified significant levels of fraud or savings in the County Council and the outcomes have contributed to the overall positive assurances that we are able to provide. In addition to the NFI exercise, monthly checks have been established during the year to compare the pensions payroll to national death registers.
- 6.17. During the year the provision of advice and guidance to departments has formed the basis of the proactive work. We continue to develop strong links with each of the departments to encourage the timely and proactive review of potential irregularities as they arise.

6.18. As in previous years, the incidence of fraud (necessarily judged by the volume of reporting and detection) is considered low for an organisation of this size and diversity.

## **7. Recommendations**

It is recommended that:

- 7.1. The Audit Committee accept the internal audit assurance statement for 2009/10 detailed in Annex A.
- 7.2. Progress of management actions to resolve the issues in paragraphs 6.4 to 6.12 be reported mid-year to the Audit Committee.

**CORPORATE OR LEGAL INFORMATION:****Links to the Corporate Strategy**

**This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:**

Member approval of the Annual internal audit opinion, in accordance with the Accounts and Audit (England) Regulations 2003, as amended in 2006, is a statutory requirement.

**Other Significant Links****Links to previous Member decisions:**

| <u>Title</u>                          | <u>Reference</u> | <u>Date</u>   |
|---------------------------------------|------------------|---------------|
| Internal audit strategy               | 1406             | March 2010    |
| Internal audit annual opinion 2008/09 | 795              | June 2009     |
| Internal audit progress report        | 1129             | December 2009 |

**Direct links to specific legislation or Government Directives**

| <u>Title</u>                   | <u>Date</u>        |
|--------------------------------|--------------------|
| Accounts and Audit Regulations | 2003, updated 2006 |

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

| <u>Document</u> | <u>Location</u> |
|-----------------|-----------------|
| None            |                 |

## **IMPACT ASSESSMENTS:**

### **1. Equalities Impact Assessment:**

- 1.1. Equality objectives are not considered to be adversely affected by the proposals within this report.

### **2. Impact on Crime and Disorder:**

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime, however a robust internal control framework has a positive effect on the prevention of fraud.

### **3. Climate Change:**

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific changes.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific proposals affecting adaptation to climate change.

## **Hampshire County Council**

### **Assurance statement for the year ended 31 March 2010**

#### **Introduction**

The Accounts and Audit Regulation 2003, amended in 2006, require the County Treasurer to maintain an adequate and effective system of internal audit.

The Regulations also require the County Council to include an annual governance statement within the published accounts.

To support the process of producing the annual governance statement, the Chief Internal Auditor is required to provide an independent opinion on the adequacy and effectiveness of the control environment, comprising risk management, control and governance for each department and the County Council as a whole.

#### **Responsibilities**

It is a management responsibility to develop and maintain the internal control framework, and to ensure that resources are properly applied in the manner and on the activities intended. It is the responsibility of Internal Audit to form an independent opinion, based on reviews during the year, on the adequacy and effectiveness of the system of internal control.

#### **Basis of opinion**

The strategic and annual internal audit plans were prepared by the Chief Internal Auditor to take account of the characteristics and relative risks of the activities involved and were approved by the County Treasurer. The internal audit plan has been delivered in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom, issued by CIPFA.

Work has been planned and performed so as to obtain all the information and explanations which were considered necessary in order to provide sufficient evidence to give reasonable assurance that the internal control system is operating effectively. However, this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance that there are no major weaknesses in the system of control.

#### **Opinion**

In my opinion Hampshire County Council has an appropriate framework of control that provides reasonable assurance regarding the effective, efficient and economic achievement of the County Council's objectives. Audit testing has shown that the controls are working in practice.

Karen Shaw  
Acting Chief Internal Auditor  
County Treasurer's Department  
Hampshire County Council  
30 June 2010

## **Audit background**

### **1 Scope of internal audit**

1.1 The Chief Internal Auditor is required to provide the County Council with an assurance on the system of internal control of the County Council. The opinions provided for each department have contributed to this overall assurance. It should be noted, however, that this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance that there are no major weaknesses in the system of control. In assessing the level of assurance to be given the following have been taken into account:

- all audits completed during 2009/10, including those audits carried forward from 2008/09
- any follow up action taken in respect of audits from previous periods
- any significant recommendations not accepted by management and the consequent risks
- the effects of any significant changes to the County Council's objectives or systems
- the quality of internal audit's performance
- the proportion of the County Council's audit plan that has been covered to date
- the extent to which resource constraints may limit the ability to meet the full audit plan of the County Council
- any limitations that may have been placed on the scope of internal audit.

### **2 Audit service quality**

2.1 The service we provide is designed to ensure compliance with the standards for internal audit promulgated by the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The standards cover the following areas:

- scope of internal audit
- independence
- ethics for auditors
- audit committees
- relationships
- staffing, training and continuing professional development

- audit strategy and planning
- undertaking audit work
- due professional care
- reporting
- performance, quality and effectiveness.

2.2 We have a number of mechanisms in place to ensure that our services are of a consistently high standard. In particular:

- we are registered under British Standard BS EN ISO 9001:2008, the international quality management standard and have developed a comprehensive set of audit and management procedures to underpin this
- we have Investors in People accreditation which ensures that the training and development needs of all our staff are reviewed on an annual basis as part of our individual planning process, with essential needs delivered within the year
- we have a quality assurance programme which includes an annual service improvement planning process; annual benchmarking with other local authority internal audit providers to compare the efficiency, effectiveness and economy of our services; a rolling programme of reviews of a sample of completed audit reviews and management processes to ensure consistency in approach and compliance with professional standards and quality procedures; and a quarterly review by the County Treasurer's management team of our performance indicators.

2.3 Whilst identifying some opportunities for continuous development, the results of the quality assurance programme confirm that we substantially comply with the requirements of the Code of Practice.

2.4 In addition, our work is subject to annual review by Hampshire County Council's external auditors who continue to rely on our work to support their audit opinion. In the Annual Audit and Inspection letter for 2009 (based on data from 2008/09) the District Auditor stated 'internal audit meets all required standards and their work can be relied upon for the purpose of my audit'.

### 3 **Audit needs**

3.1 A risk assessment was undertaken for the 2009/10 audit plan, which involved an analytical review of data relating to each department including: size of budgets, content of committee reports or committee decisions, previous audit findings and consultation with departmental management to ensure the audit plan addressed the key risks facing each department.

A summary of audit days delivered during 2009/10 is provided in Table 1.

**Table 1 – Summary of audit days delivered (2009/10)**

| <b>Detail</b>   | <b>2009/10<br/>days</b> | <b>days</b> |
|---|-------------------------|-------------|
| Days carried forward from 2008/09                               |                         | 372         |
| Audit plan agreed by County Treasurer                           | 4,081                   |             |
| Variations to the plan  | (467)                   |             |
| Revised plan at the year end                                    |                         | 3,614       |
|   |                         | <hr/> 3,986 |
| Total days delivered including delivery of carry forward audits |                         | 3,809       |
| Days carried forward to 2009/10                                 |                         | <hr/> 177   |

Note – in 2008/09, audit delivery was 4,050 days, against a revised plan (including days carried forward from 2007/08) of 4,327.

- 3.2 The audit plan was revised during the year to 3,614 days. The original and revised audit plans are shown at Annex E.
- 3.3 Changes made to the plan reflect the following:
- changes to the scope of individual assignments following the results of initial risk assessment and review
  - new areas requiring review being highlighted during the year
  - an increase in time required to follow up significant issues raised
  - time saving achieved on individual reviews
  - the postponement of audits following a reassessment of risk across the County Council audit plan.
- 3.4 The carry forward days relate to audits where a draft was issued and awaiting management response or where testing was still in progress as at 31 March. For all audits carried forward from 2008/09 and completed during 2009/10, an audit opinion is provided as part of the 2009/10 annual audit opinion.
- 3.5 The results of 58 reviews started in 2009/10 are not included in the 2009/10 annual internal audit opinion as they were still in progress at the end of the year. The results of these reviews will be included in our 2010/11 opinion. The majority of these relate to internal audit or Financial Management Standard is Schools (FMSiS) assessment visits to schools.

3.6 No limitations were placed on the scope of our work during the year.

#### 4 **Audit approach**

4.1 We examined systems operating to achieve objectives set by management in each of the areas detailed in Annex E. During the year the IT Services department was merged with the Property, Business and Regulatory Services department and there have been changes to management structures as a result. We are not aware of any other significant changes to any other systems reviewed since the work was conducted and the organisational changes will be taken into account in our future planning.

4.2 Our work has been carried out using a systems based audit approach. This covers the control environment of the County Council which comprises the systems of governance, risk management and internal control. Key elements of the control environment include:

- establishing and monitoring the achievement of the County Council's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulation - including how risk management is embedded in the activity of the County Council, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties
- ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which functions are exercised, having regard to a combination of economy, efficiency and effectiveness
- the financial management of the County Council and the reporting of financial management
- the performance management of the County Council and the reporting of performance management.

4.3 An implicit part of our systems based audit approach is an evaluation of the controls in place to prevent and detect fraud and we perform sufficient audit testing to confirm that controls are working in practice.

#### 5 **Audit liaison**

5.1 Staff within the departments have been co-operative and helpful during audits, and have worked with us to ensure that audits have been timed to suit both parties.

5.2 Management responses have addressed the issues raised but delays in receipt have been noted in some departments and we continue to work with our key contacts to encourage timely responses.

5.3 Audit Appraisal Questionnaires (AAQs) have been received from 193 of the audits completed before 31 March 2009, with an average satisfaction score

of 95.4% (94.9% in 2008/09). This confirms that there continues to be a good working relationship between Internal Audit and County Council staff.

5.4 2009/10 has seen the further development of liaison between Internal Audit and County Council staff, for example:

- 2009/10 has seen the continuation of the liaison between Internal Audit, the Children's Services department, Education Financial Services (the County Treasurer's business unit that provides financial advice to schools) and Hampshire Inspection and Advisory Service (HIAS). We have also attended a significant number of school Administrative Officer network meetings and delivered a series of training events for school governors and staff to introduce the Financial Management Standard in Schools
- in the County Treasurer's department we have continued to be represented at the Corporate Accounting Forum and the Accounting Network and audit advice has been given as requested throughout the year
- we have been working with the Chief Executive's department (HR) to develop self-testing procedures in the Pay and Contract Support Services section in order to reduce internal audit testing and place more reliance on the department's testing.

This liaison is of real value to both Internal Audit and departmental staff and helps to promote good and consistent practice.

**Audit opinion definitions:**

|                    |   |
|--------------------|---|
| <b>Appropriate</b> | sufficient controls exists to manage the key risks identified in an effective and efficient manner  |
| <b>Incomplete</b>  | one or more key controls are missing therefore there is a need to introduce additional controls to manage the risk to the organisation  |
| <b>Inadequate</b>  | controls are considered to be insufficient to manage the risks identified, with the absence of at least one critical control mechanism. Failure to improve controls could lead to increased risk of major loss or embarrassment to the organisation |

## Hampshire County Council - original and revised 2009/10 plans

| Resources<br>2008/09<br>original<br>plan<br>(days) | Resources<br>2008/09<br>revised<br>plan<br>(days) | Audit client   | Resources<br>2009/10<br>original<br>plan<br>(days) | Resources<br>2009/10<br>revised<br>plan<br>(days) |
|--|---|--|--|---|
|  |   | <b>Hampshire County Council</b>                            |  |   |
| 321  | 321   | Corporate activities                                       | 372  | 328   |
| 520  | 483   | Adult services   | 539  | 438   |
| 1,069  | 1,025   | Children's services  | 1,043  | 985   |
| 400  | 357   | Chief Executive  | 339  | 222   |
| 239  | 261   | Culture, Communities and Rural<br>Affairs                  | 206  | 185   |
| 208  | 158   | Environment  | 211  | 219   |
| 479  | 395   | Treasurer's  | 467  | 453   |
| 508  | 559   | Property, Business, Regulatory<br>and IT                   | 536  | 447   |
| 370  | 325   | Special investigations including<br>fraud and irregularity | 368  | 337   |
| <b>4,114</b>                                       | <b>3,884</b>                                      | <b>Total for Hampshire County<br/>Council</b>              | <b>4,081</b>                                       | <b>3,614</b>                                      |