

Governance Committee

25 November 2011

Effectiveness of internal audit

Report of the Treasurer

Contact: Karen Shaw
01962 846194
karen.shaw@hants.gov.uk

1. Summary

- 1.1 Under the Accounts and Audit (England) Regulations 2011 Hampshire Fire and Rescue Authority is required, at least once a year, to conduct a review of the effectiveness of its system of internal audit. To assist the Governance Committee in discharging this requirement on behalf of the Authority, this paper summarises the measures currently in place to monitor internal audit effectiveness.
- 1.2 A self assessment carried out in August 2011 concluded that internal audit arrangements for Hampshire Fire and Rescue Authority continue to be effective and fit for purpose.

2. Recommendations

- 2.1 That the Governance Committee:
- a) approve the review conducted in assessing the effectiveness of internal audit; and
 - b) endorse the action plan generated from the review of the effectiveness of internal audit.

3. Background

- 3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) have provided technical guidance suggesting a number of options available to authorities for carrying out the review of the effectiveness of internal audit which include:
- the Head of Internal Audit
 - a sub-group of the Governance Committee
 - a review group of officers
 - peer review
 - external assessment

- a group of other members and officers.
- 3.2 Whoever carries out the review, it is vital that all participants are appropriately skilled and have relevant technical support available to them.
- 3.3 The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 [the Code] recommends that:
- “The Head of Internal Audit should have in place a performance management and quality assurance framework to demonstrate that the internal audit service is:*
- *Meeting its aims and objectives*
 - *Compliant with the Code*
 - *Meeting internal quality standards*
 - *Effective, efficient, continuously improving*
 - *Adding value and assisting the organisation in achieving its objectives.”*
- 3.4 The Chief Internal Auditor for Hampshire County Council arranged for the first review of the effectiveness of internal audit under these arrangements to be carried out internally. The review concluded that internal audit arrangements continue to be effective and fit for purpose.

Meeting aims and objectives

- 3.5 The aims and objectives of the system of internal audit are defined in the Internal Audit Strategy 2011 – 2014.
- 3.6 Objectives are continuously measured and monitored and formally reviewed as part of the Chief Internal Auditor’s Individual Performance Plan (IPP) assessment and appraisal.

Compliance with the Code

- 3.7 Guidance cites the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code) as proper practice in relation to internal audit in local authorities. A full self assessment against the 107 criteria within the Code was completed in August 2011 and an action plan produced to reflect the measures required to achieve full compliance (Appendix 1).

Meeting internal quality standards

- 3.8 A comprehensive and up-to-date internal audit manual is in place and available to all staff to provide guidance on quality standards in carrying out day-to-day audit work in compliance with the Code.
- 3.9 A system of quality checks is in place to ensure all internal audit work is appropriately supervised and reviewed throughout all audits to monitor progress, assess quality and coach staff.
- 3.10 Audit Services operate a quality system (ISO 9001) which covers all our audit reviews including irregularity reviews. Adherence to the Quality Audit

Procedures (QAPs) provides assurance that a quality audit product is consistently delivered.

- 3.11 The use of audit management software (MKInsight) enables performance management information to be more readily available, and provides a consistency to the audit process followed.

Effective, efficient, continuously improving

- 3.12 On 1 November 2010 Hampshire County Council and Southampton City Council agreed to a collaborative approach for the provision of a shared internal audit service. The agreement introduced a shared Chief Internal Auditor role across both authorities.

This initiative provides further scope to develop the shared service approach to best utilise areas of expertise across all customers, adding greater service resilience and further generating economies of scale through training and development.

- 3.13 As reflected within the Audit Strategy 2011-14 the strategic audit approach has been significantly adapted to ensure it:

- aligns with Hampshire Fire and Rescue Authority's objectives;
- is proportionate and focused; and
- adds maximum value to the organisation.

- 3.14 The team operate a modern risk based audit approach focusing on medium and high priority areas within the audit universe.

The annual audit plan remains fluid and a contingency provision has been incorporated into resources to ensure internal audit availability should the risk environment change during the year.

- 3.15 A restructure of the internal audit team has adopted a matrix style approach, by using a resource pool of multi disciplinary auditors capable of forming into teams as audit projects determine. This approach ensures an appropriate level of independence in the rotation of audit reviews and the avoidance of over reliance on individual areas of expertise.

- 3.16 The audit report format has been reviewed to ensure a focused and value adding document, appropriate to its target audience.

- 3.17 The revised report format was implemented in accordance with the introduction of the revised strategy and restructure (May 2011).

Adding value and assisting the organisation in achieving its objectives

- 3.18 The Internal Audit Strategy 2011-2014 is designed to demonstrate how the internal audit service seeks to add value to Hampshire Fire and Rescue Authority and to assist in achieving its objectives.

- 3.19 The Strategic Audit Plan for 2011/14 demonstrates intended audit coverage of the Authority's objectives.

- 3.20 The 'Status of work' reports provided to each meeting of the Governance Committee demonstrates how management is responding to the issues

and risks highlighted by internal audit's work and that management actions in response to audit observations are properly implemented in a timely basis.

- 3.21 Formal client feedback is sought in respect of each audit assignment conducted by means of a "client feedback survey". In 2010/11, the average satisfaction score for all client feedback received from Hampshire Fire and Rescue Service was 86%.

Role of the Governance Committee

- 3.22 The Governance Committee plays an essential role in the effectiveness of the system of internal audit through its function to monitor, review and report on the way in which governance is exercised within Hampshire Fire and Rescue Authority, particularly with regard to:
- receipt and consideration of reports on internal audit strategy, planning and delivery, including the Chief Internal Auditor's Annual Report and Opinion;
 - view on internal assurances of governance practice and to be satisfied that the Authority's assurance statements properly reflect the risk environment and any actions required to improve it; and
 - consideration of the Authority's compliance with its own and other published standards and controls.

4. Risk analysis

- 4.1 The risk based approach to internal audit planning and reviews aims to ensure that internal audit resource focuses on key business risks and as such the Authority's risk register is used to inform the planning process and ensure that key risks are reflected in planned work.

5. Environmental and sustainability impact assessment

- 5.1 Proposals have no environmental or sustainability impacts.

6. People impact assessment

- 6.1 The proposals in this report are considered compatible with the provisions of the European Convention on Human Rights, the Human Rights Act 1998 and Race Relations (Amendment) Act 2000.

7. Resource implications

- 7.1 Internal audit plans are based on an assessment of audit need, agreed with senior managers and endorsed by the Governance Committee, following comprehensive risk assessment. The cost is reflected in the Authority's budget.

Section 100 D - Local Government Act 1972 - background documents

The following documents disclose facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of this report.

NB the list excludes:

1. published works; and,
2. documents which disclose exempt or confidential information as defined in the Act.

Title	Location
None	