

HAMPSHIRE COUNTY COUNCIL**Decision Report**

Decision Maker:	Audit Committee
Date:	30 June 2011
Title:	Chief Internal Auditor – Annual Report and Opinion
Reference:	3066
Report From:	County Treasurer

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1. Executive Summary

- 1.1 The purpose of this paper is to provide the Audit Committee with the Chief Internal Auditor for Hampshire County Council opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31st March 2011.

2. Internal Control and the role of internal

- 2.1 Under the Accounts and Audit (Amendment) (England) Regulations 2006¹, the Council is required to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'. The standards for 'proper practices' for internal audit are laid down in the Chartered Institute of Public Finance and Accountancy's Code of practice for internal audit in Local Government in the United Kingdom (2006) ["CIPFA Code"].
- 2.2 Internal audit is an assurance function that provides an independent and objective opinion to the Council on the control environment, comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the Council's objectives.
- 2.3 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risk is appropriately managed and outcomes achieved.

¹ Accounts and Audit (England) Regulations 2011 (effective 31 March 2011) state 'a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

3. Internal Audit opinion

3.1 The main purpose of this report is to give my opinion as Chief Internal Auditor for Hampshire County Council on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31st March 2011.

3.2 In giving this opinion, it should be noted that 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;
- 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 CIPFA Code;
- any limitations which may have been placed on the scope or operation of internal audit; and
- the proportion of Hampshire County Council's audit need that has been covered within the period.

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.

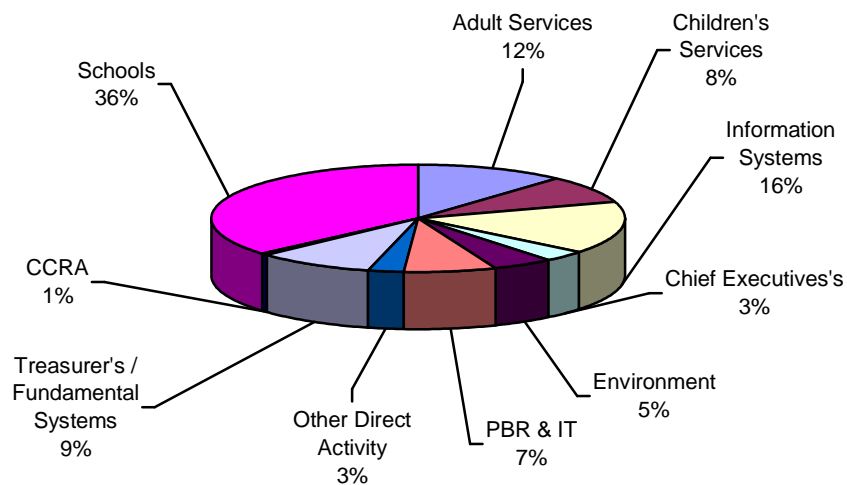
In my opinion, Hampshire County Council's framework of governance, risk management and management control is 'Appropriate', and audit testing has demonstrated controls to be working in practice.

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

- 4.1 The Strategic and annual internal audit plans were prepared to take account of the characteristics and relative risks of the County Council's activities and to support the preparation of the Annual Governance Statement.
- 4.2 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.
- 4.3 The 2010-11 internal audit plan, approved by the Audit Committee on 25 March 2010 was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure the audit plan addressed the key issues facing each department.
- 4.4 Internal audit delivered 3,643 audit days across 246 review areas over the course of the year ending 31st March 2011.

Analysis of audits by review type



- 4.5 The revised 2010-11 internal audit plan has been delivered with the following exceptions:
 - At the time of this report, 13 reviews remain work in progress; and
 - Work is substantially complete and an opinion has been formed for a further 7 reviews, however, formal draft reports have yet to be issued to and agreed with management

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period.

4.6 The opinion assigned to each internal audit review on issue of the final report is defined as follows:

Opinion	Framework of governance, risk management and management control	Number of published opinions in this category (2010-11)
Appropriate	Sufficient controls exist to manage the key risks identified in an effective and efficient manner	197
Incomplete	One or more key controls are missing therefore there is a need to introduce additional controls to manage the risk to the organisation	13
Inadequate	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.	0

* 16 reviews did not culminate in an audit opinion as they were follow up reviews monitoring progress against previously agreed recommendations

5. Significant issues arising

- 5.1 There were no significant issues arising from internal audit work carried out in accordance with the 2010/11 audit plan.
- 5.2 Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers.

6. Advice to management

- 6.1 During the year internal audit has worked with management on a consultancy/advisory basis on a number of projects, including:
 - Roll out of self-directed support;
 - ContactPoint; and
 - Investigations into fraud, corruption and improper practice

7. Anti fraud and corruption

- 7.1 Within the year we have conformed to the National Fraud Initiative (NFI) timetable to submit datasets relevant for the period and received 141,497 'high priority' data matches which are currently under review.

7.2 In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of eight allegations of fraud, corruption or improper practice. A number of these cases were allegations made under the Duty to Act (“Whistleblowing”) Policy. Of these:

- 3 were investigated, but with no further action required;
- 3 resulted in disciplinary action; and
- 2 remain ongoing

8. Internal audit performance

Annual performance indicators 2010-11		
Aspect of service	2010-11 Target (%)	2010-11 Actual (%)
% revised plan delivered (incl 2009/10 carry forward)	95	95
% productivity	65	65*
% of positive customer responses to quality appraisal questionnaire	90	96

* based on total of 260 available days

Internal Audit Resources

- 8.1 On the 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.
- 8.2 This initiative provides scope to further develop the shared service approach to best utilise areas of expertise across both authorities and generate economies of scale through training and development.
- 8.3 The resource profile has changed significantly during 2010 – 11 following a restructure of the section to accord with revised ways of working and the introduction of a modern risk based audit approach.

Quality control

8.4 Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. This was achieved in 2010-11 through the following internal processes:

- Compliance with CIPFA Code of practice for internal audit in local government (2006);
- ongoing liaison and communication with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- ongoing development of a constructive working relationship with the Audit Commission to ensure development of 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 to underpin this; and
- the review and quality control of all internal audit work by professional qualified senior staff members

9. Acknowledgement

9.1 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

10. Recommendation(s)

10.1 That the Audit Committee accepts the Chief Internal Auditor's annual report and opinion statement for 2010/11 (paragraph 3.2)

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

Hampshire safer and more secure for all:	yes/no
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Improvement plan link number (if appropriate):	
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:	
Accounts and Audit (Amendment) (England) Regulations 2006	

Other Significant Links

Links to previous Member decisions:		
<u>Title</u> Hampshire County Council internal audit strategy update 2010	<u>Reference</u> 1406	<u>Date</u> 25 March 2010
Direct links to specific legislation or Government Directives		
<u>Title</u>	<u>Date</u>	

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 internal audit work has provided to ensure that controls are in place to minimise the risk of fraud and corruption against the County Council

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

