

Hampshire Fire and Rescue Authority

Governance Committee

Item: 6

30 June 2011

Annual Internal Audit Opinion 2010/11

Report of the Treasurer

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1. Executive Summary

1.1 In my opinion, Hampshire Fire and Rescue Authority's framework of governance, risk management and management control is appropriate and provides reasonable assurance for the effective, efficient and economic achievement of the Authority's objectives. Audit testing has shown controls to be working in practice. Where improvements to controls are required, we are satisfied that appropriate corrective action has been agreed with management and has been, or will be taken, within an appropriate timescale.

1.2 The following paragraphs explain how we arrived at this opinion.

2. Recommendations

2.1 That the audit work completed during the year be noted and the Internal Audit Assurance for 2010/11 detailed in paragraph 4.2 be accepted.

3. Background

Internal Control and the role of internal

3.1 Under the Accounts and Audit (Amendment) (England) Regulations 2006¹, Hampshire Fire and Rescue Authority was 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"].

3.2 Internal audit is an assurance function that provides an independent and objective opinion to Hampshire Fire and Rescue Authority on the control environment, comprising risk management, internal control and

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'.

governance, by evaluating its effectiveness in achieving the Authority's objectives.

- 3.3 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.

4. Internal Audit opinion

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

- 4.2 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 the Authority'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 Fire and Rescue Authority's internal control environment.

In my opinion, the Authority's framework of governance, risk management and management control is appropriate and provides reasonable assurance for the effective, efficient and economic achievement of the Authority's objectives. Audit testing has shown controls to be working in practice. Where improvements to controls are required, we are satisfied that appropriate corrective action has been agreed with management and has been, or will be taken within an appropriate timescale.

This overall audit opinion should be read in conjunction with the information set out in the following paragraphs.

5. Internal Audit coverage and output

- 5.1 The strategic internal audit plan details a rolling, three-year programme of audits, designed to support preparation of the Annual Governance Statement and encompasses the following core principles:
- focus on the Authority's defined purpose and outcomes;
 - effective performance in clearly defined functions and roles;
 - promoting values that underpin good governance through upholding high standards of conduct and behaviour;
 - taking informed and transparent decisions within a framework of controls and managing risk;
 - developing the capacity and capability of members and officers to be effective; and
 - engaging stakeholders to ensure robust consultation.
- 5.2 The strategic internal plan 2010/11 to 2012/13 was based on the Internal Audit Strategy approved by the Governance Committee in 2008 (and updated annually thereafter) and was informed by the Authority's own risk and performance framework, supplemented with internal audit's own assessment of risk and materiality.
- 5.3 Internal audit delivered 283 audit days across 23 review areas over the course of the year ending 31st March 2011.
- 5.4 The revised 2010/11 internal audit plan has been delivered with the following exceptions:
- At the time of this report, the following reviews are work in progress:
 - Capital contracts
 - Work is substantially complete and an opinion has been formed for the following reviews, however, formal draft reports have not yet been issued to and agreed with management:
 - Pension arrangements
 - Community response support – change management advice.
- I do not consider these exceptions to have an impact on the delivery of my overall opinion for the period.
- 5.5 We have published an opinion in final or draft reports (where we are concluding discussions with management in the agreement of action plans) in respect of 17 reviews completed during the year.
- 5.6 Where our work identified risks that we considered fell outside the parameters acceptable to the Authority, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers. We follow up progress against the agreed action plans, using a risk based approach. In addition, the Authority has a robust and commendable process for monitoring the implementation of all agreed actions and

progress is regularly reported to the Governance Committee and discussed with internal audit during the year.

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

Opinion	Framework of governance, risk management and management control	Number of published opinions in this category (2010/11)²
Appropriate	Sufficient controls exist to manage the key risks identified in an effective and efficient manner	15
Incomplete	One or more key controls are missing therefore there is a need to introduce additional controls to manage the risk to the organisation	2
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

6. Significant issues arising

- 6.1 A number of recommendations have been made as a result of the 2010/11 audit work. Whilst some have been significant to the systems concerned, the recommendations are not material in the context of the Authority as a whole.

7. Advice to management

- 7.1 During the year internal audit has worked with management on a consultancy/advisory basis on a number of areas, including:
- Information management
 - Community response support.

² Three reviews did not culminate in an audit opinion as they were pro-active fraud reviews, advisory reports or substantive testing only. Three reviews were work in progress at the end of the year.

8. Anti fraud and corruption

- 8.1 One minor theft was reported during the year and our investigation resulted in recommendations to improve controls over the use of petty cash.
- 8.2 The National Fraud Initiative (NFI) exercise run by the Audit Commission is underway and the high priority data matches received in February 2011 continue to be investigated. No problems have been highlighted to date.

9. Internal audit performance

<i>Annual performance indicators 2010/11</i>		
Aspect of service	2010/11 Target (%)	2010/11 Actual (%)
% revised plan delivered (inc 2009/10 carry fwd)	95	100
% productivity	65	65
% of positive customer responses to quality appraisal questionnaire	90	86

Internal Audit Resources

- 9.1 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 introduces a shared Chief Internal Auditor role across both Authorities.
- 9.2 This initiative provides scope to further develop the shared service approach to best utilise areas of expertise across all clients and generate economies of scale through training and development.
- 9.3 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

- 9.4 Our aim is to provide a service that remains responsive to the needs of the Authority 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 the 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;
- the review and quality control of all internal audit work by professional qualified senior staff members

10. Environment and sustainability impact assessment

10.1 Proposals have no environmental or sustainability impacts.

11. People impact assessment

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

12. Resource implications

12.1 The cost of preparing the Annual Internal Audit Opinion is reflected in the agreed annual internal audit plan and provided for in the Authority's budget. The cost of internal audit in 2010/11 was £76,384.

13. Acknowledgement

13.1 I would like to take this opportunity to thank all those staff throughout Hampshire Fire and Rescue Authority 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.

Karen Shaw

Chief Internal Auditor

6 June 2010

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:

Published works.

Documents which disclose exempt or confidential information as defined in the Act.

None