

Standards and Governance Committee

21 September 2012

Effectiveness of internal audit

Report of the Treasurer

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1. Summary

- 1.1 Under the Accounts and Audit (England) Regulations 2011 Hampshire Fire and Rescue Authority (HFRA) is required to conduct a review of the effectiveness of its system of internal audit at least once a year. To assist the Standards and 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 HFRA buys its internal audit service from Hampshire County Council HCC). An independent review of the HCC Internal Audit Service, including the work undertaken for HFRA, was carried out by the County Council's Monitoring Officer in August 2012. This 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 Standards and Governance Committee:
 - a) approves the review conducted in assessing the effectiveness of internal audit; and
 - b) endorses 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) has 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 Standards and Governance Committee
 - a review group of officers

- peer review
- external assessment
- a group of other members and officers.

3.2 The 2010/11 review of the 'effectiveness of the system of internal audit' was undertaken in the form of a self assessment against the compliance checklist within the CIPFA Code of Practice, following a fundamental review of the Internal Audit Strategy, Strategic Plan and service structure. The self assessment was presented to and approved by the Governance Committee (25 November 2011).

3.3 Benchmarking has since highlighted that many councils carry out a high level self assessment or independent officer review undertaken by either the Head of Finance or the Monitoring Officer.

3.4 Guidance stipulates 'whoever carries out the review, it is vital that they are appropriately skilled and have the relevant technical support available to them'. As such both the HCC Director of Corporate Resources and the HCC Monitoring Officer were considered well placed to meet these requirements. The HCC Director of Corporate Resources, who is also the HFRA chief finance officer, maintains line management responsibility for the County Council's Chief Internal Auditor so, to achieve true independence it was agreed that it is appropriate for any review to be undertaken by the County Council's Monitoring Officer. This further provides clear synergies for the review of the effectiveness of the system of internal audit to feed into the wider governance processes, both for the County Council and for HFRA.

4. 2011/12 review

4.1 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."*

Meeting aims and objectives

4.2 The aims and objectives of the system of internal audit are defined in the Internal Audit Strategy 2011 – 2014 and within the departmental business plan.

- 4.3 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

- 4.4 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.
- 4.5 The review of Internal Audit compliance against the Code was completed by the County Council's Monitoring Officer.
- 4.6 The Chief Internal Auditor provided an initial assessment against the standards accompanied by documentary evidence to support relevant compliance. The HCC Monitoring Officer then considered each of the standards for compliance concluding 'I am happy in my capacity as the County Council's Monitoring Officer to give my view that the conclusions reached represent a true and fair appraisal'.
- 4.7 The summary of the assessment against the 106 standards highlights:

Compliance		
Yes	Partial	No
104	2	0

In areas of 'partial' compliance an action plan has been put in place to stimulate improvement (Appendix 1)

4.8 Meeting internal quality standards

- i. 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.
- ii. 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.
- iii. Audit Services operate a quality system (ISO 9001) which covers all audit reviews including irregularity reviews.
- iv. 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

4.9 Effective, efficient, continuously improving

- i. On 1 February 2012 Hampshire County Council entered into a collaborative partnership with Southampton City Council for the provision of internal audit services

The development of the Internal Audit Partnership brings together the professional discipline of internal audit across partnering organisations. The Internal Audit Partnership has a vision to deliver

“A collaborative Audit Partnership delivering an innovative, customer focussed service aligned to business needs and improved outcomes through:

- *A seamless, flexible and efficient service working across all partners;*
- *Key specialism’s reflective of and adaptive to business need;*
- *Best practice that is embraced, developed and promoted; and*
- *A forward looking Audit Partnership supporting change and transformation across all partners.”*

- ii. The Internal Audit Strategy 2011-14 ensures it:
 - aligns with Hampshire Fire and Rescue Authority’s objectives;
 - is proportionate and focused; and
 - adds maximum value to the organisation
- iii. The team operates a modern risk based audit approach focusing on medium and high priority areas
The annual audit plan remains fluid and responsive should risks change during the year.
- iv. The internal audit team use a 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
- v. The audit report format ensures a focused and value adding document, appropriate to its target audience.

4.10 Adding value and assisting the organisation in achieving its objectives

- i. 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.
- ii. The Strategic Audit Plan demonstrates intended audit coverage of Hampshire Fire and Rescue Authority’s objectives.
- iii. One of the key deliverables for internal audit is to provide independent and objective assurance to management on the adequacy or otherwise of the

effectiveness of the framework of risk management, control and governance designed to support the achievement of their objectives.

This in itself can be viewed as providing added value to the organisation, however there are a number of other dimensions to the work of internal audit that add value to the organisation:

- Assess and report risk exposure;
 - Improve opportunities to achieve organisational objectives;
 - Identify over control and opportunities for efficiencies; and
 - Identify operational improvements
- iv. The Progress Report presented to each meeting of the Standards and Governance Committee demonstrates how HFRA 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 on a timely basis.
- v. Formal client feedback is sought in respect of each audit assignment conducted by means of a "client feedback survey". For the period 2011/12 the average satisfaction score for all client feedback received from Hampshire Fire and Rescue Service was 93%
- vi. Although not examined as part of the review against the Code criteria, the relationship with HFRA, as the client for the internal audit service, is important in addressing the audit team's effectiveness.

HFRS officers, who work with the audit team to manage the delivery of the audit work consider that:

- There is a good relationship with the Internal Audit team, which has resulted in a constructive approach by both parties
- The plan of audit work, agreed at the start of each financial year, is suitably prioritised according to the perceived risks facing the organisation
- Meetings between the Internal Audit team and HFRS officers to plan the audit work and to monitor progress during the year are regular and effective
- The process for undertaking the audits and producing the final reports with observations and agreed management actions is well established.

During the last year, two potential areas for improvement in the delivery of the internal audit service have been discussed at the regular liaison meetings:

- To reduce the time taken to determine and agree management actions and complete the final report. It is acknowledged that this is a shared responsibility as the delays can rest with HFRS officers
- HFRS officers have been encouraging the internal audit team to develop the ways in which it can help the Service in its improvement

journey, as shown at iii above. Whilst not diminishing the work to provide assurance over the control framework, they are looking for audit work to add value in terms of ways in which the Service can improve, drawing in best practice from elsewhere, providing effective challenge and making use of appropriate benchmarking information.

4.11 Role of the Standards and Governance Committee

4.12 The Standards and 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.

This report provides members of the Standards and Governance Committee the opportunity to reflect on the work of the Internal Audit Service and to comment on its effectiveness.

5. Risk analysis

5.1 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.

6. Environmental and sustainability impact assessment

6.1 Proposals have no environmental or sustainability impacts.

7. People impact assessment

7.1 There are no concerns to bring to the attention of the Committee and the proposals in this report are considered compatible with the provisions of equality and human rights legislation.

8. Resource implications

8.1 Internal audit plans are based on an assessment of audit need, agreed with senior managers and endorsed by the Standards and 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	