



CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2011 - 2012

Prepared by:	Neil Pitman, Chief Internal Auditor
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1. INTERNAL CONTROL AND THE ROLE OF INTERNAL AUDIT

- 1.1. Under the Accounts and Audit (England) Regulations 2011, the County Council is required to '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'. 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"].
- 1.2. Internal audit is an assurance function that provides an independent and objective opinion to the County Council on the control environment, comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the County Council's objectives.
- 1.3. 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.

2. INTERNAL AUDIT OPINION

- 2.1. 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 31 March 2012.
- 2.2. 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 'Adequate' 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.

3. INTERNAL AUDIT COVERAGE AND OUTPUT

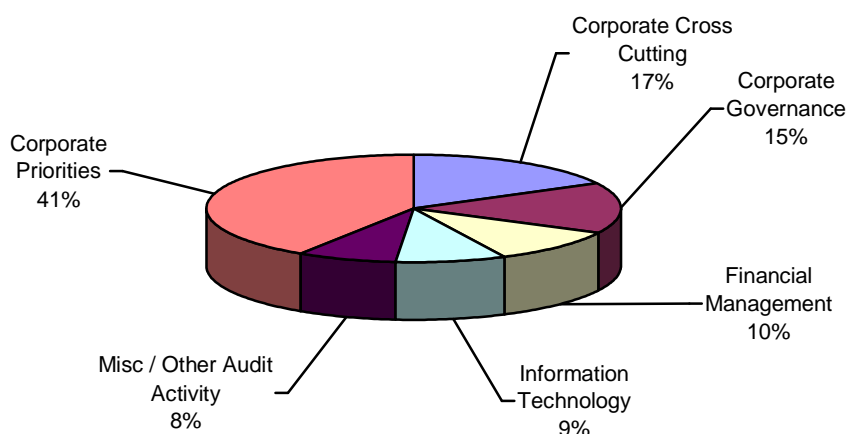
- 3.1. The Strategic and annual internal audit plans were prepared to take account of the characteristics and relative risks of the County Council's activities and to support the preparation of the Annual Governance Statement.

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.

- 3.2. The 2011-12 Internal audit plan, approved by the Audit Committee 31 March 2011 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 risks facing each department.

- 3.3. Internal audit delivered 2161 days across 238 review areas (including 133 thematic review visits) over the course of the year ending 31 March 2012

Analysis of audit coverage by type



3.4. The revised 2011-12 internal audit plan has been delivered with the following exceptions:

- At the time of this report, 5 reviews remain work in progress: and
- Work is substantially complete and an opinion has been formed for 19 reviews, however, formal draft reports have not yet been agreed with management:

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

3.5. 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 (2011-12)
Substantial	A sound framework in place that is operating effectively.	13
Adequate	Basically a sound framework in place with possible opportunities to improve controls or some immaterial evidence of inconsistent application.	48 (incl 16 draft opinions)
Limited	Critical weakness (es) identified within the framework and / or significant evidence of inconsistent application.	14 (incl 3 draft opinions)
No	Fundamental weaknesses have been identified or the framework is ineffective or absent.	0

*25 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, assurance mapping, grant certification or investigations

4. SIGNIFICANT ISSUES ARISING

4.1. There were no significant issues arising from internal audit work carried out in accordance with the 2011/12 audit plan.

4.2. 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

5. ANTI FRAUD AND CORRUPTION

- 5.1. Within the year we have proportionately reviewed 'high priority' data matches received as part of the 2010/11 National Fraud Initiative (NFI). Enquiries continue in some areas with potential savings identified of £23,000.
- 5.2. In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of 9 allegations of fraud, corruption or improper practice. A number of these cases were allegations made under the Duty to Act ("Whistle blowing") Policy. Of these:
- 4 were investigated, but with no further action required;
 - 4 resulted in disciplinary action; and
 - 1 remains ongoing
- 5.3. Where relevant a report has been produced and actions agreed to mitigate identified weaknesses and strengthen the control environment.

6. INTERNAL AUDIT PERFORMANCE

<i>Annual performance indicators 2011-12</i>		
Aspect of service	2011-12 Target (%)	2011-12 Actual (%)
% revised plan delivered (inc 2010/11 carry fwd) – HCC	95	93
% revised plan delivered (inc 2010/11 carry forward) – other clients	95	94
% of positive customer responses to quality appraisal questionnaire	90	94

7.2 Internal Audit Resources

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 Partnership blends the individual requirements of participating organisations through unique Audit Strategies and governance reporting with the continuity of a modern risk based internal audit approach and reporting protocols enabling efficient and effective service delivery

The Partnership has ambition to optimise realised benefits (pooled expertise, business resilience and the economies of scale partnership working offers) across a wider public sector base.

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.”*

7.3 Quality control

Our aim is to provide a service that remains responsive to the needs of the County Council and maintains consistently high standards. This was achieved in 2011-12 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 External Auditors to ensure development of a cooperative assurance approach;
- a tailored audit approach using a defined methodology and assignment control documentation;
- A review of the ‘Effectiveness of the System of Internal Audit’ in accordance with the Accounts and Audit (England) Regulations 2011;
- 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.

7. ACKNOWLEDGEMENT

- 7.1. 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.

Neil Pitman
Chief Internal Auditor
29 May 2012