

Annual Internal Audit Report & Opinion

2014 – 15

Hampshire Fire and Rescue Authority



HAMPSHIRE
FIRE AND
RESCUE
SERVICE

**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for proper practices in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [the Standards].

The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

Hampshire Fire and Rescue Authority is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising Hampshire Fire and Rescue Authority that these arrangements are in place and operating effectively.

Hampshire Fire and Rescue Authority’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation’s objectives.

2. Internal Audit Approach

To enable effective outcomes internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Deputy Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisation's success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to Hampshire Fire and Rescue Authority on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

The Deputy Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by Hampshire Fire and Rescue Authority to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control

In giving this opinion, 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 (assurance & consultancy);
- 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 Standards; and
- the proportion of Hampshire Fire and Rescue Authority's audit need that has been covered within the period.

Audit 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.

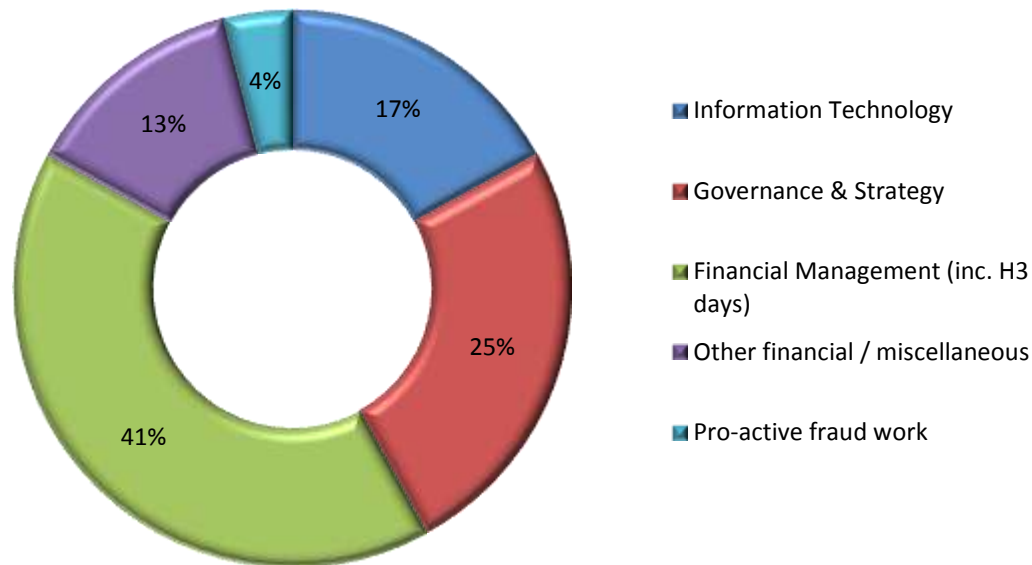
In my opinion, Hampshire Fire and Rescue Authority's framework of governance, risk management and management control is adequate and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of Hampshire Fire and Rescue Authority’s activities and to support the preparation of the Annual Governance Statement.

Internal audit days %



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.

The 2014-15 Internal audit plan, approved by the Standards and Governance Committee, 4 April 2014, was informed by internal audit’s own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

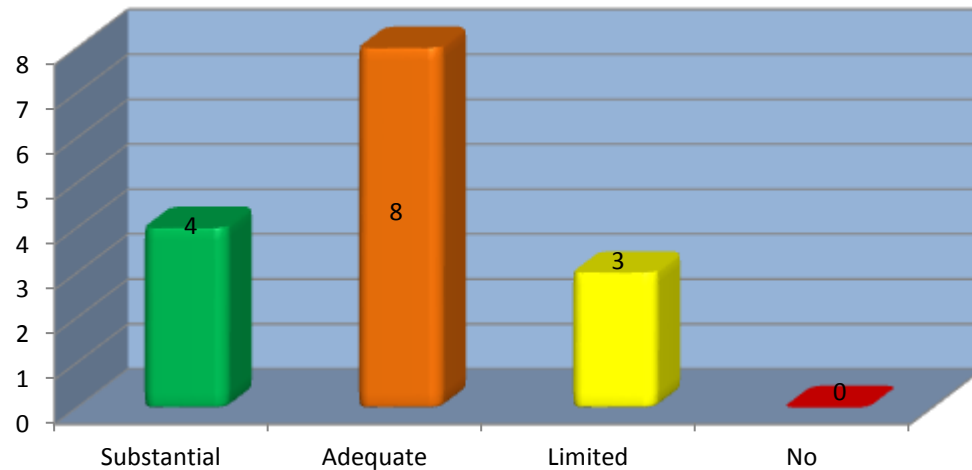
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the Internal Audit opinion the Southern Internal Audit Partnership have undertaken 18 reviews in the year ending 31 March 2015.

The 2014-15 internal audit plan has been delivered with the following exceptions:

- Work is complete and an opinion has been formed for 2 reviews, however, final reports have not yet been agreed with management
- Fieldwork is currently in progress for 1 review and this has therefore not been included within this assurance opinion
- The reviews of the Retained Duty System (RDS) and Networked Control were no longer required in the year and the days have been carried forward to 2015-16 (30 days in total).

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue of the final report is defined and summarised below:



Substantial - A sound framework of internal control is in place and is operating effectively. No risks to the achievement of system objectives have been identified;

Adequate - Basically a sound framework of internal control with opportunities to improve controls and/or compliance with the control framework. No significant risks to the achievement of system objectives have been identified;

Limited - Significant weakness identified in the framework of internal control and/or compliance with the control framework which could place the achievement of system objectives at risk; or

No - Fundamental weakness identified in the framework of internal control or the framework is ineffective or absent with significant risks to the achievement of system objectives.

*Due to the nature of the work, audit activity on the national fraud initiative and proactive fraud work did not result in an audit opinion.

5. Organisational Change

Hampshire Fire and Rescue Service changed to the Corporate Services operating model in 2014/15, moving into a shared service between Hampshire Fire and Rescue, Hampshire Constabulary, Office of the Police and Crime Commissioner and Hampshire County Council.

The new operating model incorporates a number of key systems centred on buying and paying for goods and services, finance, HR and employee self serve functionality. In response, internal audit have developed a programme of reviews covering all aspects of the new model to enable assurance over the new governance, risk and control environment.

To date our audits of the new operating model have primarily focused on the key financial systems. Internal Audit have been able to provide assurance that a strong control environment is in place across the areas of review. We will continue to focus audit resource on this new operating model over the forthcoming year(s) as reflected in the annual audit plan 2015-16.

6. Key observations

Internal audit provided limited assurance in three areas during 2014-15.

Our review of project and programme management focused on the progress made on the recommendations previously provided by an external consultant who reported in November 2013. The external consultant's report made 10 action plan points and 10 recommendations. We found that only two action plan points and one recommendation had been completed at the time of our audit. It is acknowledged that there are a number of common areas and inter-relations between the action plans and recommendations and therefore non-action in one area does have a knock on effect with other actions.

Our review of IT- Firewatch also resulted in a limited assurance opinion due to a number of observations raised in relation to management information requirements and accesses.

Local management of shared services processes was reviewed to consider the controls remaining at HFRS in relation to processes now carried out through the shared services. Although early days in the new arrangements we generally found that monitoring of costs and transactions was not being carried out by HFRS staff in line with expectations.

Where our work identified risks that we considered fell outside the parameters acceptable to Hampshire Fire and Rescue Authority, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers.

7. Anti Fraud and Corruption

Hampshire Fire and Rescue Authority continue to conform to the requirements of the National Fraud Initiative. The NFI matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information analysed that indicate a fraud, an error or an overpayment may have taken place, signalling the need for review and potential investigation. The Cabinet Office assumed responsibility for the National Fraud Initiative following the demise of the Audit Commission in March 2015.

In October 2014 internal audit facilitated the submission of relevant datasets for inclusion in the 2014/15 NFI exercise for Hampshire Fire and Rescue Authority. Feedback on potential matches was received in February 2015. The Authority will need to review the identified 'recommended matches' for fraudulent activity during 2015/16.

No cases of fraud or irregularity have been reported to internal audit for investigation during the year.

8. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a new requirement within the Standards.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

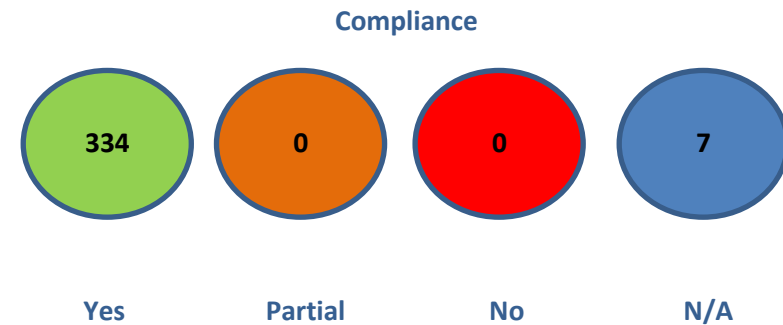
The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

The Standards stipulate that internal assessments should be undertaken as a self-assessment or by other persons within the organisation with sufficient knowledge of internal audit processes.

During 2014 – 15 The Head of the Southern Internal Audit Partnership undertook a self-assessment against the Standards and the LGAN.

An external assessment is to be undertaken by the Institute of Internal Auditors (IIA) in September 2015.



9. Disclosure of Non-Conformance

'It is my opinion that in all material respects the Southern Internal Audit Partnership conforms with the Definition of Internal Auditing, the Code of Ethics and the Standards'

Whilst the Standards only require non-conformance to be disclosed when it impacts the overall scope or operation of the internal audit activity, the additional requirements for the public sector state that all instances of non-conformance and progress against improvement plans must be reported in the annual report. The QAIP Action Plan is provided at Appendix 1.



10. Quality control

Our aim is to provide a service that remains responsive to the needs of Hampshire Fire and Rescue Authority and maintains consistently high standards. In addition to the QAIP this was achieved in 2014-15 through the following internal processes:

- On-going liaison and communication with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- Attendance at an SMT meeting to explain the role of Internal Audit and the improved liaison processes;
- On-going 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;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard and a comprehensive set of audit and management procedures; and
- Review and quality control of all internal audit work by professional, qualified senior staff members.

11. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Annual performance indicators			
Aspect of service	2014-15 Target (%)		2014-15 Actual (%)
Revised plan delivered (including 2013/14 c/f)	96		97
Compliant with the Public Sector Internal Audit Standards	Yes		Yes

12. Acknowledgement

I would like to take this opportunity to thank all those staff throughout Hampshire Fire and Rescue Service with whom we have made contact in the year. Management have been responsive to the comments we made both informally and through our formal reporting.

Karen Shaw
Deputy Head of Southern Internal Audit Partnership
September 2015

Appendix 1 – Quality Assessment & Improvement Action Plan

Compliance against the Public Sector Internal Audit Standards / Local Government Application Note

Public Sector Internal Auditing Standards Action Plan – Not Applicable

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
3.2 - Independence and Objectivity					
Does the board: e) approve decisions relating to the appointment and removal of the CAE	N/A	Southern Internal Audit Partnership are the appointed auditors for Hampshire Fire and Rescue Authority and the role of the CIA has been delegated to the Deputy Head of the SIAP. As an employee of Hampshire County Council (HCC) the role holder is subject to HCC's HR processes. Any concerns or issues with the service or the role of the CIA should therefore be referred to the Board to raise with the Section 151 Officer.	No further action required.	-	-
Have any instances been discovered where an internal auditor has used information obtained during the course of	N/A	There have been no known instances where an internal	-	-	-

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
duties for personal gain?		auditor has used information for personal gain			
If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?	N/A	There have been no known instances of real or apparent impairment of independence or objectivity.	-	-	-
If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	N/A	The Chief Internal Auditor has no operational responsibilities outside of the internal audit function.	-	-	-
4.5 - Communicating Results					
Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:					
a) The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
b) The reason(s) for non-conformance?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
c) The impact of non-conformance on the engagement and the engagement results?	N/A	Occasion has not arisen	-	-	-

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
		whereby non-conformance with PSIAS has impacted on an engagement.			