

Annual Internal Audit Report & Opinion

2015 – 16

Hampshire Fire and Rescue Authority

Appendix D



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

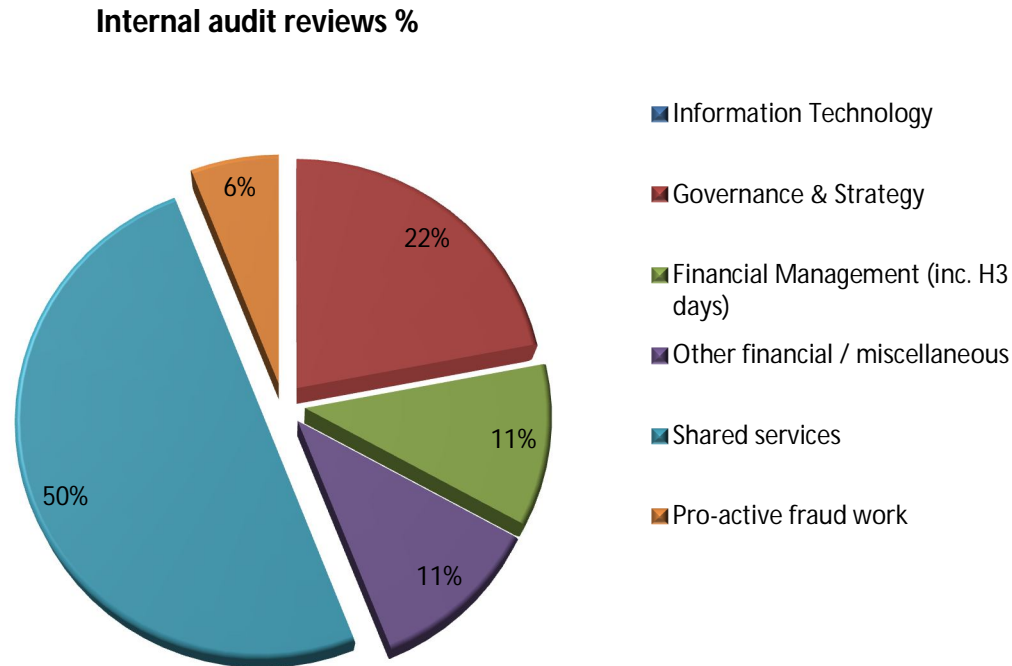
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Hampshire Fire and Rescue Authority's internal control environment.

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.



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 2015-16 Internal audit plan, approved by the Standards and Governance Committee, 2 April 2015, 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.

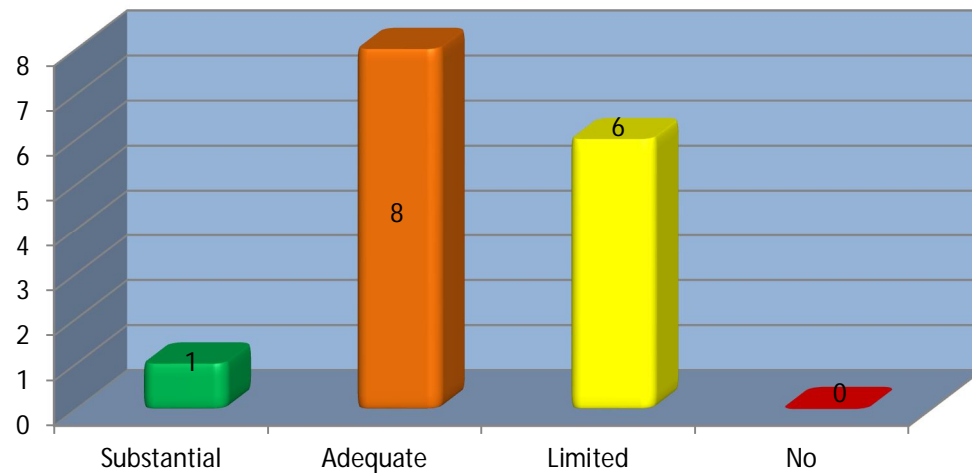
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the Internal Audit opinion the Southern Internal Audit Partnership have undertaken 18 reviews in the year ending 31 March 2016.

The 2015-16 internal audit plan has been delivered with the following exceptions:

- Work is complete and an opinion has been formed for 5 reviews included in the chart below, however, final reports have not yet been agreed with management.
- Fieldwork is currently in progress for 2 reviews and this has therefore not been included within this assurance opinion (shared service reviews of category management and information governance).

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 proactive fraud work did not result in an audit opinion.

5. Organisational Change

Hampshire Fire and Rescue Service moved into a shared service between Hampshire Fire and Rescue, Hampshire Constabulary, Office of the Police and Crime Commissioner and Hampshire County Council in 2014/15.

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, although it is fair to say that compliance, as part of the transition to the new ways of working has proved a challenge for pockets of the organisation. We will continue to focus audit resource on this new operating model over the forthcoming year(s) as reflected in the annual audit plan 2016-17.

6. Key observations

Internal audit provided limited assurance in six areas during 2015-16. In most cases the issues identified are not considered significant in the context of the Authority as a whole, however action is needed to ensure that the risks presented to the individual systems are addressed through the agreed action plans.

The common theme arising from these reviews was that either new processes were being introduced or systems were undergoing significant development and as a result the senior management team had requested our input to inform that ongoing process. This was particularly the case in our reviews of:

- risk management, where we found that although the staff and process changes had resulted in some gaps in the way in which the function had operated during the year, there was clear evidence to demonstrate that strategic risks were being managed.

- Business continuity where significant staff changes have resulted in plans to modernise the approach, which will provide the opportunity to ensure that all plans in place are up to date, regularly reviewed and tested.
- Provided vehicles which is a new scheme introduced in December 2015. Early review of the systems has enabled issues to be identified with a view to being addressed prior to further roll out of the scheme.

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 is committed to the highest possible standards of openness, probity and accountability and recognises that the public need to have confidence in those responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence and damage reputation and image. Policies and strategies are in place setting out the Authority's approach and commitment to the prevention and detection of fraud or 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.

Dataset	Total matches	Recommended matches	Number Reviewed	Identified savings
Pensions	85	54	85	£0
Payroll	111	8	105	£0
Creditors	554	65	78	£0
VAT	2	1	1	£0
Total	752	128	269	£0

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. Work was carried out during 2015/16 to review identified 'recommended matches' for fraudulent activity. The outcomes from review of the NFI matches is detailed in figure 1.

Fig. 1

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 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.

In September 2015 the Institute of Internal Auditors were commissioned to complete an external assessment of the Southern Internal Audit Partnership.

In selecting the Institute of Internal Auditors (IIA) a conscious effort was taken to ensure the external assessment was undertaken by the most credible source. As the authors of the Standards and the leading Internal Audit authority nationally and internationally the IIA were excellently positioned to undertake the external assessment.

The assessment included review of a wide range of documentary evidence and interviews and surveys with representative stakeholders (including Chief Executives, Audit Chairs and S151 Officers) across existing partnering organisations in addition to members of the Southern Internal Audit Partnership staff.

In considering all sources of evidence the external assessment team concluded:

It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to **all** of these principles. **This performance is within the top decile of EQA reviews we have performed.** This is a notable achievement given the breadth of these Standards and the operational environment faced by SIAP.

There are **no instances** across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.

Assessment against the Standards was assessed as:

Summary of Conformance	Standards	IPPF	PSIAS	LGAN	N/A	Total
		Generally Conforms	Generally Conforms	Generally Conforms		
Definition of IA and Code of Ethics	Rules of conduct	5	11	-		16
Purpose	1000 – 1130	7	30	18	2	57
People	1200 – 1230	4	13	4		21
Performance	1300 – 1322	7	11	9	2	29
Planning	2000 – 2130	12	55	11		78
Process	2200 – 2600	21	103	18		142
Total		56	223	60	4	343

12. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors that

‘the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’

There are no disclosures of Non-Conformance to report.



13. 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 2015-16 through the following internal processes:

- On-going regular liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain 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;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- Independent External Quality Assessment.

14. Internal Audit Performance

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

Annual performance indicators			
Aspect of service	2014-15		2015-16
	Actual (%)		Actual (%)
Revised plan delivered (including 2014/15 c/f)	97		100
Compliant with the Public Sector Internal Audit Standards	Yes		Yes
Customer satisfaction *			97%

*this is based on the feedback from the customer survey conducted as part of the external quality assessment and as such reflects the perceptions across the Partnership, rather than those expressed specifically by Hampshire Fire and Rescue Authority.

15. 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
May 2016