

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	9 December 2010
Title:	Internal Audit Strategy 2011-14
Reference:	2338
Report From:	<i>County Treasurer</i>

Contact name: Neil Pitman

Tel: 01962 845139

Email: Neil.pitman@hants.gov.uk

1. Executive Summary

- 1.1. The purpose of this paper is to provide the Audit Committee with an overview of the revised Internal Audit Strategy and Strategic Audit Plan and to highlight key changes to the internal audit focus and approach.
- 1.2. The attached appendices provide a copy of the revised internal audit strategy to be introduced from 1 April 2011.

2. Contextual information

- 2.1. 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.
- 2.2. The agreement introduces a shared Chief Internal Auditor role across both authority's in which three days a week are directed to fulfilling responsibilities at Hampshire County Council and two days at Southampton City Council
- 2.3. This initiative provides further scope to develop the shared service approach to best utilise areas of expertise across both authority's and generate economies of scale through training and development.
- 2.4. The Internal Audit Service at Hampshire County Council currently operate in accordance with the CIPFA 'Code' as reported by the District Auditor who stated that *'internal audit meets all required standards and their work can be relied upon for the purposes of my audit'*.
- 2.5. However, the Team operate in a very traditional manner with a focus upon detailed audits which check specific compliance as opposed to operating at a strategic level adding maximum value to the organisation.

- 2.6. Currently the Team work to a comprehensive Strategic Audit Plan subdivided departmentally against which individual annual audit assurance reports are produced. Each individual departmental plan incorporates fundamental system reviews, establishment visits, departmental system reviews and computer audits.
- 2.7. The team is structured predominantly along departmental lines with senior staff focussed on audit specialism's.
- 2.8. This report presents a review of the Internal Audit Strategy (Appendix 1) and key changes to the internal audit focus and approach to take effect from 1 April 2011.
- 2.9. The strategic audit approach has been significantly adapted to ensure it:
 - aligns with the County Council's objectives;
 - is proportionate and focused; and
 - adds maximum value to the organisation

3. Finance / Performance

- 3.1. The revised audit approach incorporates some significant departures from current practice:

3.2. Staffing

A restructure of the internal audit team will adopt a matrix style approach, by using a resource pool of multi disciplinary auditors capable of forming into teams as audit projects determine. This approach will ensure an appropriate level of independence in the rotation of audit reviews and the avoidance of over reliance on individual areas of expertise

3.3. Departmental Assurance

Due to the nature of the current audit plan Internal Audit have invested significant resource in providing an annual opinion at departmental level. Whilst it is imperative that departments are kept abreast of key issues, individual departmental assurances provides disproportionately low value to the organisation against the resource invested in their production; as such there will be one corporate assurance opinion provided annually as part of the Chief Internal Auditor Annual Report and Opinion.

3.4. Corporate reviews

- **Fundamental system reviews**

Key financial system reviews are currently undertaken cyclically as a part of each departmental plan which introduces a high level of duplication. All departments administer transactions through the same corporate payroll, debtors, creditors and main accounting systems, as such a single coordinated review of fundamental systems will be adopted moving forwards.

Internal audit will liaise with the Audit Commission to ensure assurance work is appropriately coordinated and unnecessary duplication is avoided.

- **Corporate cross cutting reviews**

Many of the current department audit plans contain common themes. Those relevant, have been consolidated to compile a portfolio of corporate cross cutting reviews. This will eliminate current duplication and ensure a focused review of key service areas.

3.5. Establishment Visits

Internal Audit has routinely undertaken cyclical reviews of County Council establishments including schools. These reviews are predominantly classified as low priority and absorb a significant resource within the section and to front line staff and as such question a value for money approach.

Analysis has verified that there have been few significant issues arising from routine establishment visits. Any fraud and irregularity investigations have been intelligence led or through the County Council's Whistleblowing Policy.

Moving forward it is intended that a proportionate level of resource will be assigned to themed establishment reviews in which a representative sample will be selected and key risk areas reviewed. Those establishments sampled for inclusion as part of the thematic review will receive specific feedback on the outcomes of the audit with key observations disseminated across all relevant establishments.

This will enable all relevant establishments to benefit from good practice identified and to act on observations resulting in a strengthened system of internal control and improved management of risk.

There will from time to time, be occasions when it would be beneficial and supportive to carry out individual school audit / establishment reviews. The annual plan will therefore include a contingency allocation to undertake such reviews as appropriate.

With schools making up a significant element of establishments visited a 'school audit policy' is to be agreed in consultation with the Director of Children's Services and relevant officers to consolidate the audit approach which will be further presented to the primary and secondary Headteacher resources groups in December 2010.

3.6. Low Priority Reviews

Internal Audit focus should be proportionate and appropriately aligned.

Currently all low priority reviews are incorporated within the five year strategic plan to ensure the whole of the audit universe is reviewed within that timeframe. The revised strategic plan will not incorporate low priority reviews.

All review areas will remain within the audit universe and reassessed on an annual basis however will not be routinely incorporated if continued to be assessed as a low priority.

The plan will remain fluid and a contingency provision will be incorporated to ensure internal audit availability should the risk environment change during the year.

3.7. Reporting

The audit report format is currently under review to ensure a focused and value adding document, appropriate to its target audience.

The revised report format will be implemented in accordance with the introduction of the revised strategy and strategic audit plan (April 2011).

3.8. Audit Commission

These changes have been discussed with the District Auditor who raised no issues of concern regarding the proposed new strategy and approach.

4. Performance

4.1. The key timelines to implement these changes:

Objective	Date
School Audit Policy to be agreed and communicated to primary and secondary schools through Headteacher Resources groups	6 & 7 Dec 2010
Report to Audit Committee to present the revised internal audit strategy and strategic audit plan	9 Dec 2010
Strategic Audit Plan to be finalised following liaison with key departmental representatives	31 Dec 2010
Internal Audit staff restructure	Jan-Feb 2011
Implementation of revised Internal Audit Strategy and Strategic Plan	1 Apr 2011

5. Conclusion

- 5.1. The revised audit approach will operate at a strategic level providing a value adding, and proportionate, level of assurance aligned to the County Council's objectives.
- 5.2. The endorsement and sponsorship of the audit approach at member / chief officer level will assist in providing the engagement and buy-in of staff at an operational level to ensure the outcome of audit reviews are optimised.
- 5.3. The shared service approach will further add the benefits of shared good practice, expertise and economies of scale.

6. Recommendation(s)

- 6.1. That the Audit Committee approves the Internal Audit Strategy 2011-14; and
- 6.2. That the Audit Committee note an appropriate staffing structure will be implemented from 1 April 2011 to effectively resource the internal audit service.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	yes/no
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Improvement plan link number (if appropriate):	
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:	
Member approval of the Internal Audit Strategy, in accordance with the Accounts and Audit (England) Regulations 2003, as amended in 2006.	

NB: If the 'Other significant links' section below is not applicable, please delete it.

Other Significant Links

Links to previous Member decisions:		
<u>Title</u> Hampshire County Council Internal Audit Strategy Update 2010	<u>Reference</u> 1406	<u>Date</u> 25 March 2010
Direct links to specific legislation or Government Directives		
<u>Title</u>	<u>Date</u>	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. Equality objectives are not considered to be adversely affected by the proposals within this report.

2. Impact on Crime and Disorder:

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime., however internal audit work is planned to ensure that controls are in place to minimise the risk of fraud and corruption against the County Council.

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific changes

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific proposals affecting adaptation to climate change