

CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2012 - 2013

Neil Pitman
Chief Internal Auditor
24 May 2013

Southern Internal
Audit Partnership

Assurance through excellence
and innovation

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'. For the purposes of our 2012/13 opinion 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 2013.
- 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

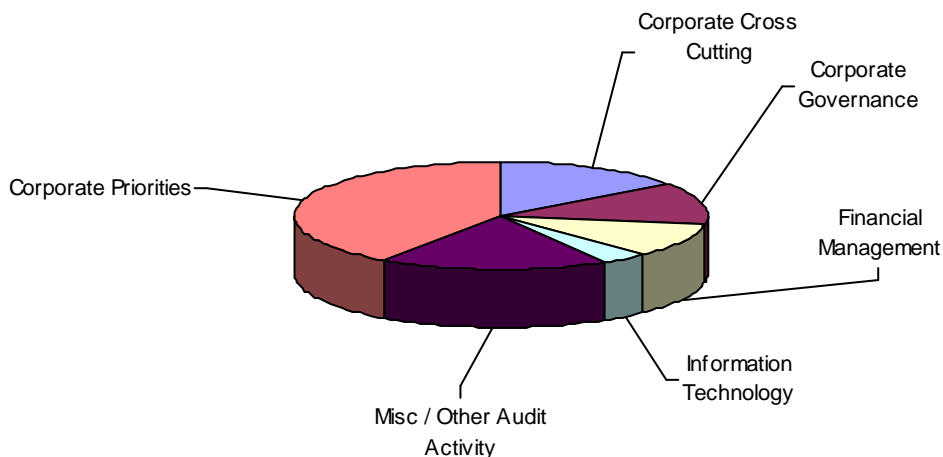
- 3.1. The Strategic and annual internal audit plans were prepared to take account of the characteristics and relative risks of the County Council's activities and to support the preparation of the Annual Governance Statement.

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 2012-13 Internal audit plan, approved by the Audit Committee 22 March 2012 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 directorate.

- 3.3. Internal audit delivered 2,244 days across 108 review areas over the course of the year ending 31 March 2013

Analysis of audit coverage by type



3.4. The revised 2012-13 internal audit plan has been delivered with the following exceptions:

- At the time of this report, 6 reviews remain work in progress: and
- Work is substantially complete and an opinion has been formed for 22 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 (2012-13)
Substantial	A sound framework in place that is operating effectively.	16 (incl 2 draft opinion)
Adequate	Basically a sound framework in place with possible opportunities to improve controls or some immaterial evidence of inconsistent application.	48 (incl 12 draft opinions)
Limited	Critical weakness (es) identified within the framework and / or significant evidence of inconsistent application.	22 (incl 8 draft opinions)
No	Fundamental weaknesses have been identified or the framework is ineffective or absent.	0

*16 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 2012/13 audit plan.

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

5. EMERGING ISSUES

- 5.1. Audit work throughout the course of the year highlighted two recurring themes:
- i. Inconsistent application - whilst the control environment across the County Council was generally found to be sound, many of the 'limited' assurance reviews were such due to inconsistent application of established procedures. This can result in a breakdown in transparency, segregation and adherence to regulation in addition to the inherent cost of corrective action; and
 - ii. Contract management - effective contract management is key to ensuring the County Council receive value for money in the delivery of contracted out services / works. Audit work throughout the year found inconsistencies in the quality of management information received and performance monitoring to ensure that service delivery met contractual obligations
- 5.2. Management actions have been agreed to mitigate highlighted risks which will be complimented through current work streams, in particular the implementation of the IBC and review of external spend and procurement which are expected to significantly improve compliance across the organisation through the introduction of standardised and simplified best practice procedures enabled through improvements to technology

6. ANTI FRAUD AND CORRUPTION

- 6.1. During the year internal audit have facilitated the submission of relevant datasets for inclusion in the 2012/13 National Fraud Initiative (NFI).

Initial matches were fed back to local authorities in March 2013 and work has been scheduled to review all 'high priority' matches as part of our 2013/14 audit plan.

Regular updates on progress and potential savings from the NFI exercise will be fed back to the Audit Committee as part of our established quarterly 'Progress Reports'

- 6.2. In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of 8 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:
- o 3 were investigated, but with no further action required;
 - o 2 resulted in disciplinary action; and
 - o 3 remain ongoing
- 6.3. Significant incidences of alleged or proven fraud are duly reported to the Audit Committee (confidential papers)

7. INTERNAL AUDIT PERFORMANCE

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

<i>Annual performance indicators 2012-13</i>		
Aspect of service	2012-13 Target (%)	2012-13 Actual (%)
% revised plan delivered (inc 2011/12 carry fwd) – HCC	95	96
% 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 Southern Internal Audit Partnership brings together the professional discipline of internal audit across partnering organisations.

The Partnership benefits through pooled expertise and greater business resilience to ensure the professional and timely delivery of the internal audit plan(s), coupled with the ability to flex resource to meet service demands.

Our 'internal audit strategy' ensures the Chief Internal Auditor has sufficient resource necessary to fulfil the requirements and expectations to deliver an internal audit opinion.

Significant matters that jeopardise the delivery of the plan, or require changes to the plan are identified, addressed and reported to the Audit Committee

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 2012-13 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.

8. ACKNOWLEDGEMENT

- 8.1. 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
24 May 2013