

Annual Internal Audit Report & Opinion

2014 - 15

Hampshire County Council



**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 organisations 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’.

The County Council 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 the County Council that these arrangements are in place and operating effectively.

The County Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations 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 Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations 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 the County Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the County Council 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 County Council's audit need that has been covered within the period

Audit Opinion

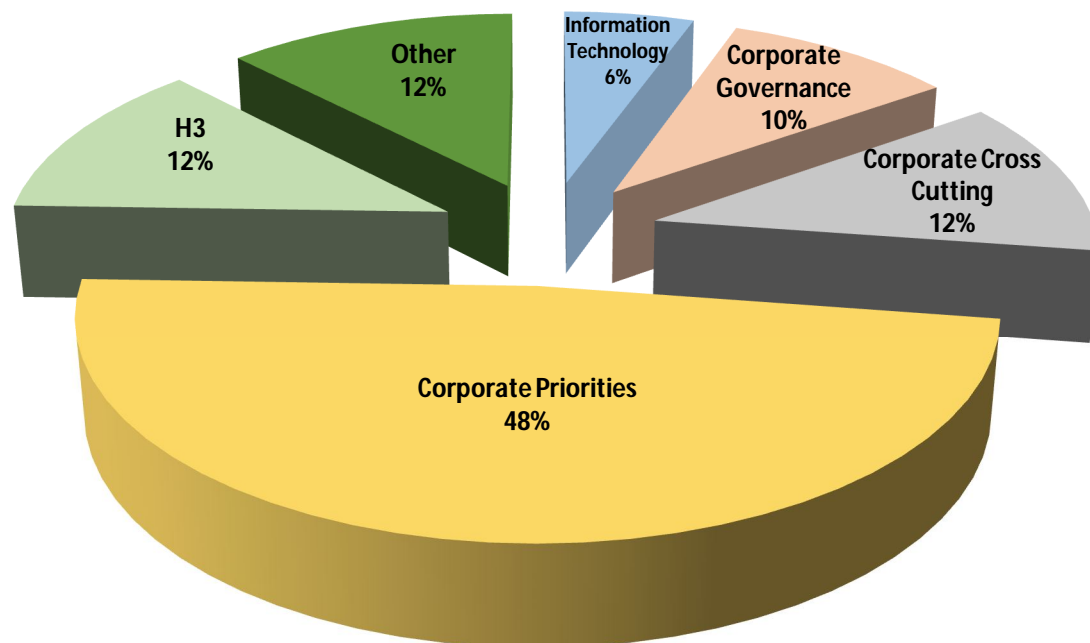
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Hampshire County Council's internal control environment.

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.

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the 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.

The 2014-15 Internal audit plan, approved by the Audit Committee, 26 June 2014, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

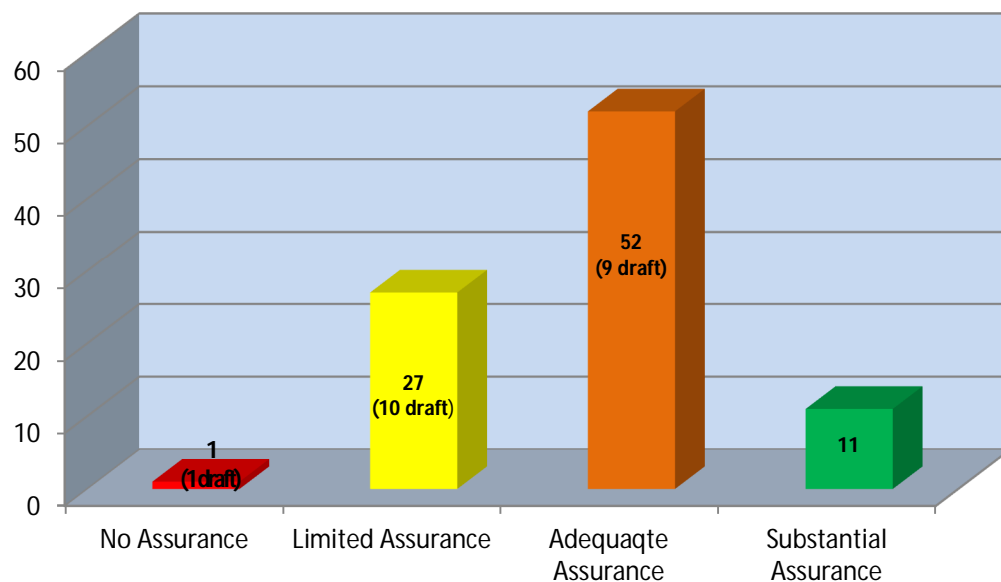
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion the Southern Internal Audit Partnership have undertaken 121 reviews the year ending 31 March 2015.

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

- Work is substantially complete and an opinion has been formed for 25 reviews, however, final reports have not yet been agreed with management;
- Fieldwork remains in progress in respect of 7 reviews (capital programme, risk management, Isle of Wight partnership, extra care housing, waste disposal, category management (H3) and governance (H3))

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 (including draft reports) is defined as follows:



Substantial - A sound framework of internal control is in place and 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 (es) 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 weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives

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

5. Organisational Change

The Integrated Business Centre (IBC) went live in April 2014 and was the largest business and IT change programme within the County Council in a decade. The change was driven by the need to reduce costs, to move away from a system that was reaching obsolescence and to move swiftly towards being in a strong position to provide shared and sold Corporate Services.

The IBC 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 IBC and wider H3 partnership to enable assurance over the new governance, risk and control environment.

To date our audits, of the IBC, which have primarily focused on the key financial systems (payroll, accounts payable, accounts receivable, main accounting, treasury management and planning budgeting & forecasting). 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 IBC / H3 over the forthcoming year(s) as reflected in the annual audit plan 2015-16.

6. Key Observations

Charging and Contributions Policy for Children in Care

Internal audit provided one 'No Assurance' opinion during 2014-15 following our review of Charging and Contribution Policy for Children in Care.

The policy commits to charging a weekly rate for each child accommodated or looked after by the authority. As at March 2015 there were approximately 1389 'children looked after' by the County Council.

The current policy stipulates that a standard parental contribution for a 'child in care' is £44 per week, this rate is then means tested to reflect personal circumstances. During 2014-15 only one parental contribution was being received.

Whilst it was acknowledge that many of the affected families may be in receipt of Income Support, Job Seekers Allowance or in financial hardship our testing found no evidence that a waiver to parental contributions had been agreed in any of the sample cases reviewed or that discussions with the parents regarding contributions had taken place.

The current policy has arguably fallen into disuse because of these reason of proportionality and because it could lead to differential rates of charging for parents of children with disabilities who, generally, are less likely to be in receipt of the above benefits or in financial hardship. Therefore the policy as a whole requires review.

Establishment Reviews

A number of the 'Limited Assurance' reviews issued throughout the year were in respect of thematic reviews undertaken at establishments that are geographically remote from the corporate centre, including schools, adult services and CCBS establishments. Issues centred on compliance with corporate policies and procedures (covering VAT, income, attendance management, contract management, procurement cards and imprest accounts).

As a result of their remote location and the autonomy with which they operate, bespoke practices and departure from corporate policy and practice can become common place. Management must remain vigilant to such risk / compliance issues.

Business Continuity

Reviews of both 'service' and 'IT' business continuity planning were undertaken during the year, each concluding in 'limited assurance' opinions.

Common observations found plans to be incomplete, out of date and untested. Whilst it is acknowledge the rate of change across the organisation provides challenge in maintaining documentation; such changes in processes, personnel and delivery of Council services makes effective business continuity planning of even greater significance to the continued delivery of council services in the event of an unplanned incident or disaster. The reputational risk to the Council is further increased should partners or sold service clients be adversely affected by the inability to maintain service / system functionality.

Where weakness have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and timescales to mitigate identified risks.

7. Anti Fraud and Corruption

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

The County Council continues to conform to the requirements of the National Fraud Initiative (NFI). 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, signaling 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.

As part of the 2014/15 NFI exercise the County Council submitted required data sets in October 2014 receiving feedback on potential matches in February / March 2015 (as detailed below). Work will be carried out during 2015-16 to review identified 'recommended matches' for fraudulent activity.

| Dataset | Recommended Matches |
|--------------------------------|---------------------|
| Pensions | 426 |
| Payroll | 649 |
| Blue Badge | 6593 |
| Concessionary Travel | 7722 |
| Private Residential Care Homes | 22 |
| Personal Budgets | 10 |
| Creditors | 2506 |
| VAT | 88 |
| Total | 18016 |

In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of any allegations of fraud, corruption or improper practice. In accordance with the Local Government Transparency Code 2014 the details of internal audits involvement in counter fraud work is summarised below:

| Local Government Transparency Code 2014 | 01.04.14 – 31.03.15 |
|---|---------------------|
| Part 2 Requirements - Fraud | |
| Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used | Nil |
| Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud | 2 fte* |
| Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists | 3 fte* |
| Total amount of time spent by the authority on the investigation and prosecution of fraud | 75 days* |
| Total number of fraud cases investigated | 9** |

*relates to internal audit staff across the wider SIAP only (does not include other areas of the Council that may affect reported figures i.e. legal, HR, Trading Standards, departmental investigating officers, housing benefits etc.)

**the definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse* - 'the intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss.'

Fraud Grant Funding

The DCLG have made available £16m to assist Councils in developing innovative and holistic initiatives to tackle the fight against fraud.

During 2014 local authorities were invited to submit proposals for funding that would result in real financial savings through effective counter fraud activities. A successful bid from the Southern Internal Audit Partnership resulted in funding of £72,000 being awarded to support initiatives in respect of fraud detection and prevention.

Funding acquired will contribute to the development of a generic fraud risk assessment framework to inform and educate of key fraud risks. This assessment will inform a programme of proactive fraud initiatives moving forward, targeting demonstrably high risk areas.

This will be supported by the use of data analytics to more strategically analyse higher risk areas in the identification and investigation of data giving rise to irregular activity or conflicts with other sources of information.

The legacy from funding will strengthen measures for both fraud detection and prevention through provision of a clear understanding and assessment of fraud threats and the establishment of data analytics as preventative measures to combat fraud through the real time sharing and matching of data and fraud intelligence.

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.

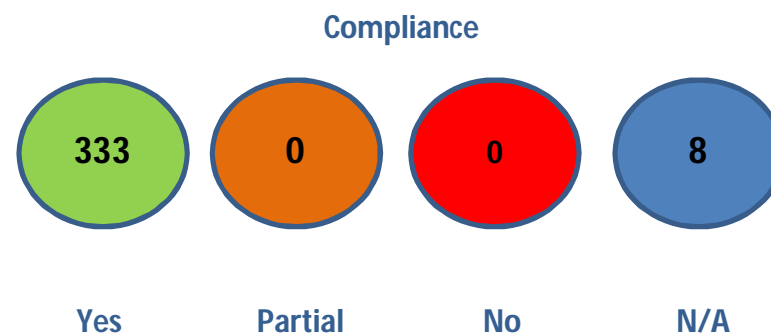
The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

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.

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. In accordance with the Internal Audit Charter, outcomes of the external assessment will be reported to the Audit Committee (December 2015).



9. Disclosure of Non-Conformance

‘It is my opinion that in all material respects the Southern Internal Audit Partnership conforms to 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 the County Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2014-15 through the following internal processes:

- On-going 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; 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 | 2013-14 Actual (%) | | 2014-15 Actual (%) |
| Revised plan delivered (including 2013/14 c/f) | 96 |  | 95 |
| Positive customer responses to quality appraisal questionnaire | 99 |  | 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 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
Head of Southern Internal Audit Partnership
June 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 | Such actions are not constitutionally permissible to be undertaken by the board (Local Authorities (Standing Orders) (England) Regulations 2001) | To continue to follow existing Council Standing Orders and procedures in the appointment and dismissal of the Chief Internal Auditor | - | - |
| Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain? | N/A | There have been no known instances where an internal 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. | - | - | - |

| Standard | Compliant | Comment | Action | Responsible Officer | Implementation Date |
|--|-----------|---|--------|---------------------|---------------------|
| 4.1 - Managing the Internal Audit Activity | | | | | |
| Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation? | N/A | Internal audit is not provided by an external service provider. | - | - | - |
| 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 whereby non-conformance with PSIAS has impacted on an engagement. | - | - | - |

Opportunities for Improvement - Section briefing– 3 March 2014

| Improvement opportunities: | Suggested actions: | Responsible Officer | Implementation |
|--|---|--|---|
| <p>Communication</p> <p>With additional organisations joining the Partnership, the transient nature of audit staff, flexible working options and the fluidity of planning to meet the needs of the client, it is considered that current channels of communication should be enhanced to compliment changing working practices.</p> | <p>Head of Southern Internal Audit Partnership to attend ASMT monthly to capture key messages from the team</p> <p>A monthly email to be circulated to all staff with the key messages (corporate and local)</p> <p>To ensure all relevant staff are notified with any plan changes (ASMT to be copied in on email(s) due to potential impact on other workloads).</p> | <p>Head of Southern Internal Audit Partnership</p> <p>Head of Southern Internal Audit Partnership</p> <p>All of ASMT</p> | <p>Complete</p> <p>Complete</p> <p>Complete</p> |
| <p>MKI</p> <p>Limitations within MKI prior to the recent upgrade have required a number of workarounds questioning the effectiveness and efficiency of the system. Additionally attaining relevant management information is a cumbersome and timely process.</p> | <p>MKI are currently developing a progress report that will replace the progress control sheet. This will make the monitoring of audits for all staff much easier.</p> <p>Looking to change the hosting of MKI back to the vendor rather than internal. This will resolve the live mobile issues.</p> <p>Once the progress report has been developed, we will ask MKI to develop automated audit reports/outlines and facility to track management actions.</p> | <p>LE / MKI</p> <p>LE / MKI</p> <p>LE / MKI</p> | <p>Complete</p> <p>Complete</p> <p>AO's now automated and MKI being utilised to track management action. Automated audit reports currently under review</p> |