

Annual Internal Audit Report & Opinion

2015 - 16

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

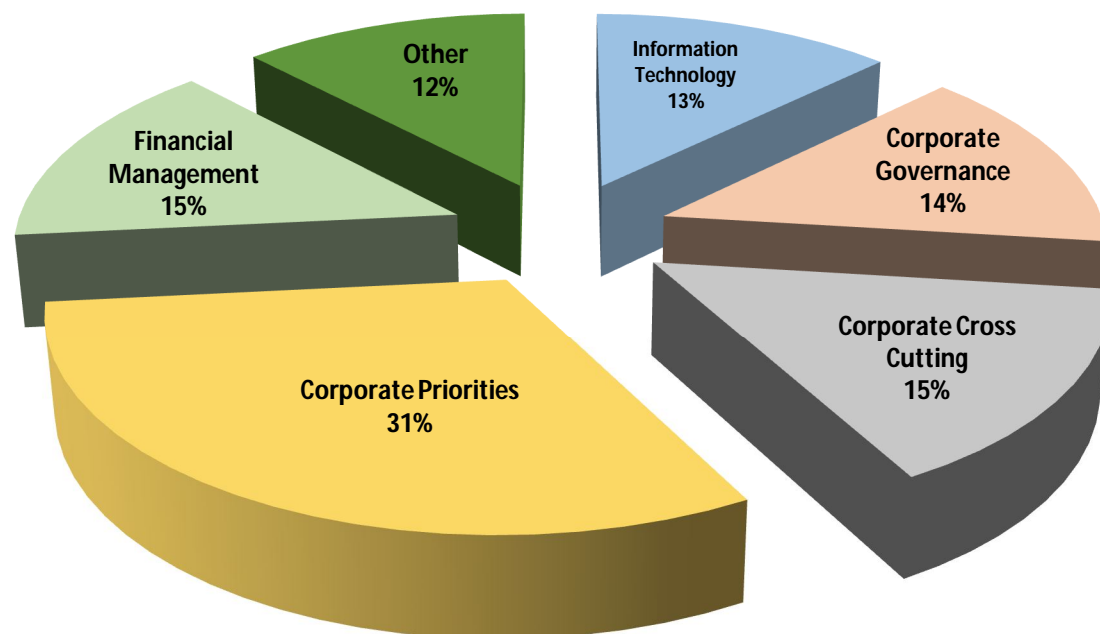
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Hampshire County Council's internal control environment.

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 2015-16 Internal audit plan, approved by the Audit Committee in June 2015, 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.

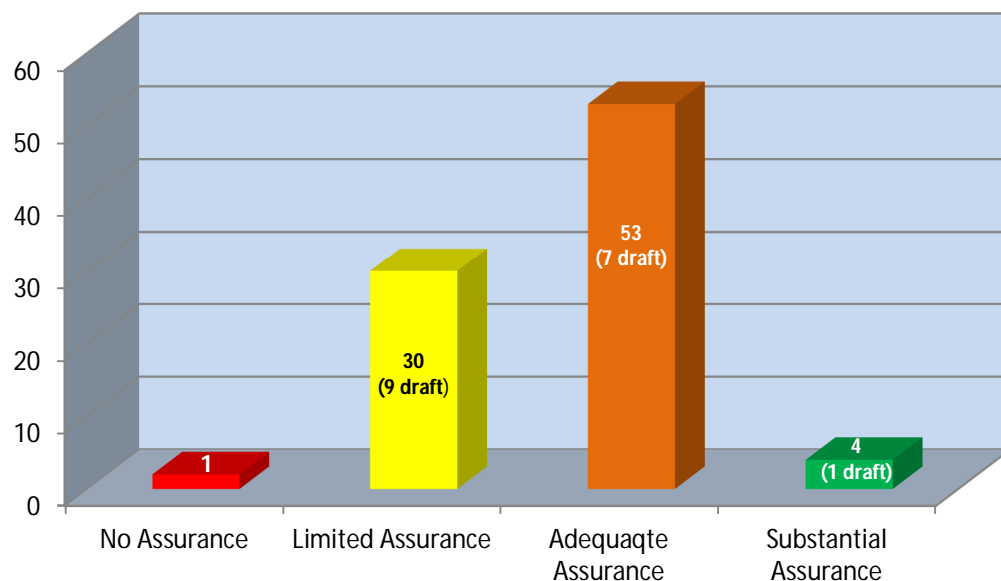
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion the Southern Internal Audit Partnership have undertaken 113 reviews during the year ending 31 March 2016.

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

- Work is substantially complete and an opinion has been formed for 17 reviews, however, final reports have not yet been agreed with management;
- Fieldwork remains in progress in respect of 10 reviews (Sold Services; IBC/SAP; Street Lighting; Category Management; Scientific Services; User Access; Care Leavers; Section 38 Agreements; Schools – Procurement; and Information Management)

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

*15 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. The 2015-16 financial period has seen the first full year of integration for Hampshire Constabulary, OPCC and Fire in addition to the on-boarding of Oxford County Council.

Internal Audit have been able to provide assurance over the control environment in place across areas of review, although 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 the shared services partnership over the forthcoming year(s) as reflected in the annual audit plan 2016-17.

6. Key Observations

'No Assurance' Opinion(s) - One audit review of an educational establishment undertaken during the year resulted in a 'No Assurance' opinion. This review was undertaken following concerns raised by a senior member of staff (interim) with regard the strength of the control environment. Concerns highlighted during the review centred on:

- poor budgetary and payroll monitoring and reporting in addition to the absence of a required 'three year development plan';
- an absence in the authorisation of payments; inadequacies in segregation of duties and evidence of supporting receipts / invoices; and
- the absence of a clear management trail to support the receipt of income through to banking.

A comprehensive set of management actions (45) were agreed as part of the audit review to mitigate identified weaknesses, all of which have been implemented with the exception of two that remain pending with a target date of September 2016 (neither of which is classified as 'high' priority)

Common Themes

Establishment Reviews - A number of the 'Limited Assurance' reviews issued throughout the year were in respect of individual and thematic reviews undertaken at establishments that are geographically remote from the corporate centre. Issues centred on compliance with corporate policies and procedures (covering VAT, income, absence management, procurement, overtime, transport and imprest accounts).

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

Contract Management – Reviews across departments highlighted commonality in the absence of performance reporting / monitoring in respect of agreed targets as part of contractual arrangements, increasing the risk of service delivery meeting the necessary standards agreed and expected by the County Council.

Personalisation & Direct Payments – the Care Act 2014 places additional requirements on the County Council to reach agreement with clients as to how their needs should be met and on the documentation required to support: actions; on-going review; and outcomes. Testing in this area highlighted some individual and carer records to be incomplete. Additionally we were unable to attain assurance that in all cases a personal assessment and plan letter had been sent to clients or providers.

Specific review of Direct Payments highlighted instances hereby:

- there was an absence of signed Direct Payment Agreements recorded on AIS;
- payment of provision had commenced before the Direct Payment Agreement had been signed / recorded as signed on AIS;
- an authorised support plan was not recorded on AIS;
- in over half of the cases reviewed we were unable to confirm that the client had a dedicated bank account for direct payments as required in the Direct Payment Agreement; and
- annual reviews, as required within documented procedures, were inconsistent in their application

It is acknowledged that the whole Direct Payment process is under review and dedicated bank accounts form part of that review.

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

Dataset	Recommended Matches	Total Matches Reviewed	Identified savings (£)
Pensions	426	1,324	£4,510
Payroll	649	199*	
Blue Badge	6,593	8,052	
Concessionary Travel	7,722	7,722	
Private Residential Care Homes	22	194	£26,025
Personal Budgets	10	16	-
Creditors	2,506	180*	
VAT	88	133	£1,605
Total	18,016	17,820	£32,140

Fig.1 *resource has been allocated to prioritise review and clearance of recommended matches.

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	01.04.15 – 31.03.16
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	148 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.'

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 EOA 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

9. 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.




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 2015-16 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;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- Independent External Quality Assessment.

11. Internal Audit Performance

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

Annual performance indicators			
Aspect of service	2014-15 Actual (%)		2015-16 Actual (%)
Revised plan delivered (including 2014/15 c/f)	95		97
Positive customer responses to quality appraisal questionnaire	97		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 2016