

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	25 March 2010
Title:	Hampshire County Council internal audit strategy update 2010
Reference:	1406
Report From:	County Treasurer

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1. Executive Summary

1.1. This report summarises:

- progress in implementing the audit strategy for Hampshire County Council
- internal audit plan for 2010/11
- the terms of reference for internal audit.

1.2. No further changes to the internal audit strategy or terms of reference for internal audit are proposed at this time.

2. Contextual information

2.1. The Audit Strategy 2008 to 2013 was approved by the Governance Committee in November 2007, following a fundamental review carried out during the Summer of 2007.

2.2. However, the strategy for auditing schools was amended for 2009/10, based on our experience of delivering the 2008/09 plan. Members supported the change in how total schools assurance was covered, whilst retaining a thorough programme of school visits (which explains the high resource input to Children's Services: it is an area in which a number of councils have reduced days in recent years, though it is supported by our audit risk assessment work). This amendment was approved by the Governance Committee in March 2009.

2.3. The Audit Committee has not previously received copies of these reports which are therefore attached at appendix A for information.

- 2.4. The overall objective of the strategy is to ensure that internal audit resources are efficiently and effectively deployed to meet the requirements for internal audit outlined in:
 - CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code)
 - the Accounts and Audit Regulations 2003, including 2006 amendments.
- 2.5. Since the last full review of the audit strategy the Audit Committee has approved revisions to the policies for countering fraud. There have also been significant changes in the County Council. For example, corporate services reviews have been carried out, including a review of management structures and operations. External challenges have included the recession and changes to government funding and inspection regimes. There is increasing emphasis on the need for partnership working. The basis on which social care is provided is being radically affected by the move towards personalisation.
- 2.6. We believe the audit strategy adequately deals with the issues arising from these changes and our experience of delivering the internal audit work, knowledge of the sector and professional developments have not identified a need for further revision to the strategy at this stage. For example, the assurance required on partnership, personalisation and Board of Corporate Governance aspects is accommodated within the current strategy.
- 2.7. There is no doubt that the financial environment for local government will change significantly with the grant reductions expected when the next comprehensive spending review is announced. Furthermore, there will shortly be a new Chief Internal Auditor and County Treasurer. In that context, it may well be appropriate for the five year strategy to be more substantially revisited next year, ie to inform years four and five of its implementation.
- 2.8. We have, then, made good progress in working towards delivering the revised audit strategy and, in our opinion, it continues to ensure that internal audit resources are used effectively in providing an appropriate level of assurance for Hampshire County Council. In addition, the Audit Commission have endorsed our approach, stating in their recent Annual Audit Letter that 'Internal Audit meets all the required standards and their work can be relied upon'.
- 2.9. Internal audit plans have been prepared each year in line with the approved strategy. The audit plan for 2010/11 to 2012/13 is attached in summary at appendix B for information. Detailed departmental plans supporting this summary were prepared through on-going evaluation of risks. This was done in consultation with senior managers in departments, taking into account key changes in the risk profiles in the departments and a full audit needs assessment. The resulting plan has been approved by the County Treasurer and distributed to our primary contacts in each department.

2.10. As a result of these risks assessments, some shifts have occurred between departments in the number of days allocated under the 2010/11 plan compared with the 2009/10 plan. These changes are consistent with, but not automatically generated by, the strategy, the most significant changes and the primary reasons for them being as follows:

Changes	Impact on plan
<p>Increased coverage in merged PBRs and IT Services (+117 days).</p>	<p>Over time, we expect audit days to reduce as we will carry out single departmental reviews. However, our risk assessment indicates that there are new areas in the merged department, particularly relating to the property and business function, that require a higher level of audit and the overall plan has increased. Examples of new areas include:</p> <ul style="list-style-type: none"> ▪ Development of facilities management arrangements/Hampshire workstyle ▪ Implementation of the Havant Public Service Village ▪ Implementation of a trading company for shared services <p>In addition, we have increased the scope of our contract audit reviews.</p> <p>The 2009/10 IT audit plan was exceptionally low due to the risk profile, but is back to previous levels for 2010 onwards, resulting in an increase in days from the previous year.</p>
<p>New audit areas in the Environment department (+59 days)</p>	<p>Our risk assessment indicates that resources are needed for high profile or new areas of activity, such as:</p> <ul style="list-style-type: none"> ▪ The street lighting PFI project ▪ The development of the Bus Rapid Transport system ▪ Increased focus on winter maintenance following the severe winter weather. <p>This is reflected in the higher number of days allocated to the Environment department.</p>
<p>Reduced coverage in</p>	<p>Communities, Culture and Rural Affairs department – audit days have reduced in 2009/10 to reflect the</p>

<p>lower risk areas (-132 days)</p>	<p>limited size and complexity of the departmental systems.</p> <p>Chief Executive's department – audit days will reduce over the next three years to reflect the development of robust self-testing within the Human Resources department.</p> <p>County Treasurer's department –audit days will reduce in line with the stabilisation of systems.</p>
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- 2.11. The 2010/11 audit plan will be monitored throughout the year and changes discussed with senior managers in departments. A report on progress against the plan will be presented to the Audit Committee in December 2010.
- 2.12. The terms of reference for the internal audit service provided to Hampshire County Council were last approved by the Governance Committee in March 2009 following minor revision. No further changes are proposed at this stage. However in view of the changes to the committee structure, the current terms of reference are attached at Appendix C for endorsement by the Audit Committee.

3. Resource implications

Liaison with the Audit Commission

- 3.1. We have had regular liaison meetings with the Audit Commission throughout 2009/10 to discuss national and local audit issues, ensure that duplication is minimised and also that reporting to the Audit Committee is co-ordinated as far as possible. We propose to continue with this arrangement in 2010/11.

Staff input

- 3.2. The 2010/11 plan has been prepared on the basis of assessed audit need and there has been no significant change in the resources required to deliver the assurance work compared to 2009/10. Which shows, as would be expected from the previous comment, comparatively high levels of coverage due to the thorough schools audit programme.

4. Recommendation(s)

It is recommended:

- 4.1. That the Audit Committee endorses the view that the current terms of reference for the internal audit service and the internal audit strategy, as amended for schools in 2009, remain valid.
- 4.2. That the Audit Committee endorse the internal audit plan for 2010/11 to 2012/13.

Agenda item:

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:	
Of the significance of internal audit to the good governance of the County Council.	
Member approval of the annual internal audit opinion, in accordance with the Accounts and Audit (England) Regulations 2003, as amended in 2006, is a statutory requirement.	

Other Significant Links

Links to previous Member decisions:		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
HCC Internal Audit Strategy 2008-2013	Governance Cttee	14 December 2007
HCC Internal Audit Strategy update 2009	Governance Cttee	26 March 2009
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. Race and equality impact assessment has been considered in the development of this report and no adverse impact has been identified.

2. Impact on Crime and Disorder:

- 2.1. The County Council has a legal obligation under Section 17 of the Crime and Disorder Act 1998 to consider the impact of all the decisions it makes on the prevention of crime. The proposals in this report have no impact on the prevention of crime, but internal audit work is planned to ensure that controls are in place to minimise the risk of fraud against the County Council.

3. Climate Change:

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

Proposals have not effect on climate change.

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