

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Audit Committee
<b>Date:</b>	5 December 2013
<b>Title:</b>	Effectiveness of the system of Internal Audit
<b>Reference:</b>	5425
<b>Report From:</b>	Director of Corporate Resources – Corporate Services

**Contact name:** Neil Pitman

**Tel:** 01962 845139

**Email:** Neil.pitman@hants.gov.uk

### 1. Executive Summary

1.1. Under the Accounts and Audit (England) Regulations 2011 the County Council is required, at least once a year, *'to conduct a review of the effectiveness of its internal audit'*. The purpose of this paper is to provide the Audit Committee with an overview of the measures currently in place to monitor and maintain internal audit effectiveness.

### 2. Contextual information

2.1. The Accounts and Audit (England) Regulations 2011 - S6 states:

*'(1) A relevant body must 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'.*

*'(3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.'*

2.2. With effect from 1 April 2013 the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN) together supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (the 2006 Code) as proper practices.

2.3. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing;
- Code of Ethics; and
- International Standards for Professional Practice of Internal Auditing

### **3. 2012/13 Review**

3.1. Proper practices relevant to 2012/13 (the 2006 Code) recommended that:

*'The Head of Internal Audit should have in place a performance management and quality assurance framework to demonstrate that the internal audit service is:*

- *Meeting its aims and objectives;*
- *Compliant with the Code*
- *Meeting internal quality standards*
- *Effective, efficient, continuously improving; and*
- *Adding value and assisting the organisation in achieving its objectives.'*

3.2. Each of these attributes remain and are further expanded on under the PSIAS / LGAN. Compliance against *'the 2006 Code'* was confirmed as part of the 2012/13 annual report and opinion presented to the Audit Committee in June 2013. As such for the purposes of this review, it was considered opportune to assess compliance of the internal audit service against the significantly more comprehensive PSIAS / LGAN.

### **4. Meeting aims and objectives**

4.1. Internal audits aims and objectives are defined within local and wider departmental business plans.

4.2. Objectives are continuously measured, monitored and formally reviewed as part of the Chief Internal Auditor's Individual Performance Plan (IPP) assessment and appraisal.

### **5. Compliance with proper practices (PSIAS / LGAN)**

5.1. The Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards provides a checklist that has been developed to enable periodic self-assessment as part of the Quality Assurance and Improvement Programme. It incorporates the requirements of the PSIAS as well as the Application Note in order to provide comprehensive coverage of both documents.

5.2. The LAGN states *'the foundation of an effective internal audit service is compliance with standards and proper practices'*

5.3. In keeping with the Audit Committee recommendation (22 March 2012) the review of Internal Audit compliance against the PSIAS / LGAN was completed by the County Council's Deputy Monitoring Officer.

5.4. The Chief Internal Auditor provided an initial assessment against the checklist accompanied by documentary evidence to support relevant compliance. The Deputy Monitoring Officer then considered each of the Standards for compliance concluding *'I am satisfied that this is an accurate assessment of Hampshire County Council's internal audit function'*.

5.5. The summary of the assessment against the 341 Standards highlights:

<b>Compliant</b>			
<b>Yes</b>	<b>Partial</b>	<b>No</b>	<b>N/A</b>
298	1	1	41

5.6. In areas of 'partial' or 'no' compliance an action plan has been put in place to stimulate improvement (Appendix 1).

## **6. Meeting internal quality standards**

6.1. A comprehensive and up-to-date framework is in place and available to all staff to provide guidance on quality standards in carrying out day-to-day audit work in compliance with proper practices.

6.2. A system of quality checks is in place to ensure all internal audit work is appropriately supervised and reviewed throughout all audits to monitor progress, assess quality and coach staff.

6.3. Audit Services operate a quality system (ISO 9001) which covers all our audit reviews including irregularity reviews.

6.4. The use of audit management software (MK Insight) enables performance management information to be more readily available, and provides a consistency to the audit process followed

## **7. Effective, efficient and continuously improving**

7.1. On 1 February 2012 Hampshire County Council entered into a collaborative partnership with Southampton City Council for the provision of internal audit services to form the Southern Internal Audit Partnership.

7.2. The development of the Southern Internal Audit Partnership brings together the professional discipline of internal audit across partnering organisations.

7.3. The Partnership has grown since its formation and currently includes five local authorities. The Partnership also provides services to a range of clients including Hampshire Police and Crime Commissioner / Hampshire Constabulary, Hampshire Fire & Rescue Authority, Hampshire Pension Fund, the University of Winchester and 12 Further Education establishments

7.4. Realised benefits since the introduction of the partnership include pooled expertise, economies of scale, flexibility and resilience.

7.5. The team operate a modern risk based audit approach, focusing on medium and high priority areas within the audit universe

7.6. The risk-based Internal Audit Plan ensures it:

- aligns with the County Council's objectives;
- is proportionate and focused; and
- adds maximum value to the organisation

7.7. The annual audit plan remains fluid and responsive should the risk environment change during the year.

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

7.9. The audit report format ensures a focused and value adding document, appropriate to its target audience.

## **8. Adding value and assisting the organisation in achieving its objectives**

8.1. The Risk-based Audit Plan demonstrates intended audit coverage aligned to the Council's objectives.

8.2. One of the key deliverables for internal audit is to provide independent and objective assurance to management on the adequacy or otherwise of the effectiveness of the framework of risk management, control and governance designed to support the achievement of their objectives.

8.3. This in itself can be viewed as providing added value to the organisation, however there are a number of other dimensions to the work of internal audit that add value to the organisation:

- Assess and report risk exposure;
- Improve opportunities to achieve organisational objectives;
- Identify over control and opportunities for efficiencies; and
- Identify operational improvements

8.4. The 'Progress Report' presented to each meeting of the Audit Committee demonstrates how management is responding to the issues and risks highlighted by internal audit's work and that management actions in response to audit observations are properly implemented on a timely basis.

8.5. Formal client feedback is sought in respect of each audit assignment conducted by means of a "client feedback survey". For the period 2012/13 the % of positive customer responses to the 'Quality Appraisal Questionnaire' was 94%.

## **9. Role of the Audit Committee**

9.1. The Audit Committee plays an essential role in the effectiveness of the system of internal audit through its function to monitor, review and report on the way in which governance is exercised within the County Council, particularly with regard to:

- receipt and consideration of reports on internal audit strategy, planning and delivery, including the Chief Internal Auditor's Annual Report and Opinion;
- view on internal assurances of governance practice and to be satisfied that the County Council's assurance statements properly reflect the risk environment and any actions required to improve it; and
- consideration of the County Council's compliance with its own and other published standards and controls

## **10. Recommendation(s)**

10.1. That the Audit Committee:

- a) approve the review conducted in assessing the 'Effectiveness of the System of Internal Audit'
- b) Endorse the action plan generated from the assessment against the Public Sector Internal Audit Standards

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

<b>Hampshire safer and more secure for all:</b>	no
Corporate Improvement plan link number (if appropriate):	
<b>Maximising well-being:</b>	no
Corporate Improvement plan link number (if appropriate):	
<b>Enhancing our quality of place:</b>	no
Corporate Improvement plan link number (if appropriate):	
<b>OR</b>	
<b>This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:</b>	
In accordance with the Accounts and Audit Regulations 2011 and proper internal audit practices (Public Sector Internal Audit Standards), to review annually the effectiveness of the system of internal audit	

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

**Other Significant Links**

<b>Links to previous Member decisions:</b>		
<u>Title</u> Internal Audit Charter	<u>Reference</u> 4944	<u>Date</u> 27 Jun 2013
<b>Direct links to specific legislation or Government Directives</b>		
<u>Title</u> Accounts and Audit (England) Regulations 2011	<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