

## NOTICE OF MEETING

<i>Meeting</i>	<b>HFRA Standards and Governance Committee</b>	<i>Clerk to the Hampshire Fire and Rescue Authority</i> <b>John Coughlan CBE</b>
<i>Date and Time</i>	<b>Thursday, 8th March, 2018 10.00 am</b>	<i>The Castle, Winchester Hampshire SO23 8UJ</i>
<i>Place</i>	<b>Room A - HFRS HQ, Eastleigh</b>	
<i>Enquiries to</i>	<b><u><a href="mailto:members.services@hants.gov.uk">members.services@hants.gov.uk</a></u></b>	

The Openness of Local Government Bodies Regulations are in force, giving a legal right to members of the public to record (film, photograph and audio-record) and report on proceedings at meetings of the Authority, and its committees and/or its sub-committees. The Authority has a protocol on filming, photographing and audio-recording, and reporting at public meetings of the Authority which is available on our website. At the start of the meeting the Chairman will make an announcement that the meeting may be recorded and reported. Anyone who remains at the meeting after the Chairman's announcement will be deemed to have consented to the broadcast of their image and anything they say.

## Agenda

1 **APOLOGIES FOR ABSENCE**

To receive any apologies for absence received.

2 **DECLARATIONS OF INTEREST**

To enable Members to disclose to the meeting any disclosable pecuniary interest they may have in any matter on the agenda for the meeting, where that interest is not already entered in the Authority's register of interests, and any other pecuniary or non-pecuniary interests in any such matter that Members may wish to disclose.

3 **MINUTES OF PREVIOUS MEETING** (Pages 5 - 8)

To confirm the minutes of the previous meeting

4 **DEPUTATIONS**

Pursuant to Standing Order 19, to receive any deputations to this meeting

5 **CHAIRMAN'S ANNOUNCEMENTS**

To receive any announcements the Chairman may wish to make.

**6 EXTERNAL AUDIT PLANNING REPORT** (Pages 9 - 68)

To consider the External Audit Planning report for the year ended March 31, 2018 and the Annual Audit Letter, which provides the Committee with a summary of the Audit findings for the year 2016/17.

**7 INTERNAL AUDIT CHARTER AND ANNUAL INTERNAL AUDIT PLAN 2018/19** (Pages 69 - 92)

To consider a report from the Chief Auditor, which asks Committee to approve the Internal Audit Charter for Hampshire Fire and Rescue Authority and the internal audit plan for 2018/19.

**8 INTERNAL AUDIT PROGRESS REPORT 2017/18** (Pages 93 - 106)

To receive a report from the Chief Auditor, which asks Committee to note the progress of internal audit work for the period ending January 2018.

**9 IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS - PROGRESS REPORT** (Pages 107 - 110)

To receive a report from the Chief Officer, which details progress made towards the implementation of the internal audit management actions.

**10 LGPS - EMPLOYER DISCRETIONS POLICY** (Pages 111 - 122)

To consider a report from the Treasurer regarding the Employer Discretions Policy.

**ABOUT THIS AGENDA:**

This agenda is available on the Hampshire Fire and Rescue Service website ([www.hantsfire.gov.uk](http://www.hantsfire.gov.uk)) and can be provided, on request, in alternative versions (such as large print, Braille or audio) and in alternative languages.

**ABOUT THIS MEETING**

The press and public are welcome to attend the public sessions of the meeting. If you have any particular requirements, for example if you require wheelchair access, please contact [members.services@hants.gov.uk](mailto:members.services@hants.gov.uk) for assistance.

# Agenda Item 3

AT A MEETING of the HFRA Standards and Governance Committee of  
HAMPSHIRE COUNTY COUNCIL held at the castle, Winchester on  
Wednesday, 31st January, 2018

Chairman:

\* Councillor Luke Stubbs

\* Councillor Roz Chadd

\* Councillor Jonathan Glen

Councillor Roger Price

\* Councillor Sharon Mintoff

\* Councillor Rhydian Vaughan

\*Present

## 19. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillor Roger Price

## 20. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

## 21. **MINUTES OF PREVIOUS MEETING**

The minutes of the last meeting were reviewed and agreed

## 22. **DEPUTATIONS**

There were no deputations for this meeting.

## 23. **CHAIRMAN'S ANNOUNCEMENTS**

There were no Chairman's announcements.

## 24. **HFRS ICT IMPLEMENTATION PROJECT (GOVERNANCE & FINANCIAL CONTROL) AND HFRS BUDGETARY CONTROL AUDIT**

The Committee considered a report from the Treasurer (Item 6 in the Minute Book) regarding an overspend on the HFRS Information and Communication Technology project.

Members had already been briefed on the project at a previous meeting, and so the recommendations and discussions were centred around the results of two internal audit reviews and the resulting management actions, ensuring that governance and financial management arrangements were more robust to prevent any similar thing from happening in the future.

It was acknowledged that communication between board level and strategic level on this project had not been consistent, and that it should have been established at the outset as a higher risk project due to the complexities and type of project spend involved.

In response to Member questions, officers confirmed that whilst processes were in place to monitor the finances at a project level, in this instance these were not adhered to and there was no escalation of any financial problems during the project. A delayed go live for the project had resulted in a specific focus first for implementing the changes and then on fixing issues that had arisen after go live. This may have led to the financial aspects being overlooked, with any concerns neglecting to be escalated to management. The new technology was now in place, and apart from a few issues that are currently being addressed, it was doing what it was expected to do. No further invoices were expected regarding the installation of the system, but the spend was still being analysed and monitored.

Risk analysis was still being done on the project with the risk log being investigated. Other ongoing projects have been analysed to ensure that robust measures were in place and that there were no similar issues, and arrangements will be put in place to properly risk assess and govern future projects. The point was made that this was the first incident of this type and that HFRS has always had a good track record of financial management. Whilst financial risk was relatively low across the service it relies on senior managers taking appropriate action to escalate and address problems as they arise and there had been a failure to do this in this instance.

Whilst it was not standard practice to employ external consultants, the arrangements and day rates were being looked into by management and part of the management actions are to ensure that Officers have an appropriate understanding of procurement regulations. It was common for HFRS to work alongside partners like Hampshire County Council Property Services on projects, but for this project there were no relevant technical experts that could have been consulted in a similar way and therefore external consultants were a necessity.

In Appendix C at point 'h') it was agreed that in the early stages of a project monitoring should be done more frequently than quarterly. At 'i)' it was highlighted that the financial management focus was on appropriate escalation going forwards, both within the management hierarchy and to the Finance Team itself and this would be embedded in all training for future projects. Whilst discussing point 'q)' it was also suggested by Committee that someone independent to a project should oversee it to offer an outside perspective and to

ensure that accurate and honest onward reporting was being completed by the Board.

Officers confirmed that External Audit had been made aware of the issue, and they will need to satisfy themselves that appropriate action had been taken to rectify what had happened, but this was not expected to feature heavily as part of the year end audit.

Committee agreed that regular updates should go to the Authority regarding current projects and financial reporting and this would be incorporated as part of the Performance report that went to Full Authority meetings.

RESOLVED:

The Standards and Governance Committee:

1. Requested that the Chief Fire Officer provides an assurance report on the project governance arrangements across the service.
2. Requested a report from the Director of Professional Services that outlines the forecast of savings arising from the ICT Transformation Project and provides an assessment of the ICT systems that have been implemented.
3. Approved the management actions contained in Appendix C as an appropriate response to the issues highlighted by the audit review set out in Appendix B as amended by the recommendations from the Committee in respect of reporting timescales and procurement issues.
4. Requested the Chief Fire Officer and Chief Financial Officer to report on progress on the management actions to this Committee.
5. Noted that active financial management of the budgets for the remainder of the year is being undertaken by Heads of Service and reported to Directors monthly and current projections are that the overall budget will be £252,000 underspent, after absorbing the increased ICT project costs.
6. Agreed that project updates be included as part of the Performance Update report that goes to Full Authority meetings for information.

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Chairman,

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Purpose: Decision

**8 MARCH 2018**

## **EXTERNAL AUDIT PLANNING REPORT**

Report of Chief Officer

### EXECUTIVE SUMMARY

1. Attached to this report, in appendix 1, is the External Audit Planning report for the year ended March 31, 2018. Its purpose is to provide the Committee with a basis to review the proposed audit approach and scope for the 2017-18 audit in accordance with the requirements of the Local Audit and with Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that the audit is aligned to the Committee and Service's expectations.
2. The Plan sets out the proposed audit approach and scope of the work. It explains how key risks are assessed and outlines the planned audit strategy in response to those risks. It also reports the fee to be charged for this work.
3. The Annual Audit Letter in Appendix 2 provides the Committee with a summary of the Audit findings for the year 2016/17. The External Auditor gave an unqualified opinion on the Authority's financial statements and concluded that it had put in place proper arrangements to secure value for money in the use of its resources.

### BACKGROUND

4. The Plan details the proposed work to be undertaken by Ernst & Young for the audit of the financial statements and the conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness. It details how the Plan is developed using a risk-based approach to audit planning. It sets out the method used to gain assurance on key controls, and how reliance is placed on the work of internal audit.

5. The Plan explains that a conclusion on the Authority's arrangements to secure economy, efficiency, and effectiveness will be produced, and details the criteria upon which this will be based.
6. Appendix 1 provides members with details of the communications that must be provided to those charged with the governance of the Authority.
7. The fee for the audit will be £36,225 as set out in appendix 1.

#### SUPPORTING OUR SERVICE PLAN AND PRIORITIES

8. Good financial management is essential to enable the Service to achieve its plans and priorities and the audit results report provides external confirmation around the quality and content of the final accounts and the overall financial resilience of the Authority.

#### CONSULTATION

9. No consultation is required for this report as it is a purely factual document. However, as the report states, one of its purposes is to explain the communications required with the Standards and Governance Committee.

#### RESOURCE IMPLICATIONS

10. There are no direct resource implications contained within this report, but appropriate financial resources have been made available to fund the estimated cost of the 2016/17 audit fee of £36,225.

#### LEGAL IMPLICATIONS

11. It is a legal requirement that the Statement of Accounts is approved by those charged with governance and is then independently signed off by external audit.

#### PEOPLE IMPACT ASSESSMENT

12. There are no direct impacts on people because of this report.

#### OPTIONS

13. This report deals with the audit results report from the external auditor, there are therefore no options for consideration in this report.

#### RISK ANALYSIS

14. Areas of risk are identified by the auditor as part of the planning process and examination of these areas form part of the formal audit and the results are reported in Appendix 1.

## RECOMMENDATIONS

That the Committee

15. Receives and considers the External Audit Plan for 2017/18 and considers any recommendations for the Full Authority.
16. Notes the Annual Audit Letter for 2016/17.

## APPENDICES ATTACHED

Appendix 1 – Hampshire Fire and Rescue Authority Audit planning report 2017/18

Appendix 2 - Hampshire Fire and Rescue Authority Annual Audit Letter for the year ended 31 March 2017

## BACKGROUND DOCUMENTS

None

Contact:

Rob Carr, Chief Finance Officer, [Rob.Carr@hants.gov.uk](mailto:Rob.Carr@hants.gov.uk), 01962 847508

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# Hampshire Fire and Rescue Authority Audit planning report

Year ended 31 March 2018

1 February 2018



Private and Confidential  
**Standards and Governance Committee**  
**Hampshire Fire & Rescue Authority**  
**Headquarters**  
**Leigh Road**  
**Eastleigh**  
**SO50 9SJ**

1 February 2018

Dear Members,

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Standards and Governance Committee with a basis to review our proposed audit approach and scope for the 2017-18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Authority and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Standards and Governance Committee, Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 8<sup>th</sup> March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley,  
Associate Partner  
For and on behalf of Ernst & Young

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Standards and Governance Committee and management of Hampshire Fire and Rescue Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and Governance, and management of Hampshire Fire and Rescue Authority those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Standards and Governance Committee and management of Hampshire Fire and Rescue Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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# Overview of our 2017-18 audit strategy



# Overview of our 2017-18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Standards and Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk	New risk for 2017-18	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Risk of management override	Fraud risk	This risk was also identified in the prior year.	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
PPE - Valuations	Inherent Risk	This risk was also identified in the prior year.	Findings raised by the FRC's Audit Quality Review team in their report on their inspection findings in the prior year for the firm found PPE valuation of land and buildings included in the financial statements is complex and often includes a number of assumptions and judgements and that enhanced procedures are required to challenge and evaluate key assumptions. This inherent risk is being recognised on all of our clients.
IAS19 - Pension Accounting	Inherent Risk	This risk was also identified in the prior year.	The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the County Council. The Authority's pension fund liability is a material estimated balance and the Code requires that this be disclosed on the Authority's balance sheet.

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## Materiality

Planning materiality  
**£2.006m**

Materiality has been set at £2,006,000, which represents 2% of 2016-17 gross expenditure

Performance materiality  
**£1.505m**

Performance materiality has been set at £1,504,500, which represents 75% of materiality.

Audit differences  
**£0.1m**

We will report all uncorrected misstatements relating to the income statement and balance sheet that have an effect on income and misstatements in the OCI over £100,300. Other misstatements identified will be communicated to the extent that they merit the attention of the Standards and Governance Committee.

# Overview of our 2017-18 audit strategy

## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ our audit opinion on whether the financial statements of Hampshire Fire & Rescue Authority give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- ▶ our conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Authority's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; and
- ▶ management's views on all of the above.

By considering these inputs, our audit focuses on the areas that matter and our feedback is more likely to be relevant to the Authority.

We will provide an update to the Standards and Governance Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in July 2018.



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# 02 Audit risks



## Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition	What is the risk?	What will we do?
<p><b>Financial statement impact</b></p> <p>Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income accounts. The relevant accounts we associate the revenue recognition risk to had the following balances in the 2016-17 financial statements:</p> <p>Operational expenditure: £78,960,000</p> <p>MRP: £0.57m</p> <p>REFCUS: £6.1m</p> <p>PPE additions: £11.095m</p>	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>The risk in local government resides in areas in which management judgements are made and transactions not subject to routine based system controls. As such we attach the risk of revenue recognition to the judgements made in recognising capital expenditure and the subsequent capital financing transactions</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▶ Continue to engage with management to understand the overall financial position to inform the appropriate audit expectations of the year-end income position;</li> <li>▶ For significant additions and disposals during the period, examine data that support these additions and disposals. For additions, on an individual asset basis, ensure the correct application of the authorities component policy, and the correct de-recognition and recognition accounting for expenditure on significant components;</li> <li>▶ Obtain a schedule of expenditure classified as Revenue Expenditure Funded by Capital Under Statute (REFCUS). Ensure that the expenditure meets the broad principle of allowable expenditure, or is incurred under direction from the secretary of state;</li> <li>▶ Ensure that the calculation of the Capital Financing Requirement is compliant with the requirements of the Code. Check that MRP is appropriately calculated using the method outlined in the prudential code, with specific attention to any MRP on unsupported borrowing;</li> <li>▶ Ensure additions and disposals tested in PPE are internally consistent with the capital financing disclosure; and</li> <li>▶ Review and discuss with management any accounting estimates on revenue recognition for evidence.</li> </ul> <p>We will utilise our data analytics capabilities to assist with our work,</p>

## Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	<b>What is the risk?</b>	<b>What will we do?</b>
<p><b>Management override</b></p> <p><b>Financial statement impact</b></p> <p>Misstatements that occur in relation to the risk of fraud by management override could affect the income and expenditure accounts, alongside significant balance sheet accounts where key estimates are processed.</p>	<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▶ Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>▶ Review accounting estimates for evidence of management bias, and</li> <li>▶ Evaluate the business rationale for significant unusual transactions.</li> </ul> <p>We will utilise our data analytics capabilities to assist with our work, including carrying out testing on the income and expenditure accounts, and journal entry testing. We will assess journal entries for evidence of management bias and evaluate for business rationale.</p>

## Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p><u>Valuation of Land and Buildings</u> Land and buildings is one of the most significant balances in the Authority's Balance Sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▶ Review the data sent to, and the report produced by, the Authority's valuer;</li> <li>▶ Challenge the assumptions used by the Authority's valuer by reference to external evidence and our EY valuation specialists (where necessary);</li> <li>▶ Test the journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements.</li> </ul>
<p><u>Pension Liability Valuation</u> The Local Authority Accounting Code of Practice and IAS19 require the CC to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS) administered by Hampshire County Council. The Authority must also do similar in respect of the Firefighters Pension Fund. The Firefighters pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the respective balance sheet. At 31 March 2017 this totalled £703.5 million. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council and also the Firefighters Pension Fund. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▶ Liaise with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Hampshire Fire &amp; Rescue LGPS members;</li> <li>▶ Assess the work of the LGPS Pension Fund actuary (AoN Hewitt) and the Firefighters pension actuary (also AoN Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and</li> <li>▶ Review and test the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.</li> </ul>



# 03

# Value for Money Risks



## Value for money risks

### Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

For 2017-18 this is based on the overall evaluation criterion:

*"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"*

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

When considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

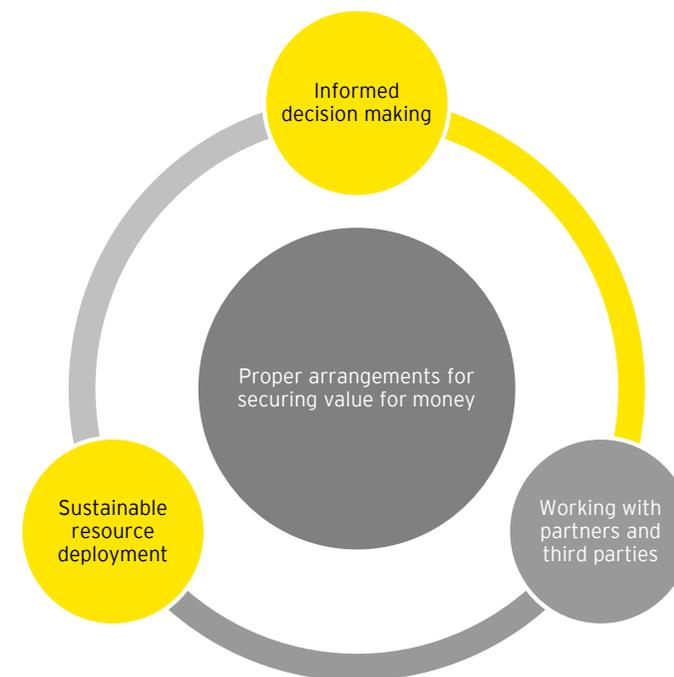
We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

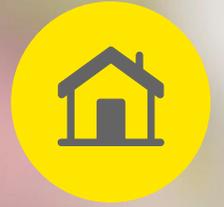
*"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"*

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders.

Our initial planning procedures have not identified any significant risks. We will continue to update our risk assessment throughout the course of our audit.





# 04

# Audit materiality



# Materiality

## Group materiality

For planning purposes, materiality for 2017-18 statements work has been set at £2.006m and £406k for the pension fund. This represents 2% of the Authority's gross expenditure and benefits payable respectively. It will be reassessed throughout the audit process and once the draft 2017-18 statements have been prepared. This is based on the rationale that's public sector organisation do not have a focus on earnings profits. We consider industry factors, and using gross revenue expenditure is the industry norm.

Main Statements:

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Firefighters Pension:



We request that the Standards and Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

## Key definitions

**Planning materiality** - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Note we have applied a separate materiality to the Police Pension Fund account based on the total benefits paid including lump sums.

**Performance materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.504m for the primary statements and £305k for the Firefighters pension which represents 75% of materiality. We apply 75% when it is not an initial audit and we have a sound understanding of the entity and past experience with the engagement indicates that a higher risk of misstatement is unlikely.

**Audit difference threshold** - we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the income statement and balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Standards and Governance Committee, or are important from a qualitative perspective.



05

# Scope of our audit



## Objective and scope of our audit

### Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Authority's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

#### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

## Audit process overview

### Audit Process overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

Our initial assessment of the key processes across the Authority has identified the following key processes where we will seek to rely on controls, both manual and IT:

- ▶ Accounts receivable;
- ▶ Accounts payable;
- ▶ Payroll; and
- ▶ Cash and Bank;

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Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Standards and Governance Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



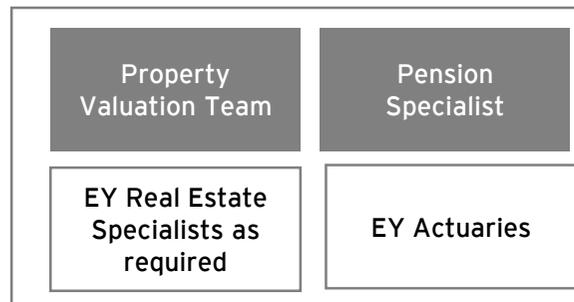
06

Audit team



# Audit team

## Audit team structure:



## Working together with the Authority

We are working together with officers to identify continuing improvements in communication and processes for the 2017-18 audit.

We will continue to keep our audit approach under review to streamline it where possible.

\* Key Audit Partner

# Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where EY specialists are expected to provide input for the current year audit are:

Area	Specialists
PPE Valuation	Management Specialist - Management's valuation experts. EY Specialist - EY real estates will be used if our risk assessment of the PPE procedures deem this a requirement.
Pension Valuation	Management Specialist - AON Hewitt. EY Specialist - EY actuaries

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Authority's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



# 07 Audit timeline





# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017-18.

From time to time matters may arise that require immediate communication with the Standards and Governance Committee and we will discuss them with the Standards and Governance Committee Chairman as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Standards and Governance Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	November		
Walkthrough of key systems and processes	November - December		
Testing of routine processes and controls	December		
	January		
FAIT IT Systems Testing visit 1	February		
Testing of routine processes and controls	February/March	Standards and Governance Committee	Audit Planning Report
Interim audit testing	February - March		
FAIT IT Systems Testing visit 2	April		
Year end audit	June/July	Standards and Governance Committee	Audit Results Report
Audit Completion procedures			Audit opinions and completion certificates
Year end audit	July - August	Standards and Governance Committee	Annual Audit Letter
Audit Completion procedures			



# Audit timeline

## Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017-18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements:

- ▶ The Authority now has less time to prepare the financial statements and supporting working papers. Risks to the Authority include slippage in delivering working papers and sufficient time for internal quality assurance arrangements
- ▶ As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- ▶ good quality draft financial statements and supporting working papers by the agreed deadline;
- ▶ appropriate Authority staff to be available throughout the agreed audit period; and
- ▶ complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Authority we will:

- ▶ Work with the Authority to engage early to facilitate early substantive testing where appropriate.
- ▶ Provide an early review on the Authority's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- ▶ Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017-18 financial year.
- ▶ Work with the Authority to implement EY Client Portal, this will:
  - ▶ Streamline our audit requests through a reduction of emails and improved means of communication;
  - ▶ Provide on-demand visibility into the status of audit requests and the overall audit status;
  - ▶ Reduce risk of duplicate requests; and
  - ▶ Provide better security of sensitive data.
- ▶ Agree the team and timing of each element of our work with you.
- ▶ Agree the supporting working papers that we require to complete our audit.



08

Independence



# Independence

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

## Required communications

### Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;
  - ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
  - ▶ The overall assessment of threats and safeguards;
- Information about the general policies and process within EY to maintain objectivity and independence.
- Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard

### Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm is independent;
- ▶ Written confirmation that all covered persons are independent;
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

## EY Transparency Report 2017

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017>

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Maria Grindley (AP), your audit engagement partner and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Authority. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non-audit fees to audit fees is not permitted to exceed 70%.

At the time of writing, there are no non-audit fees associated with Hampshire. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Authority. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

## Relationships, services and related threats and safeguards

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Authority. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.



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Appendices



## Appendix A

### Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Current Year	Prior Year
	£	£
Total fee	36,225	36,225
<b>Total audit</b>	<b>36,225</b>	<b>36,225</b>

The agreed fee presented is based on the following assumptions:

- ▶ officers meeting the agreed timetable of deliverables;
- ▶ our accounts opinion and value for money conclusion being unqualified;
- ▶ appropriate quality of documentation is provided by the Trust; and

The Authority has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Authority in advance.

*All fees exclude VAT*

## Appendix B

# Required communications with the Standards and Governance Committee

We have detailed in the table below the communications that we must provide to the Standards and Governance Committee:

		 Our Reporting to you	
Required communications	 What is reported?	  When and where	
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit planning report	March 18
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report	July 18

## Appendix B

# Required communications with the Standards and Governance Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Page 41 Financial statements	<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report - July 18
	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report - July 18
	<p>Fraud</p> <ul style="list-style-type: none"> <li>▶ Enquiries of the Standards and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit results report - July 18
	<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report - July 18

## Appendix B

# Required communications with the Standards and Governance Committee (continued)

Required communications	 What is reported?	 Our Reporting to you  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in FRC's Ethical Standard 2016 (revised):</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>▶ Related safeguards</li> <li>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Details of any contingent fee arrangements for non-audit services</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The Standards and Governance Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	<p>Audit Planning Report - March 18</p> <p>and</p> <p>Audit results report - July 18</p>

## Appendix B

# Required communications with the Standards and Governance Committee (continued)

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report - July 18
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Standards and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Standards and Governance Committee may be aware of</li> </ul>	Audit results report - July 18
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report - July 18
Representations	Written representations we are requesting from management and/or those charged with governance	Assurance Letter - Requested March 18 with response by May 18
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - July 18
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report - July 18

## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards, company law and other regulations. We outline the procedures below that we will undertake during the course of our audit.

#### Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal controls.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Authority to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Standards and Governance Committee reporting appropriately addresses matters communicated by us to the Standards and Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

## Additional audit information (continued)

### Purpose and evaluation of materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit, we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

## Appendix D

# Regulatory update

In previous reports to the Standards and Governance Committee, we highlighted the issue of regulatory developments. The following table summarises progress on implementation:

Earlier deadline for production and audit of the financial statements from 2017-18	
Proposed effective date	Effective for annual periods beginning on or after 1 April 2017.
Details	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017-18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.
Impact on Hampshire Fire	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>We held a faster close workshop for clients on in November 2017 to facilitate early discussion and sharing of ideas and good practice.</p> <p>We are now working with management on ideas coming from the workshop, for example:</p> <ul style="list-style-type: none"> <li>• Streamlining the Statement of Accounts removing all non-material disclosure notes;</li> <li>• Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations;</li> <li>• Providing training to departmental finance staff regarding the requirements and implications of earlier closedown;</li> <li>• Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure;</li> <li>• Establishing and agreeing working materiality amounts with the auditors.</li> </ul>

# Hampshire Fire and Rescue Authority

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment (updated 23 February 2017)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Hampshire Fire and Rescue Authority (the Authority) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Authority's</b> ▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
<b>Concluding on the Authority's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that the Authority has put in place proper arrangements to secure value for money in its use of resources.

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Authority.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Authority, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
<b>Reporting to the National Audit Office (NAO) on our review of the Authority's Whole of Government Accounts return (WGA).</b>	The Authority is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Authority communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 1 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 15 September 2017.

We would like to take this opportunity to thank the Authority's staff for their assistance during the course of our work.

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Purpose



## Purpose

### The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Authority.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 15 September 2017 Standards and Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Authority.



# Responsibilities

## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 19 January 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2016/17 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Authority has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Authority;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Authority, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Authority is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

## **Responsibilities of the Authority**

The Authority is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Authority reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

# Financial Statement Audit

## Financial Statement Audit

### Key Issues

The Authority's Statement of Accounts is an important tool for the Authority to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Authority's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 15 September 2017.

Our detailed findings were reported to the 15 September 2017 Standards and Governance Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p><b>Management override of controls</b></p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>Our testing of journal entries did not identify adjustments which were outside of the normal course of business. All journals tested had an appropriate business rationale. We did not identify any significant unusual transactions.</p> <p>We reviewed accounting estimates for evidence of management bias. We undertook audit procedures on accruals, provisions and prepayments and did not identify any evidence of management override.</p> <p>We performed sample testing on the existence and valuation of prepayments, the completeness and valuation of accruals and completeness of provisions and found no indication of management bias.</p> <p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business</p>

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**Expenditure and funding analysis and Comprehensive income and expenditure statement**

**Financial statement presentation**

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year, changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS). They also include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the organisation operates.

This change in the Code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

The work we completed found that:

- the disclosures were in line with the CIPFA Code; and
- the restated comparative figures agreed to the segmental analysis and supporting working papers with no issues noted.

The Authority's Statement of Accounts is an important tool for the Authority to show how it has used public money and how it can demonstrate its financial management and financial health.

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £2.006 million (2016: £1.97 million), which is 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.
Reporting threshold	We agreed with the Standards and Governance Committee that we would report to the Committee all audit differences in excess of £100,300 (2016: £98,505)

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money'.

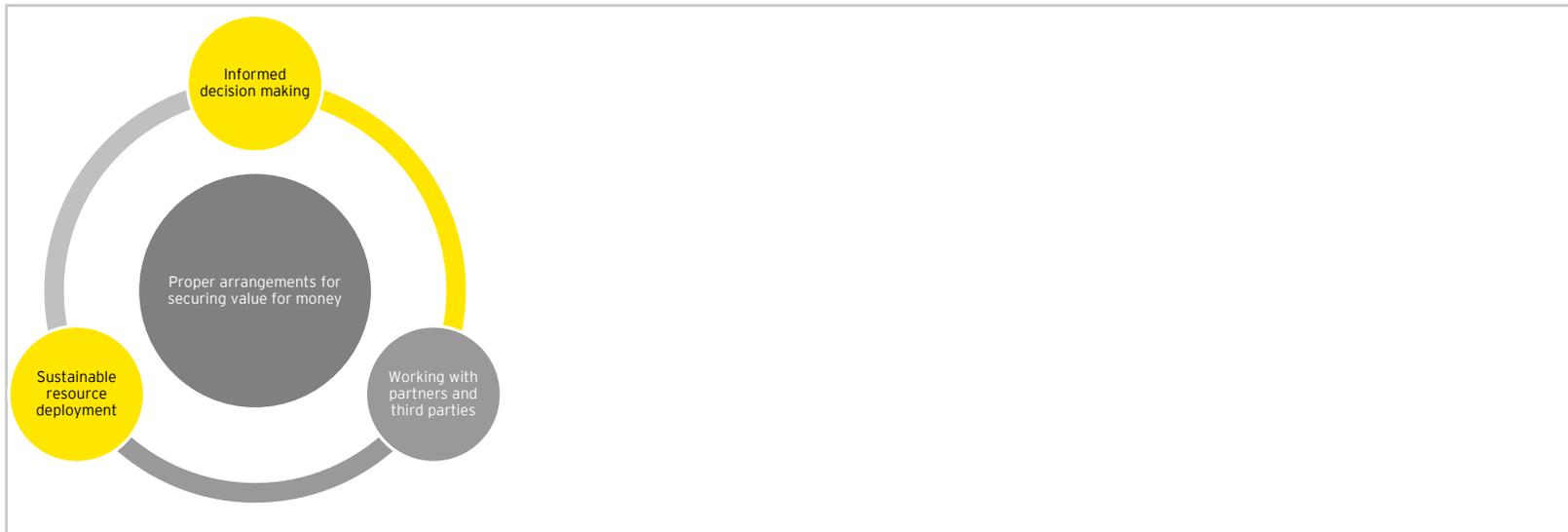
## Value for Money

## Value for Money

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We did not identify any significant risks in relation to these criteria.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Authority's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

## Other Reporting Issues

## Other Reporting Issues

### Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Authority for Whole of Government Accounts purposes. We had no issues to report.

The Authority is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Authority or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

## **Other Powers and Duties**

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## **Independence**

We communicated our assessment of independence in our Audit Results Report to the Standards and Governance Committee on 15 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

## **Control Themes and Observations**

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

Our audit did not identify any controls issues to bring to the attention of the Standards and Governance Committee.

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## **Hampshire Fire and Rescue Authority**

### **Standards and Governance Committee**

**8 March 2018**

### **Internal audit charter and annual internal audit plan 2018/19**

### **Report of the Chief Internal Auditor**

**Contact:** Karen Shaw, Chief Internal Auditor  
01962 846194  
[Karen.Shaw@hants.gov.uk](mailto:Karen.Shaw@hants.gov.uk)

#### **1. Purpose and Summary**

- 1.1 The purpose of this paper is to provide the Standards and Governance Committee with a copy of the Internal Audit Charter for Hampshire Fire and Rescue Authority and to present the proposed annual internal audit plan 2018/19 for consideration and approval.
- 1.2 The attached appendices provide a copy of the proposed Internal Audit Charter and annual internal audit plan.

#### **2. Recommendation**

- 2.1 That the Standards and Governance Committee approves the Internal Audit Charter for Hampshire Fire and Rescue Authority and the internal audit plan for 2018/19.

#### **3. Internal Audit Charter**

- 3.1 An Internal Audit Charter, meeting the requirements of the Public Sector Internal Audit Standards has been in place since 2014 and has since been reviewed and approved annually by the Standards and Governance Committee.
- 3.2 There have been no changes to the Charter since it was approved by the Committee last year and the Internal Audit Charter for 2018/19 is attached at appendix A.

#### **4. Internal audit plan 2018/19**

- 4.1 The internal audit plan for 2018/19 has been prepared in line with the Internal Audit Charter following consultation with HFRS staff and this is attached at appendix B for consideration. The plan will remain flexible during the year to ensure that planned reviews continue to reflect the risk profile and to enable coverage of emerging risks as required.
- 4.2 Services provided under the shared service arrangements with Hampshire County Council and Hampshire Constabulary continue to be reviewed via a joint internal audit plan that provides assurance to all parties to avoid duplication of effort. All three organisations contribute audit days to this plan which is also reported at Appendix B for information. An internal audit

protocol for this work has been agreed with partner and shared services management.

**5. External Audit Liaison**

- 5.1 In the past we have had regular liaison meetings with the external auditors to discuss national and local audit issues, to ensure that duplication is minimised and that reporting to Committee is co-ordinated as far as possible and we propose that this arrangement continues.

**6. Contribution to corporate priorities and objectives**

- 6.1 The Internal Audit Plan is designed to validate the assurance and control framework which exists in the Authority and across the Service. Secure management processes including risk and performance management are important in ensuring that the Authority's plans are achieved.

**7. Risk analysis**

- 7.1 The risk based approach to internal audit planning and reviews aims to ensure that internal audit resource focuses on key business risks and as such the Authority's risk register has been used to inform the planning process and ensure that key risks are reflected in planned work.

**8. People impact assessment**

- 8.1 The proposals in this report are considered compatible with the provisions of the equality and human rights legislation.

**9. Environmental and sustainability impact assessment**

- 9.1 Proposals have no environmental or sustainability impacts.

**10. Resource implications**

- 10.1 The 2018/19 plan has been prepared on the basis of audit need and agreed with senior managers following comprehensive risk assessment. The cost is reflected in the Authority's budget.

## **Section 100 D - Local Government Act 1972 - background documents**

The following documents disclose facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of this report.

NB the list excludes:

1. published works; and,
2. documents which disclose exempt or confidential information as defined in the Act.

<b>Title</b>	<b>Location</b>
None	

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## Hampshire Fire and Rescue Authority

### Internal Audit Charter

#### Introduction

The Public Sector Internal Audit Standards, which took effect from the 1 April 2013, provide a consolidated approach to audit standards across the whole of the public sector providing continuity, sound corporate governance, and transparency.

The 'Standards' form part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which also includes the mission; core principles; definition of internal audit; and Code of Ethics.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'. The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority, and responsibility.

#### Mission and Core Principles

The IPPF 'Mission' aims *'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'*

The 'Core Principles' underpin delivery of the IPPF mission, requiring that the internal audit function:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused; and
- Promotes organisational improvement

## Authority

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 which were updated in 2017 [the Standards].

## Purpose

Hampshire Fire and Rescue Authority is responsible for establishing and maintaining appropriate arrangements for:

- risk and performance management;
- assurance and control frameworks including anti-fraud and whistleblowing;
- financial management;
- achieving effectiveness and securing value for money; and
- governance.

The purpose of internal audit is to provide reasonable assurance to Hampshire Fire and Rescue Authority that necessary arrangements are in place and operating effectively, and to identify risk exposures and areas where improvements can be made.

Internal Audit activity should support Hampshire Fire and Rescue Authority in maintaining and improving the overall control / assurance framework, to assist with the achievement of the organisation's vision, service plan, and intention to be the best.

It will do this through:

- Assurance work - which involves assessing how well the systems and processes are designed and working;
- Consulting activities - available to help to improve those systems and processes where necessary; and
- Adding value - by sharing learning opportunities and improvements based on knowledge of best practice across the public sector.

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 organisation's 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'.*

## Definitions

In this charter the following definitions apply:

*The Board* – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment, and the integrity of financial reporting. For Hampshire Fire and Rescue Authority this is the Standards and Governance Committee.

*Senior Management* – those responsible for the leadership and direction of Hampshire Fire and Rescue Service. This is the Senior Management Team and the Chief Finance Officer.

## Responsibility

The responsibility for maintaining an adequate and effective system of internal audit within Hampshire Fire and Rescue Authority lies with the Authority's Chief Finance Officer (S151 Officer).

The Authority and its Members must also be satisfied about the adequacy of the advice and support it receives.

For Hampshire Fire and Rescue Authority, internal audit is provided by the Southern Internal Audit Partnership.

The Chief Internal Auditor (Deputy Head of Southern Internal Audit Partnership) is responsible for effectively managing the internal audit activity in accordance with the '*Mission*', '*Core Principles*', '*Definition of Internal Auditing*', the '*Code of Ethics*' and '*the Standards*'.

Senior management is responsible for ensuring that internal control, risk management and governance arrangements are sufficient to address the risks facing the delivery of the vision and service plan objectives agreed for Hampshire Fire and Rescue Authority.

Accountability for responding to internal audit's advice lies with senior management, who either accept and implement the advice, or formally reject it. Audit advice is without prejudice to the right of internal audit to review the policies, procedures, and operations at a later date.

The Chief Internal Auditor must be satisfied that senior management accept accountability for, and provide an adequate response to, issues raised through internal audit's work. When the Chief Internal Auditor is not satisfied, the matter will be escalated to the audit sponsor, the Chief Finance Officer, the Director of Professional Services, Chief Officer or Standards and Governance Committee as appropriate.

## Position in the organisation

The Chief Internal Auditor reports functionally to the Board, and organisationally to the Chief Finance Officer who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of Hampshire Fire and Rescue Authority's affairs.

The Chief Internal Auditor has direct access to the Chief Officer who carries the responsibility for the proper management of Hampshire Fire and Rescue Service and for ensuring that the principles of good governance are reflected in sound management arrangements.

The Chief Internal Auditor has direct access to Hampshire Fire and Rescue Authority's Monitoring Officer where matters arise relating to the Chief Officer's responsibility, legality, and standards.

Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of Hampshire Fire and Rescue Authority and in particular those who serve on committees charged with governance (i.e. the Standards and Governance Committee).

The Chief Internal Auditor will meet regularly with the external auditors to consult on audit plans, discuss matters of mutual interest and to seek opportunities for cooperation in the conduct of audit work. The external auditors will have the opportunity to take account of the work of internal audit where appropriate.

Quarterly liaison meetings are held with the Chief Finance Officer, Director of Professional Services and Head of Knowledge Management to facilitate discussion of key risks to ensure that internal audit plans continue to meet the needs of Hampshire Fire and Rescue Authority and to review the delivery of the plan and any issues arising from the reviews.

### **Internal audit resources**

The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB, or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The Chief Finance Officer will provide the Chief Internal Auditor with the resources necessary to fulfil Hampshire Fire and Rescue Authority's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications, and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

Senior Management and the Board will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to senior management and the Board, for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of Hampshire Fire and Rescue Authority.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed, and reported to senior management and the Board.

If the Chief Internal Auditor, the Board, or Senior Management considers that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Chief Finance Officer, accordingly.

### **Independence and objectivity**

Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased, and effective professional judgements and advice.

Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to senior management and the Board;
- reports functionally to the Board;
- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team;
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements; and
- ensures the planning process recognises and addresses potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to Senior Management and the Board. The nature of the disclosure will depend upon the impairment.

### **Due professional care**

Internal auditors will perform work with due professional care, competence, and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge, and judgement based on appropriate training, ability, integrity, objectivity, and respect.

Internal auditors will apprise themselves of the *'Mission'*, *'Core Principles'*, *'Definition of Internal Auditing'*, the *'Code of Ethics'* and the *'Standards'* and will work in accordance with them in the conduct of their duties.

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption, or improper conduct are promptly reported to the Chief Internal Auditor in accordance with laid down procedures.

Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to affect personal gain.

### **Access to relevant personnel and records**

In carrying out their duties, internal audit (on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to Hampshire Fire and Rescue Authority or its key delivery partner organisations, where appropriate authority has been provided in the relevant agreements.

Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

### **Scope of Internal Audit activities**

The Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report that can be used by Hampshire Fire and Rescue Authority to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management, and control.

A range of internal audit services are provided (Annex 1) to form the annual opinion. The approach is determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the organisation's success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls. Additionally, proactive fraud reviews will be incorporated within the plan to deter and detect fraud, covering known areas of high risk.

Managers are required to report all suspicions of theft, fraud and irregularity to the Chief Internal Auditor so that they can consider the adequacy of the relevant controls, evaluate the implication of the fraud on the risk management, control and governance processes and consider making recommendations as appropriate. Internal audit will not carry out investigations unless commissioned to do so and where this is the case, the Chief Internal Auditor will ensure that investigators are fully trained in carrying out their responsibilities.

Internal audit also facilitate Hampshire Fire and Rescue Authority's participation in the National Fraud Initiative (NFI) in which data from Hampshire Fire and Rescue

Authority's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

Where appropriate Internal audit will also use their experience of working with other public sector clients to identify areas of best practice and learning opportunities that may assist Hampshire Fire and Rescue Authority review and improve the efficiency of their own processes and control framework.

## **Reporting**

### ***Chief Internal Auditor's Annual Report and Opinion***

The Chief Internal Auditor shall deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management, and control.

The annual report will incorporate as a minimum:

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

### ***Senior Management***

As those responsible for the leadership and direction of Hampshire Fire and Rescue Service it is imperative that the Senior Management Team is engaged in:

- approving the internal audit charter (minimum annually);
- approving the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations; and
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance.

### ***The Standards and Governance Committee (The Board)***

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- approving the internal audit budget and resource plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations;

- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance; and
- approval of significant consulting services not already included in the audit plan, prior to acceptance of the engagement.

### **Quality assurance and performance monitoring**

The internal audit team will work to the Public Sector Internal Audit Standards to maintain consistency in service provision. This requirement will be enforced through appropriate supervision and supervisory/management review of all audit working papers, action plans and audit reports.

An annual satisfaction survey will be conducted with key stakeholders to assess the value of the service and to seek suggestions for improvement.

In addition, in line with the Standards:

- an annual self assessment will be completed by internal audit against the Standards
- an external assessment of internal audit will also be conducted at least once every five years by an external, qualified, independent assessor or assessment team
- to enable senior management and the Standards and Governance Committee to formally monitor the performance of the internal audit service, a set of key performance indicators will be agreed. Details of actual delivery against these targets will be reported to senior management and the Standards and Governance Committee.

### **Ownership of documentation**

Internal audit files and working papers, which address compliance with the Standards, are the property of Hampshire Fire and Rescue Authority.

Internal audit's data retention policy on the archiving and secure destruction of audit files requires that all audit files are retained for a period of four years (three plus the current) except for those papers used in the course of a fraud investigation which will be retained for a period of six years after legal proceedings have been completed. An annual programme is in place for the secure destruction of files once these time frames have elapsed.

### **Indemnity and Insurance**

Internal Audit's professional indemnity cover is provided through a third party insurer and is sufficient to meet all eventualities in respect of external contract arrangements up to the sum of £5 million. Southern Internal Audit Partnership will indemnify Hampshire Fire and Rescue Authority against claims and costs arising from its negligence or wilful breach of any obligation under this agreement provided that its maximum liability shall not exceed £5 million.

## **Fees**

The fees for internal audit work will be agreed in advance of each financial year to reflect the number and mix of days required and movements in cost base.

If specific assignments are requested in addition to the annual plan, fees will be agreed in advance based on the staff mix required.

## **Review of the internal audit charter**

This charter will be reviewed annually (minimum) by the Chief Internal Auditor and presented to Senior Management and the Board for approval.

## Annex 1

### Assurance Services

- **Risk based audit:** in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.

Where appropriate, internal audit will also use their experience of working with other public sector clients to identify areas of best practice and learning opportunities that may assist HFRA review and improve the efficiency of their own processes and control framework.

- **Developing systems audit:** in which:
  - the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
  - programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.
- **Compliance audit:** in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.
- **Quality assurance review:** in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.
- **Fraud and irregularity investigations:** Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. Internal audit's role in this respect is outlined in Hampshire Fire and Rescue Authority's Anti Fraud and Anti Corruption Strategy.
- **Advisory / Consultancy services:** in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management, and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.
- **Third party assurance:** the availability of objective assurance from other assurance providers will be considered in determining audit needs. Where internal audit needs to work with the internal auditors of other organisations, a practice which is expanding with the development of more organisational strategic partnerships, the roles and responsibilities of each party, as well as billing arrangements, will be clearly defined, agreed and documented prior to the commencement of work. Internal audit will also ensure awareness of and seek to place reliance on the work of other review bodies such as HMIC and HMRC etc.

**Internal Audit Plan**

**2018-19**

**Hampshire Fire and Rescue Authority**



**HAMPSHIRE  
FIRE AND  
RESCUE  
SERVICE**

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**Southern Internal  
Audit Partnership**

Assurance through excellence  
and innovation

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## Introduction

The role of internal audit is that of 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'.*

Hampshire Fire and Rescue Authority 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 Hampshire Fire and Rescue Authority that these arrangements are in place and operating effectively.

Hampshire Fire and Rescue Authority's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business, activities, systems or processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- risk to the achievement of the organisation's objectives is identified, assessed and managed to a defined acceptable level.

The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

Internal Audit focus should be proportionate and appropriately aligned. The plan will remain fluid and subject to on-going review and amendment, in consultation with the relevant Directors and Audit Sponsors, to ensure it continues to reflect the needs of the Organisation. Amendments to the plan will be identified through the Southern Internal Audit Partnership's continued contact and liaison with those responsible for the governance of Hampshire Fire and Rescue Authority and reported to the Standards and Governance Committee through regular progress reports.

## Your Internal Audit Team

Your internal audit service is provided by the Southern Internal Audit Partnership. The team will be led by Karen Shaw, Deputy Head of Southern Internal Audit Partnership, supported by Liz Foster, Audit Manager.

### Conformance with internal auditing standards

The Southern Internal Audit Partnership service is designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In September 2015 the Institute of Internal Auditors were commissioned to complete an external quality assessment of the Southern Internal Audit Partnership against the PSIAS, Local Government Application Note and the International Professional Practices Framework.

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.

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 EQA 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.'*

### Conflicts of Interest

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards.

### Organisation Risk

Hampshire Fire and Rescue Authority are currently reviewing their framework and approach to risk management. The strategic risks assessed by the organisation are a key focus of our planning for the year to ensure the internal audit plan meets the organisation's assurance needs and contributes to the achievement of their objectives. We will monitor the strategic risk register closely over the course of the year to ensure our plan remains agile to the rapidly changing landscape.

## Developing the internal audit plan 2018/19

We have used various sources of information and discussed priorities for internal audit with the following people/groups:

- Geoff Howsego, Director of Professional Services
- Rob Carr, Head of Finance
- Nicki Whitehouse, Head of Knowledge Management
- Senior Management Team

Based on these conversations with key stakeholders, review of key corporate documents and our understanding of the organisation the Southern Internal Audit Partnership have developed an annual audit plan for the coming year.

Hampshire Fire and Rescue Authority are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers to ensure that duplication is minimised and a suitable breadth of assurance is retained.



## Internal Audit Plan 2018-19

Audit	Audit sponsor	Scope	Link to Strategic Risk Register	Proposed Timing
<b>HFRS audit plan</b>				
General Data Protection Regulation (GDPR)	Director of Professional Services (H of KM and H of ICT)	Arrangements for and compliance with General Data Protection Regulations (GDPR) legislation.	STR04	Q1
Contract management	Director of Finance	Arrangements for contract management within HFRS, including shared services partners.		Q4
Resource management	Director of Human Resources (HR Business Partner)	To review the controls in place for resource management including workforce development and training.	STR01	Q2
Data quality	Director of Professional Services (H of KM)	To review processes in place to maintain accurate and timely data (incl. Data Transparency)	STR04	Q1
Proactive fraud work	Director of Professional Services (H of KM)	Annual - 2018/19 scope to focus on expense claims		Q2
NFI	Director of Professional Services (H of KM)	Annual statutory requirement – upload year		Q3
FireWatch	Director of Professional Services (H of KM)	Follow up of prior year concerns. Focus on capture of training records.		Q4
Business continuity/Disaster Recovery	Director of Professional Services (H of ICT)	To review the arrangements in place for IT business continuity/disaster recovery.	STR02	Q2
Networks and communications	Director of Professional Services (H of ICT)	To cover the management and security of the IT network.	STR03	Q3

Audit	Audit sponsor	Scope	Link to Strategic Risk Register	Proposed Timing
IT Strategy, management and governance (to include infrastructure, security and accesses)	Director of Professional Services (H of ICT)	To cover the overall IT strategy, management and governance of the IT systems and department.	STR03	Q3
<b>TOTAL DAYS</b>		<b>185</b> Note – this includes a contribution of 35 days to the Shared Services plan		

Shared Services Internal Audit Plan 2018-19

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Audit	Risk	Scope
<b>Shared Service audit plan</b>		
<b>Financial Systems</b>		
Payroll		
Order to cash (OTC)		
Purchase to pay (P2P)	Coverage to meet external audit / regulatory requirements	
Debt Collection		
Treasury Management		

Audit	Risk	Scope
<b>Governance &amp; IT</b>		
Governance arrangements	Governance arrangements continue to evolve and will do so further with the pending introduction of new partners.	Review of changes / continued effectiveness since the last audit in 2015/16.
User Access Management	User access is not appropriately controlled enabling unauthorised access to data and potential issues with regard segregation of duties.	Review access permissions against roles and ensure effective management for starts / leavers.
<b>HR</b>		
Recruitment	Recruitment processes are not sufficiently robust and timely to meet needs of the recruiting organisation.	Emphasis on changes to recruitment processes scheduled in February / March 2018 designed to streamline the process for non safeguarding roles. To include internal recruitment.
Workforce Development	Uncoordinated and inefficient approach to development needs.	To review governance and controls around commissioning (emphasis on training).
Ill Health Retirement & Death in Service	Processes are not sufficiently robust to ensure accurate and timely processing.	To review the revised processes in place to manage ill health retirement and death in service.
Sick pay	Inaccurate and untimely submission and processing of sickness data .	To review data input and data accuracy relating to sickness and reduction to half / zero pay.

Audit	Risk	Scope
IR35	Non compliance with recent legislative changes.	To review compliance with IR35 legislation.
Occupational Health	Untimely outcomes and lack of joined up approach between managers, HR & OH with a lack of focus on business outcomes.	To commission a clinical audit of the service to maintain patient confidentiality and expert input.
<b>Procurement</b>		
Category management	Ineffective approach and management of product / service categories	Review of procurement categories each year on rotation.
Procurement (General)	Non compliance with EU Regulations and Contract Procedure Rules.	To review procurement processes (£100k +).
<b>Other</b>		
Master Data Team	Ineffective change control	Robustness of controls and compliance for changes made by the master data team.
Contingency		On-boarding of up to three new partners.
Management	Planning, liaison, reporting, action tracking, external audit liaison, advice	
<b>Total Days</b>		<b>370</b>
Note – this includes a contribution of 35 days from the HFRS plan		

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**Hampshire Fire and Rescue Authority**

**Standards and Governance Committee**

**8 March 2018**

**Internal Audit progress report 2017/18**

**Report of the Chief Internal Auditor**

**Contact:** Karen Shaw, Chief Internal Auditor  
01962 846194  
Karen.Shaw@hants.gov.uk

**1. Purpose and Summary**

1.1 The purpose of this paper is to provide the Standards and Governance Committee with:

- an overview of internal audit work completed in accordance with the approved audit plan
- an overview of the status of 'live' reports.

**2. Recommendation**

2.1 That the Standards and Governance Committee note the progress of internal audit work for the period ending January 2018.

**3. Introduction**

3.1 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'.

3.2 In accordance with proper internal audit practices and the Internal Audit Charter, the Chief Internal Auditor is required to provide a written status report to the Standards and Governance Committee, summarising:

- the status of 'live' internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor's annual opinion.

3.3 The attached report summarises the activities of internal audit for the period ending January 2018.

**4. Contribution to corporate priorities and objectives**

4.1 The Internal Audit Plan is designed to validate the assurance and control framework which exists in the Authority and across the Service. Secure management processes including risk and performance management are important in ensuring that the Authority's plans are achieved.

**5. Risk analysis**

5.1 The risk based approach to internal audit planning and reviews aims to ensure that internal audit resource focuses on key business risks and as such the Authority's risk register has been used to inform the planning process and ensure that key risks are reflected in planned work.

**6. People impact assessment**

6.1 The proposals in this report are considered compatible with the provisions of the equality and human rights legislation.

**7. Environmental and sustainability impact assessment**

7.1 Proposals have no environmental or sustainability impacts.

**8. Resource implications**

8.1 The 2017/18 plan was prepared on the basis of audit need and agreed with senior managers and endorsed by Hampshire Fire and Rescue Authority, following comprehensive risk assessment. The cost is reflected in the Authority's budget.

8.2 The audit plan will remain fluid to enable us to react to the changing needs of Hampshire Fire and Rescue Authority.

**Section 100 D - Local Government Act 1972 - background documents**

The following documents disclose facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of this report.

NB the list excludes:

1. published works; and,
2. documents which disclose exempt or confidential information as defined in the Act.

Title	Location
None	

**Internal Audit Progress Report**

**January 2018**

**Hampshire Fire and Rescue Authority**



**Southern Internal  
Audit Partnership**

Assurance through excellence  
and innovation

**Contents:**

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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’ are laid down in the Public Sector Internal Audit Standards, updated in 2017, [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’.***

Hampshire Fire and Rescue Authority 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 Hampshire Fire and Rescue Authority that these arrangements are in place and operating effectively.

Hampshire Fire and Rescue Authority’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. Purpose of report

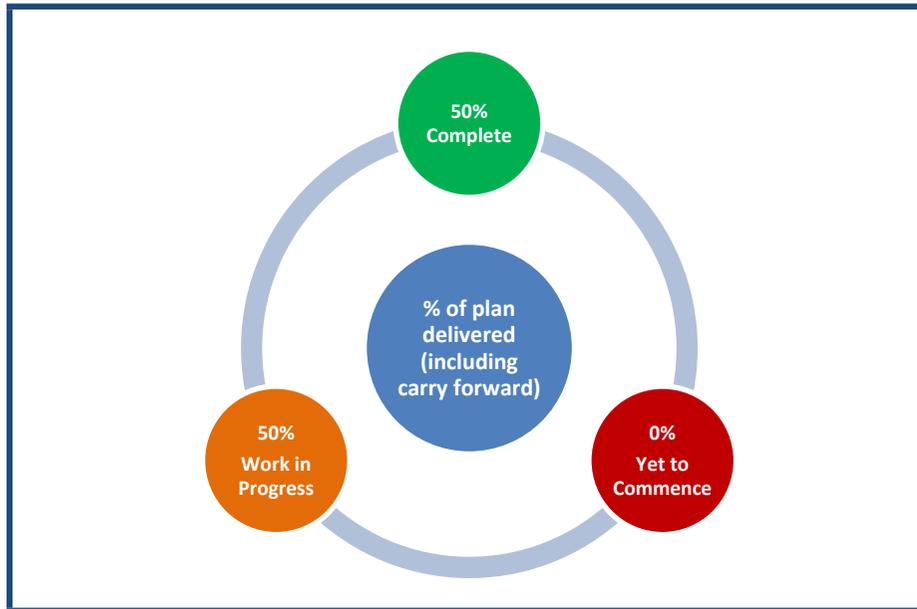
In accordance with proper internal audit practices (Public Sector Internal Audit Standards) and the Internal Audit Charter, the Chief Internal Auditor is required to provide a written status report to Senior Management and the Board, summarising:

- The status of live internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor’s annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. Assurance opinions are categorised as follows:

<b>Substantial</b>	A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified.
<b>Adequate</b>	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.
<b>Limited</b>	Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.
<b>No</b>	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.

3. Performance dashboard



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Compliance with Public Sector Internal Audit Standards / Local Government Application Note	
	<p>An External Quality Assessment of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015. The report concluded:</p> <p><i>'It is our view that the Southern Internal Audit Partnership 'generally conforms' (top grading) to <b>all</b> of the principles contained within the International Professional Practice Framework (IPPF); Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).</i></p>

## 4. Status of 'Live' Reports and reports closed since our last progress report

Audit Review	Report Date	Audit Sponsor	SMT Sponsor	Assurance Opinion	Management Actions ('High Priority')				
					Reported	Not Accepted	Pending	Cleared	Overdue
<b>2013/14</b>									
Networked control	2.7.14	Head of Response Delivery		Adequate	5(0)	0(0)	0(0)	4(0)	1(0)
<b>2014/15</b>									
Partnerships and associated contracts (SCAS)	14.8.15	D o PS		Adequate	6(1)	0(0)	0(0)	4(1)	2(0)
<b>2015/16</b>									
Business continuity	7.6.16	D o PS	H o KM	Limited	12(3)	0(0)	0(0)	7(3)	5(0)
Provided vehicles	4.7.16	D o PS	H o PA	Limited	10(3)	0(0)	0(0)	7(3)	3(0)
<b>2016/17</b>									
Effectiveness of Service Delivery Redesign	6.4.17	D o PS/ CFO	ACO	Adequate	3(0)	0(0)	3(0)	0(0)	0(0)
Commercial activities – income generation	22.6.17	D o PS	H o PA	Adequate	9(0)	0(0)	0(0)	6(0)	3(0)
Procurement processes	22.6.17	D o PS	H o PA	Limited	9(3)	0(0)	8(3)	1(0)	0(0)

Audit Review	Report Date	Audit Sponsor	SMT Sponsor	Assurance Opinion	Management Actions ('High Priority')				
					Reported	Not Accepted	Pending	Cleared	Overdue
Procurement of operational equipment and vehicles	22.6.17	D o PS	H o PA	Limited – operational equipment Adequate - vehicles	10(0)	0(0)	1(0)	8(0)	1(0)
Local management of shared services - Sickness management	30.8.17	D o PS	Head of HR and Workforce Development	Limited	5(0)	0(0)	0(0)	4(0)	1(0)
<b>2017/18</b>									
IT applications and systems governance	29.11.17	D o PS	Head of Digital Technology	Limited	5(0)	0(0)	0(0)	0(0)	5(0)
Fleet maintenance centre	2.1.18	D o PS	H o PA	Adequate	7(0)	0(0)	4(0)	3(0)	0(0)

## 5. Executive Summaries of new reports published concluding a Limited or No assurance opinion

One report has been issued since the last Standards and Governance Committee which resulted in a Limited assurance opinion. The IT applications and systems governance audit identified weaknesses in the governance of new IT systems, change control, release management and in the decommissioning of systems and applications.

## 6. Planning & Resourcing

The internal audit plan for 2017/2018 was approved by the Hampshire Fire and Rescue Service Management Team and the Standards and Governance Committee in March 2017.

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of Hampshire Fire and Rescue Authority. Progress against the plan is detailed within section 7. In December 2017 the audit of Workforce Development was removed from the plan due to changes in this area which affected the requirement for this audit. At the same time we were asked to carry out some consultancy work on the ICT project budget and to add an audit of Budgetary Control to review arrangements for this within HFRS.

## 7. Rolling Work Programme

Audit Review	Audit Sponsor	SMT Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
<b>Audit Plan 2016/17</b>										
Local management of shared services	D o PS	Head of HR and	✓	✓	✓	✓	✓	Limited		

Audit Review	Audit Sponsor	SMT Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
(Sickness management)		Workforce Development								
<b>Audit Plan 2017/18</b>										
Implementation of savings plan	H o F	Lead Finance BP	✓	✓	✓					
Information management/security	D o PS	Head of ICT	✓	✓	✓					
Safeguarding	D o CS and R	H o CS	✓	✓	✓					
Workforce development	H of HR and Training	Lead HR BP								Removed from plan
Fleet maintenance centre	D o PS	H o PA	✓	✓	✓	✓	✓	Adequate		
IT Applications and Systems Governance	D o PS	H of ICT	✓	✓	✓	✓	✓	Limited		
Budgetary control	H o F	D o PS	✓	✓	✓	✓				

Audit Review	Audit Sponsor	SMT Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
ICT budget consultancy work	H o F	D o PS	✓	✓	✓	N/A	✓	N/A		
Pro-active fraud work	D o PS	H o KM	N/A	N/A	✓	N/A	N/A	N/A		
NFI	D o PS	H o KM	N/A	N/A	✓	N/A	N/A	N/A		
<b>Shared services audit plan 2017/18</b>										
Payroll			✓	✓	✓					
Payroll support			✓	✓	✓	✓	✓		Substantial	
Order to Cash (OTC)			✓	✓	✓	✓				
Purchase to pay (P2P)			✓	✓	✓					
Treasury Management			✓	✓	✓	✓	✓		Substantial	
Debt Collection			✓	✓	✓	✓				
BACS			✓	✓	✓	✓	✓		Adequate	
Governance arrangements			✓	✓						
Statutory Checks			✓	✓	✓					
Recruitment			✓	✓	✓					

Audit Review	Audit Sponsor	SMT Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Category Management			✓	✓	✓					
Contract Management			✓							

Key to abbreviations:	
ACO	Assistant Chief Officer
AM CSS	Area Manager – Community Safety Support
CFO	Chief Financial Officer
D o PS	Director of Professional Services
D o CS and R	Director of Community Safety and Resilience
H o CS	Head of Community Safety
H o F	Head of Finance
H o ICT	Head of ICT
H o KM	Head of Knowledge Management
H o PA	Head of Physical Assets

Lead Finance BP	Lead Finance Business Partner
Lead HR BP	Lead Human Resources Business Partner
N/A	Not applicable



**HAMPSHIRE  
FIRE AND  
RESCUE  
AUTHORITY**

Purpose: Noted

8 MARCH 2018

## IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS – PROGRESS REPORT

Report of Chief Officer

### EXECUTIVE SUMMARY

1. This report provides the Committee with an overview of the work we do to oversee the implementation of internal audit recommendations and their respective actions.
2. It provides an update on those actions that have not been completed within their target date, and their status.
3. The Standards and Governance Committee has a key scrutiny role in monitoring the implementation of internal actions.

### BACKGROUND

4. The internal audit follow-up process is an important element in our overall approach to risk management and governance. When an action is agreed by managers to address a control weakness, or to make an improvement to the way we work, it is important that the action is then implemented as planned.

#### **5 Liaison with internal audit and the follow up process**

- 5.1 The internal audit service is provided to the Authority by Southern Internal Audit Partnership (SIAP) at Hampshire County Council. There is an Internal Audit Charter that has been in place since 2014. This and the Internal Audit Plan are reviewed and updated annually to reflect changing organisational priorities and needs.
- 5.2 The Knowledge Management team maintains a record of audits against the current Internal Audit Plan and whether they are in progress or have been completed. The respective managers are responsible for the delivery of actions that fall within their areas of responsibility.

- 5.3 Once a final audit report has been issued, the agreed management actions are recorded along with:
- the priority of the recommendation;
  - the target date for implementation; and
  - the person responsible for the action.
- 5.4 The Knowledge Management Team will ask for confirmation and evidence that an action has been implemented, or if not, when it is expected to be. The response is recorded. Any recommendations that continue to remain outstanding are referred to the relevant Director. Our internal Risk and Assurance Board now keeps an overview of outstanding recommendations.
- 5.5 Performance of the implementation of audit recommendations remains good. We do however recognise the need to make improvements in the speed with which we progress the individual audits at times. We are committed to this, and the internal Risk, Resilience and Assurance Board oversees progress.
- 5.6 The table below lists those recommendations that are currently outstanding beyond their agreed target date and of medium (M) or high (H) priority. There is a brief commentary against each to explain the status and any mitigating factors.

<b>Internal Audit Management Actions</b>			
<b>Audit Plan year 2013/14</b>			
<b>Networked Fire Control Project</b>			
Review the partnership and FRS benefits alignment.	August 2014 Revised to December 2017	M	The project end date has been delayed due to partnership requirements. The project closure report is due to be presented in July 2018.
<b>Audit Plan year 2014/15</b>			
<b>Partnerships and Associated Contracts – South Central Ambulance Service</b>			
Partnerships Policy to be updated and a Partnerships Register to be created.	July 2016	M	Draft Policy to be considered at the Risk, Resilience & Assurance Board on the 21 February 2018.
<b>Audit Plan year 2015/16</b>			
<b>Business Continuity</b>			
Comprehensive review of Resilience Plan testing and exercising to be undertaken and an appropriate schedule commencing January 2017 put in place to meet organisational requirements.	October 2016 Revised to January 2019	M	The outstanding actions are now included in the wider review of our Business Continuity Management System. This means that we have a revised target date of January 2019 for all the work to have been achieved.
A robust recording and evaluation process to be put in place for Service Resilience events to support current arrangements and	October 2016 Revised to January 2019	M	

to allow lessons learned to be identified and actioned.			
<b>Provided Vehicle Policy</b>			
Review the current policy and address the points observed by the Internal Audit.	August 2016	M	Due to changes made in the tax regulations, further work is taking place within the organisation to consider the most recent changes relating to mileage and vehicle use that is considered to be 'private'. The current policy (service order) will be adapted, if necessary, once the implications of HMRC changes are understood.
<b>Audit Plan year 2016/17</b>			
<b>IT Applications and Systems Governance</b>			
The authority and scope of the Digital Technology Board will be reviewed.	January 2018 Revised data March 2018	M	Due to recent personnel changes this will be re-baselined to 31 March 2018.
Production Authorisations (PA) prior to the 2017 one-off exercise have been completed. Further new PA's have been completed since the audit fieldwork. We will ensure that outstanding PA's are completed by the end of January 2018.	January 2018 Revised data March 2018	M	Product Authorisations are being completed and awaiting final sign off which we plan to have done by the end of March 2018.
The production authorisation process will be documented and included in departmental policies.	January 2018 Revised data March 2018	M	Due to personnel changes this will be re-baselined to 31 March 2018
Develop and publish formal procedures for the decommissioning of equipment.	December 2017 Revised data March 2018	M	

## SUPPORTING OUR SERVICE PLAN AND PRIORITIES

- 6 Implementation of internal audit recommendations assists the Authority in the improvement planning process, performance management framework, and in compliance with its governance arrangements. This in turn, assists the Authority in achieving its aim to be the best fire and rescue service in the country.

## RESOURCE IMPLICATIONS

- 7 When agreeing management actions in response to an audit report, the cost of addressing the risk should be considered against the risk materialising. Implementing audit recommendations helps to ensure that the Authority uses

its resources efficiently, that key controls are in place and working, and opportunities to achieve value for money are taken.

8 The management of internal audit actions is within current resources.

#### LEGAL IMPLICATIONS

9 There are no legal implications arising from this report.

#### PEOPLE IMPACT ASSESSMENT

10 The contents of this report are considered compatible with the provisions of equality and human rights legislation.

#### RISK ANALYSIS

11 Failure to implement internal audit recommendations clearly leaves the Authority vulnerable to the consequences of the identified risks and weaknesses in control. The process is an important process within the Authority's risk management arrangements. The updates on progress ensure that Members are fully aware of any problems associated with addressing the issues raised and the priority given to driving down or eliminating specific risks.

#### RECOMMENDATION

12 That the progress made towards the implementation of the internal audit management actions is noted and continues to be monitored.

Contact: Samuel Fairman, Performance Review Manager,  
[Samuel.fairman@hantsfire.gov.uk](mailto:Samuel.fairman@hantsfire.gov.uk)

Purpose: Decision

Date **8 March 2018**

Title **LGPS – Employer Discretions Policy**

Report of Treasurer



**HAMPSHIRE  
FIRE AND  
RESCUE  
AUTHORITY**

## EXECUTIVE SUMMARY

1. It is a requirement of the Local Government Pension Scheme (LGPS) regulations 2014 that each employing authority has a published Employer Discretions policy.
2. Whilst Hampshire County Council has a published discretions policy it was noted that members of the LGPS who were employed by HFRA were not covered by this policy.
3. The attached employer discretions policy has been prepared for HFRA that mirrors that in place for HCC in all respects, apart from Part B – Optional Discretions:
  - (a) It states that consideration may be given to extending the standard 12 month period to transfer in previous pension rights into the LGPS up to a maximum of 24 months where there are extenuating circumstances. Requests under this discretion must be agreed by the Chief Financial Officer.

## CONSULTATION

4. The Trades Union have been consulted and did not raise any comment.

## RESOURCE IMPLICATIONS

5. There are no direct resource implications contained within this report.

## LEGAL IMPLICATIONS

6. The Employer Discretions policy accords with the requirements of the LGPS rules and any case will be managed on an individual basis in accordance with this policy.

## PEOPLE IMPACT ASSESSMENT

7. There are no direct impacts on people as a result of this report.

## CONCLUSION

8. Publishing an employer discretion policy for HFRA is a requirement of the LGPS and its publication should be noted.

9.

## RECOMMENDATION

10. That the attached Employer Discretions Policy be approved subject to any amendments reported at the meeting.

11. That the Treasurer be given delegated authority to approve any minor amendments to the Employer Discretions Policy if required.

## APPENDICES ATTACHED

Appendix A – Employer Discretions Policy for HFRS

Contact:

Rob Carr, Chief Finance Officer

[Rob.Carr@hants.gov.uk](mailto:Rob.Carr@hants.gov.uk)

01962 847508

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.

Final Accounts Report – F&GP Committee 4 July 2016

NB: the list excludes Published works

Documents which disclose exempt or confidential information as defined in the Act.

None

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# Employer Discretions Policy

<b>Employer name:</b>	<b>Hampshire Fire and Rescue Authority</b>
<b>Employer number:</b>	<b>00777</b>
<b>Policy effective from:</b>	<b>TBA</b>

## Statement of policy

### on the Local Government Pension Scheme Regulations (LGPS) 2013 and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014.

This document sets out the scheme employer's policy on the operation of each of the compulsory discretions (and optional discretions where chosen) available under the LGPS Regulations. It states whether or not discretions will be operated and the circumstances and criteria for applying them, in relation to active and deferred members of the LGPS.

#### PART A - Compulsory Discretions

##### Regulation 16(2)(e) and 16(4)(d)

###### Whether, how much, and in what circumstances to contribute to a shared cost APC scheme

Where an active scheme member has decided to make Additional Pension Contributions (APCs) to purchase extra pension benefits up to £6,500 per annum (figure as at 1 April 2014), the employer can resolve to voluntarily contribute towards the cost of this.

Note: This does not include instances where the employee is paying for *lost* pension via an APC where the election was made in the first 30 days – here the employer *must* pay two-thirds of the cost of such purchase

###### Employer Policy Decision

A contribution will only be made to meet the cost of a member's additional pension contributions where as an employer we are required to do so under the LGPS regulations.

Where a member is voluntarily making additional pension contributions, HFRA will not consider meeting any part of that cost.

##### Transitional Provision Schedule 2, paragraphs 1(2) and 2(2)

###### Whether to "switch on" the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60.

Employees are able to voluntarily retire between ages 55 and 60, post-31 March 2014 and onwards. Formerly this was only with employer permission and if granted, the employer would have paid any strain cost due if the employee met the 85-year rule.

The 85-year rule does not automatically apply to members retiring between 55 and 60 as the facility to retire voluntarily between 55 and 60 is a new facility.

The employer has the discretion to 'switch' back on the 85-year rule for employees leaving between 55 and 60, thus allowing employees to not have reductions (or have lesser reductions). In these cases the employer would have associated strain costs that would have to be paid by the organisation instead.

This discretion does not apply to flexible retirement (see [Regulation 30\(6\)](#)) whereby the 85 year rule is always switched on.

### **Employer Policy Decision**

HFRA will not 'switch' back on the 85 year rule for employees leaving voluntarily between age 55 and 60.

### **Regulation 30(6)**

#### **Whether all or some benefits can be paid if an employee reduces their hours or grade (flexible retirement)**

Employers may allow a member from age 55 onwards to draw all or part of the pension benefits they have already built up whilst still continuing in employment. This is provided the employer agrees to the member either reducing their hours or moving to a position on a lower grade.

In such cases, pension benefits will be reduced in accordance with actuarial tables unless the employer waives the reduction either fully or in part or a member has protected rights.

Please be aware, if you allow members to retire under flexible retirement, and they meet the 85 year rule between the ages of 55 and 60, there may be a cost to the employer as there is no option to switch the 85 year rule off in this instance.

### **Employer Policy Decision**

HFRA may consent to a request for pension benefits being paid under the flexible retirement policy to an employee over the age of 55, providing:

- i) their remuneration is reducing by 40% either through a reduction in contractual hours or grade, or
- ii) where the reduction is less than 40% and does not incur a pension fund strain charge.

Employees should note that the final decision as to whether to allow flexible retirement is at the sole discretion of the Fire Authority as the employer.

**Regulation 30(8) (2013 Regs) - Regulation 30(5) (2013 Regs) - and 30(5) and 30A(5) (2007 Regs)- Regulation 3(1) and (5) (TP2014 Regs)**

**Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age (where the member only has post 31/3/14 membership)**

Employers can agree to waive any actuarial reductions due in the case of employees retiring anytime after age 55. This does not have to be due to ‘compassionate’ reasons and the situation differs according to the group of member the person is classified as for 85 Year Rule purposes. See [Employer discretions](#) for more information.  
If this discretion is used, the employer will pick up the cost of waiving reductions as an immediate strain cost payment.

**Employer Policy Decision**

HFRA will not consent to waive any actuarial reduction applicable to an employee who retires voluntarily between age 55 and their Normal Pension Age.  
  
HFRA will not consent to ex-employees taking deferred benefits before their Normal Retirement Age unless there is no cost to the employer.

**Regulation 31**

**Whether to grant additional pension to an active member or within 6 months of ceasing to be an active member by reason of redundancy or business efficiency (by up to £6,500 p.a.)**

An employer may resolve to grant extra pension of up to £6,755 (figure at 1 April 2017) to an active Scheme member or within 6 months of leaving to a member whose employment was terminated on the grounds of redundancy or business efficiency.

**Employer Policy Decision**

HFRA will not consider granting extra pension unless you the scheme member is retired in the interests of efficiency of the service.  
  
If a scheme member is retired in the interests of efficiency of the service, HFRA will consider granting (and paying for) additional pension in the Local Government Pension Scheme using an amount no greater than the payment the scheme member would have received had they been made redundant, and in any event no greater than £6,755 (figure at 1 April 2017), this is reviewed each April in line with the ‘Pensions Increase Order’. There may be tax implications associated with this.

**Regulation B30 (2) (5).B30A.(3).(5)**

**Whether to allow the early payment of pension to deferred members who left the scheme post 31 March 2008/Pre 1 April 2014**

An employer can allow the early payment of deferred benefits to those with pre 2014 benefits between ages 55 and 59. They may also allow early payment of pensions to former employees who were in receipt of a tier 3 ill health pension which has since been suspended. In such cases, pension benefits will be reduced in accordance with actuarial tables unless the employer waives the reduction on compassionate grounds or a member has protected rights.

**Employer Policy Decision**

HFRA will not consent to the early payment of deferred benefits to individuals with pre 1 April 2014 benefits and between ages 55 and 59, unless there is no cost to the HCC.

HFRA will not allow early payment of pension to former employees who were in receipt of a tier 3 ill health pension which has since been suspended, unless there is no cost to HCC.

- These policies may be subject to review from time to time. Any subsequent change in this Policy Statement will be notified to affected employees.
- Any changes to this policy will be notified to the Hampshire Pension Fund within 30 days of the change.

For the full list of discretions policies go to [LGA Discretions](#)

Signed on behalf of:

Completed by:

Position:

Signature:

Date:

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## PART B - Optional Discretions

(The two detailed are the most frequently used Regulations, but remain optional – see [LGA Discretions](#) for the full list of optional employer discretions)

### Membership Aggregation Regulation 22 (7)(b),(8)(b)

Whether to extend the 12 month option period for a member to elect that deferred benefits should not be aggregated with an ongoing concurrent employment

If a member has previous LGPS membership they will need to make a decision about whether it is combined with their new LGPS membership

The election to keep separate pension benefits must be made within 12 months of becoming an active member, who must be active at the date of election.

An employer may allow a period longer than 12 months

### Employer Policy Decision

HFRA will not extend the 12 month period for a member to elect to not combine pension rights from previous local government employment with an ongoing concurrent employment.

If the election not to combine is not made within 12 months of the new active membership, then the previous LGPS membership will be combined with the members new LGPS membership.

### Transfers of Pension Rights Regulation 100(6)

Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS

Where an active member requests to transfer previous pension rights into the LGPS, the member must make a request within 12 months of becoming an active member.

An employer may allow a longer period than 12 months

### Employer Policy Decision

HFRA will normally only accept a request to transfer previous pension rights into the LGPS if the election to do so is made within 12 months of becoming an active member of the LGPS.

**Consideration may be given to extending this time period (up to a maximum of 24 months) where there are extenuating circumstances. Requests under this discretion must be agreed by the Chief Financial Officer.**

<b>Whether to extend 30 day deadline for member to elect for a shared cost APC Regulation 16(16)</b>
Whether to extend 30 day deadline for member to elect for a shared cost APC upon return from a period of absence from work with permission with no pensionable pay (otherwise than because of illness or injury, relevant child-related leave or reserve force service leave)
<b>Employer Policy Decision</b>
HFRA will extend the deadline for a member to elect a share cost APC to <b>60 days</b> , upon return from a period of absence from work with permission with no pensionable pay

Signed on behalf of:

Completed by:

Position:

Signature:

Date:

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