

Annual Internal Audit Report & Opinion

2017 - 18

Hampshire County Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].



The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

2. Internal Audit Approach

To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the County Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the County Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of Hampshire County Council's audit need that has been covered within the period

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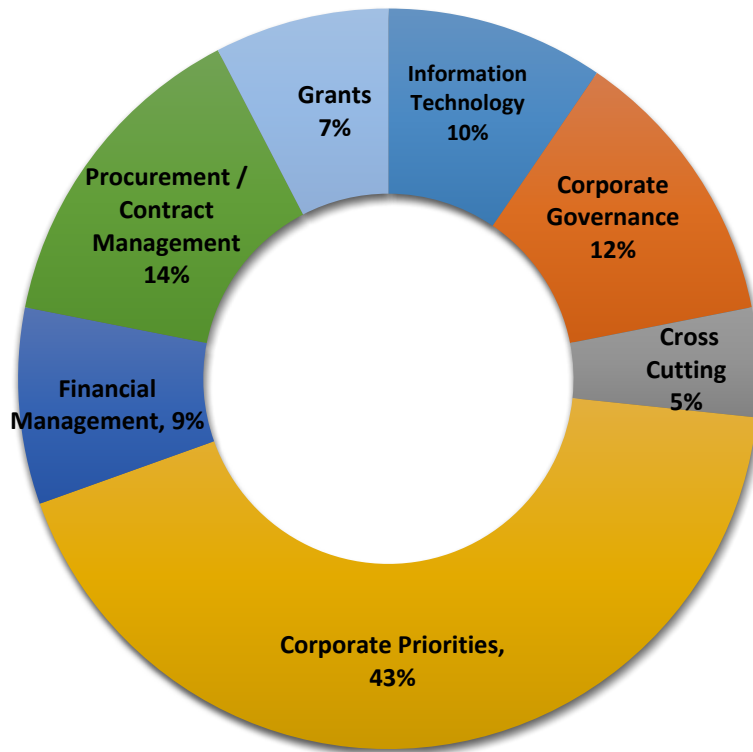
"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Hampshire County Council's internal control environment.

In my opinion, Hampshire County Council's framework of governance, risk management and control is 'Adequate' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2017-18 Internal audit plan, approved by the Audit Committee in June 2017, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

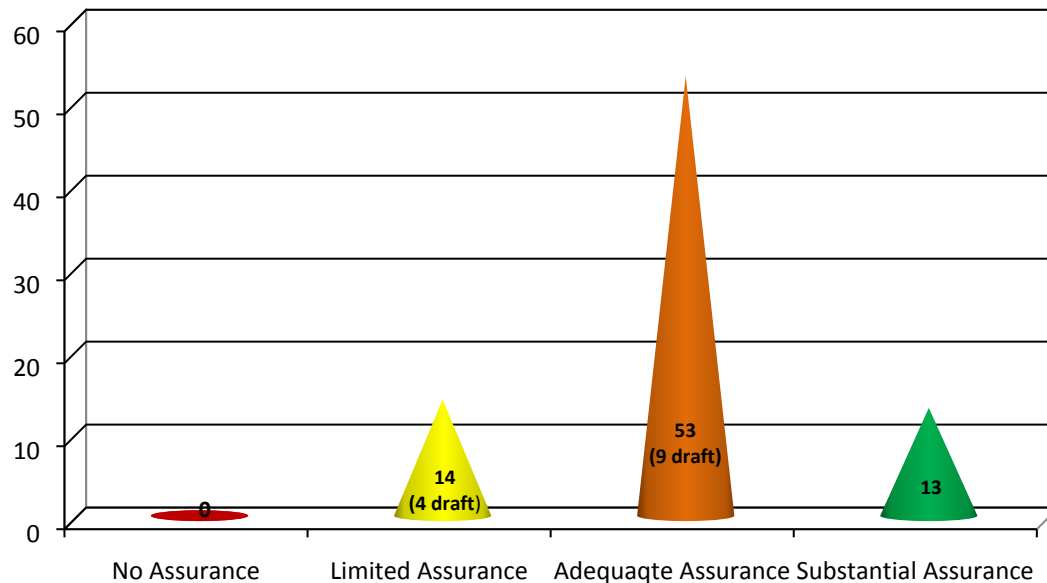
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion the Southern Internal Audit Partnership have undertaken 105 reviews during the year ending 31 March 2018.

The revised 2017-18 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed for 13 reviews, however, final reports have not yet been agreed;
- Fieldwork remains in progress in respect of 3 reviews (Integrated Reablement; Public Health – (Quality & Performance Group); and Statutory Checks)

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:



Substantial - A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified;

Adequate - Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified;

Limited - Significant weakness (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk; or

No - Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives

*22 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, advice, assurance mapping, or grant certification or concluded with a position statement

5. Key Observations

There were no 'No Assurance' opinions issued during the year. In general internal audit work found there to be a sound control environment in place across a majority of review areas that were working effectively to support the delivery of corporate objectives, however, there were some common themes identified that provide challenge to the organisations risk environment:

Data Quality / Compliance - A contribution to a number of 'limited assurance' reviews within Adult Services found documentation within AIS to support process / procedures (including legislative requirements) was absent, incomplete, untimely or not consistently recorded (i.e. Direct Payments; Continuing Healthcare; Self Directed Support). Non-compliant behaviours provide an increased risk and can adversely impact the quality and integrity of management information in addition to leaving the County Council and its officers vulnerable and exposed to challenge.

Information Technology - Assurance across the IT environment is supported through compliance and accreditation to key industry standards including ISO27001, PSN and ITIL. Our work throughout the year however highlighted some risk exposures in relation to responsibilities and subsequently maintenance and monitoring of MySQL databases that sat outside of the corporate support model. Additionally review of the SAP infrastructure highlighted documentation to support the decision making process and procedures to update / patch the SAP environment were absent and as such lacked transparency leaving individuals vulnerable to challenge and a risk to business continuity.

Pre employment checks - Our review of pre-employment checks resulted in a limited assurance opinion. Whilst testing confirmed that the pre-employment checks requested by recruiting managers (in conjunction with HR advice) are being undertaken on prospective employees, a number of weaknesses were identified in the identification of what pre-employment checks should be undertaken, recording of DBS details and the setting-up of tasks for DBS re-checks in SAP. Linked SAP records for employees with multiple employments were not always updated with DBS check details. There are also opportunities to improve and expand documented guidance to ensure consistency of advice and that expectations for all pre-employment checks are clear.

Business Continuity – There is an up to date Corporate Business Continuity Management (Resilience) Strategy in place and a review of documentation confirmed that plans are in place and testing has been carried out for all COMAH (Control of Major Accident Hazards) sites across the County, in line with Health & Safety Executive Regulations. However, review of a sample of business continuity plans at a departmental level found a number of issues relating to a lack of completeness, authorisation and testing.

Contract Management – Whilst review of major contracts with assigned ownership and dedicated teams were found to be operating effectively, those contracts managed by officers alongside ‘business as usual’ responsibilities provided less rigour in the level of performance reporting / monitoring, increasing the risk of service delivery not achieving the necessary standards agreed and expected by the County Council.

Risk Management - It was apparent from our work conducted throughout the year that the organisation is both aware of and effectively manages risk as part of its ‘business as usual’ and decision making processes. However, an initiative to develop a system of assurance mapping across the Council, which sought to utilise corporate and departmental risk registers as a foundation, found risk registers to be at varying levels of maturity and completeness. Despite initiatives during the year for the registers to be updated they remain to be poorly maintained and are not currently used as a ‘living document’ in the delivery and management of Council services.

The County Council’s Strategy for Managing Risk & Uncertainty was last reviewed in March 2016. It may be opportune in reviewing this strategy to consider how best to document and manage risk moving forward to ensure it provides a clear focus and acts as an effective management tool.

GDPR - A review was undertaken during the year providing adequate assurance on the planning and process by which the County Council was working towards compliance with the new GDPR requirements. A further review of compliance with the GDPR will be undertaken during 2018/19 following the 25th May 2018 on which date the regulations are enacted.

6. Anti Fraud and Corruption

The County Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services.

A fraudulent or corrupt act can impact on public confidence in the County Council and damage both its reputation and image. Policies and strategies are in place setting out the County Council's approach and commitment to the prevention and detection of fraud or corruption.

An overview of Internal Audit activity and delivery of the Annual Fraud Plan 2017/18 is provided in the Annual Fraud Report 2017-18.

7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within 'the Standards'.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

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

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015.

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 the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).

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.”

In accordance with PSIAS, annual self assessment have been completed since the external inspection concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors that:

‘the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’

There are no disclosures of Non-Conformance to report.

9. Quality control

Our aim is to provide a service that remains responsive to the needs of the County Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2017-18 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard complimented by a comprehensive set of audit and management procedures;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- A self-assessment against the Public Sector Internal Audit Standards.

10. Internal Audit Performance

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

Annual performance indicators			
Aspect of service	2016-17 Actual (%)		2017-18 Actual (%)
Revised plan delivered (including 2016/17 c/f)	97	↔	97
Positive customer responses to quality appraisal questionnaire *	96	↔	96
Compliant with the Public Sector Internal Audit Standards	Yes	↔	Yes

*Customer satisfaction has been assessed through response to questionnaire issued to a wide range of stakeholders including Members, senior officers, key contacts and SIAP staff. 17/18 actual are based on a February 2017 questionnaire

11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout Hampshire County Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman
Head of Southern Internal Audit Partnership
June 2018

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