

Annual Internal Audit Report & Opinion

2018 - 19

Hampshire County Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

Contents

Section	Page
1. Role of Internal Audit	3
2. Internal Audit Approach	4
3. Internal Audit Opinion	5
4. Internal Audit Coverage and Output	6-7
5. International Standard on Assurance Engagements (ISAR 3402)	8
6. Key Observations	9-10
7. Anti-Fraud and Corruption	11-12
8. Quality Assurance and Improvement	13
9. Disclosure of Non-Conformance	14
10. Quality control	14
11. Internal Audit Performance	15
12. Acknowledgement	15

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 provides 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 organisation’s 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.

Annual Internal Audit Opinion 2018-19

"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.

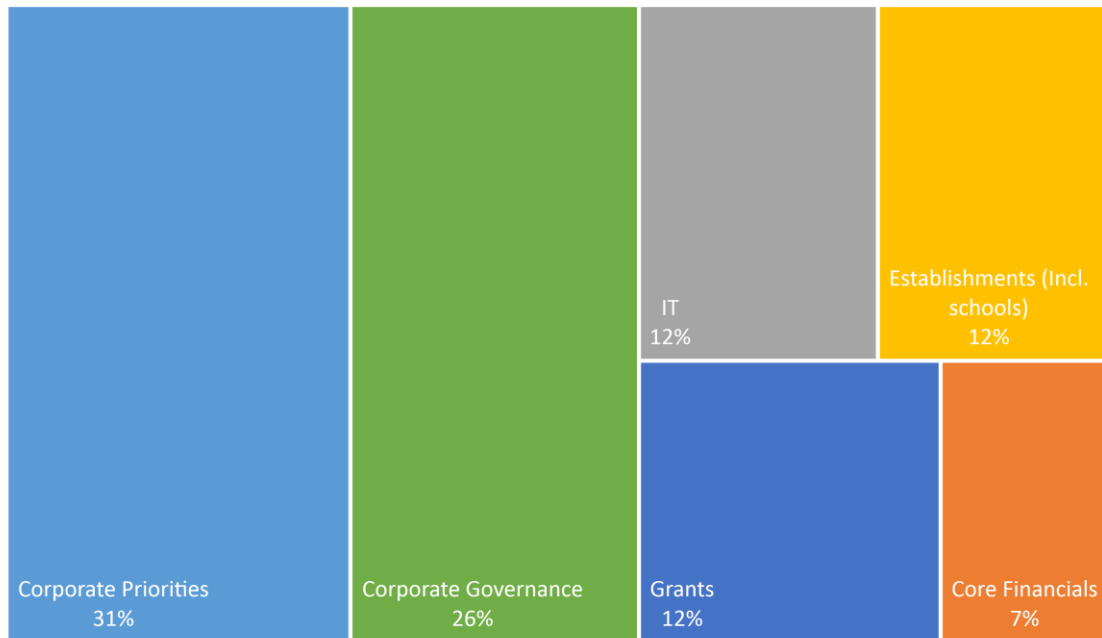
In my opinion, Hampshire County Council's framework of governance, risk management and control is 'Adequate' and audit testing has demonstrated controls to be working in practice.

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.

% of Reviews



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 2018-19 Internal audit plan, approved by the Audit Committee in July 2018, 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.

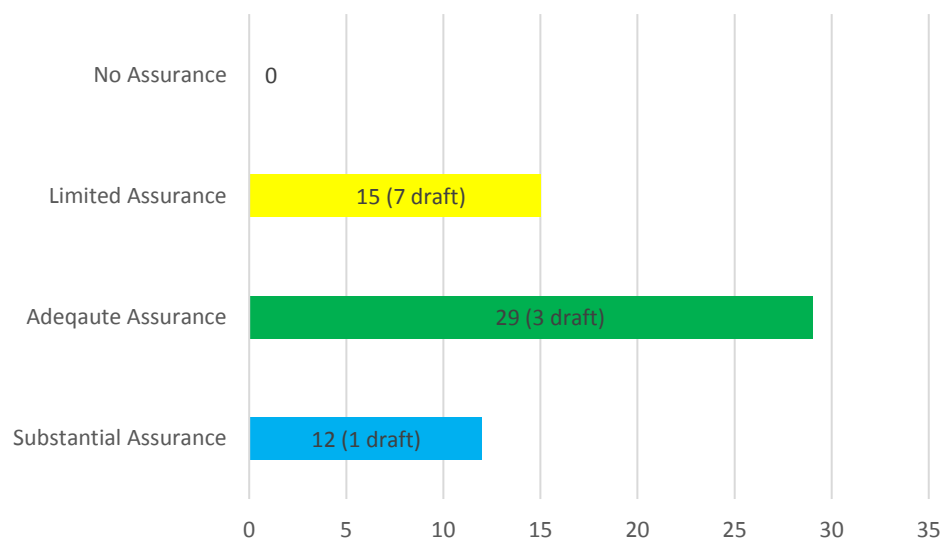
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion internal audit have undertaken 86 reviews during the year ending 31 March 2019.

The revised 2018-19 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete, and an opinion has been formed for 11 reviews, however, final reports have not yet been agreed;
- Fieldwork remains in progress in respect of 7 reviews (Business Continuity & Emergency Planning, GDPR, IT Disaster Recovery, Brokerage Team, Traffic Management, Contract Management (CCBC), Children Services Thematic Review (Budget Monitoring)).

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 – There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be of a high standard and few or no material errors or weaknesses were found;

Satisfactory - While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;

Limited - Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk; or

No - Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

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

5. International Standard on Assurance Engagements (ISAE 3402)

ISAE 3402 provides an international assurance standard allowing public bodies to issue a report for use by user organisations and their auditors (user auditors) on the controls at a service organisation that are likely to impact or be a part of the user organisation's system of internal control over financial reporting enabling them to inform both their annual governance statement and the annual audit opinion.

ISAE 3402 provides for two types of report:

- Service Organisation Control (SOC) Type 1 Report - attestation of controls at a service organisation at a specific point in time
- Service Organisation Control (SOC) Type 2 Report - attestation of controls at a service organisation over a minimum six-month period.

In 2018/19 Hampshire County Council commissioned a Service Organisation Controls (SOC 1) report under International Standard on Assurance Engagement (ISAE) 3402. Assurance against the international standard was provided by Ernst & Young.

For the purposes of the Service Organisation Control (SOC) Type 1 Report standards require that the appointed auditor plan and perform their examination to obtain reasonable assurance about whether, in all material respects, based on the criteria in management's Assertion, the Description is fairly presented, and the controls were suitably designed to achieve the related Control Objectives as of 31 March 2019.

In forming their 'Opinion' the auditors (Ernst & Young) concluded:

'In our opinion, in all material respects, based on the criteria described in the Integrated Business Centre's Assertion:

- a. The Description fairly presents the System that was designed and implemented as of 31 March 2019.*
- b. The controls related to the Control Objectives were suitably designed to provide reasonable assurance that the Control Objectives would be achieved if the controls operated effectively as of 31 March 2019 and if user entities applied the complementary controls assumed in the design of Integrated Business Centre's controls as of 31 March 2019.'*

It is intended that a SOC Type 2 report is completed during 2019-20 the outcomes of which will be incorporate within the Southern Internal Audit Partnerships 'Statement of Assurance 2019-20.

6. 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 areas identified that provide challenge to the organisations risk environment:

AIS /Swift - The client information system within Adult Services is used extensively by staff across the department and contains a significant amount of sensitive and personal data. My 2017/18 annual report and opinion referenced concerns highlighted through a variety of reviews undertaken relating to the absence, incompleteness and inconsistency of information recorded within AIS. It is clear that significant efforts have been focused in driving improvements in this area, however, a review of Mental Health Guardianship undertaken as part of the 2018/19 audit plan indicates further work is required to fully embed enhancements made.

A further review of AIS User Access during the year highlighted potential weakness through the absence of supporting documentation to substantiate requests / authorisations for system access, additionally weaknesses were found in the removal or reconfiguration of access when staff move roles or leave the organisation.

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 register 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. An initiative is now in place to review the strategy, considering how best to document and manage risk moving forwards to ensure it provides a clear focus and acts as an effective management tool, however this has yet to be concluded and embedded across the organisation.

Contract Management – Whilst review of major contracts with assigned ownership and dedicated teams were generally 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 that service delivery not achieving the necessary standards agreed and expected by the County Council.

The management of contracts within our reviews of Home to School Transport and Commercial Waste Services during the year also highlighted weaknesses through the absence of key documentation (finalised contract documents) and a lack of rigour in the checking of invoices received against contracts in place.

Health & Safety (Statutory Checks) – The Joint Facilities Management Service provides a range of FM related functions to clients at HCC, Police and Fire including the health and safety checks required by legislation or recommended as good practice.

Whilst maintained disparately, there was no centralised record to readily monitor tasks to be undertaken, the date works were carried out or confirmation of completion. Facilities Managers and the Head of Facilities Management carry out spot checks at locations in their areas to gain assurance that the health & safety checks have been completed, however, no records of the spot-checks were retained, albeit, where issues were identified remedial actions were advised by email which provided some evidence to substantiate the spot checks were undertaken. Concerns from our review were primarily based on the lack of centralised evidence confirming that checks have been carried out rather than a specific concern that checks were not taking place.

Hampshire Equipment Store – Pro-Cloud, the system used to record stock for the Equipment Service, was found not to accurately reflect the stocks held by either the main stores or the various sub-stores.

Inaccurate base data upload when the system was introduced, coupled with ongoing inaccuracies through human error and omission have not enabled us to provide assurance that the stock system is effective, and all stock is appropriately accounted for through the system.

7. Anti-Fraud and Corruption

The County Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the County Council and damage both its reputation and image.

The Council maintains a suite of strategies and policies to support the effective management of the prevention, detection and investigation of fraud and corruption (Anti-Fraud & Corruption Strategy and Response Plan; Whistleblowing Policy and Anti Bribery Policy).

Counter-fraud activity during the year has delivered a programme of proactive and reactive work to complement the internal audit strategy and annual plan focusing resource against assessed fraud risks in addition to new and emerging threats.

Reactive Fraud Activity - The Southern Internal Audit Partnership work with Hampshire County Council in the effective review and investigation of any reported incidents of fraud and irregularity. All such reviews are undertaken by professionally accredited (CIPFA CCIP) staff, in accordance with the Council's Anti-Fraud & Corruption Policy and Response Plan.

During 2018/19 the results of two investigations undertaken by the SIAP and passed on to the police resulted in criminal charges being brought against the individuals, with both submitting guilty pleas to the Courts.

One offender received a two-year suspended prison sentence and 200 hours unpaid work and was ordered to repay £17,400 (fraud value £31,000) and the other received a 12 months suspended sentence and 150 hours unpaid work, however, in this particular case there was no order to pay back monies (fraud value £10,000).

Additionally, during the year the SIAP undertook an investigation on a case of suspected breach of financial procedures. Whilst on this occasion no fraud was detected, the significance of the breach resulted in the dismissal of one member of staff and a final written warning issued to another.

Proactive Approach - Whilst our reactive fraud work assists the Council in responding to notified incidents or suspicions of fraud and irregularity, it is equally important to ensure proactive initiatives are appropriately explored to understand, prevent and detect fraud risks across the organisation. Initiatives and subsequent outcomes during the year included:

- Fraud awareness and cybercrime training sessions were developed and delivered to school governors.
- The Council's Anti Fraud and Corruption Strategy, Anti Money Laundering and Anti Bribery policies were reviewed and where relevant have been updated to take into account of new legislation and/ or best practice guidance.
- The annual CIPFA fraud survey was completed on behalf of the Council and submitted in accordance with the June 2018 deadline.
- Two themed proactive fraud reviews were undertaken during the year focusing on Procurement Cards & Petty Cash and the Blue Badge scheme.
- Advice and guidance were provided across approx. 75 enquiries. Common themes related to email scams (mandate fraud, malware, and spoof emails)

National Fraud Initiative (NFI) - The NFI is a statutory exercise facilitated by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud.

Public sector bodies are required to submit data to the National Fraud Initiative on a regular basis (every two years). The latest NFI data upload was carried out in October 2018.

Matches will be reviewed throughout 2019/20 and progress reported through the quarterly progress report to the Audit Committee.

8. Quality Assurance and Improvement

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

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

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

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-assessments 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.

9. Disclosure of Non-Conformance

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

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

There are no disclosures of Non-Conformance to report.




10. Quality control

Our aim is to provide a service that remains responsive to the needs of the County Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2018-19 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;
- 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.

11. Internal Audit Performance

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

Annual performance indicators				
Aspect of service	Target (%)	2017-18 Actual (%)		2018-19 Actual (%)
Revised plan delivered (including 2017/18 c/f)	95	97		92
Positive customer responses to quality appraisal questionnaire **	90	99		99
Compliant with the Public Sector Internal Audit Standards	Yes	Yes		Yes

**Customer satisfaction has been assessed through response to questionnaire issued to a wide range of stakeholders including senior officers and key contacts involved in the audit process throughout the year.

12. Acknowledgement

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

Neil Pitman
Head of Southern Internal Audit Partnership
June 2019