

Annual Internal Audit Report & Opinion

2018 / 19

Hampshire Fire and Rescue Authority

**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

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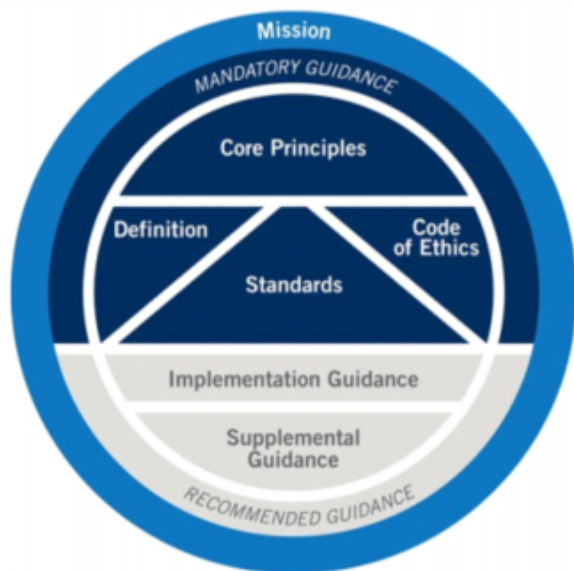
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1. Role of Internal Audit

The requirement for an internal audit function 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 [the Standards], which were updated in 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’.

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.

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 Chief internal Auditor 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 Hampshire Fire and Rescue Authority on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

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 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 Fire and Rescue Authority'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 the internal control environment.

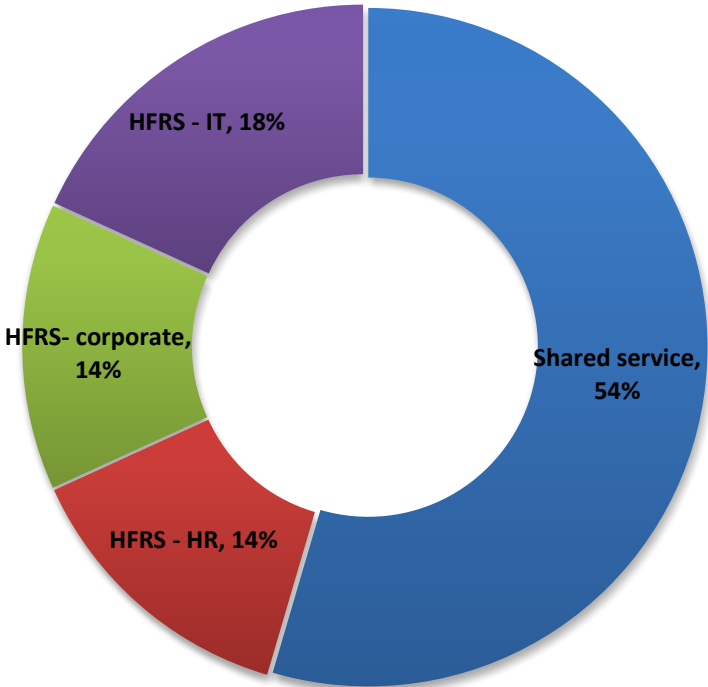
In my opinion I can give limited assurance over Hampshire Fire and Rescue Authority's framework of governance, risk management and management control from audit testing undertaken during the year.

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 update chart

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

Internal audit 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 Standards and Governance Committee in March 2018, was informed by internal audit’s own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

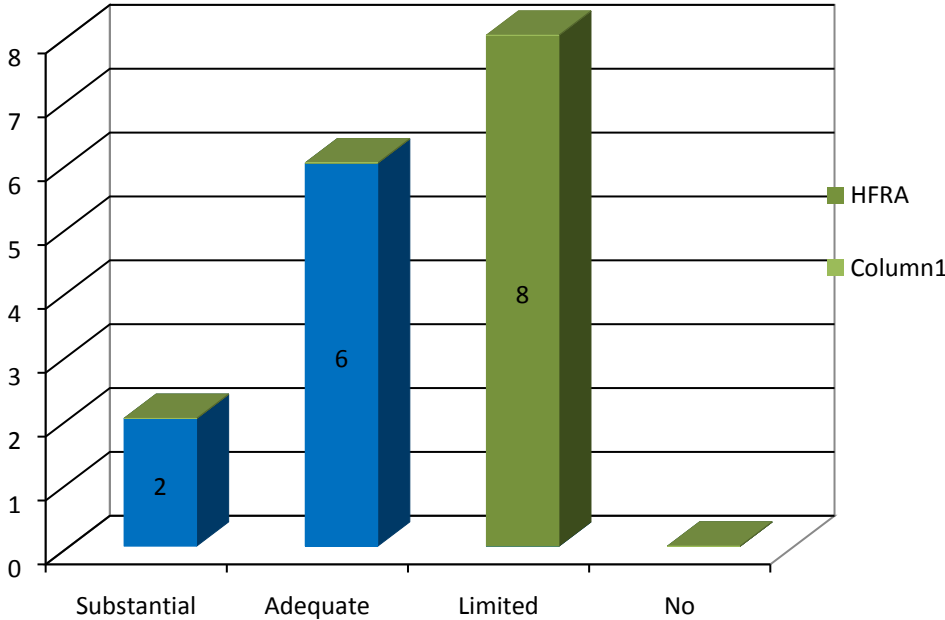
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the Internal Audit opinion the Southern Internal Audit Partnership have undertaken 22 reviews in the year ending 31 March 2019.

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

- Work remains in progress for three reviews which will be carried forward to be included in the 2019/20 annual internal audit opinion (Shared Services – ICT user access, sick pay and commercial waste contract management).

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 of the final report is defined and summarised below:



Substantial - A sound framework of internal control is in place and is 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 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 weakness identified in the framework of internal control or the framework is ineffective or absent with significant risks to the achievement of system objectives.

*Due to the nature of the work, three reviews did not result in an audit opinion (NFI, special investigation and advisory work)

In addition, follow up work was undertaken to assess the progress made in addressing the issues raised in the 2017/18 internal audit report where the areas were not already included in the 2018/19 internal audit plan. This related to Disclosure and Barring (DBS) checks, IT applications and systems governance and budgetary control. We found that progress had been made in addressing the issues raised with

ongoing work in progress to fully embed the revised approach to budgetary control throughout the Service and to ensure that DBS checks are in line with the requirements that have been identified for each role during the year.

Shared Services – Integrated Business Centre

The results of work completed as part of the Shared Services plan are included above, however the Head of Southern Audit Partnership has also produced a statement of assurance specifically for the Integrated Business Centre as outlined below. This includes the IT environment in which these systems operate and I have also taken this into account in forming my overall internal audit opinion.

Statement of Assurance 2018/19 – Integrated Business Centre (IBC)

“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 the internal control environment within the Integrated Business Centre.

In my opinion, the framework of governance, risk management and management 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.”

There are no significant issues of concern to report from the outcomes of our audit work on the IBC during 2018/19.

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 incorporated within the Southern Internal Audit Partnership's Statement of Assurance for 2019/20.

5. Key observations – Hampshire Fire and Rescue Authority

Internal audit provided limited assurance in 8 areas specific to Hampshire Fire and Rescue Authority during 2018/19, highlighting where either control needed to be strengthened and / or compliance with controls required improvement. In all cases, where our work identified risks that we considered fell outside the parameters acceptable to Hampshire Fire and Rescue Authority, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers. Implementation of the agreed actions is monitored by the Hampshire Fire and Rescue Service's Performance and Assurance team and reported to the Standards and Governance Committee. A summary of the key issues raised is summarised below:

Resource management – Stations are staffed in accordance with the Risk Review and staff competencies are logged on the Firewatch system, with the Resource Management Group maintaining oversight of establishment levels and any issues arising. However, there is no over-arching Workforce Planning Strategy in place to outline and support the future resource requirements. We also found opportunity to improve the coding and monitoring of overall staff costs and to ensure that there is evidence that due consideration has been given to the financial implications of filling resource gaps before decisions are made. HFRS also needs to ensure that there is effective oversight of the total numbers of hours a fire fighter has completed each week to ensure compliance with the EU working time directive.

Pay claims – Where allowance types are detailed within the Allowance handbook, guidance notes are clear and well documented and testing confirmed that at the time of initiation of the allowances, all had been correctly authorised. However, the Allowance Handbook does not detail all allowance types that can be made to staff and this, together with a lack of training, increases the risk of incorrect allowance types being applied. This in turn can affect the requirement for re-authorisation and lead to allowances remaining in place for longer than required. In addition, allowances are not being reviewed regularly to ensure they remain timely and relevant, neither are sample checks carried out.

Business continuity and disaster recovery IT – Whilst there are arrangements in place for the critical Control system through arrangements with other Fire Authorities, at the time of our review there was no documented disaster recovery plan in place to ensure the efficient and effective recovery of IT services generally in the event of a disaster. A number of technical issues were also highlighted which could affect timely recovery.

Cyber security - Remote access to HFRS IT systems is secured through the use of a virtual private network (VPN) to protect data in transit and two factor authentication to secure user's accounts from inappropriate access. There are also robust processes are in place to ensure that

anti-malware software is installed, configured, and kept up to date on all computers. The HFRS network is also being monitored to identify and protect against cyber security threats. However, server operating system and application updates are not always being applied promptly to mitigate against known security vulnerabilities; and there is no cyber security incident response plan in place to aid in the response to and efficient recovery from cyber security incidents. There are also opportunities to strengthen staff awareness and therefore defence against social engineering attacks such as phishing, by ensuring that all staff complete compulsory training.

IT strategy - There is no single document that articulates a full and detailed IT strategy, however many existing documents cover individual elements of this and the Infrastructure and Security Board 'Deliverables Tracker' demonstrates that activities and deliverables of the ICT department are aligned with the HFRS Service Plan. Bringing these elements together in addition to roadmaps for future strategic and technical developments would provide a good basis for a fuller, more complete IT strategy document for review by the relevant governance boards. We also found that there are no current Service Level Agreements (SLAs) in place and that no key performance indicators have been established to measure and demonstrate the success of the ICT department in delivering services.

IT Asset management – A satisfactory control framework is documented regarding the procurement, use and management of ICT assets. However, the review found that controls are not always complied with which has led to inaccuracies in the inventory records. The review also identified opportunities to strengthen the asset decommissioning process.

GDPR – A significant amount of work has been undertaken in this area since our review in 2017/18, particularly in relation to the completion of the information asset register. However there remain key elements which are not yet fully embedded, largely in relation to the completion of mandatory training for operational staff and documenting data sharing agreements.

Contract management - contracts may be procured via the Strategic Procurement Team (Shared Services) or locally, depending on value, and the requirements are clearly laid out in HFRS Standing Orders. Whilst the Strategic Procurement Team maintain a contracts dashboard of all contracts procured through them on behalf of HFRS, there is currently no contract register in place to record details of the contracts procured directly by HFRS. Reliance is therefore placed on the contract leads to monitor delivery of the contract as well as to anticipate the need to commence re-procurement activity. This limits the opportunity for strategic oversight and therefore resource planning. There is no training in place to support contract leads in discharging their responsibilities and this has affected the consistency and robustness of contract management activity, including the approach to contract performance monitoring and management.

We enjoy an open and honest working relationship with Hampshire Fire and Rescue Service. Our planning discussions and risk based approach to internal audit ensure that the internal audit plan includes area of significance raised by management to ensure that ongoing organisational improvements can be achieved. As Chief Internal Auditor, I feel that the maturity of this relationship and the Authority's effective use of internal audit has assisted in identifying and putting in place action to mitigate weaknesses impacting on organisational governance, risk and control over the 2018/19 financial year.

6. Anti Fraud and Corruption

Hampshire Fire and Rescue Authority is committed to the highest possible standards of openness, probity and accountability and recognises that the public need to have confidence in those responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence and damage reputation and image. Policies and strategies are in place setting out the Authority's approach and commitment to the prevention and detection of fraud or corruption. Arrangements are also in place to enable staff to report any concerns.

Hampshire Fire and rescue Authority also continue to conform to the requirements of the National Fraud Initiative. The NFI matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information analysed that indicate a fraud, an error or an overpayment may have taken place, signalling the need for review and potential investigation.

Hampshire Fire and Rescue Authority submitted required data sets in October 2018 and received feedback on potential matches in January 2019. Work will be carried out during 2019/20 by Hampshire Fire and Rescue Service to review identified 'recommended matches'. No significant issues have been identified as a result of this work to date.

One investigation was carried out by internal audit during 2018/19 leading to a dismissal. The results of this investigation have also been taken into account in planning the internal audit work to be carried out in 2019/20 to provide assurance over the wider system of governance, risk management and control.

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.

In September 2015 the Institute of Internal Auditors were commissioned to complete an external assessment of the Southern Internal Audit Partnership.

The assessment included review of a wide range of documentary evidence and interviews and surveys with representative stakeholders (including Chief Executives, Audit Chairs and S151 Officers) across existing partnering organisations in addition to members of the Southern Internal Audit Partnership staff.

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 (LGAN).

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 SIAP 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 Hampshire Fire and Rescue Authority and maintains consistently high standards. In addition to the QAIP this was achieved in 2018/19 through the following internal processes:

- On-going regular 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.
- 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	2017-18 Actual (%)	2018-19 Actual (%)
Revised plan delivered	95	87
Compliant with the Public Sector Internal Audit Standards	Yes	Yes
Customer satisfaction *	96%	99%

*this is based on feedback

customer survey and as such reflects the perceptions across the Partnership, rather than those expressed specifically by Hampshire Fire and Rescue Authority. 18/19 actuals are based on the January 2019 questionnaire.

11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout Hampshire Fire and Rescue Service with whom we have made contact in the year. Management have been responsive to the comments we made both informally and through our formal reporting.

Karen Shaw
 Deputy Head of Southern Internal Audit Partnership
 July 2019