

Annual Internal Audit Report & Opinion

2019 / 20

Hampshire Fire and Rescue Authority



HAMPSHIRE
**FIRE AND
RESCUE**
SERVICE

**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 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 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’.

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.

The significant impact and subsequent challenges posed by the coronavirus pandemic (Covid-19), both to the way we work and the delivery of the Authority's services, has resulted in some delays in completing planned 2019/20 reviews, particularly those related to follow up work and Shared Services which were planned for completion in the latter part of the year. However, this delay has not inhibited my ability to provide an opinion on the operation of the Authority's framework of risk management, governance and control during 2019/20.

We acknowledge that Covid-19 presents new risks as well as challenges to the normal operation of existing risk management, governance and control frameworks, at least in the short term and this will be reflected in our work, as appropriate, going forwards. It is not possible at this time to form a view on the impact of these challenges on the overall risk management, governance and control environments operated by the Authority.

We enjoy an open and honest working relationship with Hampshire Fire and Rescue Authority and Service. Our planning discussions and risk-based approach to internal audit ensure that the internal audit plan includes areas 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 2019/20 financial year.

Annual Internal Audit Opinion 2019/20

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 previous two annual reports I have provided limited assurance over Hampshire Fire and Rescue Authority's framework of governance, risk management and management control.

However, following the organisational restructure completed during 2019, the development and implementation of the HFRS Policy, Procedure and Guidance (PPG) framework, and the creation and application of a Memorandum of Understanding between SIAP and Hampshire Fire and Rescue Service, we have observed significant developments and improvements during 2019/20.

Whilst these improvements have yet to fully embed across the Authority and there is still work to be done in some areas, as outlined later in this report, the direction of travel remains positive and the frameworks that have been established provide a sound basis to ensure that known issues are addressed going forwards to further enhance the control environment.

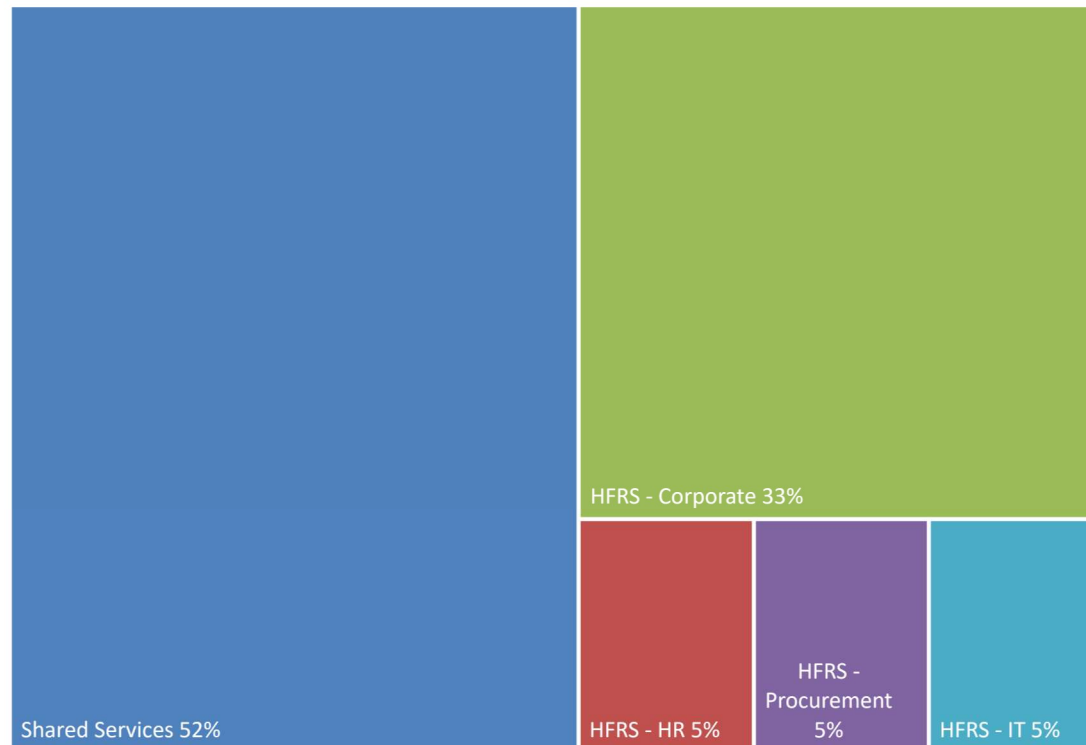
*With these caveats in mind, in my opinion the framework of governance, risk management and management control are now **adequate** and where already established, audit testing has demonstrated controls to be generally working in practice.*

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement. Over the last 12 months we have seen a significant reduction in the number of open and overdue actions, further demonstrating the Authority's commitment to improving the overall framework of control.

4. Internal Audit Coverage and Output

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 by theme



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 2019/20 internal audit plan, approved by the Standards and Governance Committee in June 2019, 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.

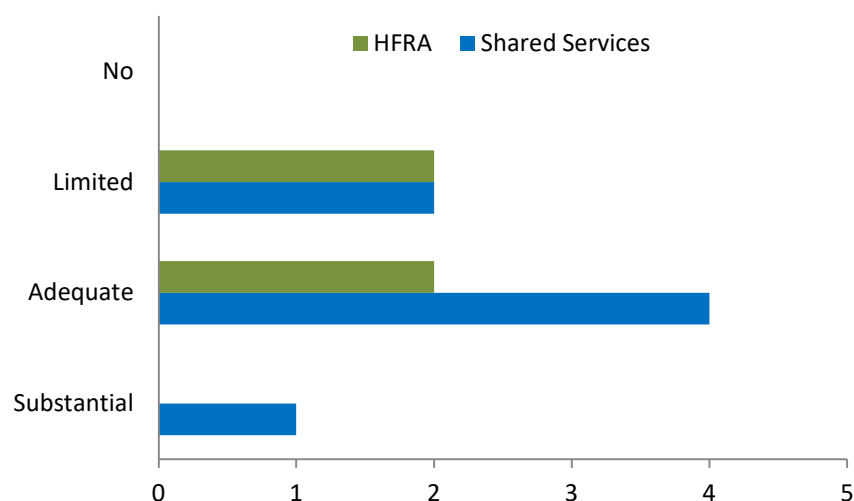
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the Internal Audit opinion the Southern Internal Audit Partnership have undertaken 21 reviews in the year ending 31 March 2020. This included the work undertaken in respect of Shared Services with Hampshire County Council and Hampshire Police.

The 2019/20 internal audit plan has been delivered with the following exception:

- Work is substantially complete, and an opinion has been formed for two reviews, however, final reports have not yet been agreed. The results of this work are reflected in this opinion.
- Work remains in progress for four Shared Services reviews which will be carried forward to be included in the 2020/21 annual internal audit opinion (DBS; Governance; IR35; Payroll and Pensions Admin).

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, six reviews did not result in an audit opinion (follow up, NFI, special investigation, position statements and advisory work)

A list of the 2019/20 assurance reviews undertaken and their respective opinions is provided in Annex 1.

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 2019/20 Hampshire County Council commissioned a Service Organisation Controls (SOC) Type 2 Report under International Standard on Assurance Engagement (ISAE) 3402. Assurance against the international standard was provided by Ernst & Young.

The scope of the review incorporated coverage of General Ledger, Order to Cash, Purchase to Pay, Cash & Bank, Human Resources & Payroll, and Information Technology General Controls. 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 throughout the period 1 April 2019 to 31 December 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 throughout the period 1 April 2019 to 31 December 2019 and if user entities applied the complementary controls assumed in the design of Integrated Business Centre's controls throughout the period 1 April 2019 to 31 December 2019.*
- c) The controls operated effectively to provide reasonable assurance that the Control Objectives were achieved throughout the period 1 April 2019 to 31 December 2019 if complementary user entity controls assumed in the design of Integrated Business Centre's controls operated effectively throughout the period 1 April 2019 to 31 December 2019'*

Internal audit continue to review areas of the Shared Services falling outside the scope of the ISAE2302 engagement as appropriate, through a shared internal audit plan with Hampshire County Council and Hampshire Police. The results of this work are reflected in this opinion.

6. Key observations – Hampshire Fire and Rescue Authority

There were no 'No Assurance' opinions issued during the year. Internal audit work found there to be a sound control environment in place across several review areas that were working effectively to support the delivery of corporate objectives, however, there were some areas identified that provide challenge to the organisation's risk environment. 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 Directorate and reported to the Standards and Governance Committee.

Of particular note is the improvement that has been made by the Authority in reducing the number of open management actions arising from internal audit reviews during the year. We have observed a strong commitment from management to ensure that previously agreed actions are completed and that all new action plans are subject to appropriate management scrutiny and approval to ensure that they are appropriate, achievable and in line with objectives. This has been demonstrated by the follow up work that we conducted during the year.

Key developments and issues arising during the year are summarised below.

The 2018/19 annual internal audit report highlighted limited assurance in eight areas specific to Hampshire Fire and Rescue Authority where either control needed to be strengthened and / or compliance with controls required improvement. We have undertaken follow up work to assess the progress made in addressing the issues raised and found that actions had been completed to mitigate the risks previously identified in the areas of cyber security, GDPR compliance and IT asset management. Actions were also either complete or well advanced to address the issues raised regarding contract management, safeguarding and resource management. A full review of IT business continuity and disaster recovery during the year also provided assurance that the issues highlighted in the 2018/19 annual report have been addressed and resulted in an adequate assurance opinion.

Whilst progress has been made, there remains further work to be completed in respect of the actions arising from the pay claims review. This work has been delayed due to the impact of Covid-19 as well as the interaction it has with the preparations for the new Combined Fire Authority in 2021. Follow up work in this area will therefore be carried forward and reported as part of the 2020/21 internal audit plan. Further work to assess the progress made with developing the IT Strategy is also included in the 2020/21 internal audit plan.

Two reports (risk management and general disaster recovery / business continuity) were issued in the form of a 'position statement' recognising that both areas were under review and subject to ongoing developments during the year. In both cases, we found that the overall approach that had been developed was sound and once fully embedded across the Authority will provide an improved and robust control framework and address the risks identified in previous internal audit reviews. It was apparent from our work conducted throughout the year that the Authority is both aware of and effectively manages risk as part of its 'business as usual' and decision-making processes, however the new framework will provide improved governance, management, recording and consistency of approach for the organisational as well as operational risk. Both areas are included in our 2020/21 internal audit plan to provide assurance that controls have been embedded as intended.

We gave limited assurance in four of the areas reviewed during 2019/20 (two relating to Authority systems and two in respect of Shared Services) as noted below. However, in the local procurement audit we did conclude that there is a suitable framework of control in place:

Local procurement - This audit examined the procurement processes in place for purchases under £100,000 (larger purchases are facilitated by the Shared Services Procurement team) to ensure compliance with relevant procurement regulations and corporate policies. Whilst we found that there is a suitable framework of control in place, our testing highlighted instances of non-compliance, particularly with regard to purchasing card transactions. A number of actions were agreed to mitigate the risks identified and ensure that the system operates as intended going forward. Management have confirmed that work is already underway to address the issues, including the roll out of e-learning to raise awareness as it is acknowledged that limited training in this areas may have contributed to the non-compliance issues raised.

Academy quality assurance – due to management concerns, we undertook a review of the processes in place for the quality assurance of the delivery of training by staff within the Academy and on stations by Embedded Trainers, to provide an independent assessment and help inform the improvement actions required. Academy Trainers are primarily responsible for delivering initial and refresher firefighter training, whilst Embedded Trainers based at stations, deliver specific training to colleagues on drill nights. Whilst we found that controls are generally in place to provide assurance over the quality of training provided by Embedded Trainers, in line with management concerns, our review identified a number of other issues that needed to be addressed. We understand that actions are already underway to ensure that the Quality Assurance policy provides clarity around expectations; all Academy Trainers and Academy Station Managers hold the required teaching/assessor qualification; the skills matrix demonstrating Academy trainers skills and qualifications is up to date; training materials are

updated by trainers in a timely manner and subject to internal quality review; embedded trainers receive timely refresher training as required; consistency and timeliness in completing work-based observation and follow up; and that the requirement for station desk top audits is clarified.

Sick pay - Although the policy for sick pay is clear, at the time of our review the procedures did not enable compliance, potentially leading to the overpayment of sick pay entitlement. This risk has been mitigated through the development of a new SAP report which allows HR staff to provide advance notice of potential pay changes for employees on long-term sickness, to facilitate timely decision and action.

Commercial waste contract management – a new Framework contract was awarded in July 2017 to provide waste services across all Shared Services partners. Whilst there is a clear Framework Agreement with well-established governance arrangements in place, our review of the contract management arrangements identified that the call-off contracts between the Supplier and Authority needed to be reviewed and finalised to ensure it reflected the Authority's requirements. We also found that the Supplier had not provided a contingency plan, as required by the contract to mitigate risk in the event of contractors no longer being able to provide the service and there were also opportunities to improve performance monitoring for the overall contract. All agreed actions have been completed.

7. 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. Although currently under review, 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.

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. Potential matches were reviewed throughout 2019/20 with no significant issues arising from this work to date.

We assisted with one investigation during the year relating to duplicate pay claims. Although duplicate payments were identified, a repayment plan was agreed and no other sanctions were applied in this instance. No other allegations of fraud, corruption or improper practice were referred to internal audit for investigation during 2019/20.

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.

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 (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 SIAP 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 Hampshire Fire and Rescue Authority and maintains consistently high standards. In addition to the QAIP this was achieved in 2019/20 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.

11. Internal Audit Performance

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

Performance Indicator	Target	2018-19 Actual	2019-20 Actual
Percentage of internal audit plan delivered	95%	87%	81%
Positive customer survey response *			
• Hampshire Fire and Rescue Authority	90%	n/a	98%
• SIAP – all Partners	90%	99%	98%
Public Sector Internal Audit Standards	Compliant	Compliant	Compliant

*19/20 actuals are based on the March 2020 questionnaire.

12. 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 2020

Annex 1

2019-20 Audit Reviews and Opinions

Substantial Assurance	Adequate Assurance	Limited Assurance	No Assurance
Treasury management (Shared Services)	Health and safety IT disaster recovery and business continuity Recruitment – Success Factors (Shared Services) Procurement (Shared Services) Building term maintenance contract management (Shared Services – draft) Organisational Management (Master Data) Team – Human Resources records (Shared Services – draft)	Sick Pay (Shared Services) Commercial waste contract management (Shared Services) Local procurement Academy – quality assurance	None

Note: In addition, we completed two HFRS position statements (in Risk Management and general organisation (non-IT) Business Continuity & Disaster Recovery). In both cases, we found that the overall approach that had been developed was sound and once fully embedded across the Authority will provide an improved and robust control framework, and address the risks identified in previous internal audit reviews.