

Annual Internal Audit Report & Opinion

2020-21

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 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’.

The County 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 County Council’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 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:

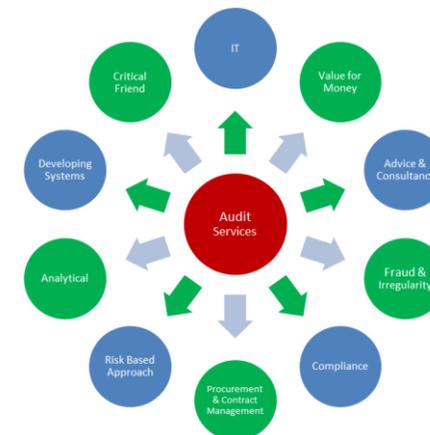
- Level of assurance required;
- Significance of the objectives under review to the organisation's success;
- Risks inherent in the achievement of objectives; and
- Level of confidence required that controls are well designed and operating as intended.

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.

The impact of COVID-19 during the year has had a significant impact on the way we have worked and interacted. The enforced central government directive *'if you can work from home, you must do so'* has required the Southern Internal Audit Partnership to adopt a revised operating model and innovative approach to virtual auditing.

Work contributing to my 2020/21 annual opinion has all been undertaken virtually, optimising technology and virtual platforms to share, monitor and observe operations to substantiate our findings.

I am confident that the revised operating model has not compromised quality or SIAPs ability to complete assurance work throughout the year or the conclusion drawn. I would wish to extend my appreciation to County Council officers with whom we have worked during the year for their support, cooperation, and seamless transition to the virtual audit approach without which the delivery of an annual opinion would not have been possible.



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 the County Council's audit need that has been covered within the period.

Annual Internal Audit Opinion 2020-21

"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.

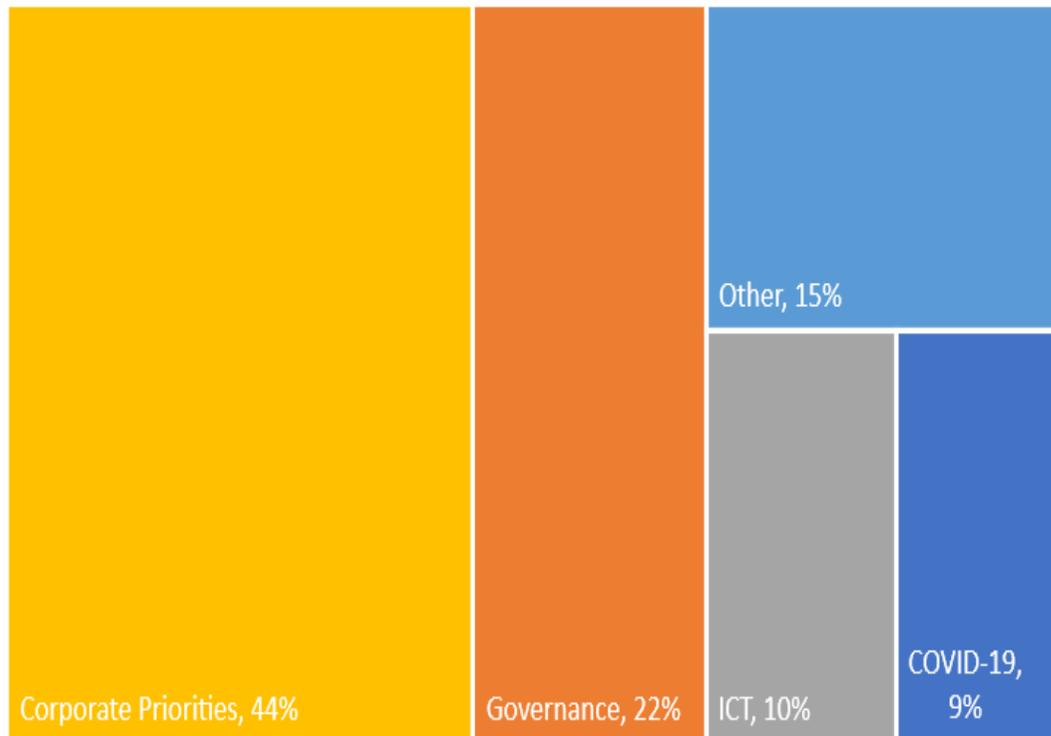
In my opinion, Hampshire County Council's framework of governance, risk management and control is 'Reasonable' and audit testing has demonstrated controls to be working in practice.

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 County Council’s activities and to support the preparation of the Annual Governance Statement.

Audit Reviews by Type



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 2020-21 Internal audit plan, approved by the Audit Committee in July 2020, 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.

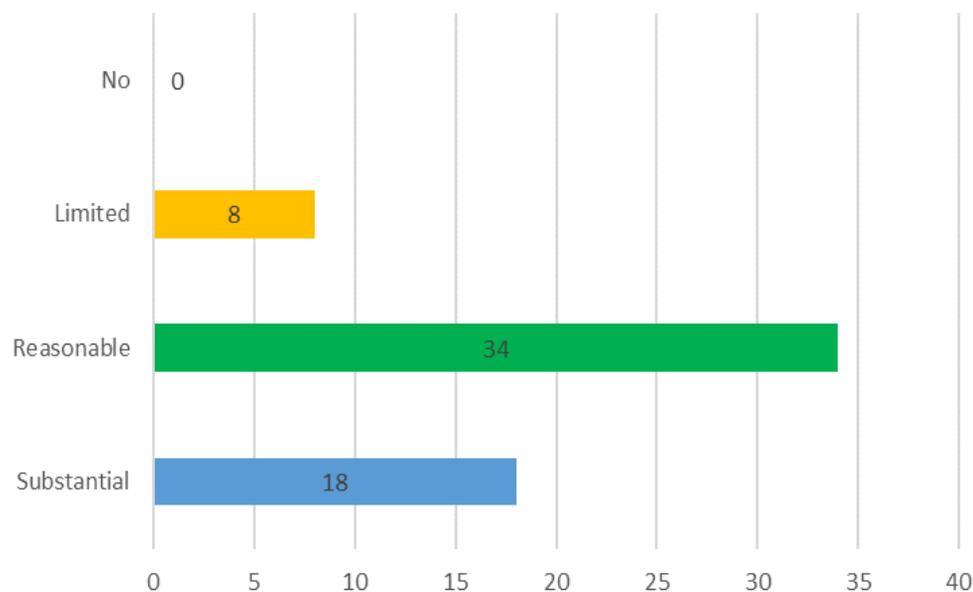
The scale of COVID-19 coupled with the speed of its impact and the wide-ranging challenges presented has necessitated new and different ways of working across the County Council. Such challenges and subsequent resolutions bring with them new and emerging risks that management need to consider, manage, and mitigate. The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion internal audit have undertaken 97 reviews during the year ending 31 March 2021.

Due to the significant impact and subsequent challenges posed by the coronavirus pandemic (Covid-19), there has been an inevitable impact on the delivery of the revised 2020-21 internal audit plan.

Work is substantially complete, for 11 reviews (Social Supervision; Health & Safety; Debt Management; Armed Forces Covenant; Server Build Process; Use of Agency Staff in Children’s Social Care; Hampshire Futures; Medicine Control with Community Teams; Marketing; Education Financial Services; Education Personnel Services), however, final reports have not yet been agreed. I do not expect the outcomes of these reviews to adversely impact my annual opinion. It is fully anticipated that assurance work will be completed in these areas in the near future and will be reported to Senior Management and the Audit Committee as part of our next progress report.

There have been 86 completed reviews:



Substantial –A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

*26 reviews did not culminate in an audit opinion as they were a combination of position statements; advisory; grants / claims; or assurance mapping.

5. International Standards 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.

In 2020/21 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:

- a. The Description fairly presents the finance, HR and IT shared services system as designed and implemented throughout the period 1 April 2020 to 31 December 2020.*
- b. The controls related to the Control Objectives stated in the Description were suitably designed throughout the period from 1 April 2020 to 31 December 2020 to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period 1 April 2020 to 31 December 2020 and if subservice organisations and user entities applied the complementary controls assumed in the design of Integrated Business Centre's controls throughout the period 1 April 2020 to 31 December 2020; and*
- c. The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the Description were achieved, operated effectively throughout the period 1 April 2020 to 31 December 2020 if complementary subservice organisation and user entity controls assumed in the design of Integrated Business Centre's controls operated effectively throughout the period 1 April 2020 to 31 December 2020.'*

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

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:

Direct Payments (Adults)

Direct Payment Agreements and Authorised Person Checklists were not consistently evident within AIS. These key documents form the basis of the contract with the client, including agreement to the terms and conditions for receipt and use of the direct payments; and the basis of suitability checks, including considerations and requirements set out in the Care Act 2014 which detail expectations in relation to authorised persons.

Over a third of direct payments reviewed had not had an annual care review within the last 12 months, this review should include a detailed look at the use of the direct payment to ensure that payments remain in line with the client's needs and act as a check for any fraudulent or inappropriate use. Additionally, review highlighted a number of instances where payments did not correlate to the expected rate in accordance with the care plan.

Sample testing found recording in AIS to be incomplete to substantiate appropriate financial and mental health assessments had been completed.

Contract Management (Thematic)

As reported in prior years, 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 and monitoring, increasing the risk that service delivery does not achieve the necessary standards agreed and expected by the County Council. There was also a lack of consistency in the ongoing due diligence of contractors to ensure relevant registrations, certifications and insurances were maintained.

Review during the year found there to be no corporate or departmental contract management training as a prerequisite to acquiring contract management responsibilities or to ensure consistency of approach.

Adults' Health & Care - Debt Management

Debt recovery is carried out as a function of the IBC, however, Adults' Health and Care (AHC) commissioned internal audit to review departmental responsibilities relating to queries on individual client invoices/accounts and overall monitoring of debt.

There was found to be no documented process or procedure within AHC to reflect how debt is managed within the department including how disputed debt is investigated and resolved. Roles and responsibilities had not been assigned or documented.

There was no overall monitoring or reporting of debt disputes nor overall responsibility for monitoring and progressing each case. AIS was not consistently updated to reflect any contact with clients to discuss or resolve disputed debts.

The Departmental Management Team (DMT) did not receive any reporting on the level of debt for the department or how it was being managed and write offs had not been processed since October 2019.

Whilst there were significant gaps in the control framework for debt management, we were able to evidence that individual referrals were being investigated, and resolutions sought, however, they were not carried out or recorded in a consistent manner across the department and were not always resolved in a timely manner.

A wider review of departmental debt management is currently underway to seek assurances across the wider organisation.

Highways Incident Management

Customer enquiries are processed and managed by the Highways Operations Centre (HOC), using the 'Confirm' database.

Comprehensive online guidance is available to HOC officers to aid them in their enquiry processing. HCC Highways Engineers have mobile devices that connect with the Confirm database, enabling them to receive and manage enquiry notifications from HOC and the call centre.

However, documentation recorded within Confirm to evidence enquires / remedial action was on occasion absent or of poor quality. Additionally, review of management information and dashboard reporting from Confirm was found to be incomplete/ inaccurate.

There were no procedures documented to manage unresolved and inactive enquiries within Confirm with testing highlighting instances of prolonged periods within which queries remained unresolved.

Adults – Contracted Suppliers

On discovery that one of the Council's ongoing Mental Health Providers had no contract in place since 2017, Adults' Health & Care commission internal audit to review the wider control framework in place.

Sample testing of Mental Health payments identified a further two contracts which had expired. In each case the care provision had continued to be delivered according to the original contract*

Approximately one third of payments sampled related to 'spot-purchase arrangements' for which there is no specific contract in place articulating agreed terms and conditions, increasing the risk to the Council of effectively being able to hold the provider to account.

**We were advised that these instances have occurred because they have not transferred to a suitable alternative contractual arrangement that would deliver the same care package.*

7. Anti-Fraud & 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. During the year there were no material fraud investigations undertaken.

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.

2020/21 was an upload year for the NFI with all data uploads successfully completed in accordance with the Cabinet Office deadlines. Match reports were released in January 2021 and investigation into these is ongoing. Results of investigation and identified savings will be contained in the annual report for 2021-2022

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:

- The annual CIPFA fraud survey was completed on behalf of the Council and submitted in accordance with the required deadlines
- Advice and guidance were provided across approx. 70 enquiries. The common themes continue to relate to email scams (mandate fraud, malware, and spoof emails), with schools being particularly targeted.
- We have continued to expand upon and develop our range of general fraud awareness training presentations. We are liaising with Learning and Development to determine which of these will be of benefit to the Council as E-learning packages.

The presentations developed have now also been tailored in such a way as to be deliverable via MS Teams which we will look to roll out as a training offer internally & externally.

- One themed proactive review was undertaken during the year in relation to mandate fraud. Fieldwork on this review has recently been concluded with a report to officers pending in June 2021.

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 2020.

In considering all sources of evidence the external assessment team concluded:

‘The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles. We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.’

9. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments], I can confirm through 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 Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2020-21 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
- An independent external quality assessment against the IPPF, PSIAS & LGAN.

11. Internal Audit Performance

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

Performance Indicator	Target	Actual
Percentage of internal audit plan delivered (to draft report)	95%	89%
Positive customer survey response		
<ul style="list-style-type: none"> • Hampshire County Council 	90%	98%
<ul style="list-style-type: none"> • SIAP – all Partners 	90%	98%
Public Sector Internal Audit Standards	Compliant	Compliant

Customer satisfaction was collated for SIAPs EQA and is an assessment of responses to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process (survey date May 2020).

12. Acknowledgement

I would like to take this opportunity to thank all those staff throughout the 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 2021

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