

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Pension Fund Panel
<b>Date:</b>	17 June 2011
<b>Title:</b>	Chief Internal Auditor – Annual Report and Opinion
<b>Reference:</b>	3031
<b>Report From:</b>	County Treasurer

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#### 1. Executive Summary

1.1 The purpose of this paper is to provide the Pension Fund Panel with the Chief Internal Auditor for Hampshire County Council opinion on the adequacy and effectiveness of the Pension Services framework of risk management, internal control and governance for the year ending 31<sup>st</sup> March 2011.

#### 2. Internal Control and the role of internal

2.1 The Pension Services Section of the County Treasurer's department is responsible for the day to day running of the Local Government Pension Scheme in Hampshire

2.2 Under the Accounts and Audit (Amendment) (England) Regulations 2006<sup>1</sup>, the Council is required to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'. The standards for 'proper practices' for internal audit are laid down in the Chartered Institute of Public Finance and Accountancy's Code of practice for internal audit in Local Government in the United Kingdom (2006) ["CIPFA Code"].

2.3 Internal audit is an assurance function that provides an independent and objective opinion to the Council on the control environment, comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the Council's objectives.

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<sup>1</sup> Accounts and Audit (England) Regulations 2011 (effective 31 March 2011) state 'a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

- 2.4 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risk is appropriately managed and outcomes achieved.

### **3. Internal Audit opinion**

- 3.1 The main purpose of this report is to give my opinion as Chief Internal Auditor for Hampshire County Council on the adequacy and effectiveness of the Pension Services framework of risk management, internal control and governance for the year ending 31<sup>st</sup> March 2011.
- 3.2 In giving this opinion, it should be noted that 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;
  - 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 CIPFA Code;
  - any limitations which may have been placed on the scope or operation of internal audit; and
  - the proportion of Hampshire County Council's audit need that has been covered within the period.

#### **Opinion**

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 management control is 'Appropriate', 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 Strategic and annual internal audit plans were prepared to take account of the characteristics and relative risks of the Pension Services activities. 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.

4.1 The 2010-11 internal audit plan, approved by the Audit Committee on 25 March 2010 was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure the audit plan addressed the key issues facing the Pensions Service.

4.2 Internal audit delivered 131 audit days across 8 review areas over the course of the year ending 31<sup>st</sup> March 2011 including:

- Pension fund evaluation;
- Pension fund management and investment;
- Pension contribution deductions;
- Pension transfers;
- Pension payroll;
- Deferred benefits;
- AXISe application review; and
- AXISe interfaces (follow up)

4.3 The revised 2010-11 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed for the review of 'Pensions payroll', however, a formal draft report has yet to be agreed with management:

I do not consider this exception will have an adverse impact on the delivery of my overall opinion for the period.

- 4.4 The opinion assigned to each internal audit review on issue of the final report is defined as follows:

<b>Opinion</b>	<b>Framework of governance, risk management and management control</b>	<b>Number of published opinions in this category (2010-11)</b>
Appropriate	Sufficient controls exist to manage the key risks identified in an effective and efficient manner	6
Incomplete	One or more key controls are missing therefore there is a need to introduce additional controls to manage the risk to the organisation	0
Inadequate	Controls are considered to be insufficient to manage the risks identified, with the absence of at least one critical control mechanism. Failure to improve controls could lead to increased risk of major loss or embarrassment to the organisation.	0

\* 1 review did not culminate in an audit opinion as it was a follow up audit monitoring progress against previously agreed recommendations

## 5. Significant issues arising

- 5.1 There were no significant issues arising from internal audit work carried out in accordance with the 2010/11 audit plan.

Where our work identified risks that we considered fell outside acceptable parameters, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers.

## 6. Internal audit performance

<b>Annual performance indicators 2010-11</b>		
<b>Aspect of service</b>	<b>2010-11 Target (%)</b>	<b>2010-11 Actual (%)</b>
% revised plan delivered (incl 2009/10 carry forward)	95	100
% productivity	65	65
% of positive customer responses to quality appraisal questionnaire	90	91

### **Internal Audit Resources**

- 6.1 On the 1 November 2010 Hampshire County Council and Southampton City Council agreed to a collaborative approach for the provision of a shared internal audit service. The agreement introduced a shared Chief Internal Auditor role across both authorities.
- 6.2 This initiative provides scope to further develop the shared service approach to best utilise areas of expertise across both authorities and generate economies of scale through training and development.
- 6.3 The resource profile has changed significantly during 2010 – 11 following a restructure of the section to accord with revised ways of working and the introduction of a modern risk based audit approach.

### **Quality control**

- 6.4 Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. This was achieved in 2010-11 through the following internal processes:
  - Compliance with CIPFA Code of practice for internal audit in local government (2006);
  - ongoing liaison and communication with the management to ascertain the risk management, control and governance arrangements, key to corporate success;
  - ongoing development of a constructive working relationship with the Audit Commission to ensure development of a cooperative assurance approach;
  - a tailored audit approach using a defined methodology and assignment control documentation;
  - registration under British Standard BS EN ISO 9001:2008, the international quality management standard complimented by a comprehensive set of audit and management procedures to underpin this; and
  - the review and quality control of all internal audit work by professional qualified senior staff members

## **7. Acknowledgement**

- 7.1 I would like to take this opportunity to thank all those staff within Pension Services 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

**8. Recommendation(s)**

- 8.1 That the Pension Fund Panel accepts the Chief Internal Auditor's annual report and opinion statement for 2010/11 (paragraph 3.2)

**CORPORATE OR LEGAL INFORMATION:****Links to the Corporate Strategy**

<b>Hampshire safer and more secure for all:</b>	yes/no
Corporate Improvement plan link number (if appropriate):	
<b>Maximising well-being:</b>	yes/no
Corporate Improvement plan link number (if appropriate):	
<b>Enhancing our quality of place:</b>	yes/no
Corporate Improvement plan link number (if appropriate):	
<b>OR</b>	
<b>This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:</b>	
Accounts and Audit (Amendment) (England) Regulations 2006	

**Other Significant Links**

<b>Links to previous Member decisions:</b>		
<u>Title</u> Hampshire County Council internal audit strategy update 2010	<u>Reference</u> 2460	<u>Date</u> 15 December 2010
<b>Direct links to specific legislation or Government Directives</b>		
<u>Title</u>	<u>Date</u>	

**Section 100 D - Local Government Act 1972 - background documents**

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

## **IMPACT ASSESSMENTS:**

### **1. Equalities Impact Assessment:**

- 1.1 Equality objectives are not considered to be adversely affected by the proposals within this report

### **2. Impact on Crime and Disorder:**

- 2.1 The proposals in this report are not considered to have any direct impact on the prevention of crime., however internal audit work has provided to ensure that controls are in place to minimise the risk of fraud and corruption against the County Council

### **3. Climate Change:**

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific changes

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific proposals affecting adaptation to climate change

