

**CHIEF INTERNAL AUDITOR'S
ANNUAL REPORT AND OPINION
2011 – 2012**

Pensions Services

Prepared by:	Neil Pitman, Chief Internal Auditor
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1. INTERNAL CONTROL AND THE ROLE OF INTERNAL AUDIT

- 1.1. 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.
- 1.2. Under the Accounts and Audit (England) Regulations 2011, the County Council is required to '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'. 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"].
- 1.3. Internal audit is an assurance function that provides an independent and objective opinion to the County Council on the control environment, comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the County Council's objectives.
- 1.4. 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.

2. INTERNAL AUDIT OPINION

- 2.1. 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 31st March 2011.
- 2.2. 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 Pension Services 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 (Pension Services) internal control environment.

In my opinion, based on internal audit work completed 'Substantial Assurance' can be placed on Hampshire County Council (Pension Services) framework of governance, risk management and management control 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.

3. INTERNAL AUDIT COVERAGE AND OUTPUT

- 3.1. 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 sufficient evidence to give reasonable assurance that the internal control system is operating effectively.
- 3.2. The 2011-12 Internal audit plan 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 risks facing the Pensions Service
- 3.3. Internal audit delivered 98 audit days across 6 review areas over the course of the year ending 31 March 2012 including:
 - Pension payroll and benefit calculations (2010/11 c/f)
 - Accounting for pensions data;;
 - Notionals;
 - Pension payroll and benefit calculations;
 - Pension fund management and investment;
- 3.4. The revised 2011-12 internal audit plan has been delivered with the following exceptions:
 - At the time of this report 1 review (police pensions) remains work in progress

I do not consider this exception to have an adverse impact on the delivery of my overall opinion for the period, as the review primarily relates to a previous service provider

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

Opinion	Framework of governance, risk management and management control	Number of published opinions in this category (2011-12)
Substantial	A sound framework in place that is operating effectively.	3
Adequate	Basically a sound framework in place with possible opportunities to improve controls or some immaterial evidence of inconsistent application.	2
Limited	Critical weakness (es) identified within the framework and / or significant evidence of inconsistent application.	0
No	Fundamental weaknesses have been identified or the framework is ineffective or absent.	0

4. SIGNIFICANT ISSUES ARISING

- 4.1. There were no significant issues arising from internal audit work carried out in accordance with the 2011/12 audit plan.
- 4.2. Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers

5. INTERNAL AUDIT PERFORMANCE

Annual performance indicators 2011-12		
Aspect of service	2011-12 Target (%)	2011-12 Actual (%)
% revised plan delivered (inc 2010/11 carry fwd) – HCC	95	100
% revised plan delivered (inc 2010/11 carry forward) – other clients	95	100
% of positive customer responses to quality appraisal questionnaire	90	94

7.2 Internal Audit Resources

On 1 February 2012 Hampshire County Council entered into a collaborative partnership with Southampton City Council for the provision of internal audit services

The development of the Internal Audit Partnership brings together the professional discipline of internal audit across partnering organisations.

The Partnership blends the individual requirements of participating organisations through unique Audit Strategies and governance reporting with the continuity of a modern risk based internal audit approach and reporting protocols enabling efficient and effective service delivery

The Partnership has ambition to optimise realised benefits across a wider public sector base, in particular through pooled expertise, business resilience and the economies of scale partnership working offers.

The Internal Audit Partnership has a vision to deliver

“A collaborative Audit Partnership delivering an innovative, customer focussed service aligned to business needs and improved outcomes through:

- *A seamless, flexible and efficient service working across all partners;*
- *Key specialism’s reflective of and adaptive to business need;*
- *Best practice that is embraced, developed and promoted; and*
- *A forward looking Audit Partnership supporting change and transformation across all partners.”*

7.3 Quality control

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 2011-12 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 External Auditors to ensure development of a cooperative assurance approach;
- a tailored audit approach using a defined methodology and assignment control documentation;

- A review of the 'Effectiveness of the System of Internal Audit' in accordance with the Accounts and Audit (England) Regulations 2011;
- 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.

6. ACKNOWLEDGEMENT

- 6.1. I would like to take this opportunity to thank all those staff within Pension Services 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
Chief Internal Auditor
29 May 2012