



<u>Committee and Date</u> Pensions Committee 30 June 2009 10.00 am	<u>Item</u> 15	<u>Paper</u> H
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INTERNAL AUDIT WORK FOR SHROPSHIRE COUNTY PENSION FUND 2008/09

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Summary

This report summarises the main findings identified from Internal Audit work undertaken in 2008/09. The Shropshire County Pension Fund has an adequate and effective system of Internal Control in place.

Recommendations

- A. Pensions Committee are asked to note this report.

REPORT

Background

Shropshire Council provides Internal Audit services for the Shropshire County Pension Fund, as an external client. Audit work is reported to auditees and their managers. We give a positive assurance where systems are operating correctly and make recommendations to address any issues found which auditees are required to formally respond to. By its nature Internal Audit work, whilst providing assurance to officers and members, will identify and concentrate on areas of weakness, areas for improvement or where systems are not operating as they should be. This report provides a summary of audit work undertaken.

Summary of Findings

- Pension Fund Investment Managers** – This area is reviewed on an annual basis, with a ‘full’ audit being undertaken every 3-4 years, and interim audits concentrating on key controls. The last ‘full’ audit was performed in 2007/08; the 2008/09 audit concentrated on key controls in the following areas:
 - The extent to which recommendations made in the 2007/08 Pension Fund investments audit had been implemented.
 - Investment of the fund complies with statute, regulations and any restrictions specified.
 - Appropriate control is exercised over fund managers.
 - Transactions undertaken by Fund Managers are independently recorded and verified.
 - Appropriate accounting entries are made, and fund balances are reflected in

the accounting system.

- Relevant management information is provided to strategic management.
- Information is secure and satisfactorily controlled.

The audit concluded that there is a sound system of control and the overall level of assurance was assessed as 'good'. Of the two previous recommendations one has been implemented but further work should be performed on verification of Private Equity Fund charges deducted from income to ensure that they are correct prior to being paid. Improvements were also identified in the need to reinstate monitoring of Fund Managers compliance with investment restrictions.

2 **Pensions Administration** – This area is also reviewed on an annual basis, with a 'full' audit being undertaken every 3-4 years, and interim audits concentrating on key controls. The last 'full' audit was performed in 2007/08; the 2008/09 audit concentrated on the following objectives:

- The extent to which recommendations made in the 2007/08 Pensions Admin audit have been implemented.
- All contributions including additional and voluntary, employees and employers are recorded accurately and promptly.
- All starters are identified and recorded accurately.
- Benefits paid are calculated correctly and paid only to eligible persons; any changes are appropriately authorised and processed correctly.
- Persons leaving the scheme have their deferred pension recorded accurately; any payments made from the scheme to leavers (other than normal pensions) are accurate and appropriately authorised.
- All transfers in and out of the scheme are calculated correctly, actioned promptly and authorised appropriately.
- There is a suitable office structure to ensure accuracy and control over work.
- Administrative costs are dealt with satisfactorily and any other costs are recovered accurately and promptly.

Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control and the overall level of assurance was assessed as 'good'. It is pleasing to note that no recommendations were required and that the previous recommendation has been satisfactorily implemented.

3 **Additional Testing on Transfers in and Transfers out of the scheme** – is performed at the end of the year to assist the External Auditors in providing assurance on the satisfactory treatment of transfers into and out of the fund over the whole of the financial year. This additional testing during 2008/09 did not identify any errors on the sample examined.

4 **AXIS (Pensions System)** – A Computer Audit of the Pensions System is performed on a regular basis, with a 'full' audit being undertaken every 3-4 years, and interim audits concentrating on key controls. The 2008/09 audit was a 'full' review of the following control objectives:

- Recommendations made at the previous audit have been implemented.

- The System complies with all external legislation and policies.
- The application is secure.
- Users have received the required training.
- Parameter Data is correct, updated in a timely manner and access is restricted.
- All data is accurately input once only and authenticity of the data is verified.
- Data is processed in a timely manner and validated.
- Output is secure, accurate and reaches the intended recipient in a timely manner.
- Appropriate continuity processes are in place to ensure system availability.
- Appropriate management/Audit trails are in place and the output from which are reviewed on a regular basis.
- Changes to the system are managed effectively.
- Changes made to the system are authorised.
- Change control – Recording and documentation is retained for key changes made to the system.
- Change control – changes are authorised and undertaken by qualified staff only.
- Each Interface with the system is secure, efficient and effective.

The System is well controlled and the overall level of assurance given is 'good', although improvements could be made in avoiding the use of generic user accounts and limiting root privileges within UNIX.

- 5 **Review of Investment Managers Internal Control Reports** - This annual review provides assurance on the security and management of our funds, based upon the information provided in 'FRAG21' and 'SAS70' reports, which are subject to External Audit review. Reports are reviewed in the first instance by Treasury staff, who seek explanations of any areas where there appear to be weaknesses or concerns in the reports. Following the receipt of these responses, the reports are subject to a second review by Internal Audit.

Overall, the audit provided assurance over the internal control environment for the majority of our Investment Managers. A few exceptions were identified that were deemed to be low risk and recommendations have been made accordingly. The implementation of these recommendations will provide further assurance on the satisfactory operation of Internal Controls.

Head of Audit Services Annual Assurance Statement

There were no areas of significant weakness or areas for significant improvement that have been reported on this year. Where we have identified weaknesses, positive responses have been received to the recommendations made, although at the time of writing, responses on the review of Investment Managers Reports are awaited. On the basis of the Internal Audit work carried out in 2008/09, and the positive responses to audit issues raised, it is the Head of Audit's opinion that Shropshire County Pension Fund has an adequate and effective system of Internal Control in place to ensure the proper running of the fund and avoid material misstatements in the accounts.

Graham Tart
Head of Audit Services
June 2009

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

None used

Human Rights Act Appraisal

The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

Environmental Appraisal

N/A

Risk Management Appraisal

A lack of an effective Internal Audit Service could lead to weaknesses in the Fund's Internal Control systems not being identified.

Community / Consultations Appraisal

N/A

Cabinet Member

N/A

Local Member

All

Appendices

None