



<u>Committee and Date</u>	<u>Item</u>
Pension Committee	
22 nd September 2017	
	<u>Public</u>

INTERNAL AUDIT OUTTURN REPORT FOR SHROPSHIRE COUNTY PENSION FUND 2016/17

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1. Summary

This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2017. It reports on progress against the annual audit plan agreed with the Head of Treasury and Pensions. It also provides the Head of Audit's opinion on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes taking into account the Public Sector Internal Audit Standards or Guidance, as required by the Accounts and Audit Regulations 2015.

Final performance has been good with 100% of the plan being delivered.

Five good assurances were made in 2016/17. A total of 11 recommendations have been made in the five audit reports related to the year. All the recommendations issued in the year were rated as requires attention or best practice.

On the basis of the work undertaken and management responses received; the Pension Fund's governance, risk management and internal control processes are sound and working effectively and the Head of Audit is able to deliver a positive year end opinion on the Fund's internal control environment for 2016/17.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

- a) Performance against the Audit Plan for the year ended 31 March 2017.
- b) The Head of Audit's positive year end opinion on the Fund's internal control environment for 2016/17 on the basis of the work undertaken and management responses received.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Pension Fund's financial, governance and risk management systems and procedures and is closely aligned to the risk register. The Plan is delivered in an effective manner; where Internal Audit independently and objectively examines, evaluates and reports on the adequacy of the control environments as a contribution to the proper economic, efficient and effective use of resources. It provides assurances on the governance, risk management and internal control systems, by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal controls create an environment where poor performance, fraud, irregularity and inefficiency can go undetected leading to financial loss and reputational damage.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015.
- 3.3 There are no direct environmental, equalities or climate change consequences of this proposal.
- 3.4 Internal Audit customers are consulted on the service that they receive, feedback from which is included in this report and continues to be positive.

4. Financial Implications

- 4.1 The Internal Audit plan is delivered within approved budgets; the work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the Pension Fund.

5. Background

- 5.1 This report is the culmination of the work of the Internal Audit team during 2016/17 and seeks to:
- Provide an opinion on the adequacy of the risk management, control and governance arrangements;
 - Inform the review of an effective Internal Audit by providing performance data against the plan.
 - Confirm to the Pension Committee that the Audit service has been delivered free from interference throughout the year.
- 5.2 The requirement for Internal Audit derives from local government legislation, including section 151 of the Local Government Act 1972 which requires the

Pension Fund to make arrangements for the proper administration of its financial affairs. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2015, in that “A relevant authority 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”.

- 5.3 The Public Sector Internal Audit Standards (PSIAS) define the scope of the annual report on internal audit activity. The annual report must incorporate an annual internal audit opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. This annual report provides information to support that assessment and that an effective Internal Audit is established at Shropshire County Pension Fund, in accordance with the requirements of the 2015 Accounts and Audit Regulations. The Internal Audit Service is provided by Shropshire Council. In June 2017, a paper was presented to Shropshire Council’s Audit Committee which provides assurance on the effectiveness of the Internal Audit service, against the PSIAS. The Pension Committee can take assurance from this report.
- 5.4 Internal Audit operates a strategic risk based plan. The plan is reviewed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk, this results in a comprehensive range of audits undertaken in the year, to support the overall opinion on the control environment. The plan contains a small contingency provision of two days; any unforeseen work demands that may arise, i.e. special investigations, would be delivered in addition to the planned work using the contingency first and any additional time in agreement with the Fund Administrator. The contingency provision was not utilised in 2016/17.

Annual Internal Audit Opinion from Internal Audit Work undertaken during 2016/17

- 5.5 It is the responsibility of Shropshire County Pension Fund to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under the Public Sector Internal Audit Standards to deliver an annual internal audit opinion and report. The annual internal audit opinion will conclude on the overall adequacy and effectiveness of the Pension Fund’s framework of governance, risk management and internal control. This opinion plays a key part in enabling the Pension Committee to deliver their annual assurance statement to stakeholders.
- 5.6 The results of individual audits, when combined, form the basis for the overall opinion on the adequacy of the Pension Fund’s internal control systems. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that absolute assurance. The work of Internal Audit is intended only to provide reasonable assurance on governance, risk management and controls on the basis of the work undertaken. In assessing the level of assurance to be given, I have taken into account:

- The work undertaken on the fundamental systems. Whilst identifying a small number of areas where minor improvement can be made, there are no significant material weaknesses that could result in a material misstatement in the Pension Fund's accounts and reliance can be placed upon the systems.
 - From other planned audit work undertaken during the year, there have been no major financial weaknesses or issues identified; the Pension Fund's systems, governance, internal control environment and risk management procedures are sound and working effectively.
- 5.7 These assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested.
- 5.8 ***On the basis of the work undertaken and management responses received; the Pension Fund's governance, risk management and internal control processes are sound and working effectively and the Head of Audit is able to deliver a positive year end opinion on the Pension Fund's internal control environment for 2016/17.***

Key Assurances provided during 2016/17

- 5.9 Audit assurance opinions are awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows:

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key control.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

Audit assurance opinions delivered in 2016/17

Audit	Opinion	Direction of Travel
Corporate Governance	Good	No Change

Audit	Opinion	Direction of Travel
Pension Fund Monitoring	Good	No Change
Investment Managers Internal Control Reports	Good	No Change
Pensions Administration	Good	No Change
Altair Pension Application	Good	No Change

5.10 A summary of the five final audit reports issued in 2016/17 are listed at **Appendix A.**

5.11 Audit recommendations are also an indicator of the effectiveness of the Pension Fund's internal control environment and are rated according to their priority:

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

5.12 A summary of the level of assurance for each fundamental review area together with the number of recommendations made is shown in the table below.

5.13 A total of 11 recommendations have been made in the five audit reports issued in the year; these are broken down by audit area in the table below.

Audit opinion and recommendations made on 2016/17 audits

System	Level of Assurance Given	Number of Recommendations made				Total
		BP	RA	S	F	
Corporate Governance	Good	0	0	0	0	0
Pension Fund Monitoring	Good	0	0	0	0	0
Investment Managers Internal Control Reports	Good	0	0	0	0	0
*Pensions Administration	Good	3	6	0	0	9
**Altair Pension Application	Good	0	2	0	0	2
Totals		3	8	0	0	11
Percentage		27%	73%	0%	0%	100%

* Note that the Pensions Administration and the Pensions Administration Transfers in and out audits were presented as one amalgamated report.

** The Altair Pension Application Audit and Information Governance and IT Network audits were presented as one amalgamated report.

- 5.14 Five good assurances were issued during the financial year. In each case positive responses have been received by management and will be followed up next year to determine whether satisfactory action has been taken.
- 5.15 The Internal Audit team has achieved 100% of the plan which is in line with its target.
- 5.16 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. No recommendations have been rejected in the year by management.
- 5.17 Of the 11 recommendations made, eight are rated as requires attention. The three remaining best practice recommendations are designed to add value to the high level of controls in place. This is a reflection of the experience and diligence of the staff in the team, as there are no significant or fundamental recommendations from the audits performed.

Audit Performance

- 5.18 Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the Public Sector Internal Audit Standards (PSIAS), and evaluating improvements made over the last twelve months. A public report of effectiveness against the PSIAS is made annually to the Shropshire Council, June Audit Committee. Shropshire Council Audit Service are also externally reviewed every five years for compliance with the PSIAS and passed the review undertaken by CIPFA in November 2016. The effectiveness of Internal Audit is further reviewed directly by customers as they provided responses to surveys sent out after each audit.

Reporting

- 5.19 All Internal Audit work is reviewed by a senior auditor to ensure it complies with Internal Audit's standards and that the recommendations made are supported by the work undertaken before any audit reports are issued. This is seen as a fundamental part of ensuring audit quality and that clients receive reports which are both informative, useful and add value to their work processes and procedures.
- 5.20 All audit assignments are subject to formal feedback to management. Draft reports are issued to the managers responsible for the area under review for agreement to the factual accuracy of findings and recommendations. After agreement, a formal implementation plan containing management's agreed actions and comments is issued to relevant officers. Follow up reviews capture evidence of implementation of recommendations.

Quality Assurance/Customer Feedback Survey

- 5.21 A customer feedback survey form is sent out with the all audits completed. These provide key feedback on the quality of audit service in relation to a number of areas, which are shown in the table below.

5.22 The surveys are a key part of ensuring the work meets our client expectations and that the quality of audit work is maintained. One survey form was returned; the results are identified in the table below.

Customer Feedback Survey Forms - percentage of excellent and good responses

Item Being Scored	2016/17
Pre-audit arrangements	100%
Post-audit briefing	100%
Audit coverage/scope of the audit	100%
Timeliness of production of report	100%
Accuracy and clarity of report	100%
Practicality of recommendations	100%
Professionalism of approach, competence	100%
Communication skills, pleasant manner	100%
Timeliness of audit to your business process	100%
Number of forms returned	1

5.20 The results are pleasing, showing services generally delivered consistently at a high level, though the number of forms returned is low. There are regular meetings with the Head of Treasury and Pensions which allow any performance issues to be reviewed at that time. Internal Audit have introduced new auditors to the Pension Fund during this year to ensure that auditors can be rotated in line with the Public Sector Internal Audit Standards (PSIAS) and ensure that Internal Audit are able to continue to offer a professional high quality service going forward. The information received is used both to improve techniques overall within the team and at annual performance appraisals to identify future development focus relating to individual skills or competences.

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

Pension Fund Internal Audit Plan
Public Sector Internal Audit Standards
Accounts and Audit Regulations 2015

Cabinet Member (Portfolio Holder) N/A

Local Member - N/A

Appendices

Appendix A - Summary of Findings from Pension Fund Audit Reports 2016/17

APPENDIX A

Summary of Findings from Pension Fund Audit Reports 2016/17

1 Pension Fund Investment Managers Monitoring - This area is reviewed on an annual basis. The audit concentrated on key controls in the following areas:

- Recommendations made in the previous Pension Fund Investment Managers Audit have been implemented as agreed.
- 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.
- Personal data is processed in a secure and controlled manner in line with internal policy and legislation.

The audit concluded that there is a sound system of control and the overall level of assurance was assessed as 'good'. No recommendations were raised in respect of this audit.

Assurance Level: Good

2 Pensions Administration (Including Transfers In and Out) – This area is reviewed on an annual basis. The 2016/17 audit concentrated on the following objectives:

- Recommendations made in the previous Pensions Administration Audit have been implemented as agreed.
- The Officers responsible for administering the fund have sufficient resources, skills and access to policies and procedures to effectively process transactions and manage the fund.
- In accordance with regulations, if a new employee is required to join the scheme they are identified promptly and recorded accurately as members.
- Contributions received to the fund including, those from employees and employers are recorded accurately and promptly.
- Benefits paid are calculated correctly and paid to eligible persons. Changes are appropriately authorised and processed correctly.
- Pension payments made on the payroll are processed accurately, in a timely manner and are authorised appropriately.
- Fund members leaving the scheme have their deferred pension recorded accurately and any payments made from the scheme to leavers (other than normal pensions) are accurate and appropriately authorised.

- Transfers In and Out of the scheme are calculated correctly, actioned promptly and authorised appropriately.
- There are procedures to ensure that administrative costs associated with the scheme are in accordance with the budget and any costs due to the fund are recovered accurately and promptly.
- The ledger control accounts associated with the scheme are reconciled accurately and on a regular and timely basis.
- There is an appropriate process in place to ensure all complaints are actioned in accordance with the Internal Dispute Resolutions Policy.
- Management information is accurate and reliable.
- Personal data is processed in a secure and controlled manner in line with internal policy and legislation.

Evaluation and testing of the controls that are in place confirmed that there is a sound system of control in the areas examined.

No significant recommendations were raised in this audit. Nine minor exceptions were noted against which management have provided positive responses.

Six previous recommendations were followed up; of these, progress has been made in the implementation of three, with three outstanding.

Recommendations that remain outstanding have been repeated and are included within the nine recommendations in the report. Of these, two are best practice recommendations, which is not aligned to any risk. The remaining recommendation related to a minor weakness which management have advised has now been resolved

Assurance Level: Good

3. **ALTAIR Pension Application (Pensions System)** – This audit was a follow up of the ALTAIR system and information governance audit performed in 2015/16 to ensure that the recommendations made have been implemented as per the original management responses and a review of the i-Connect file transfer system.

The 2016/17 audit concentrated on the following objectives:

- Recommendations raised in the previous ALTAIR Pension Application Audit have been implemented as agreed.
- Appropriate management arrangements are in place to ensure that the i-Connect interfacing system is operating effectively in practice.
- i-Connect routed data is processed in a timely manner and validated.
- The i-Connect system is operating effectively and securely.

Evaluation and testing of the controls that are in place confirmed that there is a sound system of control in the areas examined.

No significant recommendations were raised in this audit. Two minor exceptions were noted against which management have provided positive responses.

Assurance Level: Good

4. Corporate Governance –The audit concentrated on the following objectives:

- Recommendations raised in the previous Corporate Governance Audit have been implemented as agreed.
- Risks arising from business strategies and activities are identified and prioritised and management and the Pensions Committee have determined the level of risk acceptable to the organisation.
- Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels that were determined to be acceptable to management and the Pensions Committee.
- Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.
- The Pensions Committee and management receive periodic reports of the results of the risk management process.

The audit concluded that there is a sound system of control and the overall level of assurance was assessed as 'good'. No recommendations were raised in respect of this audit.

Assurance Level: Good

5. Review of Investment Managers Internal Control Reports – This annual review provides assurance on the security and management of the Pension Funds' investments, based upon the information provided in AAF 01/06, SOC1 and SSAE16 reports, which are subject to External Audit review. In addition, there are some fund managers who are not required to produce these reports and tailored self-assessment questionnaires are sent to them for completion. The review is performed after the financial year end, when the most up to date reports are available. 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, independent, review by Internal Audit. Audit work concentrated on the following objectives:

- The most recent internal control reports have been received for all fund managers who are required to produce SOC1, SSAE16 or AAF01/06 reports.
- Back office providers reports have been obtained and reviewed.
- Fund Managers have confirmed that they maintain comprehensive procedure notes.
- Fund Managers have confirmed that they have appropriate insurance arrangements in place with adequate liability cover.
- Internal Control Questionnaires have been completed by the Fund Managers who are not required to produce control reports.

The audit concluded that there is a sound system of control and the overall level of assurance was assessed as 'good'. No exceptions were noted in respect of this audit.

Assurance Level: Good