



<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	8
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INTERNAL AUDIT OUTTURN REPORT FOR SHROPSHIRE COUNTY PENSION FUND 2013/14

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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 2014. It reports on progress against the annual audit plan. It also provides the Head of Audit's (Audit Service Manager's) opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and internal controls, as required by the Public Sector Internal Audit Standards which in turn contributes to the review of the effectiveness of the systems of internal control as required by the Accounts and Audit Regulations 2011 4(2).

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

All assurances given were categorised as 'Good'. A total of 19 recommendations have been made in the five audit reports related to the year. One 'significant' recommendation was made in the Altair Pension Application Audit the remaining recommendations were rated as requires attention or best practice.

On the basis of the work undertaken and management responses received; the Pension Fund's financial systems, internal control environment, governance framework and risk management procedures are sound and working effectively and the Audit Service Manager is able to deliver a positive year end opinion on the Fund's internal control environment for 2013/14.

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 2014.

- b) The Audit Service Manager's positive year end opinion on the Fund's internal control environment for 2013/14 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 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 2011.
- 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 2013/14 and seeks to:
- Provide an opinion on the adequacy of the governance, risk management and internal control arrangements;
 - Inform the review of an effective Internal Audit by providing performance data against the plan.
- 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 2011, in that “a relevant body must undertake an adequate and effective internal audit of its accounting records and systems of internal control in accordance with the proper practices in relation to internal control”.

- 5.3 The Public Sector Internal Audit Standards (PSIAS) defines the scope of the annual report on internal audit activity from the 1st April 2013, prior to which CIPFA’s Code of Practice for Internal Auditors in Local Government defines this. 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 for the Pensions Fund, in accordance with the requirements of the 2011 Accounts and Audit Regulations. The Internal Audit Service is provided by Shropshire Council. In June 2014, a paper is to be presented to Shropshire Council’s Audit Committee which provides assurance on the 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 governance, risk management and 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 2013/14.

Annual Internal Audit Opinion from Internal Audit Work undertaken during 2013/14

- 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 form an opinion on the overall adequacy and effectiveness of the Pension Fund’s framework of governance, risk management and internal controls. 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 number of areas where minor improvement can be made, no significant material weaknesses that could result in a material misstatement in the Pension Fund's accounts were identified.

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 fundamental systems, governance, internal control environment and risk management procedures are sound and working effectively and the Audit Service Manager is able to deliver a positive year end opinion on the Pension Fund's internal control environment for 2013/14.***

Key Assurances provided during 2013/14

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.

5.10 Audit work is risk assessed on a scale of one to four which is established as part of the Audit Needs Assessment. In 2013/14 we issued five final audit reports which are listed at **Appendix A**. All of these resulted in a 'Good' level of assurance.

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 19 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 2013/14 audits

System	Level of Assurance Given	Number of Recommendations made				Total
		BP	RA	S	F	
Corporate Governance	Good					0
Pension Fund Monitoring	Good		2			2
Investment Managers Internal Control Reports	Good		3			3
*Pensions Administration	Good	5	6			11
**Altair Pension Application	Good		2	1		3
Totals		5	13	1	0	19
Percentage		26%	69%	5%	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 replaced the AXIS Follow up and Information Governance and IT Network audits shown on the original plan following a change in the IT system used.

5.14 Good assurances were given to all audit areas examined in the 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 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 19 recommendations made, one is rated as significant and 13 are rated as requires attention. The 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 so few significant recommendations and no fundamental recommendations from the audits performed.

Quality Assurance/Customer Feedback Survey

- 5.18 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.
- 5.19 The surveys are a key part of ensuring the work meets our client expectations and that the quality of audit work is maintained. Two survey forms were returned; the results are identified in the table below. Despite the limited feedback the results are pleasing, showing services delivered consistently at a high level. The information 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.

Customer Feedback Survey Forms - percentage of excellent and good responses

Item Being Scored	2013/14
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	2

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 2011

Cabinet Member (Portfolio Holder) N/A

Local Member - N/A

Appendices

Appendix A - Summary of Findings from Pension Fund Audit Reports 2013/14

Summary of Findings from Pension Fund Audit Reports 2013/14

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

- Previous recommendations have 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.
- 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'. Two minor exceptions were noted against which management have provided positive responses.

Assurance Level: Good

2 ***Pensions Administration (Including Transfers In and Out)*** – This area is also reviewed on an annual basis. The 2013/14 audit concentrated on the following objectives:

- Recommendations made in the previous Pensions Administration Audit have been implemented.
- Recommendations made in the previous Pensions Administration Transfers In and Out Audit have been implemented.
- Fund Administrators have sufficient resources and skills to effectively process transactions.
- Contributions, including employees and employers, are recorded accurately and promptly.
- New starters are identified and recorded accurately.
- 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.
- Persons leaving the pension scheme have their deferred pension recorded accurately; 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.
- Administrative costs are dealt with satisfactorily and other costs recovered accurately and promptly.

- Pension accounts are reconciled on a regular and timely basis.
- Personal data is processed in a secure and controlled manner in line with internal policy and legislation.
- Management information is accurate and reliable.

Evaluation and testing of the controls that are in place confirmed that there is generally a sound system of control in the areas examined. It is pleasing to be able to report, once again, that operations are consistently performed to a high standard.

Twenty-one previous recommendations were followed up; of these, progress has been made in the implementation of ten, with three superseded and three assessed as partially implemented.

Recommendations that remain outstanding have been repeated and are included within the 11 recommendations in the report. Of these, five are best practice recommendations, which are not aligned to any risk. The remaining six are minor weaknesses and management have agreed to implement these.

Assurance Level: Good

3. **ALTAIR Pension Application (Pensions System)** – This is the first audit of the new system and replaced the AXIS IT Follow up audit and the Information Governance and IT Network audit in the 2013/14 plan. A full review of the new ALTAIR system is scheduled for 2014/15.

- Recommendations made in the 2012/13 AXIS IT audit have been implemented.
- Appropriate controls were in place to manage the system transition from AXIS to ALTAIR.
- Appropriate Information Governance arrangements are in place within the pension administration system.

The audit identified one weakness which was deemed to be significant, the need to investigate errors on the back up logs. Two other minor exceptions were also noted. Management have provided positive responses for all recommendations raised.

Assurance Level: Good

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

- To assess the degree of implementation of previous recommendations made in the 2012/13 Corporate Governance audit.
- The Pensions Committee has met the roles and responsibilities as defined in CIPFA best practice guidelines (Oct 2013).

It was extremely pleasing to report that no recommendations were raised as a result 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 our funds, 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. These two exercises have been reviewed as a single audit this year. 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:

- To assess the degree to which previous recommendations have been implemented.
- 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.

Overall the audit has provided assurance over the internal control environment of the majority of our investment managers. There is a robust system in place for the review of weaknesses identified in these reports. There have been a few exceptions identified in the reports which are deemed to be low risk and where they have not been followed up in the control report, they are being followed up with the respective managers to ensure the issues have been fully addressed and where necessary improvements made. Three minor recommendations have been made following this review of control reports which are aimed at improving the process next year.

Assurance Level: Good