



<u>Committee and Date</u>	<u>Item</u>
Pension Committee	
24 <sup>th</sup> July 2019	
	<u>Public</u>

### THIRD LINE OF ASSURANCE: INTERNAL AUDIT OUTTURN REPORT FOR SHROPSHIRE COUNTY PENSION FUND 2018/19

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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 2019. 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 when considering 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.

Six good assurances were made in 2018/19. A total of 18 recommendations have been made in the five audit reports related to the year. No fundamental recommendations have been raised in 2018/19.

***Based on 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 can deliver a substantial year end opinion on the Fund's internal control environment for 2018/19.***

## 2. Recommendations

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

- Performance against the Audit Plan for the year ended 31 March 2019.
- The Head of Audit's substantial year end opinion on the Fund's internal control environment for 2018/19 based on 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 2018/19 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 plan 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 2019, 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.

#### **Annual Internal Audit Opinion from Internal Audit Work undertaken during 2018/19**

- 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 based on the work undertaken. In assessing the level of assurance to be given, I have considered:
- 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.
- Internal Audit have continued to monitor the position in respect of Local Government Pension Scheme (LGPS) Central and hold regular discussions with the Head of Treasury and Pensions and the Scheme Administrator in respect of the schemes progress. The service is also in contact with the other member Authorities to ensure that audit arrangements continue to be developed in a comprehensive and efficient manner.

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 ***Based on 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 can deliver a substantial year end opinion on the Pension Fund's internal control environment for 2018/19.***

### **Key Assurances provided during 2018/19**

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:

<b>Good</b>	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.
<b>Reasonable</b>	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.
<b>Limited</b>	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.
<b>Unsatisfactory</b>	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 2018/19**

<b>Audit</b>	<b>Opinion</b>	<b>Direction of Travel</b>
Corporate Governance	Good	No Change
Risk Management	Good	No Change <sup>1</sup>
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 2018/19 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:

<b>Best Practice (BP)</b>	Proposed improvement, rather than addressing a risk.
<b>Requires Attention (RA)</b>	Addressing a minor control weakness or housekeeping issue.
<b>Significant (S)</b>	Addressing a significant control weakness where the system may be working but errors may go undetected.
<b>Fundamental (F)</b>	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 18 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 2018/19 audits**

<b>System</b>	<b>Level of Assurance Given</b>	<b>Number of Recommendations made</b>				<b>Total</b>
		<b>BP</b>	<b>RA</b>	<b>S</b>	<b>F</b>	
Corporate Governance	<b>Good</b>	0	1	0	0	1
Risk Management	<b>Good</b>	0	0	0	0	0
Pension Fund Monitoring	<b>Good</b>	0	5	0	0	5
Investment Managers Internal Control Reports	<b>Good</b>	0	1	0	0	1
*Pensions Administration	<b>Good</b>	2	8	0	0	10
**Altair Pension Application	<b>Good</b>	0	1	0	0	1

<sup>1</sup> Reviewed in 2017/18 as part of Corporate Governance Audit. 2018/19 was full review of Risk Management processes.

System	Level of Assurance Given	Number of Recommendations made				Total
		BP	RA	S	F	
<b>Totals</b>		<b>2</b>	<b>16</b>	<b>0</b>	<b>0</b>	<b>18</b>
<b>Percentage</b>		<b>11%</b>	<b>89%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>

\* 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 Six 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 18 recommendations made, 16 were rated as requires attention and the remaining two as best practice. Best practice recommendations are designed to add value to the high level of controls in place. This reflects the experience and diligence of the staff in the team, with 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 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 several areas, which are shown in the table below.
- 5.22 The surveys are 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**

<b>Item Being Scored</b>	<b>2018/19</b>
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, and backed up by the clients comment that "Pre-audit advice for this particular audit was invaluable for me. The pointers given really helped to ensure sound processes and testing were being put in place". In addition to surveys, regular meetings are held 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 2018/19



## APPENDIX A

## Summary of Findings from Pension Fund Audit Reports 2018/19

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

- 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.

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.

Five minor exceptions were noted against which management have provided a positive response.

**Assurance Level: Good**

**2 Pensions Administration (Including Transfers In and Out)** – This area is reviewed on an annual basis. The 2018/19 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.
- There is an appropriate process in place to ensure all complaints are actioned in accordance with the Internal Dispute Resolutions Policy.
- 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.

Eight minor exceptions and two best practice recommendations were noted against which management have provided positive responses.

Eight previous recommendations were followed up; of these, good progress has been made in the implementation of six, with two outstanding.

Recommendations that remain outstanding have been repeated and are included within the ten recommendations in the report. Of these, one is a 'requires attention', recommendation relating to a minor weakness which management have advised are now resolved or under review and the final one is "best practice"

### ***Assurance Level: Good***

### **3. *ALTAIR Pension Application (Pensions System) –***

Audit to review the Altair Payroll module implementation, to test those controls to the extent considered necessary and to identify and report on any areas for improvement present within the current control environment.

The 2018/19 audit concentrated on the following objectives:

- Appropriate project structures are in place to deliver Pensions Payroll facilities.
- Appropriate project governance arrangements are in place, to provide management with a suitable framework to make project decisions.
- Suitable project controls are in place to ensure that the project is subject to adequate scrutiny.
- Project resources are carefully considered to ensure that the project is successfully completed on time and within budget.
- The project is appropriately scoped and the requirements are clearly specified.
- Communication is direct and efficient to allow effective decision making.

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.  
One minor exception recommendation was noted against which management have provided positive responses.

***Assurance Level: Good***

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

- Fund objectives are defined, agreed and supported by appropriate performance and risk management processes, to include consideration of fraud risk.
- An appropriate investment strategy is in place and has been adopted.
- Operational investment processes support the investment strategy to ensure maximisation of investment returns.
- Performance of external advisors and service providers is managed to maximise their contribution to the values of the fund without placing excessive reliance upon them.
- Fund assets are sufficient to meet its obligations and liabilities, avoiding an adverse impact on the council tax payer / service provision.
- Accurate accounting records are maintained and appropriate statutory reports including unqualified statutory accounts are produced.
- There is a system in place to communicate adequately with all relevant stakeholders.
- Those charged with the governance of the Fund and the Scheme are able to fulfil their responsibilities effectively.
- There are appropriate Governance structures in place in respect of LGPS Central.

Evaluation and testing of the controls that are in place confirmed that there is a sound system of control in the areas examined.  
One minor exception recommendation was noted against which management have provided positive responses.

***Assurance Level: Good***

**5. Risk Management** – Review of the controls around the pension fund risk management process.

- 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.

Evaluation and testing of the controls that are in place confirmed that there is a sound system of control in the areas examined.  
No recommendations were raised in this audit.

***Assurance Level: Good***

- 6. 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 provider 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.

Evaluation and testing of the controls that are in place confirmed that there is a sound system of control in the areas examined.  
One minor exception recommendation was noted against which management have provided positive responses.

***Assurance Level: Good***