



<u>Committee and Date</u>	<u>Item</u>
Pension Committee	
18 <sup>th</sup> September 2020	
	<u>Public</u>

## THIRD LINE OF ASSURANCE: INTERNAL AUDIT OUTTURN REPORT FOR SHROPSHIRE COUNTY PENSION FUND 2019/20

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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 2020. 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.

Five good assurances were made in 2019/20. A total of 12 recommendations have been made in the five audit reports related to the year. No fundamental recommendations have been raised in 2019/20. IT audit activity was focused on assessing and seeking assurances on a known reconciliation process and Members' attention is drawn to this. The process is between an Employer's system of financial records and those of the Pension Fund and assurances have been sought, from the Employer, that steps are in place to address the identified risks which are mitigated currently using compensating controls. The Pension Fund is doing everything in its control to support the Employer.

***Based on the work undertaken, assurance from the Employer in respect of compensating controls within their financial reconciliation systems whilst a long term solution is delivered and Pension Fund 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 good year end opinion on the Fund's internal control environment for 2019/20.***

### 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 2020.
- b) The Head of Audit's good year end opinion on the Fund's internal control environment for 2019/20 is based on the work undertaken, assurance from the Employer in respect of compensating controls within their financial reconciliation systems whilst a long term solution is delivered and Pension Fund 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 2019/20 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 2020, 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 2019/20**

- 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, identified no significant material weaknesses that the Service has control over that could result in a material misstatement in the Pension Fund's accounts and reliance can be placed upon the systems.
- However, Pension Fund managers raised Auditors attention to a potential risk outside of their control, to the accuracy of the Pension Fund accounts as a result of reconciliation issues with one of the key Employer systems. Pension Fund staff are seeking regular updates from the identified Employer for assurances on compensating controls that are currently in place whilst a long term solution is under implementation. With the support of the Pension Scheme Administrator, Internal Audit resources were redirected and sought independent assurances on behalf of the Fund from the Employer and whilst the control issues are not fully addressed, there is evidence of resources and plans in place to rectify the issue. Whilst not ideal, without these compensating controls and procedures there would be an increased risk to the accuracy of pension payments. This is outside of the Pension Fund's control but is worthy of note.

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, assurance from the Employer in respect of compensating controls within their financial reconciliation systems whilst a long term solution is delivered and Pension Fund 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 good year end opinion on the Fund's internal control environment for 2019/20.***

### Key Assurances provided during 2019/20

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 2019/20**

<b>Audit</b>	<b>Opinion</b>	<b>Direction of Travel</b>
Corporate Governance	Good	No Change
Pension Fund Monitoring	Good	No Change
Investment Managers Internal Control Reports	Good	No Change
Pensions Administration	Good	No Change
Review of Pension Fund Pooling Arrangements	Good	New

5.10 A summary of the five final audit reports issued in 2019/20 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 12 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 2019/20 audits**

System	Level of Assurance Given	Number of Recommendations made				Total
		BP	RA	S	F	
Corporate Governance	Good	0	1	0	0	1
Pension Fund Monitoring	Good	0	2	0	0	2
Investment Managers Internal Control Reports	Good	0	1	0	0	1
*Pensions Administration	Good	0	7	0	0	7
Pension Fund Pooling Arrangements	Good	0	1	0	0	1
<b>Totals</b>		<b>0</b>	<b>12</b>	<b>0</b>	<b>0</b>	<b>12</b>
<b>Percentage</b>		<b>0%</b>	<b>100%</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.

- 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 12 recommendations made, all were rated as requires attention designed to add value to the high level of controls in place and reflecting a low level of risk. This reflects the experience and diligence of the staff in the team, with no significant or fundamental recommendations resulting 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, July 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. Two survey forms were 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>2019/20</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	50%
Professionalism of approach, competence	100%
Communication skills, pleasant manner	100%
Timeliness of audit to your business process	100%
Number of forms returned	2

- 5.20 The results are pleasing. With only two responses the impact of a 'reasonable' score against the 'practicality of recommendations', impacted heavily on the overall position. In the review in question; there were two minor risk recommendations made, both were accepted and actioned by managers and no specific concerns were commented upon.
- 5.21 In addition to surveys, regular meetings are held with the Head of Treasury and Pensions and the Scheme Administrator which allow any performance issues to be reviewed at that time. Internal Audit have continued to introduce

new auditors to the Pension Fund to ensure that auditors can be rotated in line with the Public Sector Internal Audit Standards (PSIAS) and that Internal Audit are able to continue to offer a professional high-quality service going forward. The information received from surveys 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 2019/20



## APPENDIX A

### Summary of Findings from Pension Fund Audit Reports 2019/20

- 1** ***Pension Fund Investment Managers Monitoring*** - This area is reviewed on an annual basis reviewing Pension Fund Investments using established documentation and testing.

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.

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

Two 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 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 enough 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.
- 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.
- 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 and performance information is accurate, timely and relevant
- 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.

Ten previous recommendations were followed up; of these, good progress has been made in the implementation of seven, with one superseded and two outstanding. Recommendations that remain outstanding have been repeated and are included within the recommendations in the report.

***Assurance Level: Good***

3. ***Review of Pension Fund Pooling Arrangements*** – the Audit concentrated on the following objectives:

- There are adequate governance arrangements in respect of LGPS Central Limited, the Pool and Shropshire County Pension Fund.
- Shropshire County Pension Fund have received assurances regarding LGPS Central Limited systems and controls.
- Shropshire County Pension Fund have received financial and performance reports throughout the year.
- There are arrangements in place to manage transitions and assurances have been received regarding investment risks.
- Shropshire County Pension Fund have received assurance regarding the achievement of the Central Government criteria and are kept up to date on Central Government policy.

***Assurance Level: Good***

4. ***Corporate Governance*** –The audit looks to ensure there are appropriate governance processes in place in respect of the Pension Fund. It concentrated on the following objectives:

- The recommendations made in the previous audit have been implemented as agreed.
- The Pensions Committee has met the roles and responsibilities as defined in CIPFA best practice guidelines (Oct 2013).
- The Governance of the Pension Fund is in line with the Pension Regulators Code of Practice issued in April 2015.

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. ***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:

- Previous audit 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 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***