**Pensions Committee**
**Date 18 September 2026**

Item 5

Public

# THIRD LINE OF ASSURANCE: INTERNAL AUDIT OUTTURN REPORT FOR SHROPSHIRE COUNTY PENSION FUND 2025/26



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|---|---|---|---|
| **Responsible Officer:** | Barry Hanson<br>Head of Policy and Governance | | |
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| **Cabinet Member** (Portfolio Holder): | N/A | | |



## 1. Purpose of Report

1.1. This report provides the Committee with a summary of the work undertaken by Internal Audit for the year ended 31st March 2026 and provides the Chief Audit Executive's year end opinion on the Fund's internal control environment.

## 2. Recommendations

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

i) Performance against the Audit Plan for the year ended 31 March 2026.

ii) The Chief Audit Executive's substantial year end opinion on the Fund's internal control environment for 2025/26 is based on the work undertaken, and Pension Fund management responses received.

## 3. Background

3.1. This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2026. It reports on progress against the annual audit plan agreed with the Pensions Investment and Responsible Investment Manager and the Pensions Administration Manager. It also provides the Chief Audit Executive's opinion on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes when considering the Global Internal Audit Standards (GIAS) in the UK Public Sector.

3.2. Final performance has been positive with 4 out of the 5 planned audits completed within the financial year. The planned audit of the implementation of Multi Factor

Authentication on the pensions system was not completed due to the implementation being delayed. The review will now be carried forward to the 2026/27 audit plan.

3.3. Four good assurances were made in 2025/26. In addition, one advisory review was undertaken by the Internal Audit team to support the completion of the Cyber Assessment Framework which is a framework devised by the National Cyber Security Centre (NCSC).

3.4. A total of 17 recommendations have been made in the five audit reports. One significant recommendation was raised in 2025/26. Details of all audits completed and summary of recommendations raised is included in **Appendix A.**

## 4. Executive Summary

4.1. **Based on the work undertaken and Pension Fund management responses received; the Pension Fund's governance, risk management and internal control processes are sound and working effectively and the Chief Audit Executive can deliver a substantial year end opinion on the Fund's internal control environment for 2025/26. A substantial opinion is the highest overall opinion that can be awarded by the Chief Audit Executive. Please refer to Appendix B for year-end opinion classifications.**

# Report

## 5. Risk Assessment and Opportunities Appraisal

5.1. 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.

5.2. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015.

5.3. There are no direct Environmental, Equalities or Community consequences of this proposal.

5.4. Internal Audit customers are consulted on the service that they receive, feedback from which is included in this report and continues to be positive.

## 6. Financial Implications

6.1. 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.

## 7. Climate Change, Biodiversity and Environmental Implications

7.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaption. However, the work of the Committee will look at these aspects relevant to the governance, risk management and control environment.

## 8. Summary of Main Proposals

8.1. This report is the culmination of the work of the Internal Audit team during 2025/26 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.

8.2. 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”.

8.3. The GIAS, as applied in the UK Public Sector defines 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 internal control. The GIAS in the UK Public Sector came into force in April 2025. An internal quality assessment has been undertaken, and an external review is due to be undertaken in 2026/27, the outcomes of these assessments will be reported to the Pensions Committee.

8.4. 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 number of audit days have been agreed with management however any demands that may arise and any special investigations, may be delivered in addition to the planned work in agreement with management.

**Annual Internal Audit Opinion from Internal Audit Work undertaken during 2025/26.**

8.5. 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 GIAS in the UK Public Sector 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.

8.6. 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 seventeen control areas where improvements can be made, audit work did not identify significant material weaknesses that could result in a material misstatement in the Pension Fund's accounts. Based on the work undertaken, reliance can be placed upon the systems.

8.7. 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.

## Key assurances provided during 2025/26

8.8. 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 2025/26.

| Audit | Opinion | Direction of Travel |
|---|---|---|
| Corporate Governance (Including Risk Management) | Good | No change - Previously two separate audits both assessed as Good |
| Monitoring of Pension Fund Managers | Good | No change - Previously two separate audits both assessed as Good |
| Pensions Administration | Good | No change |
| Pensions Valuation | Good | New Audit Area |
| NCSC Cyber Self-Assessment – Managing Security Risk | Advisory | New Audit Area |

8.9. A summary of the five final audit reports issued in 2025/26 are listed at **Appendix A**. Together with the controls reviewed as part of the audit and the recommendations raised against each control.

8.10. 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. |

8.11. 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.

8.12. A total of seventeen 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 2025/26 audits.

| System | Level of Assurance Given | Number of Recommendations made | | | | Total |
|---|---|---|---|---|---|---|
| | | BP | RA | S | F | |
| Corporate Governance (Including Risk Management) | **Good** | - | 2 | - | - | 2 |
| Monitoring of Pension Fund Managers | **Good** | - | 2 | - | - | 2 |
| Pensions Administration | **Good** | - | 6 | - | - | 6 |
| Pensions Valuation | **Good** | - | 2 | - | - | 2 |
| NCSC Cyber Self-Assessment – Managing Security Risk | **Advisory** | - | 4 | 1 | - | 5 |
| **Total** | | **-** | **16** | **1** | **-** | **17** |
| **Percentage** | | **-** | **94%** | **6%** | **-** | **100%** |

8.13. Four good assurances were issued during the financial year. Where required, responses have been received by management in relation to the recommendations raised and will be followed up next year to determine whether satisfactory action has been taken.

8.14. The Internal Audit team has achieved 83% of the audit plan. The planned audit of the implementation of Multi Factor Authentication on the pensions system was not completed due to the implementation project being delayed. The audit will now be carried forward to the 2026/27 audit plan.

8.15. 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.

8.16. Sixteen of the recommendations made were rated as 'requires attention' designed to add value to the high level of controls in place and reflecting a low level of risk. Only one recommendation was rated as 'Significant' which was in relation to the IT Cyber Self-Assessment. The low number of high-priority recommendation reflects the experience and diligence of the staff in the team, with no fundamental recommendations resulting from the audits performed.

## Audit Performance

8.17. Audit Performance demonstrated by measuring achievement against the plan, ensuring compliance against the GIAS in the UK Public Sector. The effectiveness of Internal Audit is further reviewed through the Pension Committee's delivery of its responsibilities and direct from customers as they provided responses to surveys sent out after each audit.

## Reporting

8.18. All Audit work is reviewed by a principal 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.

8.19. 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

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

8.21. The surveys are part of ensuring the work meets our client expectations and that the quality of audit work is maintained. Four survey forms were returned; the results are identified in the table below.

### Customer Feedback Survey Forms – percentage of excellent and good responses

| Item Being Scored | 2025/26 |
|---|---|
| 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** | **4** |

8.22. The results are pleasing and used to inform the training and development of auditors in their role.

8.23. In addition, regular meetings are held with Pension Fund Management which allow any performance issues to be reviewed at that time. Internal Audit have continued to introduce new Auditors to the Pension Fund which helps ensure 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.

## 9. Background Papers

1. Global Internal Audit Standards in the UK Public Sector
2. Global Internal Audit Standards (GIAS)
3. Accounts and Audit Regulations 2015

**Local Member: N/A**

## 10. Appendices

**Appendix A - Summary of Findings from Pension Fund Audit Reports 2025/26**

**Appendix B - The principles and assurance criteria applied to the Chief Audit Executive's opinion**

**APPENDIX A**

## Summary of Findings from Pension Fund Audit Reports 2025/26

The following tables provide a summary of the controls reviewed as part of each audit undertaken within 2025/26 along with the number recommendations that have been raised against each control area. Where recommendations have been raised a summary is provided at the end of each table.

| **Audit Name: Corporate Governance (Including Risk Management)** | | **Opinion:** | | **Good** | |
|---|---|---|---|---|---|
| **Objective:** To review and provide assurance that key corporate governance arrangements and risk management controls are operating effectively. | | | | | |
| **Control & Assessment** | | **Recommendations** | | | |
| | | F | S | RA | BP |
| √ | The Pensions Committee has defined roles and responsibilities. | - | - | 2 | - |
| √ | The governance of the Pension Fund complies with key controls in the General Code of Practice. | - | - | - | - |
| √ | The Pensions Committee and Board receive updates on relevant upcoming changes to legislation | - | - | - | - |
| √ | 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. | - | - | - | - |

**Summary of recommendations made:**

- There should be a training needs assessment to ensure that Pensions Board and Committee Member training needs are identified and required training completed.
- The training logs should be reviewed, and it should be ensured that there is evidence that training is delivered consistently where needs are identified across Committee and Board Members. Where it is not the case that training is delivered consistently where needs are identified a reason should be clearly recorded.

| **Audit Name: Monitoring of Pension Fund Managers** | | **Opinion:** | | **Good** | |
|---|---|---|---|---|---|
| **Objective:** To review the management arrangements in place for the investment of pension funds and examination of Internal Control Reports received from Pension Fund Managers. | | | | | |
| | | F | S | RA | BP |
| √ | The previous audit recommendation has been implemented. | - | - | - | - |
| √ | Investment of the fund complies with statute, regulations and any restrictions specified. | - | - | - | - |
| √ | Appropriate control is exercised over fund managers. | - | - | 1 | - |
| √ | 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. | - | - | - | - |
| √ | Information Governance and cyber risks are managed in accordance with current best practice and an agreed policy. | - | - | 1 | - |
| √ | The most recent internal control reports have been received for all fund managers who are required to produce SOC1, SSAE16 or AAF01/06 reports. | - | - | - | - |
| √ | Internal Control Questionnaires have been completed by the Fund Managers who are not required to produce control reports. | - | - | - | - |

**Summary of recommendations made:**

- The one non-cash asset which is not reconciled to a fund managers' report – SHR15 - Russells - Restructure, should be reviewed and discussed with Northern Trust to consider the feasibility and potential gains from the sale of the stock.
- There should be an agreed Pension Fund document retention schedule established, alternatively a review of the Shropshire Council retention schedule should result in a statement of where the Fund retention guidelines are different to the Council.

| Audit Name: Pensions Administration | | Opinion: | Good | | |
|---|---|---|---|---|---|
| **Objective:** To review the arrangements in place for the maintenance and administration of the Shropshire County Pension Fund which is delivered by the Pensions Administration Team. | | | | | |
| **Control & Assessment** | | **Recommendations** | | | |
| | | F | S | RA | BP |
| √ | The recommendations made in the previous audit have been implemented. | - | - | - | - |
| √ | The Officers responsible for administering the fund have sufficient resources, skills and access to policies and procedures to process transactions and manage the fund. | - | - | 1 | - |
| √ | In accordance with regulations, if a new employee is required to join the scheme, they are identified promptly and recorded accurately as members. | - | - | - | - |
| √ | The contributions received to the fund including, those from employees & employers are recorded accurately & promptly. | - | - | - | - |
| √ | The benefits which are paid are calculated correctly and are paid to eligible persons. Any changes to payments are appropriately authorised and processed correctly. | - | - | 2 | - |
| √ | Pension payments made through the payroll are processed accurately, in a timely manner & are authorised appropriately. | - | - | 2 | - |
| √ | Fund members leaving the scheme have their deferred pension recorded accurately and payments made from the scheme to leavers, other than normal pensions, are accurate and appropriately authorised. | - | - | 1 | - |
| √ | The transfers in and out of the scheme are calculated correctly, actioned promptly and authorised appropriately. | - | - | - | - |
| √ | The 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. | - | - | - | - |
| √ | The management and performance information is accurate, timely and relevant. | - | - | - | - |
| √ | The personal data held is processed in a secure and controlled manner in line with internal policy and legislation. | - | - | - | - |

**Summary of recommendations made:**

- The policy log should be reviewed to ensure all policies are up to date.
- Overseas pensioner tracing should be included on the team plan.
- Dependents ceased dates should be identified and payroll ceased in a timely manner.
- It should be ensured that there is evidence that the immediate weekly payroll running checklist sheets are reviewed and checked by a different Senior Pensions Officer for separation of duty, before the payroll is run.
- There should be a reminder, and it should be ensured that payroll deductions and payments to third parties are accurate, checked and updated in a timely manner including changes in pension payments which may result in changes to deductions.

- The failure to potentially comply with Local Government Pension Scheme Regulations should be recorded on the Pensions Fund operational risk register along with mitigating controls.

| **Audit Name: Pensions Valuation** | | **Opinion:** | **Good** | | |
|---|---|---|---|---|---|
| **Objective:** To provide assurance that there is a satisfactory process with regards to the Pension Fund Valuation. | | | | | |
| **Control & Assessment** | | **Recommendations** | | | |
| | | F | S | RA | BP |
| √ | There are procedures, a project plan and a review of the success of the process. | - | - | - | - |
| √ | The actuary supports the process in accordance with an agreement. | - | - | 1 | - |
| √ | There is a Funding Strategy Statement which has been agreed. | - | - | - | - |
| √ | Scheme employers receive information and there is a consultation. | - | - | - | - |
| √ | There is a transparent process where there is potential conflict with an employer. | - | - | 1 | - |

**Summary of recommendations made:**

- An updated Statement of Engagement should be pursued and obtained from Mercer Limited. The updated Statement of Engagement should be reviewed to ensure that it includes all current and up to date activities and charges related to the triennial actuarial valuation of the Pension Fund. There should be market testing of the Mercer Ltd charges including consideration of all factors, to demonstrate consideration of best value.
- The risk of a potential conflict of interest with an employer, specifically the administering authority, Shropshire Council and the Section 151 Officer, should be recorded in the operational risk register together with details of controls to mitigate the risk.

| **Audit Name: NCSC Cyber Self-Assessment – Objective A Managing Security Risk** | | **Opinion:** | **Advisory** | | |
|---|---|---|---|---|---|
| **Objective:** To facilitate a self-assessment against the National Cyber Security Centre's Cyber Assessment Framework focussing on Objective A – Managing Security Risk. | | | | | |
| **Recommendations following self-assessment** | | **Recommendations** | | | |
| | | F | S | RA | BP |
| - | Recommendations made in relation to the responses provided on Objective A – Managing Security Risk | - | 1 | 4 | - |

**Summary of recommendations made:**

- One Significant recommendation was raised to ensure that there are regular meetings held between the Pension Fund and Shropshire ICT to ensure adequate oversight of cyber threats and risks, business continuity, assurance over key processes, planned system changes, incident management and outstanding issues.
- Four Requires Attention recommendations were raised covering the development of an SLA for ICT with Shropshire Council, mapping out responsibilities between the Pension Fund and third parties and information assets and undertaking an annual test of the Business Impact Assessment and Service Recovery Plan.

**APPENDIX B**

**The principles and assurance criteria applied to the Chief Audit Executive's opinion:**
Principles applied to the opinion:

1. Authentic: Opinions are fair, reliable and honest
2. Transparent: Opinions are qualified with evidence or professional judgement
3. Strategic: Macro level information without undue detail
4. Insightful: Information is engaging and generates discussion
5. Resolute: Opinion is delivered with courage and conviction

Assurance criteria applied:

| Opinion | Indication of when this type of opinion may be given[1] | Traditional Opinion |
|---|---|---|
| Substantial | Limited number of medium risk related weaknesses identified but generally only low risk rated weaknesses have been found in individual assignments/ observations.<br>No one area is classified as high or/ critical risk | Unqualified |
| Reasonable | Medium risk rated weakness identified in individual assignments/ observations that are not significant in aggregate to the system of governance, risk management or control.<br>High risk rated weaknesses identified in individual assignments/ observations that are isolated to specific systems, processes and services.<br>None of the individual assignment reports/ observations have an overall high or critical risk. | |
| Limited | Medium risk related weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected and/or<br>High risk rated weaknesses identified in individual assignments/ observations that are significant in aggregate but discrete parts of the system of internal control remain unaffected, and/or<br>Critical risk rated weaknesses identified in individual assignments/ observations that are not widespread to the system of internal control, and<br>More than a minority of the individual assignment reports/ observations may have an overall report classification or rating of high or critical risk. | |
| No Assurance | High risk rated weaknesses identified in individual assignments/ observations that in aggregate are widespread to the system of internal control and/or;<br>Critical risk rated weaknesses identified in individual assignments/ observations that are widespread to the system of internal control or; | Qualified |

[1] Indicators refer not only to Internal Audit reviews, but wider assurance providers and intelligence from across the business that is evidenced, an example would be peer reviews.

| Opinion | Indication of when this type of opinion may be given[1] | Traditional Opinion |
|---|---|---|
| | More than a minority of the individual assignment reports/ observations have an overall report classification of either high or critical risk;<br>Lack of management action to deliver improvements, may be identified by repeating recommendations of a high or critical risk. | |
| Disclaimer | An opinion cannot be issued because insufficient internal audit work has been completed due to either:<br>-restrictions in the agreed audit programme, which means that audit work would not provide enough evidence to conclude on the adequacy and effectiveness of governance, risk management and control, or<br>- unable to complete enough reviews and gather enough evidence to conclude on the adequacy of arrangements for governance, risk management and control. | Qualified |