



Annual Internal Audit Report 2014/15

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1. Introduction

- 1.1 Our internal audit work for the period 2014/15 was carried out in accordance with the Internal Audit Plan. The Plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the Fund's governance, risk management and control processes.

In this way our annual report provides one element of the evidence that underpins the Fund's Assurance Framework, which supports the Annual Governance Statement. This is only one aspect of the assurances available to the Fund as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the Fund may rely, could include:

- The work of the External Auditors (PwC)
- Statutory policies and plans
- The work of the Fund's Compliance Monitoring Team
- Other pieces of consultancy or third party work designed to alert the Fund to areas of improvement

Internal Audit is central to this framework of assurance and is required to acquire an understanding not only of the Fund's risks and its overall whole control environment but also all sources of assurance. In this way, Internal Audit will be able to indicate whether key controls are adequately designed and effectively operated, regardless of the sources of that assurance.

- 1.2 The definition of internal audit, as described in the Public Sector Internal Audit Standards, is:

“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

Internal audit activity is organisationally independent and further details behind the framework within which internal audit operates, can be found in the Internal Audit Charter.

Overall Assurance

- 1.3 As the providers of internal audit to the Fund, we are required to provide the Managing Director, Strategic Director and Section 151 Officer with an opinion on the adequacy and effectiveness of the governance, risk management and control processes. In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide to the Managing Director, Strategic Director and Section 151 Officer is reasonable assurance that there are no major weaknesses in the Fund's governance, risk management and control processes. In assessing the level of assurance to be given, we have taken into account:

- All audits undertaken during 2014/15.
- Any follow-up action taken in respect of audits from previous periods.
- Any key recommendations not accepted by management and the consequent risks.
- Any limitations which may have been placed on the scope of internal audit.
- The extent to which any resource constraints may impinge on the ability to meet the full audit needs of the Fund.

2. Internal audit opinion

- 2.1 We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out in paragraph 1.3 above, our opinion is as follows:
- 2.2 Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Fund by other providers as well as directly by Internal Audit, Internal Audit can provide **reasonable assurance** that the Fund has adequate and effective governance, risk management and internal control processes.
- 2.3 In reaching our opinion, the following factors were taken into particular consideration:
- The need for management to plan appropriate and timely action to implement our and other assurance providers recommendations.
 - Key areas of significance, identified as a result of our audit work performed in year are detailed in section 4 of this report.

3. Compliance with the Public Sector Internal Audit Standards

Public Sector Internal
Audit Standards

Applying the IS: International Standards to
the UK Public Sector

Internal Audit has a quality assurance and improvement programme. During the year, the internal audit activity has followed this programme and there have been no significant areas of non-conformance or deviations from the standards as set out in the Public Sector Internal Audit Standards.

4. Summary of work completed

A detailed written report and action plan is prepared and issued for every review. The responsible officer will be asked to respond to the report by completing and returning an action plan. This response must show what actions have been taken or are planned in relation to each recommendation.

Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

Substantial	<ul style="list-style-type: none">• a robust framework of controls which ensures that objectives are likely to be achieved and controls are applied continuously or with only minor lapses
Satisfactory	<ul style="list-style-type: none">• a sufficient framework of key controls for objectives to be achieved but the control framework could be stronger or the application of controls could be more consistent
Limited	<ul style="list-style-type: none">• a risk of objectives not being achieved due to the absence of key internal controls or a significant breakdown in the application of controls

The following internal audit reviews were completed during 2014/15

Key: AAN = Assessment of Assurance Need

Systems Reviews	AAN Rating	Recommendations			Total	Number accepted	Level of Assurance
		Red	Amber	Green			
Overall Governance and Risk Management	High	-	1	5	6	6	Substantial
Early Retirement Costings and Recharges	High	1	2	2	5	5	Limited

Key Financial Systems	AAN Rating	Recommendations			Total	Number accepted	Level of Assurance
		Red	Amber	Green			
Members Payroll	High	-	2	1	3	3	Satisfactory
Benefit Calculations	High	-	-	1	1	1	Substantial
Reconciliation of Members Contributions	High	-	-	1	1	1	Substantial
Member Records	High	-	3	2	5	5	Satisfactory

Follow up Reviews

Death Grants Follow up Audit, completed in 2013/14, all recommendations satisfactorily implemented.

Data Quality Follow up Audit, completed in 2013/14, satisfactory progress is being made in implementing recommendations.

Corporate Work

In addition to Pension Fund specific work, Audit Services has also undertaken a substantial amount of work during 2014/15 on behalf of the Fund regarding the implementation of the new corporate finance system, Agresso. Further, we continue to act as the Fund's corporate fraud contact.

Key issues arising in the year:

Overall Governance and Risk Management

The audit of the arrangements for governance and risk management identified one key issue in that the business continuity plan had not been updated to reflect the large scale changes in employee responsibility. Recommendations made were agreed with management. It should be noted that we also identified many areas of good practice with this audit.

Early Retirement Costings and Recharges.

The review of early retirement costings and recharges identified an issue regarding the accuracy of information relating to debts outstanding. Further there was a lack of clarity between the roles and responsibilities of the Employer Relations and Finance Teams which had resulted in insufficient action taken to recover debts.

Appropriate recommendations were agreed with management to address the issues identified.

Members Payroll

A review of the payroll system confirmed that satisfactory arrangements are in place for the processing of accurate payments via payroll.

Issues identified at the time of audit related to the delayed processing of some payments which were outside the timescales set within the key performance indicators. A plan has been developed to reduce backlogs.

Reconciliation of Members Contributions

A review of the system and sample testing confirmed that the recording of employers' contributions is working well. However, due to the implementation of the new corporate finance system, Agresso, which was beyond the control of pensions staff, there was a delay in the reconciliation and update to the general ledger during the year. Management are aware of this and steps have been taken to ensure the completion of regular reconciliations.

Benefits Calculations

Our review confirmed that substantial assurance could be placed on the processes in place for undertaking the calculation of benefits. Manual interventions required during the implementation of LGPS 2014 were clearly documented and independently checked. Many examples of good practice throughout the benefit calculation process were identified. However, one recommendation was made in relation to monitoring the causes of delays to the payment of benefits which is resulting in interest costs been incurred on lump sums.

Member Records

A review of progress against agreed actions arising from the review of the data quality for member records was completed. The introduction of the bulk data input facility and improvements to the web portal, have contributed to improvements in the processing times for new joiners and reduced the volume of outstanding queries. Efforts have been made to engage employers to resolve queries relating to deferment cases. However, improvements are required to adequately monitor progress in targeting the backlog of queries relating member data. Recommendations have been made and an action plan has been agreed with management to address these issues.

National Fraud Initiative

We co-ordinate the Audit Commission's National Fraud Initiative (NFI) data matching exercise on behalf of the Fund. In January 2015 we were sent 2,264 recommended matches to investigate, this includes matches such as pensioners in payment to DWP data, deceased records, and internal and external payrolls. We are currently investigating the data matches and any significant results will be reported when available.

Financial Appraisals

Where an organisation is seeking admitted body status to the Fund, a financial appraisal is completed (the purpose of which is to establish whether the organisation will or will not be able to meet its financial obligations to the Fund). We completed 19 such appraisals on behalf of the Fund during 2014/15. The financial appraisals provide a business failure score rating from 1 to 100, with 1 being the highest risk and 100 the lowest. Where appropriate, recommendations are made to obtain either a bond or guarantee from the organisation.