



Annual Internal Audit Report 2013 /14

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1. Introduction

- 1.1 Our internal audit work for the period 2013/14 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 Council's 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 Chief Executive, Director of Pensions 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 Chief Executive, Director of Pensions 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 2013/14.
- 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.

During the year we did note a limited number of control issues that needed addressing, including those around data quality. However, the Fund was aware of these issues and was taking steps to improve them.

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



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 2013/14

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	-	-	2	2	2	Substantial
Data Quality	High	1	6	1	8	8	Limited
Death Grants	High	-	2	1	3	3	Satisfactory

Key Financial Systems	AAN	Recommendations	Level of Assurance
Benefit Calculations	High	1	Substantial
Payroll	High	3	Satisfactory
Reconciliation of Contributions	High	0	Satisfactory
Member Records	High	4	Satisfactory

Follow up Reviews

Property Rents Follow up - Audit completed in 2012/13 - Recommendations implemented during 2013/4

Key issues arising during the year

Issues that arose during the year have already been flagged to the Audit Committee.

In our earlier progress report we provided details on:

- Overall Governance and Risk Management
- Data Quality
- Member Records (KFS)

In our Annual Report we are reporting for the first time on:

Death Grants

Our audit of the systems for the processing of death grants identified the following issues:

- No formal arrangements had been established for the evidencing of legal advice sought and obtained in cases where the recipients of the death grant were unclear; and
- At the time of our review, no monitoring was being undertaken in relation to the achievement or otherwise of key performance targets.

The recommendations we made were agreed with management for full implementation.

Benefit Calculations

Our review confirmed that substantial assurance could be placed on the processes in place for undertaking the calculation of benefits and no significant issues were identified during the audit, although one recommendation has been made in relation to the provision of more detailed information in respect of additional voluntary contributions (AVC) charges.

Reconciliation of Contributions

The review of controls for the reconciliation of members' contributions identified the following issues:

- A number of discrepancies were identified between the Fund's records of income received and contributions recorded within FMIS;
- Lack of adequate procedures for reconciling details recorded in FMIS to income received.

In this instance no immediate recommendations were made as new procedures are being introduced with the implementation of the Agresso system.

Payroll

The review of payroll procedures identified an overpayment which had been made in respect of a child pensioner. This is classified as a child of a deceased member who remains in full time education. In this instance, the child had ceased to be entitled to payment as a consequence of reaching 18 years old and commencing full-time employment. The payment was not suspended until written confirmation of the change in circumstances was received approximately 12 months later, at which point an overpayment of £1280 had been made. This is in the process of being recovered. Our recommendations to improve procedures in this area have been agreed by management.

National Fraud Initiative

We co-ordinate the Audit Commission's National Fraud Initiative (NFI) data matching exercise on behalf of the Fund. The pension's payroll was matched to the list of deceased persons, maintained by the Department of Works and Pensions (DWP). The following results for the 2013/14 exercise were obtained:

Number of matches investigated by the Pension Scheme	737
Number of frauds identified	6
Number of potential frauds being investigated	2
Total value of identified and potential frauds	£16,000

All frauds identified were the result of a failure of beneficiaries to notify the Fund of the deceased pensioner. Officers have ceased payments, and instigated recovery action.

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 24 such appraisals on behalf of the Fund during 2013/14. 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.