

The background of the slide features the coat of arms of the Government of Nunavut. It is a shield divided into four quadrants. The top-left quadrant shows a yellow cross on a white background. The top-right quadrant shows a white reindeer head on a yellow background. The bottom-left quadrant shows a white sailing ship on a yellow background. The bottom-right quadrant shows a white eagle with spread wings on a yellow background. Above the shield is a crown with four yellow maple leaves. Below the shield is a banner with the text "ANNE FOR A'".

Agenda Item 4

Internal Audit Annual Assurance Report 2017/18

Falkirk Council

Title: Internal Audit Annual Assurance Report 2017/18
Meeting: Joint Meeting of Pensions Committee and Pension Board
Date: 21 June 2018
Submitted By: Internal Audit, Risk, and Corporate Fraud Manager

1. Purpose of Report

- 1.1 This paper reports on Internal Audit work undertaken in respect of the Falkirk Council Pension Fund during 2017/18, and provides an assurance on arrangements for risk management, governance, and control based on that work.

2. Recommendation

2.1 It is recommended that Pensions Committee and Pension Board:

- **notes that Internal Audit is able to provide Substantial Assurance in respect of the Fund's arrangements for risk management, governance, and control for the year to 31 March 2018.**

3. Overall Opinion

- 3.1 Internal Audit uses a set of assurance categories as the basis for providing an opinion on the adequacy of arrangements for risk management, governance, and control. A summary of these is set out at Appendix 1.
- 3.2 Based on work undertaken, Internal Audit is able to provide Substantial Assurance on the adequacy of the Fund's arrangements for risk management, governance, and control for the year to 31 March 2018.
- 3.3 In providing that opinion, Internal Audit has taken account of the findings arising from reviews of:
- Pension Fund Transactional Testing;
 - Pension Fund Governance; and
 - Pensions Administration System – Data Security and Management.

4. Operational Activity Considered in Providing Overall Assurance

- 4.1 Annual Internal Audit work is based on discussion with the Pensions Manager and review of relevant documentation such as the Fund's Governance Policy and Risk Register.
- 4.2 As outlined at paragraph 3.3, we undertook three pieces of Internal Audit work during 2017/18. Internal Audit was able to provide **Substantial Assurance** in each of these areas.
- 4.3 Our transactional work focused on testing a sample of recently processed Falkirk Council Pension Fund Transactions. We were content that this work confirmed that new member contributions were being properly calculated; the correct transfer value in or out of the Fund had been received or paid; and accurate pension payments were being made to retiring Fund members.
- 4.4 We were content with the governance arrangements for the Fund. The Fund's governance approach is summarised in the Governance Policy and Compliance Statement which was updated and approved in August 2017. Other key documentation, such as, the Statement of Investment Principles, and the Funding Strategy Statement had also recently been updated.
- 4.5 We did find some non-compliance with the requirements of the Fund's Training Policy. This related to attendance at meetings; completing induction training; and attending a minimum number of training events each year.
- 4.6 We were also content with the data security and management of the Pensions Administration System. There was a data protection procedure, disaster recovery arrangements were documented, and preparation had been made to ensure compliance with the General Data Protection Regulation. There was, however, no Access Control Policy for the Pensions Administration System and we recommended this is introduced (albeit system access requires to be authorised by the Pensions Manager).

5. Internal Audit Compliance with Public Sector Internal Audit Standards

- 5.1 Internal Audit seeks to undertake all work in conformance with the Public Sector Internal Audit Standards (PSIAS). The standards, which have applied since April 2013 (and were updated in 2017), have four objectives. These are:
 - to define the nature of Internal Auditing, within the UK public sector;
 - to set basic principles for carrying out Internal Audit in the UK public sector;
 - to establish a framework for providing Internal Audit services, which add value to the organisation, leading to improved organisational processes and operations; and

- to establish the basis for the evaluation of Internal Audit performance and to drive improvement planning.
- 5.2 One of the requirements of PSIAS is that the Internal Audit, Risk, and Corporate Fraud Manager develops a Quality Assurance and Improvement Programme (QAIP). This should comprise an annual internal self assessment and five yearly independent external assessment.
- 5.3 The Scottish Prison Service's (SPS) Head of Audit and Assurance has completed an independent validation of the annual self assessment undertaken by the Internal Audit, Risk, and Corporate Fraud Manager. The SPS Head of Audit and Assurance concluded that the Internal Audit section is broadly compliant with PSIAS.

6. Implications

Financial

- 6.1 There are no financial implications.

Resources

- 6.2 There are no resource implications.

Legal

- 6.3 There are no legal implications.

Risk

- 6.4 The role of Internal Audit is to provide the Pensions Committee and Pension Board with assurance on the Falkirk Council Pension Fund's arrangements for risk management, governance, and control. Recommendations made by Internal Audit aim to reduce or mitigate risk to which the Fund may be exposed.

Equalities

- 6.5 An equality and poverty impact assessment was not required.

Sustainability / Environmental Impact

- 6.6 A sustainability / environmental assessment was not required.

7. Conclusions

- 7.1 Sufficient Internal Audit activity was undertaken to allow a balanced assurance to be provided.

- 7.2 Internal Audit is able to provide Substantial assurance in respect of Falkirk Council Pension Fund's overall arrangements for risk management, governance, and control for the year to 31 March 2018.
- 7.3 Internal Audit operates in compliance with PSIAS.

Internal Audit, Risk, and Corporate Fraud Manager

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APPENDICES

- Appendix 1 – Definition of Internal Audit Assurance Categories.

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

- None.

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
Substantial Assurance	Largely satisfactory risk, control, and governance systems are in place. There may be some scope for improvement as current arrangements may undermine the achievement of objectives or leave them vulnerable to error or abuse.
Limited Assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
No Assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.