

The background of the slide features a large, light blue outline of the Coat of Arms of the Government of Nunavut. The crest includes a crown with four maple leaves, a shield divided into four quadrants (top-left: a building, top-right: a caribou head, bottom-left: a sailing ship, bottom-right: an eagle), and a banner at the bottom with the motto 'ANE FOR A'.

Agenda Item 5

Internal Audit Annual Assurance Report 2018/19

Falkirk Council

Title: Internal Audit Annual Assurance Report 2018/19
Meeting: Joint Meeting of Pensions Committee and Pension Board
Date: 27 June 2019
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 2018/19, 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 2019.**

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 2019.
- 3.3 In providing that opinion, Internal Audit has taken account of the findings arising from reviews of:
- Pension Fund Transactional Testing; and
 - Investment Management Arrangements.

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 two pieces of Internal Audit work during 2018/19. 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 As part of transactional testing, we also reviewed the controls around i-Connect and the receipt of monthly employer contributions.
- 4.5 i-Connect is a web based application that allows the electronic exchange of encrypted data between the employers and the Pensions Administration System. It is currently used by ten of the employers from the Pension Fund. The automation of data submission has the benefit of reduced administration costs and eliminates the risk of error arising from manual input. We were content with the arrangements for ensuring that data has been correctly transferred between i-Connect and the Pensions Administration System.
- 4.6 In relation to the monthly employer contributions we were content that the Pensions Section were checking the accuracy of the amount paid into the bank account on a monthly basis.
- 4.7 The Pension Fund has engaged various external managers to manage its assets of c£2.4 billion. We were content with the governance and oversight arrangements in relation to investment management, including the monitoring of Fund Manager performance against agreed benchmarks. We reviewed a sample of management fee invoices and confirmed that the fees charged were in accordance with the agreements with the Fund Managers. We were also content that these payments were processed in line with the Council's Financial Regulations.

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 2017 (PSIAS). These standards have four objectives:
 - 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 The Standards require the Internal Audit Manager to establish a Quality Assurance and Improvement Programme (QAIP) to allow evaluation of compliance with the Standards. This comprises an annual self assessment, and five yearly external assessment.
- 5.3 In June 2018, the Scottish Prison Service's (SPS) Head of Audit and Assurance reported on his independent validation of the annual self assessment undertaken by the Internal Audit, Risk, and Corporate Fraud Manager. In his report, 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 2019.

7.3 In providing that opinion, Internal Audit operated in compliance with the Public Sector Internal Audit Standards.

Internal Audit, Risk, and Corporate Fraud Manager

Author: Gordon O'Connor, Internal Audit, Risk, and Corporate Fraud Manager,
01324 506339 gordon.oconnor@falkirk.gov.uk

Date: 05 June 2019

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.