

Internal Audit Report

Pension Fund External Control Assurance

2015/16

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1 Introduction, Background and Scope

- 1.1 The review of Pension Fund External Control Assurance has been completed as part of the agreed annual audit plan for 2015/16. This report aims to provide assurance on the overall effectiveness of controls within the system and identifies areas of concern or weakness where improvements can be made.
- 1.2 The main purpose of the audit has been to ensure that adequate control assurance is provided on fund managers through statutory reporting from the investment managers, custodians and property managers.
- 1.3 The principal sources of assurance are as follows:
 - AAF 01/06 reports produced in accordance with the requirements of the Institute of Chartered Accounts in England and Wales, for entities registered in the United Kingdom;
 - SSAE 16 (American Institute of Certified Public Accountants for Attestation Engagements no.16) and resulting Service Organisation Control Report; and
 - ISAE 3402 reports (International Federation of Accountants).
- 1.4 This report has been written on an exception basis, whereby only control weaknesses have been reported.
- 1.5 Management should note that in the case of any three star (high risk) recommendations issued in this report, implementation will be monitored by Internal Audit on a regular basis and that where actions are not addressed within the agreed timescales, this will be reported to Corporate Management Team and the Audit, Best Value and Community Services Scrutiny Committee.
- 1.6 It is management's responsibility to consider the extent to which any of the issues and risks raised in this report should be reflected within divisional, departmental or corporate risk registers.
- 1.7 This audit has been conducted in conformance with Public Sector Internal Audit Standards and our own internal quality assurance systems.

2 Executive Summary and Audit Opinion

2.1 Based on the work completed as part of this review we are able to provide the following opinion over the control framework:

Audit Opinion			No Assurance	Minimal Assurance	Partial Assurance	Substantial Assurance	Full Assurance
Direction of Travel							
Improved	Unchanged	Reduced					
							
Key Findings Based on the testing carried out during the audit, we are able to give an opinion of full assurance on the control environment around external control assurance of the Pension Fund. The following areas of good practice were observed: <ul style="list-style-type: none"> Dates of when all External Assurance documents are due are maintained in a single place, with formatting to show when reports over over-due; Documentation showing where any exceptions are noted within the reports is maintained; therefore evidencing a review of the report has been undertaken. <p>At the time of the audit, the latest external assurance report for Newton's was overdue. The Pension's team have requested the report and have been informed that they should receive it by the end of March 2016. This audit has based assurance on the previous year's report from Newton.</p>							

Control Objective	System Status	Compliance Status	Recommendations Raised		
			***	**	*
The County Council has identified and receives all sources of external control assurance for the pension fund and such information is formally reviewed.	Green	Green	0	0	0
The various sources of information regarding fund manager and custodian internal control provide the County Council, as administering authority for the pension fund, with adequate assurance. Where they do not, appropriate action is taken.	Green	Green	0	0	0

3 Issues Arising, Recommendations and Management Comments

Based on the testing undertaken, we identified no significant weaknesses in the system for Pension Fund External Control Assurance and no recommendations have been made.

Acknowledgements

We should like to take this opportunity to thank the following staff for their help and advice throughout the course of the audit:

- Russell Wood, Principal Pensions Officer, BSD

Definitions of Audit Opinions

Full Assurance:	<i>There is a sound system of control designed to achieve the system objectives. Compliance with the controls is considered to be good. All major risks have been identified and are managed effectively.</i>
Substantial Assurance:	<i>Whilst there is a sound system of control, there are a small number of weaknesses which put some of the system/service objectives at risk, and/or there is evidence of non-compliance with some controls. Opportunities to strengthen control still exist.</i>
Partial Assurance:	<i>Controls are in place and to varying degrees are complied with, but there are gaps in the control process which weaken the system. There is therefore a need to introduce additional controls and/or improve compliance with existing controls to reduce the risk to the Authority.</i>
Minimal Assurance:	<i>Weaknesses in the system of control and/or the level of compliance are such as to put the system objectives at risk. Controls are considered to be insufficient with the absence of at least one critical or key control. Failure to improve will lead to an increased risk of loss or damage to the Authority.</i>
No Assurance:	<i>Control is generally weak or non-existent, leaving the system open to significant error or abuse and high risk to the system or service objectives. A high number of key risks remain unidentified and/or unmanaged.</i>

Recommendations Risk Ratings

A three star rating (***):	<i>Applies to audit findings which are considered to relate to weaknesses in a fundamental control or high risk area and require urgent action by management.</i>
A two star rating (**):	<i>Applies to weaknesses in the control system which are not considered serious, but still represent a risk and need to be addressed within a reasonable period.</i>
A one star rating (*):	<i>Given in respect of findings which, although relatively minor and low risk, provide an opportunity to improve the control framework.</i>

Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.