

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Pensions Committee
<b>DATE</b>	20 March 2020
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Internal Audit Plan 2020/21
<b>REPORT NUMBER</b>	IA/20/008
<b>DIRECTOR</b>	N/A
<b>REPORT AUTHOR</b>	David Hughes
<b>TERMS OF REFERENCE</b>	2.1

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### **1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to seek approval of the attached Internal Audit plan for 2020/21.

### **2. RECOMMENDATION**

- 2.1 It is recommended that the Committee approve the attached Internal Audit Plan for 2020/21.

### **3. BACKGROUND/MAIN ISSUES**

- 3.1 It is one of the functions of the Pensions Committee to approve the Internal Audit plan relating to the North East of Scotland Pension Fund.
- 3.2 The Internal Audit plan for Aberdeen City Council for 2020/21, along with the methodology for determining the areas to be reviewed, was approved by the Audit, Risk and Scrutiny Committee on 12 February 2020. This followed consultation with management through the Corporate Management Team and Extended Corporate Management Team.
- 3.3 The audit included in the attached plan, as well as those in previous and future plans, will help familiarise Internal Audit with the Pension Fund's control environment and governance arrangements, allowing assurance to be provided regarding those arrangements. Where opportunities for improvement in controls and their application, or improvements in value for money, are identified these will be reported along with recommendations for management to consider. Where appropriate, Internal Audit will obtain assurance from other sources, for example external audit, based on their work and reported outcomes.
- 3.4 Internal Audit's work will be undertaken in compliance with Public Sector

Internal Audit Standards and Aberdeen City Council's Internal Audit Charter as approved by the Audit, Risk and Scrutiny Committee on 12 February 2020.

**4. FINANCIAL IMPLICATIONS**

4.1 There are no direct financial implications arising from the recommendations of this report.

**5. LEGAL IMPLICATIONS**

5.1 There are no direct legal implications arising from the recommendations of this report.

**6. MANAGEMENT OF RISK**

6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. The purpose of this report is to seek approval for the Internal Audit plan.

**7. OUTCOMES**

7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or on the Design Principles of the Target Operating Model.

7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

**8. IMPACT ASSESSMENTS**

Assessment	Outcome
<b>Equality &amp; Human Rights Impact Assessment</b>	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
<b>Data Protection Impact Assessment</b>	Not required
<b>Duty of Due Regard / Fairer Scotland Duty</b>	Not applicable

**9. APPENDICES**

9.1 Appendix A – Internal Audit Plan 2020/21

9.2 Appendix B – Analysis of NESPF Risk Register.

**10. REPORT AUTHOR DETAILS**

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## Appendix A

### INTERNAL AUDIT PLAN 2020/21

#### NORTH EAST OF SCOTLAND PENSION FUND

Area	Scope	Objective	Link to RR
Pensions Payroll	Pensions payroll	To provide assurance that appropriate arrangements are in place to ensure the accuracy and appropriateness of payments made to scheme members. This will include testing of new and on-going pensions, and transfer and termination of pension payments.	NESPF RR 22

# APPENDIX B

## ANALYSIS OF RISK REGISTER

### Key

No Previous IA Coverage	No Previous IA Coverage
Some Previous IA Coverage	Some Previous IA Coverage
Previous IA Coverage as Detailed	Previous IA Coverage as Detailed
Proposed Inclusion in IA Plan	Proposed Inclusion in IA Plan

# NORTH EAST OF SCOTLAND PENSION FUND RISK REGISTER

## as at 29 November 2019

Risk No.	Risk	Definition	NESPF Control Effectiveness Assessment	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan
1	Lack of effective risk controls	Failure to implement risk management framework could result in operational, financial and reputational issues	Pension Fund Risk Register is reviewed and updated by management, and considered by Committee quarterly	Audit of Pensions Governance & Risk Management (March 2019)	None
2	Poor Governance	Lack of a robust and effective governance framework and suitable policies/procedures could create regulatory compliance issues, inability to determine policies and make effective decisions leading to poor service delivery and reputational risk	The Fund has in place an annual review of its governance statement and supporting policies and procedures, adherence to Council's Scheme of Governance, and a new Committee Effectiveness report to support good governance.	2018/19 audit of Pensions Governance & Risk Management  AC1725 Pension Fund Payroll October 2017;  AC1620 Pensions Investment Strategy & Management May 2016.	None
3	Lack of Performance Measures	Failure to develop performance reporting framework may result in a lack of transparency and poor performance could go unaddressed.	The Fund has in place both statutory and local KPI's, the Pension Administration Strategy is published quarterly, investment performance (against benchmark) is reported to Committee quarterly.	Looked at partly in AC1620 Pensions Investment Strategy & Management May 2016 (reporting of fund managers' performance)	None

Risk No.	Risk	Definition	NESPF Mitigating Controls	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan
4	Failure of Pensions Committee and Pension Board to operate effectively	Poor attendance / commitment to role, high turnover of members, lack of training may result in non-compliance with regulatory requirements, inability to make decisions or policies, and reputational risk.	Publication of Pension Board Annual Report, training policy reviewed annually and training register in place, nomination and appointment procedure, and a new Committee Effectiveness report introduced.	Partially covered (training) in 2018/19 review of Pensions Governance	Review of annual reports as reported to Committee – no specific IA reporting.
5	Operational disaster, unable to access the workplace	A major incident / natural disaster could result in loss Service delivery and loss of service delivery, staff downtime.	ACC Disaster Recovery Policy in place, NESPF Business Continuity Plan to address loss / disruption to benefit administration system	ACC Business Continuity Planning (Aug 2017).  ACC 2019/20 Internal Audit Plan has a review of Civil Contingencies that is due to be reported to the Audit, Risk and Scrutiny Committee in February 2020.	None

<b>Risk No.</b>	<b>Risk</b>	<b>Definition</b>	<b>NESPF Mitigating Controls</b>	<b>Previous Internal Audit Coverage</b>	<b>Proposed Inclusion in 2019/20 Internal Audit Plan</b>
6	Failure to recruit, retain and develop staff	Limited pool of resources / competition with private sector, lack of training / development opportunities, resource drain from wider priorities could result in loss of Service delivery and risk to succession planning.	Individual staff training plans reviewed annually, training register in place, training staff and programme in place, future focused staffing structure subject to ongoing review.	ACC 2019/20 Internal Audit Plan has a review of Workforce Planning that is due to be reported to AR&SC in May 2020.	None
7	Pay and price inflation valuation assumptions either higher or lower	Economic factors could result in a potential increase in employer contribution rates and liabilities.	Funding updates reported to Committee quarterly (using FSM), tri-ennial valuation, individual employer contribution rates.	Audit of Pensions Investment Strategy & Management (May 2016) Planned audit of Investment Strategy and Performance in 2019/20	None
8	Failure to adhere to relevant pensions legislation and guidance	Political and legislative changes, increased administrative complexity, and staff training issues could result in audit criticism, legal challenge, reputational risk, financial loss / penalties	Six monthly compliance review and annual report to Committee, active participation at LGPS events, Testing Working Party for administrative software updates, established process for staff training, regular benefit admin team meetings to share knowledge.	Audit of Pensions Governance & Risk Management (March 2019)	None



<b>Risk No.</b>	<b>Risk</b>	<b>Definition</b>	<b>NESPF Mitigating Controls</b>	<b>Previous Internal Audit Coverage</b>	<b>Proposed Inclusion in 2019/20 Internal Audit Plan</b>
9	Failure to comply with FOI or SAR requests	Missed statutory deadlines due to training or resource issues could result in audit criticism, legal challenge, reputational risk	Internal written procedures in place, FOI / SAR log to record and monitor	None	None
10	Conflicts of Interest	Competing professional and personal interests of staff, Committee and Board members could result in audit criticism, legal challenge, reputational risk	Regular discussions between CO-Finance and Pension Fund Manager. Standing item at meetings. Conflicts policy and register in place with conflicts declared annually.	Audit of Pensions Governance & Risk Management (March 2019)	None
11	Requirement to complete GMP reconciliation	End of contracting out due to reforms of state pension could result in failure to calculate future benefits correctly, audit criticism, financial loss	Dedicated GMP project team reporting to Operations Manager and regular updates to Committee and Board.	None	None
12	Fraud/Negligence	Dishonesty or human error by staff, Scheme members could result in overpayment / unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk	Segregation of duties for staff authorising / submitting lump sum payments, pension payments signed off by benefits senior, participation in National Fraud Initiative exercise, overseas pensioner existence checking, Breaches Policy and register, Internal Audit control reviews.	Audit of Pensions Payroll (October 2017).	None

<b>Risk No.</b>	<b>Risk</b>	<b>Definition</b>	<b>NESPF Mitigating Controls</b>	<b>Previous Internal Audit Coverage</b>	<b>Proposed Inclusion in 2019/20 Internal Audit Plan</b>
<b>13</b>	Insufficient assets to meet the Fund's long term liabilities	Failure of investment strategy or fund managers to produce expected returns could result in increase in employer contribution rates, investment risk, audit criticism, legal challenge, and financial loss	Quarterly assessment of investment performance and funding updates, tri-ennial valuation and investment strategy review, diversification of assets, due diligence of fund managers, external advisor for specialist guidance on strategy.	Audit of Pensions Investment Strategy & Management (May 2016) Planned audit of Investment Strategy and Performance in 2019/20	None
<b>14</b>	Failure to monitor investment managers and assets	Lack of internal procedures could result in audit criticism, legal challenge and reputational risk	Quarterly assessment and reporting of asset performance and regular meetings with investment managers	Audit of Pensions Investment Strategy & Management (May 2016) Planned audit of Investment Strategy and Performance in 2019/20	None
<b>15</b>	Failure of work stock markets	Increase in employer contribution rates, financial loss	Diversification of scheme assets, tri-ennial valuation and investment strategy review	Audit of Pensions Investment Strategy & Management (May 2016) Planned audit of Investment Strategy and Performance in 2019/20	None

<b>Risk No.</b>	<b>Risk</b>	<b>Definition</b>	<b>NESPF Mitigating Controls</b>	<b>Previous Internal Audit Coverage</b>	<b>Proposed Inclusion in 2019/20 Internal Audit Plan</b>
16	Negligence / fraud / default	Dishonesty by fund managers, lack of care or human error could result in financial loss, reputational damage	Due diligence on appointment and appropriate clause in legal agreements, fund management monitoring, SAS 70 reports	Audit of Pensions Investment Strategy & Management (May 2016) Planned audit of Investment Strategy and Performance in 2019/20	None
17	Failure of Global Custodian	Financial market crisis, regulatory / political could result in loss of assets or control of assets	Regular meetings with custodian, receipt of SAS 70 reports and monitoring	Audit of Pensions Investment Strategy & Management (May 2016) Planned audit of Investment Strategy and Performance in 2019/20	None
18	Failure to fulfil fiduciary duties with appropriate regard to ESG responsibilities	Lack of skills / knowledge, lack of transparency on practices or clear policy could result in reputational damage	Member training on roles and fiduciary duties and Policy incorporated within SIP.	Partially covered (training) in 2018/19 review of Pensions Governance.	None
19	Poor financial reporting	Lack of internal policies and procedures, failure to keep up to date with changes in the Code of Practice and other overriding changes, training issues could result in qualified accounts	Comprehensive policies and procedures in place and review of the Code, attending CIPFA meeting and reviews, regular reconciliations eg fund managers, custodian, Internal and External audits.	None	None. This would be picked up by external audit.

Risk No.	Risk	Definition	NESPf Mitigating Controls	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan
20	Failure to secure and manage personal data in line with Data Protection requirements	Cyber-attack, human processing error could result in audit criticism, legal challenge, reputational risk, financial penalties	Annual information governance training for staff, policies and procedures in place and reviewed regularly (Breaches, Data Protection, Systems Access and Retention Schedule), secure physical storage measures, admin system providers implement range of protections against cyber threats including encryption, firewalls, annual 3 <sup>rd</sup> party penetration testing etc	Public Records (Scotland) Act Compliance (Aug 2016). Data Protection (Sept 2016). GDPR (Sept 2018).  2019/20 Internal Audit Plan has a review of Information Governance that is due to be reported to the Audit, Risk and Scrutiny Committee in February 2020.	None
21	Failure of the Fund's administration system	Outages, hardware and software failures and cyber-attacks could result in staff downtime, loss of service delivery	The administration system is hosted externally with back-up in separate location, regular software updates, business continuity plan in place.	Audit of Pensions System (March 2018).	None
22	Failure to track member status and trace information	Poor record keeping could result in incorrect pension payments made, incorrect assessment of actuarial liabilities, tPR action.	Tracing Service in place (ATMOS), use of "Tell Us Once" service, data quality improvement plan in place including measures to trace, existing checking.	Audit of Pensions Payroll (October 2017).	Proposed review of Payroll to test calculation and payment of new and on-going pensions, and transfer and termination of pension payments.

<b>Risk No.</b>	<b>Risk</b>	<b>Definition</b>	<b>NESPF Mitigating Controls</b>	<b>Previous Internal Audit Coverage</b>	<b>Proposed Inclusion in 2019/20 Internal Audit Plan</b>
23	Failure to monitor employer covenant	Failure of internal procedures could result in orphaned liabilities falling on remaining employers.	Continued implementation of Covenant Assessment and Monitoring Policy (within FSS)	None	None
24	Changes in early retirement strategies by employers	Public service cuts to funding could result in pressure on cash flows	Management through Covenant Assessment and Monitoring Policy (within FSS)	None	None
25	Employers leaving Scheme / closing to new members	Public service cuts to funding, increased pension contribution costs could result in orphaned liabilities falling to remaining employers	Management through Covenant Assessment and Monitoring Policy (within FSS), Cost Cap mechanism introduced in LGPS regulations	None	None
26	Longevity	Increasing life expectancy rates could result in increase in employer contribution rates and liabilities	Tri-ennial valuation undertakes scheme specific analysis including review of life expectancy/mortality assumptions which are set with some allowance for increases	None	None
27	Employer contributions not received, collected or recorded accurately	Lack of staff resources, training issues could result in orphaned liabilities falling to remaining employers	Internal escalation procedures, Breaches Policy and register, monthly data submission reconciled by ERT, quarterly PAS reporting to Committee & Board, ongoing training provided by dedicated ERT to Scheme employers	Audit of Pensions System (March 2018).	None

Risk No.	Risk	Definition	NESPF Mitigating Controls	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan
28	Failure to maintain member records; data incomplete or inaccurate	Lack of staff resources, training issues could result in incorrect pension payments made, incorrect assessment of actuarial liabilities, reputational damage, TPR action	Monthly data from employers which is reconciled by ERT, quarterly PAS reporting to Committee & Board, data quality improvement plan implemented	Audit of Pensions System (March 2018).	None