



Internal Audit

North East Scotland Pension Fund Pensions Committee Internal Audit Update Report September 2022

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1 Executive Summary

1.1 Introduction and background

Internal Audit's (IA) primary role is to provide independent and objective assurance on the North East Scotland Pension Fund's (NESPF), and Aberdeen City Council's (whose systems the NESPF relies on) risk management, control, and governance processes. Where this report focuses on the NESPF specifically, consideration has been given and reference will be made to the work we have carried out with the Council overall. This requires a continuous rolling review and appraisal of the internal controls of the Fund and the Council, involving the examination and evaluation of the adequacy of systems of risk management, control, and governance, making recommendations for improvement where appropriate. Reports are produced relating to each audit assignment and these are provided to the Pensions Committee and the Audit, Risk and Scrutiny (ARS) Committee.

This report advises the Pensions Committee of Internal Audit's work since the last update. Details are provided of the progress against the approved Internal Audit plans, audit recommendations follow up, and other relevant matters for the Committee to be aware of.

1.2 Highlights

Full details are provided in the body of this report however Internal Audit would like to bring to the Committee's attention that since the last update:

- One audit report has been completed – Pensions System.
- Pension Fund Governance Arrangements audit is scheduled for Quarter 4.
- The closure of ten audit recommendations.
- The process to be followed for the formation of the 2023-26 Internal Audit Plan.
- The staffing position within Internal Audit.

1.3 Action requested of the Pensions Committee

The Pensions Committee is requested to note the contents of this report and the work of Internal Audit since the last audit.

2 Internal Audit Progress

2.1 2021-22 Audits

Council Area	Audit Area	Position
Pensions	Pensions System	Final audit report issued

2.2 2022-23 Audits

Service	Audit Area	Position
Pensions	Pension Fund Governance Arrangements Including Risk Management	Not started – Review scheduled for Q4

2.3 Audit reports presented to this Committee

Report Title	Assurance Year	Conclusion
AC2213 – Pensions System	2021-22	<p>In general, the pensions system is adequately controlled. The system was appropriately procured and meets cyber security accreditation requirements; data back-up, business continuity and disaster recovery arrangements are sufficient; and data input controls are present.</p> <p>However, interface reconciliations would benefit from a system of review to reduce the risk of interface failures being missed and pension accounts being misstated as a result.</p> <p>In addition, many workflow actions affecting pension recalculations related to the McCloud judgment (1,037 actions) where it was determined age discrimination affected younger scheme members as a result of the transition of local government pension schemes from final salary to Career Average Earnings pension schemes, and workflow actions related to the next actuarial revaluation (2,961 actions), need to be cleared ahead of the respective deadlines (October 2022 and May 2023), to avoid reputational damage should pensioners not receive the correct payments, or the actuarial revaluation process is disrupted.</p>

2.4 Follow up of audit recommendations

Public Sector Internal Audit Standards require that Internal Audit report the results of its activities to the Committee and establishes a follow-up process to monitor and ensure that management actions have been effectively implemented.

Recognising the implementation of audit recommendations as something that Internal Audit could support the Council with, over the past months Internal Audit has led an exercise aimed at supporting management on the closure of agreed actions. This did not move the tolerances but through engagement beyond the routine follow up exercise, we worked with management to close out as many actions as possible and leave only those actions that were rightly ongoing for management to focus on.

As at 30 June 2022 (the baseline for our exercise), 10 audit recommendations were due and outstanding¹:

- Seven rated as Significant within audited area
- Three rated as Important within audited area

As part of the audit recommendations follow up exercise, all ten audit recommendations were closed.

Appendix 1 – Grading of Recommendations provides the definitions of each of the ratings used.

2.5 2023-26 Audit Planning Process

Over the coming months Internal Audit will begin the process of developing the 2023-26 Assurance Plan. Appendix 2 – 2023-2026 Internal Audit Planning Process details the process that will be followed.

2.6 Staffing

Throughout the previous year Internal Audit has had several changes to staffing and resources, including the recruitment of a new Chief Internal Auditor.

At present Internal Audit is operating with a 11.6 FTE, 1.4 FTE under budget:

- 1 FTE because of recent staff attrition; recruitment is underway to fill this post.
- 0.4 FTE because of flexible working arrangements adopted by staff.

¹ This is the position with regards to recommendations that were due as at 30 June 2022. Recommendations falling due past this date and those made as part of subsequent Internal Audit Reports will be followed up as part of the standard follow up cycle and reported to Committee session on session.

3 Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level / within audited area	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

4 Appendix 2 – 2023-2026 Internal Audit Planning Process



