

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	15 March 2019
REPORT TITLE	Internal Audit Plan 2019/20
REPORT NUMBER	IA/19/004
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.1

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to seek approval of the attached Internal Audit plan for 2019/20.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee approve the attached Internal Audit Plan for 2019/20.

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 2019/20, along with the methodology for determining the areas to be reviewed, has already been approved by the Audit, Risk and Scrutiny Committee. This followed consultation with management through the 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 22 June 2017.

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 Enabling Technology, 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
Equality & Human Rights Impact Assessment	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.
Data Protection Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

9.1 Appendix A – Internal Audit Plan 2019/20

9.2 Appendix B – Analysis of NESPF Risk Register.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01224) 664184

Appendix A

INTERNAL AUDIT PLAN 2019/20

NORTH EAST OF SCOTLAND PENSION FUND

Area	Scope	Objective	Link to RR
Investment Strategy and Investment Performance Management	Investment Strategy and Investment Performance Management	To provide assurance over compliance with the pension fund investment strategy and arrangements in place to monitor the performance of investment managers.	NESPF RR 15, 17 & 18

APPENDIX B

ANALYSIS OF RISK REGISTER

Key

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

Risk No.	Risk	Definition	NESPF Control Effectiveness Assessment	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan	Management Comment
1	Lack of effective Risk Management	Failure to identify and respond to risks will impact on service delivery capabilities	Pension Fund Risk Register is reviewed and updated quarterly	Planned audit of Pensions Governance & Risk Management in 2018/19	None	Agreed
2	Poor Governance	Lack of a robust and effective governance framework and suitable policies/procedures could create a regulatory compliance issue, lead to poor service delivery and reputational risk	The Fund has in place an annual review of its governance statement and supporting policies and procedures, ensuring both regulatory and Council objectives compliance	Planned audit of Pensions Governance & Risk Management in 2018/19; AC1725 Pension Fund Payroll October 2017; AC1620 Pensions Investment Strategy & Management May 2016.	None	Agreed
3	Lack of Performance Measures	Failure to monitor performance across the Fund will provide a lack of transparency on delivering an efficient and effective service	The Fund has in place both statutory and local KPI's	Looked at partly in AC1620 Pensions Investment Strategy & Management May 2016 (reporting of fund managers' performance)	None	Agreed

Risk No.	Risk	Definition	NESPF Control Effectiveness Assessment	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan	Management Comment
4	Failure of Pensions Committee and Pension Board to operate effectively	Failure to ensure effective joint working will result in non-compliance with regulatory requirements, inability to make decisions or policies, reputational risk	Annual review of Committee and Board, in consultation with both	None	None	Agreed
5	Operational disaster, unable to access the workplace	Loss of service delivery, staff downtime	Disaster Recovery Policy in place, incorporated into ACC	None	See Corp004 in Corporate Risk Register	Agreed
6	Failure to recruit and develop staff	Service delivery and succession planning at risk	Individual staff training plans reviewed annually, ongoing review of staffing requirements	None	See Corp003 in Corporate Risk Register	Agreed
7	Pay and price inflation valuation assumptions either higher or lower	Potential Increase in employer contribution rates	Funding updates reported to Committee quarterly	AC1620 Pensions Investment Strategy & Management May 2016	None	Agreed
8	Failure to comply with LGPS Regulations, Pensions Act, HMRC and other overriding legislation	Audit criticism, legal challenge, reputational risk, financial loss/penalties	Six monthly compliance review and annual report to Committee	Planned audit of Pensions Governance & Risk Management in 2018/19	None	Agreed
9	Failure to comply with FOI requests	Audit criticism, legal challenge, reputational risk	Internal controls in place to ensure deadlines adhered to, Pension Fund Manager responsible for all FOI requests	None	None	Agreed

Risk No.	Risk	Definition	NESPF Control Effectiveness Assessment	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan	Management Comment
10	Conflicts of Interest	Audit criticism, legal challenge, reputational risk	Regular discussions between CO-Finance and Pension Fund Manager. Areas of risk and conflict declared at Pensions Committee and Pension Board meetings, conflicts register to record and monitor	Planned audit of Pensions Governance & Risk Management in 2018/19	None	Agreed
11	Requirement to complete GMP reconciliation	Failure to ensure future member benefits are calculated correctly, audit criticism and financial loss	Appointment of GMP Project Team	None	None	Agreed
12	Fraud/Negligence	Overpayment/unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk	Pension payments signed off by a SPO-Benefits, segregation of duties for staff authorising/submitting lump sum payments. Admin to Pay to be implemented in 2018.	Pensions Payroll audit AC1725, October 2017.	None	Agreed
13	Overpayments of pension benefits	Audit criticism, legal challenge, reputational risk	Pension payments signed off by a SPO-Benefits, segregation of duties for staff authorising/submitting lump sum payments	Pensions Payroll audit AC1725, October 2017.	None	Agreed

Risk No.	Risk	Definition	NESPF Control Effectiveness Assessment	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan	Management Comment
14	Insufficient assets to meet the Fund's long term liabilities	Increase in employer contribution rates and investment risk, audit criticism, legal challenge, reputational risk, financial loss	Quarterly assessment of investment performance and funding updates, triennial valuation and investment strategy review	AC1620 Pensions Investment Strategy & Management May 2016	None	Agreed
15	Failure to monitor investment managers and assets	Audit criticism, legal challenge and reputational risk	Quarterly assessment of asset performance and regular meetings with managers	AC1620 Pensions Investment Strategy & Management May 2016	Proposed review of Investment Strategy and Investment Performance Management	Agreed
16	Failure of world stock markets	Increase in employer contribution rates, financial loss	Diversification of scheme assets, triennial valuation and investment strategy review	None	No	Agreed
17	Negligence/fraud/default by investment managers	Financial loss, reputational damage	Due diligence on appointment and appropriate clause in legal agreements, fund management monitoring, SAS 70 reports	AC1620 Pensions Investment Strategy & Management May 2016	Proposed review of Investment Strategy and Investment Performance Management	Agreed
18	Failure of Global Custodian	Loss of assets or control of assets	Regular meetings with custodian, receipt of SAS 70 reports and monitoring	AC1620 Pensions Investment Strategy & Management May 2016	Proposed review of Investment Strategy and Investment Performance Management	Agreed
19	Poor financial reporting	Qualified accounts	Comprehensive policies and procedures in place	None	None. This would be picked up by external audit.	Agreed

Risk No.	Risk	Definition	NESPF Control Effectiveness Assessment	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan	Management Comment
20	Annual review of Code of Practice and any other overriding regulations	Qualified accounts	Review of Code, attending CIPFA meetings/reviews	None	None. This would be picked up by external audit.	Agreed
21	Failure to secure and manage personal data in line with Data Protection requirements	Audit criticism, legal challenge, reputational risk, financial penalties	Internal control and procedures for management of data, project group set up to implement GDPR & assess current processes.	None	See Corp005 in Corporate Risk Register	Agreed
22	Failure of the Fund's administration system	Staff downtime, loss of service delivery	The administration system is hosted externally with back-up in separate location	Pensions System audit AC1827, March 2018.	None	Agreed
23	Failure to carry out effective member tracing	Incorrect pension payments made, incorrect assessment of actuarial liabilities	Tracing Service in place (ATMOS)	Pensions Payroll audit AC1725, October 2017.	None	Agreed
24	Failure to monitor employer covenant	Orphaned liabilities could fall on remaining employers	Continued implementation of Employer Covenant Policy	None	None	Agreed
25	Changes in early retirement strategies by employers	Pressure on cash flows	ERT to manage through Employer Covenant Policy and discretions	None	None	Agreed
26	Employers leaving Scheme/closing to new members	Orphaned liabilities could fall to remaining employers	ERT to manage through Employer Covenant Policy	None	None	Agreed

Risk No.	Risk	Definition	NESPF Control Effectiveness Assessment	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan	Management Comment
27	Longevity	Increase in employer contribution rates	Actuarial valuation every 3 years which undertakes scheme specific analysis including review of life expectancy/mortality assumptions	None	None	Agreed
28	Employer contributions not received, collected or recorded accurately	Orphaned liabilities could fall to remaining employers	Accounting Team escalate any issues to Governance/ERT Team, with escalation to tPR if persists. Breaches Policy and Register in place	Pensions System audit AC1827, March 2018.	None	Agreed
29	Failure to maintain member records; data incomplete or inaccurate	Incorrect pension payments made, incorrect assessment of actuarial liabilities	All employers required to submit monthly data which is reconciled by the ERT	Pensions System audit AC1827, March 2018.	None	Agreed