

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Pensions Committee
<b>DATE</b>	14 June 2019
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Internal Audit Annual Report 2018/19
<b>REPORT NUMBER</b>	IA/19/008
<b>DIRECTOR</b>	N/A
<b>CHIEF OFFICER</b>	Fraser Bell
<b>REPORT AUTHOR</b>	David Hughes
<b>TERMS OF REFERENCE</b>	2.2

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### 1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide the Committee with Internal Audit's Annual Report for the North East Scotland Pension Fund for 2018/19.

### 2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Note the Annual Report for 2018/19;
- 2.2 Note that the Chief Internal Auditor has confirmed the organisational independence of Internal Audit;
- 2.3 Note that there has been no limitation to the scope of Internal Audit work during 2018/19; and
- 2.4 Note the progress that management has made with implementing recommendations agreed in Internal Audit reports.

### 3. BACKGROUND / MAIN ISSUES

- 3.1 It is one of the functions of the Pensions Committee to consider all reports prepared by the Council's Internal and External Auditors in relation to the Pension Fund.
- 3.2 The Internal Audit plan for 2018/19 was agreed by the Pensions Committee on 16 March 2018. The plan consisted of one audit although there were a number of audits undertaken in relation to Aberdeen City Council which contributed to Internal Audit's understanding of the NESPF framework of governance, risk management, and internal control arrangements.

- 3.3 It is considered that sufficient work was completed during the year, or was sufficiently advanced by the year-end, on which to base the conclusion drawn in the annual Internal Audit Report. This is supplemented by review of other relevant documentation, including Pension Committee papers, and the assessment of risk undertaken (by both Internal and External Audit) in updating the Internal (and External) Audit plan(s).
- 3.4 Internal Audit's annual opinion is attached as Appendix A, and concludes that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's framework of governance, risk management and internal control in the year to 31 March 2019.
- 3.5 The Public Sector Internal Audit Standards require that Internal Audit confirms to the Board, at least annually, that it is organisationally independent. The organisational independence of Internal Audit is established through Financial Regulations (approved by full Council) and the Internal Audit Charter (approved by the Audit, Risk and Scrutiny Committee). Other factors which help ensure Internal Audit's independence are that: the Internal Audit plan for the NESPF is approved by the Pensions Committee; and, Internal Audit reports its outputs to Committee in the name of the Chief Internal Auditor. The Chief Internal Auditor considers that Internal Audit is organisationally independent.
- 3.6 There is also a requirement to report any instances where the scope of Internal Audit's work has been limited. During 2018/19, there have been no such limitations.
- 3.7 Internal Audit Standards require that Internal Audit implement a system to monitor the implementation of agreed recommendations by management arising from its reports. Appendix B to this report shows the progress that management has made with implementing such recommendations.

#### **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. Recommendations are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

## 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
<b>Equality &amp; Human Rights Impact Assessment</b>	An assessment is not required because the reason for this report is for Committee to consider Internal Audit's annual report. 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 Annual Report for the year ended 31 March 2019.
- 9.2 Appendix B – Position with agreed recommendations included in NESPF Internal Audit reports.

## 10. REPORT AUTHOR DETAILS

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## **Appendix A**

### **Internal Audit Annual Report relating to the North East Scotland Pension Fund for the year ended 31 March 2019**

As Chief Internal Auditor of the North East Scotland Pension Fund, I am pleased to present my annual statement on the adequacy and effectiveness of the NESPF's framework of governance, risk management and control for the year ended 31 March 2019. The purpose of this statement is to assist the Chief Officer – Finance in forming the required opinion in relation to the Annual Governance Statement to be included in the Annual Accounts.

#### **Opinion**

It is my opinion, based on the following, that reasonable assurance can be placed upon the adequacy and effectiveness of the NESPF's framework of governance, risk management and control in the year to 31 March 2019.

Whilst issues were identified in audits that have been completed, as reported to the Pensions Committee, areas of good practice, improvement, and procedural compliance were also identified.

#### **Basis of Opinion**

My evaluation of the control environment is informed by a number of sources:

- The audit work completed by Internal Audit during the year to 31 March 2019;
- Progress made with implementing agreed Internal Audit recommendations;
- The assessment of risk completed during the updating of the audit plan;
- Reports issued by the Council's external auditors; and
- Internal Audit's knowledge of the NESPF's and Aberdeen City Council's framework of governance, risk management and performance monitoring arrangements.

#### **Respective responsibilities of management and internal auditors in relation to internal control**

It is the responsibility of the Pension Fund's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the Chief Internal Auditor to provide an annual overall assessment of the robustness of the internal control system.

#### **Sound internal controls**

The main objectives of the Pension Fund's / Aberdeen City Council's internal control systems are to:

- ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- safeguard assets;
- ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of internal control.

### **The Work of Internal Audit**

Internal Audit is an independent appraisal function established by the NESPF / Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

The section undertakes an annual programme of work agreed with management and the Pensions Committee. The audit plan is based on a risk assessment process which is revised on an ongoing basis to reflect evolving risks and changes within the Pension Fund and Aberdeen City Council.

All Internal Audit reports identifying system weaknesses, non-compliance with expected controls, and / or assurance of satisfactory operation are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken on audit recommendations. The Internal Auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action.

**David Hughes,  
Chief Internal Auditor,  
North East Scotland Pension Fund  
8 April 2019**

## Appendix B

### POSITION WITH AGREED RECOMMENDATIONS INCLUDED IN NESPF

#### INTERNAL AUDIT REPORTS

AS AT 8 APRIL 2019

Note: This is on an exception basis, where all recommendations in a report have been implemented, the report is not shown.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.03.19	Confirmed Implemented by Service	<b>Not implemented by original due date</b>	
<b>AC1827</b>	<b>Pensions System</b>	March 2018	7	7	6	<b>1</b>	1 Significant
The position with the overdue recommendation is as follows:							
Chief Officer	Recommendation	Grading / Due Date	Position				
Finance	The Service should ensure that secondary calculation checks are a system requirement (2.4.8)	Significant September 2018	The Service is in the process of implementing a new software solution but testing of this has been delayed by the system provider. This recommendation should now be fully implemented by September 2019.				
<b>AC1923</b>	<b>Governance Arrangements</b>	March 2019	6	0	0	<b>0</b>	0