

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	25 June 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Annual Report 2020/21
REPORT NUMBER	IA/21/007
DIRECTOR	N/A
CHIEF OFFICER	Colin Harvey Chief Internal Auditor (Interim)
REPORT AUTHOR	Colin Harvey
TERMS OF REFERENCE	2.2

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 2020/21.

2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Note the Annual Report for 2020/21;
- 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 2020/21; 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 2020/21 was agreed by the Pensions Committee on 20 March 2020. The plan consisted of one audit although there were a number of audits undertaken in 2020/21 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 The volume of work completed within Aberdeen City Council during 2020/21 is less than previous years, due to the impact of Covid 19 on the resources and capacity of the Internal Audit team and of audited Services. Whilst this leads to a reduction in the sources of assurance available on which to form an opinion, reliance has been placed on the previous body of work completed by Internal Audit, and reported progress with management implementation of agreed Internal Audit recommendations. Consideration has been given as to whether this amounts to a limitation of the scope of Internal Audit's activities, and it is considered that for 2020/21 a one-off reduction in the number of completed audits will not have a material impact. Should the situation extend to significantly impact work planned in 2021/22 and beyond, further consideration will be given to the level of assurance which Internal Audit can provide.
- 3.5 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 Fund's framework of governance, risk management and internal control in the year to 31 March 2021.
- 3.6 The Public Sector Internal Audit Standards require that Internal Audit confirms to the 'Board' (in this case the Pensions Committee), 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.
- 3.7 There is also a requirement to report any instances where the scope of Internal Audit's work has been limited. During 2020/21, except to the extent discussed at 3.4 above, there have been no such limitations.
- 3.8 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.
- 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
Impact Assessment	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.
Data Protection Impact Assessment	Not required

9. APPENDICES

- 9.1 Appendix A – Internal Audit Annual Report for the year ended 31 March 2021.
- 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 2021

As Chief Internal Auditor (Interim) 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 2021. 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 2021.

On balance, most of the audited areas were operating as anticipated. Areas of good practice, improvement, and procedural compliance have been identified and these have been detailed in individual assignment reports. Most recommendations made by Internal Audit during 2020/21 related to general improvements to procedures, and the requirement to evidence adherence to them.

However, as in previous years, some significant issues have been identified throughout the year. These included ensuring segregation of duties is being applied where appropriate, and compliance risks. One recommendation graded as "major" was made in the year, regarding clarification of the process and documentation involved in the review of investment options.

9 recommendations were made in reports concluded and agreed with the Service during 2020/21, however only 1 has been completed to date, and extensions of up to 1 year have been proposed. Until these actions are concluded, assurance over the investment management process is reduced.

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 2021;
- Previous years' Internal Audit work and annual reports;
- 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.

**Colin Harvey,
Chief Internal Auditor (Interim),
North East Scotland Pension Fund
5 April 2021**

Appendix B

**POSITION WITH AGREED RECOMMENDATIONS INCLUDED IN NESPF
INTERNAL AUDIT REPORTS
AS AT 24 MAY 2021**

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 31.03.21	Confirmed Implemented by Service	Not implemented by original due date	
AC2015	Pensions Investment Strategy and Performance Management	September 2020	9	9	1	8	1 Major 5 Significant 2 Important
The position with the overdue recommendations is as follows:							
Chief Officer	Recommendation	Grading / Due Date	Position				
Pensions Manager	The Service should review reporting to demonstrate that management is taking appropriate action to move towards greater alignment with the Strategic allocation. 2.1.7	Significant March 2021	We have agreed a new investment strategy and we will report to committee in due course as to how the Fund will progress to its strategic benchmark. An extension to December 2021 has been requested.				

Chief Officer	Recommendation	Grading / Due Date	Position
Pensions Manager	The Service should document the processes involved in developing and taking forward investment proposals. 2.2.9	Major December 2020	The Service will provide a copy of the next investment proposal to evidence this has been implemented, but it has not been possible to put a date on this as we do not know when the next change will be, although it is anticipated this will take place during 2021. An extension to December 2021 has been requested.
Pensions Manager	The Service should ensure all Officers involved in preparing and reviewing investment proposals have completed declarations of interest. 2.2.10	Significant December 2020	One officer has still to sign a declaration. An extension to June 2021 has been requested.
Pensions Manager	The Service should develop proportionate cashflow forecasting procedures. 2.2.12	Important December 2020	The Fund will put together a cash management policy/principles and include 2.2.20. Given current resources, an extension to December 2021 has been requested.
Pensions Manager	The Service should review options for short term cash deposits, and improve documentation regarding investments made with the Council. 2.2.16	Significant December 2020	The Fund has obtained legal advice and will instruct its advisors to draw up a formal agreement. An extension to September 2021 has been requested.
Pensions Manager	The Service should develop a protocol to cover selection and recording of disinvestment options. 2.2.20	Significant December 2020	The Fund will put together a cash management policy/principles under 2.2.12. Given current resources, an extension to December 2021 has been requested.

Chief Officer	Recommendation	Grading / Due Date	Position
Pensions Manager	The Service should review its ESG policies and reporting requirements. 2.3.15	Important March 2021	Officers provided a training session on ESG on 26 th February 2021 and further discussions at committee. Further work with the committee is required to agree and update the Fund's ESG policies and reporting requirements, this will continue through 2021. An extension to December 2021 has been requested.
Pensions Manager	The Service should review performance reporting to ensure the Committee is able to scrutinise and challenge Officers' decisions and performance as appropriate. 2.4.10	Significant March 2021	The review is ongoing and will be developed through 2021 once additional resources are in place. An extension to December 2021 has been requested.