



## **Internal Audit**

# **North East Scotland Pension Fund Pensions Committee Internal Audit Update Report March 2023**

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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 – Pension Fund Governance Arrangements.
- No audit recommendations were due as at 31 January 2023.

## 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 update.

## 2 Internal Audit Progress

### 2.1 2022-23 Audits

Service	Audit Area	Position
Pensions	Pension Fund Governance Arrangements Including Risk Management	<b>Final audit report issued</b>

### 2.2 Audit reports presented to this Committee

Report Title	Assurance Year	Conclusion
AC2209 – Pension Fund Governance Arrangements	2022-23	<p>The level of net risk is assessed as <b>MINOR</b>, with the control framework deemed to provide <b>SUBSTANTIAL</b> assurance over the Fund's governance arrangements.</p> <p>The Management Team has instilled a strong governance structure and operation across the Fund, including effective policies, procedures, training, and monitoring arrangements. There is an overarching Governance Policy, with a suite of subsequent policy documents covering the main areas of governance, including Training, Risk Management, Conflicts of Interest (COI), Breaches and Complaints Handling.</p> <p>Whilst governance is the responsibility of Management, there is also a recognition of the importance both the Pensions Board and Pensions Committee play in ensuring effective operations, which is primarily carried out through the review and scrutiny of papers.</p> <p>The Fund is operating a framework of control that is on the whole conscious and comprehensive of all aspects of governance and Management employs a variety of different mechanisms to ensure effective operations, including but not limited to team meetings, staff bulletins, training, registers, workplans, task checklists and performance management measures for staff. Testing of the processes around risk management, breaches, training, and COIs found these to be designed and operating effectively. Operations were also found to be aligned with Aberdeen City Council Standing Orders and Financial Regulations.</p> <p>Where no areas were found to be devoid of controls completely, recommendations have been made to enhance elements of operations across three areas:</p> <ul style="list-style-type: none"> <li>• <b>Training</b> – Management should continue their efforts to ensure full compliance with mandatory training for Committee members and Fund staff.</li> <li>• <b>Risk Management Appetites and Tolerances</b> – Management should review the Risk Management Policy and update it accordingly to reflect appetites for the different risk categories.</li> <li>• <b>Breaches Process</b> – Management should review the Personal Data Breaches Procedure and either ensure that it is followed for all incidents or update it to reflect current operations.</li> </ul>

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### **2.3 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.

As at 31 January 2023 (the baseline for our exercise), no audit recommendations were due.

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

### 3 Appendix 1 – Grading of Recommendations

Risk level	Definition
Corporate	This issue / risk level impacts the Fund as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net risk rating	Description	Assurance assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual issue / risk	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, such as those described in the Scheme of Governance. This could result in, for example, a material financial loss, a breach of legislative requirements or reputational damage to the Fund. Action should be taken within three months.
Severe	This is an issue / risk that is likely to significantly affect the achievement of one or many of the Fund's objectives or could impact the effectiveness or efficiency of the Fund's activities or processes. Examples include a material recurring breach of legislative requirements or actions that will likely result in a material financial loss or significant reputational damage to the Fund. Action is considered imperative to ensure that the Fund is not exposed to severe risks and should be taken immediately.