

The Highland Council

Pensions Committee – 14th August 2014

Agenda Item	8
Report No	PC/07/14

Statement on Internal Control 2013/14

Report by the Head of Internal Audit & Risk Management

Summary

The attached report includes an assessment of the adequacy, reliability and effectiveness of the Council's system of internal financial control and provides information for the Pension Fund's Statement of Accounts. This is contained within the Statement on Internal Control.

1. Introduction

- 1.1 In order to comply with the requirements of the CIPFA Standards, a Statement on Internal Control must be produced. The attached report gives details relating to the Statement on Internal Control and the sources of information which inform the Statement.
- 1.2 On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Pension Fund's internal control systems for the year to 31st March 2014.

2. Implications

- 2.1 There are no Resource; Legal; Equalities; Climate Change/Carbon Clever; Risk and Gaelic and Rural implications arising from this report.

Recommendation

Members are invited to note the content of the attached report and the audit opinion provided, and to raise any relevant points with the Head of Internal Audit & Risk Management.

Designation: Head of Internal Audit & Risk Management

Date: 24th July 2014

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Background Papers



Highland Council Pension Fund
Statement on Internal Control 2013/14

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1. INTRODUCTION

- 1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1st April 2013 to 31st March 2014, and a report that can be used by the Pension Fund to inform its governance statement.
- 1.2 This report has been produced in accordance with the requirements of the Public Sector Internal Audit Standards (the Standards) which came into effect from 1st April 2013 and apply to all internal audit service providers. These Standards were developed in collaboration between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA).
- 1.3 Section 2450 of the Standards states that *"the annual Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. In addition, the annual report must incorporate:*
- *The opinion;*
 - *The summary of work that supports that opinion; and*
 - *A statement on conformance with the Standards and the results of the quality assurance and improvement programme."* As the Internal Audit service is provided by the Highland Council, this statement is provided within the Council's annual report.

2. STATEMENT ON INTERNAL CONTROL

2.1 Internal Control

Internal control is defined as *"the whole system of checks and controls, financial or otherwise, established by management in order to provide reasonable assurance"* regarding the achievement of one or more of the following objectives:

- The reliability and integrity of information.
- Compliance with policies, plans, procedures, laws, regulations and contracts.
- The safeguarding of assets.
- The economical and efficient use of resources.
- The accomplishment of established objectives and goals for operations or plans.

Any system of control can only 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 and regulations. Accordingly the Board should seek continual improvement in the effectiveness of its systems of internal control.

It is the responsibility of senior management to establish an appropriate and sound system of internal control, and to monitor the continuing effectiveness of that system.

2.2 Internal Audit

The Standards define internal auditing as *"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes"*.

The work undertaken by Internal Audit is documented in an audit report and issued to management. Any areas of concern together with the management agreed actions and target dates for implementation are summarised in an Action Plan within the report. It is the responsibility of management to ensure that implementation of these actions takes place as agreed. The Internal Audit Section will undertake periodic follow-up reviews to ensure that the management agreed

actions have been satisfactorily implemented and the results of this will be reported to the Pensions Committee.

The Internal Audit Section operates in accordance with the Standards and as required, a risk based tactical audit plan is produced each year, and submitted for approval to the Pensions Committee.

2.3 Internal Audit work

The work undertaken by the Internal Audit Section during the year to 31st March 2014 consists of that undertaken directly for the Fund and indirectly where the Highland Council's financial systems are used. The 2013/14 audit plan was presented to the Pensions Committee on 23/05/13 and this consisted of the following two audits:

- A review of the systems of internal control for the financial year 2013/14 consisting of a high level review of the adequacy and effectiveness of the Fund's system of internal control and targeted testing of key controls. These key controls, summarised below are examined to confirm that the main financial systems are operating as intended.
 - Financial procedures and guidance issued to staff;
 - Segregation of duties;
 - User access levels and appropriateness;
 - System backups.

No control issues have been identified from this work and the audit findings will be addressed in a separate report.

- An audit of the Pension Fund contributions. Details of this audit were provided to the Pensions Committee on 14/11/13 including the audit opinion of "Full Assurance". The report contained one low grade management agreed action which has been implemented.

Assurance is also provided by individual audits of the Council's main financial systems. For this year this consisted of budgetary control and the creditors system whereby the process for the ordering and payment of goods and services was examined. Again, no major control issues have been identified which will affect the audit opinion.

2.4 Assurances from Fund Managers and Global Custodian

The 6 Fund Managers and the Global Custodian each provide an annual assurance report (AAF 01/06/ISAE 3402) which sets out the control procedures in place during the year, and includes an assessment, by an independent accountant, of the effectiveness of the systems of internal controls in operation throughout the period examined.

These reports were obtained and reviewed, and it was confirmed that the appropriate assurances were provided by the independent accountants.

2.5 Governance arrangements

Local Government Pension Schemes are required to measure compliance of their governance arrangements against compliance standards and this is included within the Pension Fund's Annual Report.

The Pension Fund also has a Governance Policy Statement which is one of a number of key documents it must hold and this was recently updated in May 2013.

The governance arrangements have been enhanced further by updating and strengthening the training policy for the Pension Fund. This policy has adopted the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills, and CIPFA's supporting Framework and guidance documentation, and applies to both officers responsible for supporting the Fund, and Members of the

Pensions Committee and Investment Sub-Committee charged with governance and decision making.

2.6 Risk Management

CIPFA guidance on "*Managing risk in the Local Government Pension Scheme*" was issued in November 2012 and this sets out the role of the Pensions Committee as follows:

- Determining the risk policy and reconciling this with the wider organisational risk policy;
- Setting the risk management strategy in line with the risk policy;
- Overseeing the risk management process.

Within the Governance Policy Statement reference is made to the Fund's Risk Management arrangements whereby identified risks and their countermeasures are contained within the Funding Strategy Statement (FSS). This also states that Fund has adopted the Council's risk management arrangements.

A specific risk register for the Pension Fund has recently been drafted using the format set out in the CIPFA guidance. This has been reviewed by Management and it is intended that this will be finalised shortly. Within the register, the risks have been "ragged" and it is intended that those shown as Amber (there are no Reds) will be reported to the Pensions Committee in August.

2.7 Audit Opinion

On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Pension Fund's internal control systems for the year to 31st March 2014.