

Agenda Item	<b>7.a</b>
Report No	<b>PEN/07/17</b>

## HIGHLAND COUNCIL

**Committee:** Pensions Committee and Pensions Board

**Date:** 31<sup>st</sup> August 2017

**Report Title:** **Internal Audit Annual Report 2016/17**

**Report By:** Corporate Audit Manager

### **1. Purpose/Executive Summary**

1.1 The attached report includes an assessment of the Pension Fund's framework of governance, risk management and control, and the associated opinion which provides information for the Fund's Annual Governance Statement.

### **2. Recommendations**

2.1 The Board is invited to note the content of the report, the audit opinion provided and to raise any relevant points with the Corporate Audit Manager.

### 3. Annual Report 2016/17

- 3.1 The Public Sector Internal Audit Standards requires that the Chief Audit Executive (the Corporate Audit Manager):

*“Delivers an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.*

*The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.*

*The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”*

These requirements have been met by the report provided at **Appendix 1** with section 2 of the report used to inform the Fund’s Annual Governance Statement.

### 4. Implications

- 4.1 There are no Resource, Legal, Community (Equality, Poverty and Rural), Climate Change/Carbon Clever, Risk or Gaelic implications. Any issues identified have already been addressed within previous reports to Committee.

Designation: Corporate Audit Manager

Date: 21<sup>st</sup> August 2017

Author: Donna Sutherland

Background Papers:

**Appendix 1**



**Highland Council Pension Fund**  
**Internal Audit Annual Report 2016/17**

## **1. INTRODUCTION**

- 1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017, and a report that can be used by the Pension Fund to inform its Annual 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 1<sup>st</sup> 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 which was approved by the Audit & Scrutiny Committee on 26/06/17.

## **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/ Board.

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/ Board.

### **2.3 Internal Audit work**

The 2016/17 Internal Audit plan comprised of the following two audits:

- Matters arising from the Statement of Internal control for the financial year 2015/16. This report had the audit opinion of "Substantial Assurance" and contained 2 medium grade recommendations, both of which have been implemented as agreed.
- A review of Pensions Contributions which looked at transactions relating to 2015/16. Again this report had the op opinion of "Substantial Assurance" with 3 recommendations comprising of 2 medium and 1 low priority grades. All management agreed actions have been satisfactorily implemented.

Audit recommendations are action tracked to ensure that the management agreed actions have been satisfactorily implemented. As detailed above, a total of 5 audit recommendations were made during the year and have all been actioned as agreed.

### **2.4 Assurances from Fund Managers and Global Custodian**

The 7 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**

The Highland Council, as administering authority of the Pension Fund, has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/ SOLACE Framework Note for Scottish Authorities – Delivering Good Governance in Local Government (2007). The authority's financial and management arrangements also conform with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in local government.

The Pension Fund has a separate Governance Policy Statement which is one of a number of key documents it must hold and this was updated to reflect the changes in governance arrangements as a result of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 . This Statement was approved by the Pensions Committee on 22/09/16.

### **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). A new FSS was approved by the Pensions Committee on 19/02/15. The Fund's risk management policy and strategy was approved by the Committee on 24/09/15.

The Pension Fund has its own risk register which is based upon the format set out in the CIPFA guidance. The last risk review was reported to the Pensions Committee/ Board on 22/09/16.

## **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 framework of governance, risk management and control for the year to 31<sup>st</sup> March 2017.