



# South Tyneside Council

## Pensions Committee

Date: 11<sup>th</sup> June 2019

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### Internal Audit Annual Report 2018/19 (for information and discussion)

Report of the Corporate Director Business and Resources

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This report provides a summary of audit work completed by Internal Audit throughout 2018/19 and provides an overall assurance on the Pension Fund internal control environment.

The report also assists the Council in its statutory responsibility to ensure the proper administration of its financial affairs.

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## Legislative Background

1. The requirement for an internal audit function is either explicit or implied in Section 151 of the Local Government Act 1972 which requires that authorities 'make arrangements for the proper administration of their financial affairs'. This is supported by the more specific requirement of the Accounts and Audit Regulations 2015 which state that 'a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. South Tyneside Council's Internal Audit Partnership conforms to Public Sector Internal Audit Standards (PSIAS) 2017.
2. The Public Sector Internal Audit Standards (PSIAS) define the scope of the annual report on internal audit activity. The annual report must incorporate an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This annual report provides information to support that assessment and that an effective Internal Audit is established for the Tyne and Wear Pension Fund in accordance with the requirements of the 2015 Accounts and Audit Regulations.

## Aims and Objectives

3. The primary objective of Internal Audit is an assurance function that provides an independent and objective opinion on the Council's control environment, by evaluating it's effectiveness in achieving the Council's objectives. We objectively examine, evaluate and report on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. In addition, our objectives are to:
  - Support the Finance Director to discharge duties as S151 Officer;
  - Provide assurance to the Head of Pensions, Pensions Committee and the Local Pension Board on the Pension Fund control environment;
  - Support the Monitoring Officer in achieving Corporate Governance requirements;
  - Provide appropriate inputs and opinions to support the Annual Governance Statement or other assurance mechanisms of the Council (including providing evidence for External Audit opinion purposes);
  - Support management to understand its exposure to risks and advise on risk management principles/methods and appropriate controls/contingencies to manage risks;
  - Provide resources to implement the Council's counter fraud strategy and for the investigation of fraud and irregularities;
  - Provide quality services through the highest standards of professional practice, quality assurance systems and investment in staff.

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### Risk Assessed Internal Audit Plan

4. The 2018/19 Audit Plan was set through discussions with Deloitte, the Council's specialist Internal Audit partner to deliver pension and investment audits, Internal Audit and the Head of Pensions. The plan was set taking into account the key risks facing the pension fund.
5. In line with the Society of County Treasurers report 'Good practice guidance: gaining assurance over the governance and administration of pension funds, and pension fund investment management – a guide for the internal auditor', Internal Audit will aim to review the expected controls in relation to governance and strategy and pensions administration at least once over a three year period whilst in relation to investments, assurance will be taken each year through assessing that systems are in place to review and monitor control and governance reports for all externally managed investments. This coverage will allow Internal Audit to provide an opinion on the adequacy and effectiveness of the organisation's control environment.

### Assurance Scores

6. The assurance levels adopted by Internal Audit are as follows:

Definition	Description
Full Assurance	There is a sound system of controls in place and those controls are consistently applied and are fully effective. Control objectives are fully met.
Substantial Assurance	There is a sound system of control in place but some of the controls are not consistently applied or fully effective. Control objectives are largely achieved.
Moderate Assurance	There is basically a sound system of controls in place but there are weaknesses and evidence of non-compliance with or ineffective controls. Control objectives are often achieved.
Limited Assurance	The system of control is weak and those controls are consistently applied and there is evidence of non-compliance with the controls which do exist. Control objectives are sometimes achieved.
No Assurance	There is no system of control in place and control objectives are rarely or never achieved.

7. The standard assurance levels adopted by Deloitte differ slightly to the Council's as follows:

Definition	Description
Substantial	Mitigations and monitoring activities accord with accepted good practice and are operating to a high standard.
Adequate	The majority of mitigations and monitoring activities accord with accepted good practice and are operating, although some deficiencies exist which could result in financial and / or reputational loss.
Limited	Mitigations and monitoring activities in place offer scope for considerable improvement and result in a high risk of financial and / or reputational loss.
Inadequate	Mitigations and monitoring activities, where in place, require substantial improvement, and result in an unacceptably high risk of financial and / or reputational loss.

### Internal Audit Coverage 2018/19

8. The 2018/19 Internal Audit plan covered the period from 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019. An outline of the work delivered is shown below:

Planned Work 2018/19	Opinion
Governance (Deloitte)	Substantial
Risk Management Workshop (Deloitte)	Not Applicable
Northumberland County Council Pension Fund Administration	Full
Benefit Awards – Ill Health Retirements	Full
Admitted Bodies	Deferred
Property Portfolio	Substantial
Fraud Risks	Full
GDPR / Data Security b/fwd	Substantial
Data Quality 2018/19 b/fwd	Full
Business Continuity 2018/19 b/fwd	Substantial

9. Sound systems were found to be in place for the Fund's compliance with Myners governance principles relating to effective decision making, clear objectives, risk and liabilities, performance assessment, responsible ownership and transparency and reporting.
10. The review of the Shared Service arrangement with Northumberland County Council Pension Fund found the project was well governed, with specific workstreams being led by senior management. Conference call Steering Committee meetings included action plans and the transfer of staff under TUPE conditions was managed timely.

11. Ill health and deferred ill health benefits into payment were found to have been calculated in line with LGPS rules and previously awarded Tier 3 benefits had been subject to review and ceased where necessary.
12. Robust financial control arrangements were found to be in place to account for property portfolio income in full and on a timely basis.
13. Sound internal controls and processes were found to be in place to ensure that the Pensions Fund has controls in place to mitigate and minimise the risk of fraud.
14. Sound controls were found to be in place to comply with GDPR requirements. The Pension Fund has ensured all staff have undergone online GDPR awareness training, maintains a Key Information Register of all information held and processed and appropriate cyber security measures are in place to secure personal information and data held.
15. The data quality review found sound systems of control were in place to ensure common and conditional datasets, held in respect of 165k members of both the TWPF and NCCPF, were accurate and addressed all key elements as set out by the Pensions Regulator.
16. The Pension Fund adheres to the Council's business continuity arrangements. In line with these arrangements sound systems were found to be in place and the Pension Fund adheres to the Council's policies and procedures.

### **Conclusion on Internal Control Environment**

17. To provide an opinion on the adequacy and effectiveness of the Pension Fund control environment, an analysis of all audits undertaken over the last 3 years has been undertaken (see **Appendix 1**). From the work undertaken Internal Audit are able to provide **full assurance** on the adequacy and effectiveness of the organisation's control environment. In the majority of systems audited there is a sound system of control in place and those controls are consistently applied and fully effective. This conclusion will feed into the Annual Governance Statement to be published with the Council's Statement of Accounts.

### **2019/20 Internal Audit Plan**

18. The Internal Audit Plan has been set through discussions with Internal Audit, Deloitte and the Head of Pensions and takes into account risks identified within the Fund's risk register. The full plan, including the scope of each audit, is attached at **Appendix 2**.

### **Legal Implications**

19. All legal implications are outlined in the report.

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**Financial and Value for Money Implications**

20. There are no financial or value for money implications arising from the recommendations set out in this report.

**Risk and Opportunity Implications**

21. Risk implications have been considered as part of the audit planning process.

**Equality and Diversity Implications**

22. There are no equality and diversity implications arising directly from this report.

**Environmental and Sustainability Implications**

23. There are no environmental and sustainability implications arising directly from this report.

**Options to be considered**

24. No other options are submitted for consideration.

**Recommendations**

25. Members are requested to note the contents of this report and are given the opportunity to comment on the 2019/20 audit plan.

**Reasons for Recommendation**

26. The recommendation is made so that the Committee can be satisfied that a sound system of internal control is in place.

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Internal Audit 3 year Pension Fund Coverage

System	Audit Findings					
	Yr 1 – 2016-17		Yr 2 – 2017-18		Yr3 – 2018-19	
Governance Review	Substantial	5*	Substantial	5*	Substantial	5*
Risk Management Workshop					Not Applicable	
Tax and Chargeable Events	Substantial	5*				
Benefit Awards – Normal Retirements	Full	5				
Contributions	Full	5				
Pensions Process	Not Applicable					
Funding and Investment Strategy Review			Substantial	5*		
Annual Allowance and Lifetime Allowance			Substantial	5*		
Compliance with Code of Practice No. 14			Substantial	4		
Benefit Awards – Deaths Benefit Entitlements			Substantial	4		
Recharges			Full	5		
Northumberland County Council Pension Fund Administration					Full	5
Benefit Awards – Ill Health Retirements					Full	5
Admitted Bodies					Deferred	
Property Portfolio					Substantial	4
Fraud Risks					Full	5
Business Continuity 2018/19 b/fwd					Substantial	4
GDPR / Data Security 2018/19 b/fwd					Substantial	4
Data Quality 2018/19 b/fwd					Full	5
<b>Average 3 year score (85/18)</b>					<b>Full</b>	<b>4.7</b>

\* - based upon Deloitte scoring Substantial assurance is maximum score available.

\*\* - based upon Deloitte scoring Adequate assurance equates to Substantial assurance.

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South Tyneside Council





# Introduction

This document sets out our proposed internal audit plan for the Tyne and Wear Pension Fund for 2019/20 for the consideration and approval of the Pensions Committee.

In compiling this plan, South Tyneside Council's Internal Audit function have held discussions with Deloitte pension specialists. We have also discussed the plan with Ian Bainbridge and Tom Morrison of Tyne and Wear Pension Fund in a meeting on 21 March 2019.

To arrive at the proposed plan, we have evaluated, amongst other documents, the Pension Fund's risk register in order to ensure that the plan is genuinely risk-based and relevant to the current position of the Pension Fund.

# Proposed Internal Audit Plan 2019/20

## Deloitte Input

The below table contains the audits discussed in the 21 March 2019 meeting.

Costs have been calculated in accordance with the terms set out in our engagement letter dated 12 December 2014.

Audit title	Brief overview of proposed scope of work	Draft indicative timing	Responsibility	Number of days	Cost (£)
<b>Governance</b>	<p>We will undertake a high level review of the Governance structure in place at the Fund, focusing in particular on the continued effectiveness of the Local Pension Board, and its interactions with the Pension Committee.</p> <p>We will undertake our annual assessment of the Fund's procedures for Investment Management against the requirements of the six Governance Principles published by the Chartered Institute of Public Finance and Accountancy in December 2009.</p> <p>Our review will include attendance at the Pensions Committee meeting in Q3.</p>	Q3	Kevin Humpherson	6	6,830

Audit title	Brief overview of proposed scope of work	Draft indicative timing	Responsibility	Number of days	Cost (£)
<b>Due diligence review of pooling arrangement</b>	<p>We will undertake a high level review of the Governance structure in place in relation to asset pooling arrangements with Border and Coast.</p> <p>We will undertake an assessment of the asset transfer procedures, risks involved and suggest possible improvements. We will focus on the Fund's relationship with Border to Coast, and the Pension Committee's relationship with the pool's Joint Committee.</p>	Q1	Kevin Humpherson	6	6,830
<b>Planning and engagement management</b>				3	3,415
				<b>15</b>	<b>17,075</b>

#### Council Input

Audit title	Brief overview of proposed scope of work	Draft indicative timing	Responsibility	Number of days	Cost (£)
<b>Payroll Processing</b>	To review payroll processes to ensure effective and efficient systems and controls are in place to ensure the accurate calculation, timely processing and prompt payment of pension benefits in line with regulations.	Q2	Internal Audit	10	7,000
<b>Contributions</b>	To review processes and controls in place to ensure contributions and supporting data are remitted accurately, completely and on a timely basis whilst refunds are appropriately controlled.	Q4	Internal Audit	7	4,900

Audit title	Brief overview of proposed scope of work	Draft indicative timing	Responsibility	Number of days	Cost (£)
<b>Benefit Awards</b>	To review the processes and perform substantive testing of the calculation of normal retirement benefits to ensure they are calculated in line with guidance and are accurately calculated in line with member records.	Q4	Internal Audit	8	5,600
<b>Investment Managers</b>	To review and assess the adequacy of arrangements to monitor the performance of investment managers including Private Market Managers.	Q2	Internal Audit	7	4,900
<b>Performance Management</b>	To self assess the fund's performance arrangements in line with CIPFA guidance.	Q3	Internal Audit	8	5,600
<b>Admitted Bodies</b>	We will review the procedures in place for processing Admission Bodies to and leaving the Fund.	Q1	Internal Audit	8	C/fwd 18/19
<b>Pension Queries</b>	To deal and support with ad-hoc queries raised by the service.	Ongoing	Internal Audit	5	3,500
<b>Management of Pension Plan</b>				3	2,100
<b>Internal Audit Days</b>				48	33,600
<b>Total Days/Cost</b>				<b>63</b>	<b>50,675</b>

# Proposed Internal Audit Plan 2020/21

## Deloitte Input

The below table contains the audits for the next financial year, discussed in the 21 March 2019 meeting. We have noted them here to aid planning in 2020/21.

Audit title	Brief overview of proposed scope of work
<b>Funding strategy</b>	<p>We will consider the approach adopted for the 2019 funding valuation and evaluate against good practice. This review will build on the reviews performed in relation to the 2013 and 2016 funding valuations.</p> <p>We will also undertake a review of the Fund's Investment Strategy Statement, evaluate references to investment strategy against industry good practice and comment on the reasonableness and transparency within the assumptions made in the Fund's investment strategy.</p>
<b>Environmental, social and governance (ESG) review</b>	<p>We will review the implementation of ESG policy by Border to Coast. We will also consider the interaction between the Fund and its Pension Committee with the Border to Coast team.</p>
<b>Risk management workshop</b>	<p>We will facilitate a risk management workshop with Pensions Committee and Local Pension Board members to discuss and highlight risks facing the Fund, with a particular focus on governance, and the controls in place to mitigate these.</p> <p>The exact format and content of the workshop, including level of interactivity, is to be confirmed nearer the time.</p> <p>We will deliver a report after the workshop which details the process undertaken, our findings and recommendations.</p>
<b>Transfers Out</b>	<p>To provide assurance that transfers out are calculated correctly in accordance with LGPS regulations and internal policy and procedures.</p>

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## Internal Audit Annual Report 2018/19

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**The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:**

<b>Background Paper</b>	<b>File Ref:</b>	<b>File Location</b>
Internal Audit Annual Operational Plan	G/index/operational audit plan/2018/19	Internal Audit