

North Yorkshire County Council

Pension Board

6 October 2016

Internal Audit Reports

Purpose of Report

To provide the Pension Board with an update on internal audit activity.

Background and Recent Activity

At its last meeting the Pension Board were provided with an updated timetable for the completion of internal audit reports from Veritau, NYPC's internal auditors, shown below:

Work Plan	Report Title	Due
2015/16	Investments	Q2 2016/17
2015/16	Expenditure	Q2 2016/17
2015/16	Income	Q2 2016/17
2016/17	Systems	Q2 2016/17
2016/17	Investments	Q1 2017/18
2016/17	Expenditure	Q1 2017/18
2016/17	Income	Q1 2017/18

There were 3 reports due in Q2 and there is an update on the progress made on each of these below:

- Investment Audit Report- The final report has now been issued (**Appendix 1**) providing high assurance.
- Expenditure Audit report- work is currently being undertaken. Veritau do not have an estimated issue date yet, but it is expected that the final report will be available for discussion at the next Pension Board meeting.
- Income Audit Report- Veritau have issued a draft memo on the work that has been undertaken.

Please note that the dates shown above have not yet been fixed and may be subject to change as Veritau schedule in this work around other audit work for the Council.

Although in the past the Pension Board has expressed some concern over the timeliness of the issuance of Internal Audit Reports, some comfort may be received from the most recent reports. For investments, systems, income and expenditure the conclusions were high or substantial assurance. The special assignment in 2014 on pension payments concluded with limited assurance, however follow up work undertaken by Veritau in 2015 reported to the Council's Audit Committee noted that "performance had improved significantly".

Recommendation

Pension Board members to review the Investment Report.

BARRY KHAN

Assistant Chief Executive (Legal and Democratic Services)

County Hall

Northallerton

JO'D - September 2016

Background Papers - None



North Yorkshire Pension Fund Investments

North Yorkshire County Council

Internal Audit Report 2015/16

Business Unit: Central Services
Responsible Officer: Corporate Director – Strategic Resources
Service Manager: Head of Commercial and Investments
Date Issued: 6 September 2016
Status: Final
Reference: 32210/008.bf

	P1	P2	P3
Actions	0	0	1
Overall Audit Opinion	High Assurance		

Summary and Overall Conclusions

Introduction

The Local Government Pension Scheme (LGPS) is a statutory scheme for local authority employees, operated under the Local Government Pension Scheme Regulations under regulations issued by the Central Government Department, Communities and Local Government. The County Council is responsible for the Scheme within the geographical areas of North Yorkshire and the City of York. In addition to employees working in local government, a number of other public, education and voluntary sector employees are also members of the LGPS. Private contractors engaged in local authority work are also able to participate in the scheme.

The scheme is administered on a local basis and NYCC is the statutory Administering Authority for the scheme with responsibility for making sure appropriate arrangements are in place to administer all aspects of the Fund. This is achieved by the County Council delegating responsibility for managing all aspects of the Fund to the Pension Fund Committee.

Objectives and Scope of the Audit

The audit was based upon a document produced by the Society of County Treasurers in conjunction with the Lead Auditor Working Group on the Audit of Investment Managers and the Chief Auditors Network. This guidance includes an analysis of risks and controls that are common to all local authority pension funds and that framework formed the basis for this review.

The purpose of the audit was to provide assurance to the North Yorkshire Pension Fund (NYPF) that:

- the Authority had a policy and strategy for the investment of its funds that was reviewed annually; and
- investment fund managers produced independently audited financial statements and provided information required by the NPYF.

This included a review of:

- AAF 01/06, SAS70 reports or equivalent of the current Investment Managers and the Custodian where they were produced and available; and
- information such as the insurance cover, annual reports and the contents of the procedure manuals held by the Investment Managers.

Key Findings

The key findings identified in the audit include:

- assurance reports on internal controls were provided by all of the investment fund managers with the majority receiving an opinion of reasonable assurance from their auditors. The report for Newton returned twenty two exceptions this being much higher than the three reported for the previous year;

- annual reports and accounts were provided by the majority of investment fund managers which had been audited and each providing a true and fair view, the annual report and accounts for Standard Life Investments was obtained from the internet as they failed to provide a copy;
- a number of investment fund managers provided detail of the insurance policies they had in place and staff handbooks or policies. However both Standard Life Investments and Legal and General refused to provide detail of their insurance cover or a copy of their staff handbook. M and G Investments refused to provide detail of their insurance cover.

Overall Conclusions

It was found that the arrangements for managing risk were very good. An effective control environment appears to be in operation. Our overall opinion of the controls within the system at the time of the audit was that they provided High Assurance.

1 Requests for information from investment fund managers

Issue/Control Weakness

Some investment fund managers refused to provide information when requested limiting the audit work that could be undertaken and assurances provided.

Risk

Potential for financial loss to the NYPF.

Findings

During the course of the audit we found that a number of the investment fund managers were reluctant to release information as they felt Veritau did not have authority to act on behalf of the NYPF. We are therefore unable to provide any assurance that these investment funds have appropriate insurance cover.

Agreed Action 1.1

We will get in touch with fund managers prior to the audit at Veritau's request to aid their information gathering. We will also intervene where managers are not providing Veritau with the requested information.

Priority

3

Responsible Officer

Senior Accountant - Pensions

Timescale

31 March 2017

Audit Opinions and Priorities for Actions

Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

Where information resulting from audit work is made public or is provided to a third party by the client or by Veritau then this must be done on the understanding that any third party will rely on the information at its own risk. Veritau will not owe a duty of care or assume any responsibility towards anyone other than the client in relation to the information supplied. Equally, no third party may assert any rights or bring any claims against Veritau in connection with the information. Where information is provided to a named third party, the third party will keep the information confidential.