

Pensions Committee

2.30pm, Monday, 24 March 2014

Dunedin Room, City Chambers, High Street, Edinburgh

Lothian Pension Fund - Internal Audit Monitoring 2014/15

Item number

Report number

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Executive summary

Lothian Pension Funds – Internal Audit Monitoring 2014/15

Summary

As part of the improvement and alignment of internal audit with the Council's overall governance programme, the internal audit year will be aligned with the financial year of the Council from 2014. As a consequence of this adjustment, there is a one-off, six month reporting period to 31 March 2014.

The purpose of this report is to outline the proposed Draft annual internal audit plan for 1 April 2014 to 31 March 2015.

This plan is based on the proposed allocation of internal audit resource across the Council's services, which is due to be considered by the Council's Governance and Best Value Committee on 2 April. If the allocation of resource to pension fund audit work is amended, alternative resources will be put in place.

A summary of the audit activity during the six month period covering 1 October 2013 to 31 March 2014 is also included.

Recommendations

To recommend that the Pensions Committee should:-

1. Note the summary of audit activity covering the six month period to 31 March 2014;
2. Note the planned internal audit activity for the year 2014/15.

Measures of success

Alignment of the Internal Audit Plan to the key risks faced by Lothian Pension Fund to ensure that governance is improved, managers take responsibility for corrective action and confidence in the management of risk is increased.

Financial impact

There are no direct financial implications.

Equalities impact

There are no adverse equalities impacts arising from this report.

Sustainability impact

There are no adverse sustainability impacts arising from this report.

Consultation and engagement

Internal audit management team consulted with LPF senior management in preparing the annual audit plan.

Background reading / external references

Internal audit reports issued in the six months to 31 March 2014.

Audit Activity – 6 months to 31 March 2014

1. Internal Audit Activity

1.1 During the period October 2013 and March 2014, Internal Audit issued one final report and one internal controls advisory paper:

- Review of controls around the new payroll system – Part 2
- Payroll controls (guidance note)

2. Summary of Recommendations

2.1 Summary of Recommendations

Audit Area	Critical	High	Medium	Low	Advisory	Comment
New Payroll System – P2	-	-	2	1	-	Follow-up work to be undertaken as part of planned 2 nd quarter work on immediate payments (live data) – July 2014

2.2 An element of the remit for ‘New Payroll System Audit – Part 2’ was deferred until July ’14. The assessment of reconciliation controls between the payroll and pensions systems was considered to be more effective once the new system was fully implemented.

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Summary of planned Internal Audit Activity 2014/15

1. Background

- 1.1 The internal audit plan needs to be risk based, focused on governance, risk and controls in order to allow the Chief Internal Auditor to provide an opinion on Lothian Pension Fund's internal control environment, based on the work undertaken during the year.

2. Main report

- 2.1 This plan is based on the proposed allocation of internal audit resource across the Council's services, which is due to be considered by the Council's Governance and Best Value Committee on 2 April. If the allocation of resource to pension fund audit work is amended, alternative resources will be put in place.
- 2.2 Internal audit planning optimises the use of audit time and matches the internal audit team's skill sets to individual internal audit reviews. In addition planning determines the requisite level of audit resource required and ensures that the maximum benefit is obtained by LPF.
- 2.3 The reporting of internal audit findings now categorises findings as Critical Risk, High Risk, Medium Risk, Low Risk and Advisory to ensure findings are risk based.

Draft Internal Audit Plan 2014/15

2.4 The Audit Plan for the year to 31 March 2015 will focus on the following themes below:

Qtr	Audit Remit	Planned Days
Q1	No audit this quarter.	N/A
Q2	Audit the immediate payment (live) system from Payments Units. Also assess reconciliation controls between payroll and pension systems. Perform pension payroll follow up work from 2013/14 audit.	30 days
Q3	Review the Scheme of Delegation. Ensure that core internal controls around both payments and investment comply with the Scheme of Delegation.	20 days
Q4	Audit of Pensions Administration including a review of data quality and impact on payments (electronic transfers). Assess employer's quality control systems through liaising with their auditors. Obtain assurance over the accuracy of pay information received.	25 days

2.4 Planned days are indicative at this stage as the nature, timing and extent of the audit work is not confirmed in detail until the planning meeting with LPF management prior to the start of the audit fieldwork. In addition, circumstances can change over the audit year resulting in minor adjustment to the specific audit remit to reflect changes in risk.

2.5 In agreement with LPF management, areas considered for 2014/15, but deferred until annual audit year 2015/16 are set out below:-

2.5.1 Review high level control improvements in preparation for accreditation with the Financial Conduct Authority (FCA). Assess how the section has progressed with the issues identified through the Investment Operating Review (Mercer Report).

2.5.2 Review assurance mapping to assist with identifying areas of risk including ICT.

3. Recommendations

3.1 To recommend the Committee notes the 2014/15 Draft Internal Audit plan.

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