

# **SOUTH YORKSHIRE LOCAL PENSION BOARD**

**15th March 2018**

## **REPORT OF THE HEAD OF INTERNAL AUDIT AND CORPORATE ANTI-FRAUD**

### **INTERNAL AUDIT PROGRESS REPORT**

#### **1. Purpose of the Report**

To report on the work completed and that in progress by the Internal Audit Team from the 1<sup>st</sup> October 2017 to 31<sup>st</sup> January 2018, to report the position with regard to the implementation of recommendations and to inform the Board about planned work and the performance of the Team.

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#### **2. Recommendations**

**It is recommended that Members consider the report.**

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#### **3 Background Information**

3.1 As part of its audit committee function the Corporate Planning & Governance Board oversees the work of the Internal Audit Team and receives various reports. The Board has received and / or agreed the following reports to date:-

- 1<sup>st</sup> June 2017
  - IA Annual Report 2016/17
  - IA Charter 2017/18
  - IA Progress Report
- 20<sup>th</sup> July 2017
  - IA Progress Report
- 19<sup>th</sup> October 2017
  - IA Progress Report
  - IA Planning Consultation Paper 2018/19

3.2 The report attached at Appendix A includes:-

- significant control or compliance issues;
- longstanding recommendations;
- a summary of the work completed since the previous progress report;
- a summary of the work in progress;
- assurance opinions given and total recommendations made (Table 1A);
- a table of recommendations followed-up by Internal Audit since the previous progress report;
- a trend analysis;
- Internal Audit performance measure information (Appendix B).

### 3.3 Assurance Opinion

The Assurance Opinion applied for each piece of work will be selected from the following range:-

- Substantial;
- Adequate;
- Limited;
- No Assurance.

The Assurance Opinion is primarily driven by the number and priority level of the recommendations made / agreed. The priority level of recommendations is described either as Fundamental (F), Significant (S) or Merits Attention (MA).

The Assurance Opinion is also influenced by whether the recommendation is in respect of the *adequacy* (or existence) of a control or the *application* of an existing control.

## 4. **Implications**

### 4.1 Financial

The cost of the services of the Internal Audit Team is contained within the budget and is periodically invoiced.

### 4.2 Legal and Freedom of Information Act

- Section 73 of the Local Government Act 1985 requires the Authority to make arrangements for the proper administration of its financial affairs; and Regulation 6 of the Accounts and Audit Regulations 2011 requires the Authority to maintain an adequate and effective system of Internal Audit of its accounting records and of its system of internal control.
- This report does not contain any information which is exempt under the Freedom of Information Act 2000.

4.3 There are no diversity or risk management issues associated with this report.

### **Rob Winter CPFA Head of Internal Audit and Corporate Anti-Fraud**

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**Background papers** used in the preparation of this report are available for inspection at Barnsley Metropolitan Borough Council, Westgate Plaza, Barnsley.

### **Other sources and references:**

Internal Audit Charter 2017-18, Annual Plan 2017-18, Individual Internal Audit Reports, MK Insight (Audit Management System), Public Sector Internal Audit Standards 2017.

## **INTERNAL AUDIT PROGRESS REPORT**

### **1 Annual Plan and Actual Comparison**

The annual audit plan for 2017-18 was agreed with the Senior Management Team and presented to the Board in February 2017. The agreed 245 planned days included an agreed 16 days carried forward from 2016-17 to complete the remaining 4 assignments (Process Maps, Payroll incl. Transfer Values & Lump Sums, Total Fund Value and Local Authority Performance / SLA).

Also included within the planned days was time to undertake 4 formal assignments resulting in a formal internal audit report, of which 2 are complete, 1 is currently at draft report discussion stage and 1 assignment has been deferred (as referred to at Section 7 below).

The planned days also included provision of 85 days to undertake core financial systems reviews, to be determined on a risk basis. Each review will result in a formal report and these are scheduled to commence during Quarter 4, with the audit work currently being scoped.

A total of 97 days of planned work have been delivered to date, including 24 days completed since the last report.

### **2 Significant Control or Compliance issues to bring to the Board's Attention**

- 2.1 There are no new significant control or compliance issues to bring to the Board's attention as a result of Internal Audit work completed during the period.

### **3 Longstanding Recommendations and Management Responses**

- 3.1 This section highlights to Members any recommendations that remain outstanding for 6 months or more following the original recommendation/agreed action target completion date and/or where the recommendation/agreed action target completion date has been subject to 3 revisions. There are no recommendations that fall into this category to bring to the Board's attention.

### **4 Completed Projects since last Progress Report**

<b>Title of Audit (Date Issued)</b>	<b>Key Issues and Finding arising from the Audit</b>	<b>Assurance Opinion</b>	<b>No. &amp; Priority of Recs</b>	<b>Comments / Follow-up Action</b>
Financial Conduct Authority Monthly Compliance	There were no issues requiring a formal report and control in all areas was good.	N/A	None	N/A
Financial Conduct Authority Quarterly Compliance  21/11/2017	The review concluded that the controls in place for transactions placed on behalf of the South Yorkshire Passenger Transport Pension Fund were operating in accordance with current policies and procedures.	N/A	None	N/A

## **5 Projects / Other Work In Progress**

<b>Title of Audit or Nature of Audit Activity</b>	<b>Key Objective(s)</b>	<b>Status / Comment</b>
Financial Conduct Authority Monthly Compliance	To ensure that transactions undertaken on behalf of the SYTPF are on the best terms available on the market at the time.	On-going throughout the year.
Financial Conduct Authority Quarterly Compliance	Review of arrangements to ensure compliance with the Financial Conduct Authority rules relating to: <ul style="list-style-type: none"> <li>• Inducements (Gifts &amp; Hospitality)</li> <li>• Suitability</li> <li>• Customer Order Priority</li> <li>• Timely Execution</li> <li>• Timely Allocation</li> <li>• Fair Allocation</li> <li>• Churning and Switching</li> <li>• Personal Dealing</li> </ul>	On-going throughout the year.
IT Risk Assessment	To provide assurance that IT security arrangements are robust.	Draft audit report issued for discussion.
Pensions Pooling Arrangements	To provide advice, support and guidance to management during the transition to a Pensions Pooling Arrangement.	On-going throughout the year.
Core Financial Systems	To provide assurance that systems and controls are robust and operating effectively and efficiently. Risk based strategy, systems to be determined.	Audit work is currently being scoped.
Pensions Planning Group	Attendance by Internal Audit to advise and monitor emerging issues at a strategic level.	On-going throughout the year.

Title of Audit or Nature of Audit Activity	Key Objective(s)	Status / Comment
AGS Process	To provide advice, support and guidance on the AGS process and arrangements.	On-going throughout the year.
NFI	Audit Commission data matching exercise to identify potential fraud.	On-going throughout the year.

## 6 Planned Work

- 6.1 The reviews included in the agreed annual audit plans relating to 2017-18 will commence during the agreed scheduled quarters throughout the financial year.

## 7 Cancelled / Deferred / Added Assignments

- 7.1 A planned audit of the Risk Management Framework has been deferred having regard to a recent management review of process and subsequent ongoing consolidation of procedures.

## 8 Internal Audit Performance

The performance indicators for the Team for the third quarter are included at Appendix B. Some indicators are non-client specific. Those indicators that are client specific are marked \*.

The performance indicators for the third quarter are generally satisfactory at this point of the year.

## Summary Activity Report

### All Audit Reports Completed in each Quarter

Assurance Opinion	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Cumulative
Substantial	1 (25%)				1 (17%)
Adequate	3 (75%)	2 (100%)			5 (83%)
Limited					
None					
<b>TOTAL REPORTS</b>	<b>4 (100%)</b>	<b>2 (100%)</b>	<b>See Work in Progress Para 5</b>		<b>6 (100%)</b>

### Total Recommendations

Number of Recommendations	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Cumulative
Fundamental					
Significant	4 (57%)	5 (42%)			9 (47%)
Merits Attention	3 (43%)	7 (58%)			10 (53%)
<b>TOTAL</b>	<b>7 (100%)</b>	<b>12 (100%)</b>	<b>N/A</b>		<b>19 (100%)</b>

Table 1B

### Recommendations Followed-up in the Period

Reporting in the period					
Recommendation Classification	Followed- Up	Completed by Target Date	Completed After Target Date	Not Yet Completed – Revised Date Agreed	Awaiting Management Response
Fundamental					
Significant	3 (33%)	1 (11%)	1 (11%)		1 (11%)
Merits Attention	6 (67%)	4 (45%)	1 (11%)		1 (11%)
<b>Total</b>	<b>9 (100%)</b>	<b>5 (56%)</b>	<b>2 (22%)</b>		<b>2 (22%)</b>

Recommendations Past Original Target Date - Not Yet Complete / Awaiting Management Response							
Audit Report	Agreed Action / Classification	Status	Original Target Date	1 <sup>st</sup> Revised Target Date	2 <sup>nd</sup> Revised Target Date	3 <sup>rd</sup> Revised Target Date	Date of IA Follow Up (where awaiting management response)
Local Authority Performance / SLA's	R1 Significant - The Head of Pensions Administration will liaise with the Districts with regards to the findings identified in this review, to clarify the Service Agreement requirements and revise (where required).	Followed up – Not yet implemented	31.10.17	31.03.18	N/A	N/A	

Table 1C

## Trend Analysis – All Quarters 2017-18

## Assurance Opinions

	2017-18				Cumulative
	Q1	Q2	Q3	Q4	2017-18
	%	%	%	%	%
Substantial	25	0	0		17
Adequate	75	100	0		83
Limited	0	0	0		0
None	0	0	0		0
	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

## Recommendations

	2017/18				Cumulative
	Q1	Q2	Q3	Q4	2017-18
	No.	No.	No.	No.	%
Completed by target date	4	1	5		<b>33</b>
Completed after target date	0	4	2		<b>20</b>
Not yet completed - revised date agreed	1	0	0		<b>3</b>
Awaiting Management Response*	2	9	2		<b>44</b>
Total followed up	7	14	9		<b>100</b>
<b>% Completed by Due Date (excl. *)</b>	<b>58</b>	<b>7</b>	<b>56</b>		
<b>% Completed at time of follow-up</b>	<b>58</b>	<b>36</b>	<b>78</b>		



## Glossary (For Tables 1A – 1C)

### 1. Classification of Recommendations

**Fundamental** A recommendation requiring immediate action – imperative to ensuring the objectives of the system under review are met.

**Significant** A recommendation requiring action necessary to avoid exposure to a significant risk to the achievement of the objectives of the system under review.

**Merits Attention** A recommendation where action is advised to enhance control or improve operational efficiency.

### 2. Assurance Opinions

	Level	Control Adequacy	Control Application
<b>POSITIVE OPINIONS</b>	<b>Substantial Assurance</b>	Robust framework of controls exist that are likely to ensure that objectives will be achieved.	Controls are applied continuously or with only minor lapses.
	<b>Adequate Assurance</b>	Sufficient framework of key controls exist that are likely to result in objectives being achieved, but the control framework could be stronger.	Controls are applied but with some lapses.
<b>NEGATIVE OPINIONS</b>	<b>Limited Assurance</b>	Risk exists of objectives not being achieved due to the absence of key controls in the system.	Significant breakdown in the application of key controls.
	<b>No Assurance</b>	Significant risk exists of objectives not being achieved due to the absence of controls in the system.	Fundamental breakdown in the application of all or most controls.

## INTERNAL AUDIT PERFORMANCE INDICATORS FOR QUARTER 3 OF 2017/18

Ref.	Indicator	Frequency of Report	Target 2017/18	This Period	Year to Date
<b>1.</b>	<b><u>Customer Perspective:</u></b>				
1.1	* Percentage of questionnaire received noted "good" or "very good" relating to work concluding with an audit report. (Cumulative 3 very good or good)	Quarterly	95%	N/A	100%
<b>2.</b>	<b><u>Business Process Perspective:</u></b>				
2.1	* Percentage of final audit reports issued within 10 working days of completion and agreement of the draft audit report. (Cumulative 5/6 reports)	Quarterly	80%	N/A	83%
2.2	Percentage of chargeable time against total available.	Quarterly	73%	74%	70%
2.3	Average number of days lost through sickness per FTE	Quarterly	6 days	Nil days	0.75 day
<b>3.</b>	<b><u>Continuous Improvement Perspective:</u></b>				
3.1	Personal development plans for staff completed within the prescribed timetable.	Annual	100%	100%	100%
<b>4.</b>	<b><u>Financial Perspective:</u></b>				
4.1	Total Internal Audit costs v budget.	Quarterly	Within Budget	Within Budget	Within Budget

\* KPIs relate specifically to the SYPA.