

South Yorkshire Pensions Authority Internal Audit Annual Report 2020/21

Audit Committee

29th July 2021

The matters arising in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

INTERNAL AUDIT ANNUAL REPORT 2020/21 **1st April 2020 to 31st March 2021**

Purpose of this report

To report on the Internal Audit Team's completed assignments relating to the 2020/21 audit plan, agreed management actions and the Head of Internal Audit's assurance opinion on the Authority's internal control, risk management and governance arrangements based on the work undertaken.

Background

In accordance with statutory best practice provided by the PSIAS, there is a requirement that the Head of Internal Audit (HoIA) prepares an annual report to the appropriate member body providing, amongst other things, an opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and internal control based on the audit work undertaken. For the Authority, the appropriate member body is the Audit Committee.

The Accounts and Audit Regulations require all local authorities to publish an Annual Governance Statement (AGS) providing a narrative on the Authority's internal control, risk management and governance framework, the results of the annual review process and detailing any actions to be taken in respect of any identified weaknesses. The AGS will address all aspects of corporate governance including internal control and risk management arrangements, in addition to financial controls.

This report provides a summary of key issues arising from the work of Internal Audit covered in the 2020/21 audit plan and up to the point of preparing this report, which contributes to the overall assurance opinion the HoIA is able to give the Audit Committee. The work of Internal Audit has been undertaken throughout the year with no impairment to our independence or objectivity.

Although providing an important and significant contribution to the assurances the Audit Committee needs in its consideration of the AGS, this report forms only part of the assurance framework. The Audit Committee will receive the Annual Governance Statement for 2020/21 at the July meeting. The Audit Committee are therefore encouraged to consider this annual report in the context of broader assurance.

The financial budget for the Internal Audit Team is clearly set covering the period 1st April to 31st March each year and a plan of the days and where they are planned to be delivered is prepared similarly. However, the actual delivery of internal audit work and the constant review and revision of coverage is on a more rolling basis. In order to align the annual Internal Audit report to the AGS and the signing of the Statement of Accounts it is more appropriate that the Head of Internal Audit's opinion is provided reflecting all the work undertaken at the point of the approval of the AGS and Accounts.

Head of Internal Audit's Indicative Opinion on the Effectiveness of the Authority's Governance, Risk and Internal Control Environment

The Audit Committee has received quarterly reports throughout the audit year. In each of these reports a **reasonable** assurance opinion had been given reflecting on a quarterly basis an overall satisfactory level of internal controls and their application and also satisfactory governance and risk arrangements.

Taking the whole year into account, the audits completed, it is appropriate to give an overall **reasonable** (positive) indicative assurance opinion for the year. The information supporting this opinion is provided below.

The general financial pressures on the public sector (particularly following the impact of the Covid 19 pandemic) coupled with significant legislative and organisational changes in the pension's arena will in turn place pressure on the capacity of senior management that if not managed effectively could give rise to threats to the effectiveness of the control, risk and governance framework. The Authority's Senior Management Team will need to remain focused on maintaining a sound internal control, risk and governance framework – i.e. 'staying safe' in 2021-22 and beyond. The 2021-22 Internal Audit Plan aims to support the Authority and Senior Management through this period as well as focus on particular areas of activity and responsibility identified as higher risk.

Internal Audit is conscious of the extent and nature of overall scrutiny, oversight and challenge the Authority is subject to. Of particular importance is the good and effective working relationship between Internal Audit and senior management and other managers, to ensure an efficient audit is delivered and resources are directed to the most important areas of risk.

Although audit work aims to cover a broad range of services, systems and areas of Authority activity, it needs to be recognised that Internal Audit coverage cannot guarantee to detect all errors, systems or control weaknesses or indeed identify all of the opportunities for improvements in management arrangements that might exist. Accordingly the assurance opinion provided is based on reasonable coverage, as resources allow, and cannot be regarded as absolute assurance. Equally, there is a responsibility of senior managers through the annual governance statement process to provide assurances to the Fund Director regarding the application and effectiveness of the internal control and governance framework in their operational or functional areas.

To remind the Committee, Internal Audit assurance opinions are classified within a range of four options, two positive and two negative. The table below shows in broad terms the basis for the different opinions applied.

	Level	Control Adequacy	Control Application
POSITIVE OPINIONS	Substantial Assurance	A robust framework of controls exists that are likely to ensure that objectives will be achieved.	Controls are applied continuously or with only minor lapses.
	Reasonable Assurance	A sufficient framework of key controls exists that are likely to result in objectives being achieved, but the control framework could be stronger.	Controls are applied but with some lapses.
NEGATIVE OPINIONS	Limited Assurance	Risk exists of objectives not being achieved due to the absence of key controls in the system.	A significant breakdown in the application of key controls.
	No Assurance	A significant risk exists of objectives not being achieved due to the absence of controls in the system.	A fundamental breakdown in the application of all or most controls.

Internal Audit seeks to work closely as appropriate with other auditors, most significantly External Audit. However, for 2020-21, no work undertaken by other auditors or any other

review body has been specifically relied upon in the provision of this annual assurance opinion.

Summary of Internal Audit Work and Coverage 2020-21

Internal Audit aims to utilise a risk-based approach to planning its work. This approach seeks to ensure that the key risks facing the Authority are covered where appropriate by Internal Audit work. Internal Audit was able to use the Strategic and Operational Risk Registers to contribute to the planning of audit coverage. The audit planning process and details of the 2020-21 audit plan were reported to the Audit Committee in the March 2020 meeting.

The Audit Committee has received quarterly reports that incorporate the results of audit work and management's response on a continuous basis. A summary of the Internal Audit reports for 2020-21 is at Appendix 1.

At the beginning of the year provision is made in the allocation of audit resources for unplanned work, through a contingency. As requests for Audit work are received, or more time is required for jobs or changes in priorities are identified, time is allocated from this contingency.

It should also be noted that Internal Audit work is variable both in its nature and timing. The risk-based approach aims to ensure the highest priority work is undertaken. As with all plans, the audit plan was determined at a particular point in time (March 2020) utilising information available and has been subject to changes in certain areas. The Audit Committee should be assured that within the finite resources available to Internal Audit, the key audit risks identified have either received audit attention during the year or are reflected in the audit plan for 2021-22.

2020-21 Internal Audit Plan Progress

The following table shows the delivery of the internal audit planned days for 2020-21 (incl. days spent on completing 2019-20 work in Q1 of the financial year), with a breakdown per Service Area. A further table confirms the number of planned assignments for the 2020-21 planned days and those completed at the time of drafting this report.

As at financial year end, we had delivered 95% of the planned days. 17 of the 18 formal audit reports have now been completed. The majority of work was scheduled to be undertaken towards the end of the financial year and Internal Audit profiled their resources to ensure the 2020-21 Pensions Authority plan was delivered. No pieces of work were cancelled / deferred by management during the year and 1 piece of work was divided into 2 (Pensions Review Process).

Delivery of 2020-21 Plan – Audit Days Delivered as at 31st March 2021

	Original plan days	Revised plan days	Actual days (% of revised days)
Finance	98	105	112 (107%)
Pensions Admin	54	46	45 (98%)
Investments	15	15	9 (60%)
Authority Wide	106	110	97 (88%)

	Original plan days	Revised plan days	Actual days (% of revised days)
Contingency	5	2	0
Chargeable Planned Days	278	278	263 (95%)

Delivery of 2020/21 Plan – Planned Assignments Delivered as at 31st May 2021

	Planned Assignments	Actual Assignments Completed
Finance	8	8
Pensions Admin	4	4
Investments	1	1
Authority Wide	5	4
	18	17

Summary of Governance, Risk and Internal Control Issues Arising from Internal Audit work in 2020-21

Internal Audit has completed 17 individual reviews of aspects of the Authority's governance, risk and internal control framework during 2020-21 that resulted in a formal report. These audits sought to identify, test and review various controls to ensure management were meeting their responsibilities to establish and adhere to appropriate systems of internal control.

There is 1 review not yet finalised. Information has been provided by the Head of Pensions Administration to enable the required work to be undertaken (Customer Contact Centre).

A summary of the assurance opinions given for the 15 reports issued, where an assurance opinion was provided, are shown below together with a comparison to 2019/20 and 2018/19.

Assurance Opinion		2020/21 Completed		2019/20		2018/19	
		No	%	No	%	No.	%
Positive Opinions	Substantial	6	40%	1	14%	11	92%
	Reasonable	8	53%	4	58%	1	8%
Negative Opinions	Limited	1	7%	2	28%	0	0%
	No Assurance	0	0%	0	0%	0	0%
TOTAL		15	100%	7	100%	12	100%

Across the various completed pieces of work 27 implications were reported and management actions agreed. These are summarised below:

Agreed Management Action Category	2020/21		2019/20		2018/19	
	No	%	No	%	No	%
High	0	0%	0	0%	0	0%
Medium	19	70%	18	56%	2	17%
Low	8	30%	14	44%	10	83%
Total	27	100%	32	100%	12	100%

No high categorised management actions were made. All implications / management actions being categorised as medium (70%) and and low (30%) priority. In all cases, management have agreed to implement the required actions and set timescales for implementation. Although there has been significant pressure on management throughout the year and across all services, Internal Audit has continued to get good co-operation from management across the Authority and at various levels.

Details of the key issues arising from these reviews have been presented to the Audit Committee in the quarterly reports. In terms of the 1 limited assurance report (Child Pensions Process), management asked Internal Audit to undertake an in-depth review as they were aware that improvements were required. The audit has enabled management to initiate a review of this particular area.

As stated in the quarterly reports it is important to note that the identification of control weaknesses does not necessarily indicate that any loss or inefficiency has actually occurred. Weaknesses indicate an increased *potential/risk* that losses or inefficiencies could occur.

An important part of Internal Audit's assessment of controls is undertaken through the annual reviews of the core financial systems of the Authority. This work is considered by External Audit who have regard to Internal Audit's work to assist in their opinion on the financial systems for their audit of the Accounts.

Internal Audit monitors the implementation of management actions. The progress is reported to the Audit Committee via the quarterly reports. These include the priority level and status of newly added management actions. As at 30th June 2021, there were four management actions that remained outstanding six months after the original agreed implementation date and/or that had 3 revisions to the original agreed implementation date. Refer to Appendix 2.

The timeliness of when management implement their agreed actions has been generally satisfactory throughout the year.

Other Internal Audit work undertaken

Audit Activity	Description
Follow-up of Agreed Management Actions	Regular work undertaken to follow-up of agreed management actions.
Liaison, Planning and Feedback	Meeting and corresponding with Senior Management regarding progress of audit work, future planning and general client liaison.
Advice	General advice to services regarding controls, risk or governance matters.

Audit Activity	Description
Audit Committee Support	Time taken in the preparation of Audit Committee reports, Member training (where required), general support and development.
NFI	Time allocated to undertake the National Fraud Initiative data matching exercise.
AGR/AGS Process	Independent review of the Officer Assurance Statements completed by SMT and the draft AGS.

Appendix 1

Summary of Internal Audit Reports 2020-21

Audit Assignment	Assurance Opinion	Number of implications raised:			Total	Agreed
		High	Medium	Low		
Authority Wide – Risk Management	Reasonable	0	1	1	2	2
Authority Wide – DPO Cybersecurity	Reasonable	0	4	0	4	4
Authority Wide - DPO IG Awareness Surveys	Reasonable	0	1	1	2	2
Authority Wide – Procurement Insurance	Reasonable	0	2	0	2	2
Investments – Pensions Pooling Arrangements	Reasonable	0	1	0	1	1
Pensions Admin – Customer Services	N/A - Advisory	0	1	0	1	1
Finance – Main Accounting	Substantial	0	0	1	1	1
Finance – Accounts Receivable	Reasonable	0	1	2	3	3
Finance – UPM Payroll	Substantial	0	0	1	1	1
Finance – Transfer Values	Substantial	0	0	0	0	0
Finance – Fund Contributions	Reasonable	0	1	0	1	1
Finance – Verification of Assets	Substantial	0	0	0	0	0
Finance – Treasury Management	Substantial	0	0	0	0	0
Finance – Accounting for Deals	Substantial	0	0	1	1	1
Pensions Admin – Child Pensions Process	Limited	0	4	0	4	4
Pensions Admin – Existence Checks	Reasonable	0	1	0	1	1
Pensions Admin – Online Retirement Tool	N/A - Advisory	0	2	1	3	3
Total	17	0	19	8	27	27

Longstanding Recommendations and Management Responses

Sponsor	Category of Work	Title of Audit / Date of Final Report	Recommendations Outstanding	Priority of Rec.	Original Completion Date	Current Status / Management Updates and Revised Completion Date
Head of Pensions Administration	Pensions Admin	Added Voluntary Contributions 16/09/2019	<p>R10 - The Authority should undertake a review to determine the adequacy of the current contract management arrangements with the AVC providers.</p> <p>Amendments to any agreements where possible should maximise processing efficiencies, value for money and enhance customer service.</p> <p>Moving forward, a process should be established to monitor progress against Key Performance Indicators (KPIs) between the AVC provider and the Authority.</p> <p>Where KPI targets are not met, the Authority should ensure these are followed up within a timely manner.</p>	Significant	31/12/2019 (4 revisions)	<p>Performance issues with Prudential continue to be addressed locally and nationally and this will feed into the AVC review. A new national LGPS Framework for Benefits Consultancy is due to go live on 1 July 2021 which will allow SYPA to select an appropriate partner to assist with the widescale AVC review so this has been rescheduled to Quarter 2.</p> <p>Implementation date revised to 30th September 2021.</p>
Director	Authority Wide	HR Governance 22/01/2020	I3 - The lack of a corporate approach to the management of training & development has led to an ineffective and inefficient process for monitoring training requirements across the Pensions Authority.	Medium	31/07/2020 (3 revisions)	<p>Some limited progress is being made in terms of specific training for staff and in redeveloping the career grade scheme for Pensions Administration. However due to lockdown and the need to concentrate on more immediate priorities, it was not possible to recruit the undergraduate placement that it was intended to use to support key element of this work, which will now need to fall into 2021/22. It would be reasonable to set a revised implementation date of 31/12/21 given where things stand at present.</p> <p>Target implementation date revised to 31/12/2021.</p>

Sponsor	Category of Work	Title of Audit / Date of Final Report	Recommendations Outstanding	Priority of Rec.	Original Completion Date	Current Status / Management Updates and Revised Completion Date
Head of Finance & Corporate Services	Finance	Payroll Review 20/02/2020	I1 - Lack of detailed and up to date procedures that have been recently reviewed, approved and published may result in a lack of clarity with regards to individual roles and responsibilities and a failure to take into consideration and comply with any changes in legislative / regulatory requirements.	Medium	31/07/2020 (2 revisions)	Due to further staff changes in June, the training isn't fully complete yet – it takes a while due to the payroll process only taking place once a month. Can we revise the implementation date again to 31 August. Implementation date revised to 31 st August 2021.
Head of Pensions Administration	Authority Wide	Information Governance 18/08/2020	I3 - Lack of a framework upon which the Authority can monitor and evidence its progress in addressing the areas of non-compliance with GDPR requirements.	Medium	30/11/2020 (0 revisions)	The Governance, Risk and Compliance Officer has only recently been appointed. Although the development of process maps is on her work list, it is likely this will now be completed later in the year - a revised completion date of 31 December 2021 has therefore been suggested. Implementation date revised to 31st December 2021.