

## Appendix 3

### Head of Audit opinion on the work undertaken by Audit Services on the Pension Fund

1. Suffolk County Council is responsible for the administration and investment arrangements of the Local Government Pension Scheme in Suffolk. In discharging its responsibilities, the Council is responsible for ensuring that there is a sound system of internal control.
2. Local government organisations are under an obligation to ensure that their governance arrangements meet best practice, and this applies to their Pension Funds.
3. Audit Services is an integral part of the Council's governance and internal control arrangements. The role, responsibility and objectives of Audit Services are specified in the Council's Constitution. The Director of Resource Management (Section 151 Officer) has delegated responsibility, under the Accounts and Audit Regulations 2015, to maintain a continuous, adequate and effective internal audit of the County Council's accounting, financial and other processes.
4. The Accounts and Audit Regulations 2015 require that:

"A relevant authority must ensure that it has a sound system of internal control which:

  - (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
  - (b) ensures that the financial and operational management of the authority is effective; and
  - (c) includes effective arrangements for the management of risk."

In addition, the Regulations require:

"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."

### Head of Audit Opinion

5. Based on the findings of the programme of work undertaken on the Pension Fund during 2015-16, it is the opinion of the Head of Audit Services that the control environment provides substantial assurance that the Pension Fund financial and administrative systems are effective
6. The Head of Audit Services has performed his duties in accordance with CIPFA's guidance on the Role of the Head of Internal Audit. In giving the audit opinion, it should be noted that assurance can never be absolute. The

most that can be provided is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

## **Findings of internal audit work 2015-16.**

### **Investment Management**

7. The annual review of the Pension Fund Investment Management was undertaken to ensure that systems, procedures and controls met with best practice. The review also provides assurance to those charged with Financial Governance of the Pension Fund. Testing was undertaken on the key controls of the investment process which included looking at the reasonableness summaries received from the custodian, the Movement of Investment reconciliations and the management of cash flow.
8. Additionally the Governance and Strategy of the Pension Investment Fund was examined using the Local Authority Working Group on the Audit of Investment Managers (LAWGAIM) good practice guide. In both areas it could be demonstrated that there was a sound system of control resulting in the system objectives being met and that risks were being managed to achieve those objectives.
9. 2015-16 saw the introduction of the Local Pension Board, which audit reviewed and has been successfully set up in line with the Statutory Instrument 2015 No. 57 the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015.
10. The audit review also included an examination of 'Pooling'. On 25 November 2015, the Department of Communities and Local Government (DCLG) published a document, Investment Reform Criteria and Guidance. The document stated that it will be for the local authorities to suggest how their pooling arrangements will be constituted and will operate.
11. It was found that both the Board and Committee had received and been fully informed of the information to enable them to make decisions. Audit could see that the Pension Fund Committee meeting dates were brought forward in order that initial responses could be submitted for the February 2016 deadline. The responses submitted outlined the Fund's commitment to pooling and a description of the progress towards formalising arrangements with other authorities. A refined and completed submission is to be submitted by 15 July 2016. Next year's audit, will review this process further.
12. The overall audit opinion of High Standard has been given with no findings raised.

### **Pension Fund Scheme Administration**

13. The annual review of the administration of the Pension Fund was undertaken to ensure that there were adequate controls and effective systems in operation. The audit covered the key administration systems for the collection and recording of contributions and the calculation and payment of benefits. The review also examined the computer system controls and the administration of admitted bodies.
14. The outcome of the audit was that there were basically sound systems of control in place, which has resulted in substantial assurance and an overall “Effective” opinion was arrived at. Some processing and performance errors were identified as a result of audit testing. Audit services linked these to training of staff and the effectiveness of some management checks. Due to the number of transactions processed by the Pensions Function the errors were not deemed significant or sufficient enough to reduce the level of assurance provided by the audit.
15. Previous audit work in the pension’s arena had identified some issues around contribution rates and the calculation of member’s benefits; audit sampling on this occasion did not identify any issues in this area.
16. Testing on performance of employers against indicators detailed in the Administration Strategy was not undertaken. This was due to the recurring issue that employers were not responding to quarterly requests for performance data. At the time of the audit work was being carried out to update the administration strategy to make it clear that performance monitoring is not optional but also to engage with the employers to make the performance measures and reporting of them a more user-friendly experience.
17. The progress of this has been revisited as part of the arrangement for follow-up of audit actions. The new administration strategy was written in February 2016 and e-mailed to all employers in the fund for any comments/feedback. The administration strategy was approved by the Pension Fund Committee on 24 February 2016. Relevant employers will be required to submit their new return from July 2016 and then at the end of each quarter. Currently it is not possible to judge how these will affect the quarterly returns until the completion of the first quarter.

