

PENSION FUND COMMITTEE – 25 JUNE 2010

INTERNAL AUDIT 2009/10

Report by the Assistant Chief Executive and Chief Finance Officer

Introduction

1. The annual internal audits of the Pension Fund Administration and Investment functions were undertaken in Quarter 3 and Quarter 4 of 2010 respectively.
2. The objectives of the Investments and Administration audits were to provide an evaluation of, and an opinion on, the adequacy and effectiveness of the system of internal controls that are in place to manage financial and non-financial risks of the systems.

Scope

3. The investment audit activity focused on
 - Pension fund Governance and Strategy
 - Transactions
 - Pension Fund Assets.
4. The administration audit focused on:
 - Risk management
 - IT systems
 - Changes to Statutory Requirements
 - Scheme member lifecycles
 - Admitted bodies

Audit Conclusion

5. Internal Audit concluded that there is generally a sound system of internal controls in place in relation to pension fund investments. Risks are being mitigated to acceptable levels except in relation to the following activities:-
 - Gaps were identified in Pension Fund Committee Members training – a review of training is required.
 - Weaknesses were identified in relation to the application of the e-procurement system.
6. The Head of Finance and Procurement has agreed to undertake annual reviews of Pension Fund Committee member training. It was noted that there had been a number of new committee members following the elections in May 2009 and at the time of the audit an insufficient time period had elapsed to

undertake a meaningful review. A review of training will be undertaken in conjunction with a review of the CIPFA knowledge and skills framework.

7. The Pension Fund Investments team began using the corporate e-procurement system shortly before the start of the internal audit. During the initial transition period, the auditor identified that an officer had not reviewed supporting paperwork prior to authorising a purchase order with the new system. To minimise the risk of an incorrect order, as with the previous manual system, authorisers will review supporting paperwork prior to authorising transactions.
8. The internal audit review identified a number of minor issues in relation to pension fund investments, which could improve the systems but do not present a material risk. The recommendations in relation to these activities have been implemented.
9. For Administration the Internal Audit conclusion was acceptable. Internal Audit identified that there is generally a sound system of internal control in place and that risks are being mitigated to acceptable levels.
10. One action arising from the audit report was for the completion of risk assessments for admitted bodies, which has now been finalised.
11. Two supplementary issues were also raised in the report. The first was to arrange for ICT to carry out a disaster recovery test for the pension system – this was completed in March 2010 – and has been scheduled annually for February from 2011 onwards.
12. The second issue highlighted the concerns that employers are not sending information about maternity and unpaid leave through to Pension Services and the impact this has to scheme members. This is being monitored.

RECOMMENDATIONS

13. **The Committee is RECOMMENDED to note the report.**

SUE SCANE
Assistant Chief Executive and Chief Finance Officer

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