



Final Internal Audit Report 2015/16 – Pension Investments (KFS09)

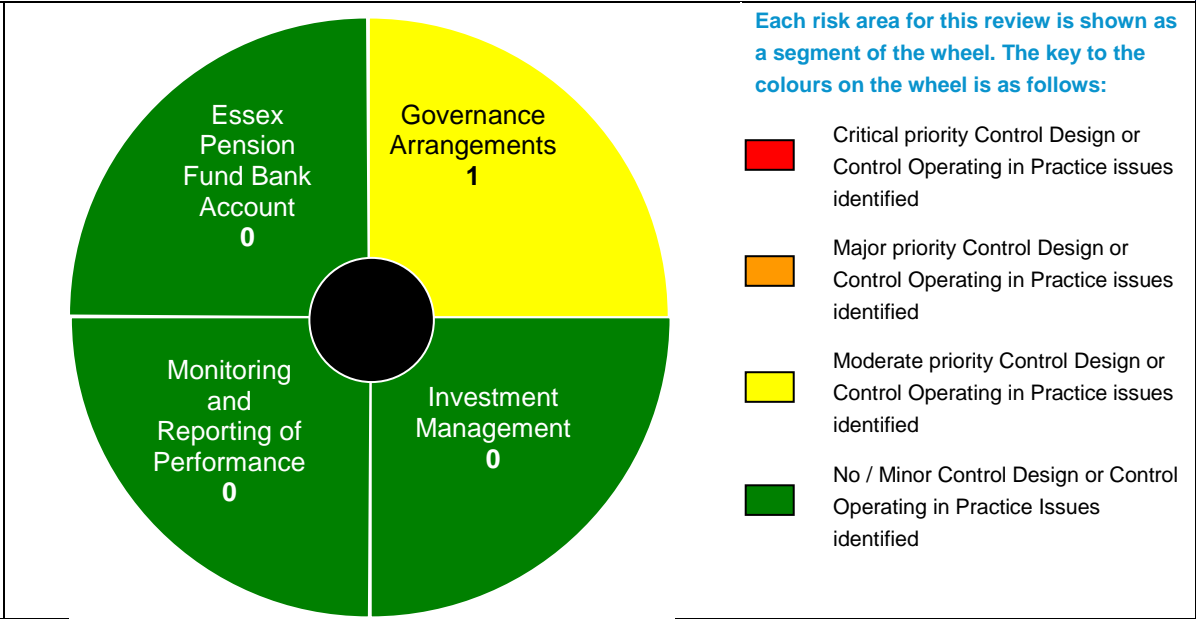
1. Executive Summary

<p>Function: Corporate and Customer Services</p> <p>Audit Sponsor: Kevin McDonald, Director for Essex Pension Fund</p> <p>Distribution List: Kevin McDonald; Jody Evans, Head of Essex Pension Fund; Margaret Lee, Executive Director for Corporate and Customer Services; Rodney Bass, Chairman of the Essex Pension Fund Board; Gary Belcher, EY (External Audit).</p> <p>Final Report Issued: 10 May 2016</p> <p>Date of last review: April 2015</p>	<p>Overall Opinion</p> <p>GOOD ASSURANCE </p> <p>Direction of Travel</p> <p>Control environment has not changed since our prior audit </p>	<p>Number of Control Design Issues Identified</p> <p>0 Critical</p> <p>0 Major</p> <p>1 Moderate</p> <p>0 Low</p>	<p>Number of Control Operating in Practice Issues Identified</p> <p>0 Critical</p> <p>0 Major</p> <p>0 Moderate</p> <p>0 Low</p>	<p>Number of Recommendations</p> <p>1 Made</p> <p>0 Rejected</p> <p>N/A Critical Rejected</p> <p>N/A Major Rejected</p>
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Scope of the Review and Limitations: The audit examined the extent to which the risks relating to potential non-compliance with governance arrangements, investment management, monitoring and reporting of performance and the Essex Pension Fund bank account were being addressed, controlled and managed. There were no limitations of scope. A separate Pensions Administration audit has been carried out under assignment reference KFS10.

Critical and Major Findings and Recommendations

There were no critical and major findings and recommendations.



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Auditor: Simon Martin Fieldwork Completed: 12 February 2016 Draft Report Issued: 09 March 2016 Management Comments Expected: 23 March 2016 Management Comments Received: 22 March 2016 and 03 May 2016 Final Report: 02 June May 2016	Issues raised and officers responsible for implementation:																			
	<table border="1"> <thead> <tr> <th>Name</th> <th>Critical</th> <th>Major</th> <th>Moderate</th> <th>Low</th> <th>Total</th> <th>Agreed</th> </tr> </thead> <tbody> <tr> <td>Ian Myers/Richenda Greenhill, Senior Committee Officers</td> <td>0</td> <td>0</td> <td>1</td> <td>0</td> <td>0</td> <td>1</td> </tr> </tbody> </table>	Name	Critical	Major	Moderate	Low	Total	Agreed	Ian Myers/Richenda Greenhill, Senior Committee Officers	0	0	1	0	0	1					
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Releasing Internal Audit Reports: All distributed draft and final reports remain the property of the respective Director and the Executive Director for Corporate and Customer Services. Approval for distributing this report should be sought from the relevant Director. Care must be taken to protect the control issues identified in this report.																				
Risk Management: The management of the following risks has been reviewed in this audit. Where appropriate, the Audit Sponsor is responsible for adding new risks identified to the relevant risk register.																				

Risk Ref	Risk	Risk Already Identified	Risk Managed
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Registered Risks Reviewed





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Unregistered Risks Identified & Audited

EPFD0015	Governance Arrangements: There is a lack of knowledge and expertise amongst those managing the Pension Fund and its services. This may lead to not applying the pension regulations and a failure to effectively undertake the following leading to loss of reputation, qualification of the accounts or legal reprimand: <ul style="list-style-type: none"> preparing, publishing and maintaining the Statement of Investment Principles, Statement of Compliance, Funding Strategy and Annual Report; obtaining actuarial valuations and certificates; and providing copies of these documents to stakeholders; 	Yes	
N/A	There is a failure to operate robust governance arrangements, which may lead to a lack of effective oversight, scrutiny and clear decision making. This may lead to inappropriate, inconsistent or ineffective actions leading to failure to comply with regulations, loss of money, loss of reputation and employer and employee confidence.	N/A	
EPFD0017 EPFD0018	Investment Management: There is poor strategic planning and management of risk. This may lead to a failure of the Funding Strategy, potentially resulting in a forecasted inability to pay benefits and a consequent need to raise contributions.	Yes	
EPFD0016	There is a lack of clear guidelines on allowed investment vehicles, which may result in inappropriate investment decisions. This could result in a loss of income and capital, potentially resulting in poor value for money for the Pension Fund.	Yes	
N/A	There is a lack of reconciliations between Council and Custodian records, which may lead to discrepancies between the two remaining undetected and potential errors in the accounts, potentially resulting in qualification of the accounts, misrepresentation of fund value and loss of reputation.	N/A	
N/A	Where investment decisions are not made in accordance with delegated authority, it may lead to an unauthorised transaction, potentially resulting in a breach of policy and procedures and or financial loss.	N/A	
N/A	Where income from maturing investments is not received/not received on time, it may lead to a loss of income and capital, potentially resulting in loss to the Pension Fund and/or Essex County Council.	N/A	

N/A	<p>Monitoring and Reporting of Performance: There is insufficient performance, forecasting and risk management information provided to those managing and charged with governance of the Pension Fund. This may result in poor decision making, potentially resulting in poor value for money for the Pension Fund.</p>	N/A	●
N/A	<p>Essex Pension Fund Bank Account: There is a lack of reconciliation of the Essex Pension Fund bank account, which may lead to erroneous entries remaining undetected (e.g. pension income./ expenditure posted to ECC, incorrect amounts posted), potentially resulting in loss to the Pension Fund and/or Essex County Council.</p>	N/A	●

2. Basis of our opinion and assurance statement

Risk rating	Assessment rationale
 Critical	Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: <ul style="list-style-type: none"> ▪ Significant financial loss (through fraud, error, poor value for money) ▪ Serious safeguarding breach ▪ Life threatening or multiple serious injuries ▪ Catastrophic loss of service ▪ Failure of major projects ▪ Critical Information loss leading to Information Commissioner's Office (ICO) referral ▪ Reputational damage – Intense political and media scrutiny i.e. front-page headlines, television coverage. ▪ Possible criminal, or high profile, civil action against the Council, Members or officers. ▪ Intervention by external agencies <p>Remedial action must be taken immediately</p>
 Major	Major in that failure to address the issue or progress the work would lead to one or more of the following occurring: <ul style="list-style-type: none"> ▪ High financial loss (through fraud, error, poor value for money) ▪ Safeguarding breach ▪ Serious injuries or stressful experience requiring medical treatment, many work days lost. ▪ Significant disruption to service (Key outcomes missed, some services compromised. Management action required to overcome medium term difficulties) ▪ Major Information loss leading to internal investigation ▪ Reputational damage – Unfavourable external media coverage. Noticeable impact on public opinion. ▪ Scrutiny required by external agencies <p>Remedial action must be taken urgently</p>
 Moderate	Moderate in that failure to address the issue or progress the work would lead to one or more of the following occurring: <ul style="list-style-type: none"> ▪ Medium financial loss (through fraud, error or poor value for money) ▪ Significant short-term disruption of non-core activities ▪ Scrutiny required by internal committees. ▪ Injuries or stress level requiring some medical treatment, potentially some work days lost ▪ Reputational damage – Probable limited unfavourable media coverage. <p>Prompt specific action should be taken</p>
 Low	Low in that failure to address the issue or progress the work would lead to one or more of the following occurring: <ul style="list-style-type: none"> ▪ Low financial loss (through error or poor value for money) ▪ Minor errors in systems/operations or processes requiring action or minor delay without impact on overall service delivery schedule. Handled within normal day to day routines. ▪ Reputational damage – Internal review, unlikely to have a wider impact. <p>Remedial action is required</p>
Assurance Level	Description
Good	Good assurance – there is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be of Low risk rating. Any Moderate recommendations would need to be mitigated by significant strengths elsewhere.
Adequate	Adequate assurance – whilst there is basically a sound system of control, there are some areas of weakness, which may put the system/process objectives at risk. There are Moderate recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any Major recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
Limited	Limited assurance – there are significant weaknesses in key areas in the systems of control, which put the system/process objectives at risk. There are Major recommendations or a number of moderate recommendations indicating significant failings. Any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
No	No assurance – internal controls are generally weak leaving the system/process open to significant error or abuse or reputational damage. There are Critical recommendations indicating major failings

Auditors' Responsibilities It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

3. Recommendations and action plan

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions
Control design – Declarations of interest					
1.	<p>The interests of Essex County Council (ECC) members of the Advisory Board and Strategy Board are published on the ECC website.</p> <p>However, the interests of non-ECC members (either other local authority councillors or other appointees) are not published.</p>	<p>Governance arrangements</p> <p>There is a failure to operate and or demonstrate robust governance arrangements which may lead to a lack of effective oversight, scrutiny and clear decision making.</p>	<p>Obtain declarations of interest from all non-ECC Advisory Board and Strategy Board members and publish on the ECC website.</p>	<p>● Moderate</p>	<p>Agreed: Yes (in part)</p> <p>Action to be taken: Non ECC Members of both Pension Boards will be requested to complete a declaration of interest form, with the exception of elected Members of other Authorities (declarations are available on that Authority website)</p> <p>These forms will not be published on the ECC website (CMIS) but filed centrally</p> <p>Additional Resources Required for Implementation: None</p> <p>Responsible Officers:</p> <p>Ian Myers/Richenda Greenhill – Senior Committee Officers for Pensions Boards</p> <p>Target Date: 30 June 2016</p>

4. Controls Assessment Schedule

Governance Arrangements Risks:

There is a lack of knowledge and expertise amongst those managing the Pension Fund and its services. This may lead to not applying the pension regulations and a failure to effectively undertake the following, leading to loss of reputation, qualification of the accounts or legal reprimand:

- Preparing, publishing and maintaining the Statement of Investment Principles, Statement of Compliance, Funding Strategy and Annual Report
- Obtaining actuarial valuations and certificates
- Providing copies of these documents to stakeholders

There is a failure to operate robust governance arrangements, which may lead to a lack of effective oversight, scrutiny and clear decision making. This may lead to inappropriate, inconsistent or ineffective actions leading to failure to comply with regulations, loss of money, loss of reputation and employer and employee confidence.

Control	Control In Place?	Action Plan Ref.
The Pension Fund has governance policy, it has been published and it has been subject to independent review.	Yes	
Those charged with governance of the Fund and the scheme are being equipped with appropriate knowledge and expertise.	Yes	
Formal reports and documentation have been made available to key stakeholders.	Yes	
An actuarial valuation has been completed and received.	Yes	
Declarations of interest are made by Board Member and they are published where appropriate.	Partially	1.

Investment Management Risks:

There is poor strategic planning and management of risk. This may lead to a failure of the Funding Strategy, potentially resulting in a forecasted inability to pay benefits and a consequent need to raise contributions.

There is a lack of clear guidelines on allowed investment vehicles, which may result in inappropriate investment decisions. This could result in a loss of income and capital, potentially resulting in poor value for money for the Pension Fund.

There is a lack of reconciliations between Council and Custodian records, which may lead to discrepancies between the two remaining undetected and potential errors in the accounts, potentially resulting in qualification of the accounts, misrepresentation of fund value and loss of reputation.

Where investment decisions are not made in accordance with delegated authority, it may lead to an unauthorised transaction, potentially resulting in a breach of policy and procedures and or financial loss.

Where income from maturing investments is not received/not received on time, it may lead to a loss of income and capital, potentially resulting in loss to the Pension Fund and/or ECC.

Control	Control In Place?	Action Plan Ref.
There are clear guidelines on allowed investment vehicles and the Fund has been invested in accordance with the Statement of Investment Principles.	Yes	

Control	Control In Place?	Action Plan Ref.
There are reconciliations between the records of the ECC, Fund Managers and or Custodians.	Yes	
There are strategic planning arrangements in place for managing the Pension Fund and the Pension Fund has risk management arrangements in place. There are oversight arrangements in both cases.	Yes	
There is a scheme of delegation in place and investment decisions have been made in accordance with delegated authority.	Yes	

Monitoring and Reporting of Performance Risks:

There is insufficient performance, forecasting and risk management information provided to those managing and charged with governance of the Pension Fund. This may result in poor decision making, potentially resulting in poor value for money for the Pension Fund.

Control	Control In Place?	Action Plan Ref.
Investment management and performance have been regularly monitored. Benchmarking has been undertaken.	Yes	
There has been oversight of investment strategy and structure.	Yes	

Essex Pension Fund Bank Account Risks:

There is a lack of reconciliation of the Essex Pension Fund bank account, which may lead to erroneous entries remaining undetected (e.g. pension income./ expenditure posted to ECC, incorrect amounts posted), potentially resulting in loss to the Pension Fund and/or ECC.

Control	Control In Place?	Action Plan Ref.
The Essex Pension Fund bank account has been subject to reconciliation on a regular basis. Miscoding has been promptly identified and amended.	Yes	