

Subject	Internal Audit Annual Report 2019/20	Status	For Publication
Report to	Audit Committee	Date	23/07/2020
Report of	Head of Internal Audit, Anti-Fraud and Assurance		
Equality Impact Assessment	Not Required		
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1. Purpose of the Report

- 1.1 To report on the Internal Audit Team's completed assignments relating to the 2019/20 audit plan, agreed management actions and also the Head of Internal Audit's assurance opinion based on the work undertaken.

2 Recommendation

- 2.1 **Members are recommended to consider and receive the report.**

3. Background Information

The Audit Committee has responsibility for reviewing the adequacy of the Authority's corporate governance arrangements, including those relating to internal control and risk management. The reports issued by Internal Audit are a key source of assurance contributing to the evidence the Committee receives to assure them that the internal control environment is operating as intended.

At the end of the financial year, the Head of Internal Audit, Anti-Fraud and Assurance will produce his Annual Report, which will provide his overall opinion on the adequacy of the Authority's control environment and compliance with it during the year.

4. Implications

- 4.1 The proposals outlined in this report have the following implications

Financial	The cost of the services of the Internal Audit Team is contained within the budget and is periodically invoiced.
Human Resources	n/a
ICT	n/a
Legal	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 2015 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.
Procurement	n/a

Rob Winter CPFA

Head of Internal Audit, Anti-Fraud and Assurance

Background Papers	
Document	Place of Inspection
Background papers and other sources of reference include: Internal Audit Charter 2018-20, Annual Plan 2019-20, Individual Internal Audit Reports, MK Insight (Audit Management System), Public Sector Internal Audit Standards 2017	Barnsley Metropolitan Borough Council, Westgate Plaza, Barnsley.

South Yorkshire Pensions Authority

Internal Audit Annual Report 2019/20

Audit Committee

23th July 2020

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 2019/20 **1st April 2019 to 31st March 2020**

Purpose of this report

To report on the Internal Audit Team's completed assignments relating to the 2019/20 audit plan, agreed management actions and also the Head of Internal Audit's assurance opinion 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 2019/20 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.

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 2019/20 at the July meeting. The Audit Committee are therefore encouraged to consider this annual report in the context of broad controls 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 Internal Control Environment

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

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 (e.g. pension fund pooling) 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 2020/21 and beyond. The 2020/21 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 2019/20, 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 2019/20

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 2019/20 audit plan were reported to the Audit Committee in the June 2019 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 2019/20 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. Over the last couple of years there has been a notable increase in the number of these adjustments which is indicative of the rapidly changing control environment and priorities of the Authority. Details of audit work which has been deferred, deleted or requests for specific pieces of work have been reported within the quarterly reports.

It should also be noted that Internal Audit work is variable both in its nature and timing. The risk-based approach ensures the highest priority work is undertaken. As with all plans, the audit plan was determined at a particular point in time (June 2019) 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 2020/21.

2019/20 Internal Audit Plan Progress

The following table shows the delivery of the internal audit planned days for 2019/20 (incl. days spent on 2018/19 work completed in Q1 of the financial year), with a breakdown per Service Area. A further table confirms the number of planned assignments for the 2019/20 planned days and those completed at the time of drafting this report.

We have delivered 86% of the planned days and 7 of the 10 formal audit reports. 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 2019/20 Pensions Authority plan was delivered. In total, 5 pieces of work were cancelled / deferred by management during the year and 2 piece of works added into the plan (leading to a reduction of total planned days required, hence 86% being achieved).

Delivery of 2019/20 Plan – Audit Days Delivered

	Original plan days	Revised plan days	Actual days (% of revised days)
Finance	121	131	118 (90%)
Pensions Admin	72	59	42 (71%)
Investments	20	0	0
Authority Wide ¹	20	54	50 (93%)
General ²	33	24	22 (92%)
Contingency	5	3	0
Chargeable Planned Days	271	271	232 (86%)

Delivery of 2019/20 Plan – Planned Assignments

	Planned Assignments	Actual Assignments Completed
Finance	6	4
Pensions Admin	3	2
Authority Wide	1	1

Summary of Internal Control Issues Arising from Internal Audit work in 2019/20

Internal Audit has completed 7 individual reviews of aspects of the Authority's internal control framework during 2019/20 that resulted in a formal report. These 7 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 are 3 reviews being finalised at the time of drafting this report: Purchase to Pay & Information Governance (at draft report stage) and MDC & Fund Contributions (almost completed testing). Members will receive a verbal update on the outcomes or status at the July Audit Committee.

A summary of the assurance opinions given for the 7 reports issued are shown below together with a comparison to 2018/19 and 2017/18.

¹ Authority Wide includes ongoing advice and support such as NFI, AGS process, Risk Management and work undertaken on behalf of the Data Protection Officer. Whilst this work is ongoing through the year it is weighted more heavily to Q3&4.

² General includes Advice, Planning & Feedback; Follow up of Management Actions, Annual Audit Planning, CP&G Board, Client Liaison and Local Pensions Board. These activities are ongoing throughout the year.

Assurance Opinion		2019/20 Completed		2018/19		2017/18	
		No	%	No	%	No.	%
Positive Opinions	Substantial	1	14%	11	92%	2	29%
	Adequate / Reasonable	4	58%	1	8%	5	71%
Negative Opinions	Limited	2	28%	0	0%	0	0%
	No Assurance	0	0%	0	0%	0	0%
TOTAL		7	100%	12	100%	7	100%

Across the various completed pieces of work 32 recommendations were made. These are summarised below:

Agreed Management Action Category	2019/20		2018/19		2017/18	
	No	%	No	%	No	%
Fundamental/ High	0	0%	0	0%	0	0%
Significant/ Medium	18	56%	2	17%	9	39%
Merits Attention/ Low	14	44%	10	83%	14	61%
Total	32	100%	12	100%	23	100%

No high categorised management actions were made, with the balance being fairly evenly spread over those categorised as medium and low. In all cases, management have agreed to implement the required actions and set their own 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 2 limited assurance reports (AVCs and HR Governance), management asked Internal Audit to undertake in-depth reviews as they were aware that improvements were required and the reviews enabled management to initiate their re-engineering of these particular areas.

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 Audit Committee via the quarterly reports. These include the priority level and status of newly added management actions. As at 28th June 2020, there was one management action

that remained outstanding six months after the issue of the final version of the Internal Audit Report 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 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.
DPO Audit Assurance	Time allocated for IA to undertake reviews commissioned by the Data Protection Officer. An Annual Report is to be presented to the Committee at its July meeting.

Appendix 1

Summary of Internal Audit Reports 2019/20

Audit Assignment	Assurance Opinion	Number of recommendations / implications raised:			Total	Agreed
		Fundamental /High	Significant/ Medium	Merits Attention/ Low		
Pensions Admin – UPM Payroll	Adequate	0	0	5	5	5
Pensions Admin – AVCs Customer Experience	Limited	0	6	7	13	13
Authority Wide – HR Governance	Limited	0	7	1	8	8
Finance – Investment Income	Substantial	0	0	0	N/A	N/A
Finance – Support Staff Payroll	Reasonable	0	2	1	3	3
Finance – Main Accounting (Journals)	Reasonable	0	1	0	1	1
Data Quality	Reasonable	0	2	0	2	2
Total		0	18	14	32	32

Longstanding Recommendations and Management Responses

Sponsor	Category of Audit 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	Monthly Data Collections 20/12/2018	<p>R4 - The completion of an internal post-implementation review and/or lessons learnt process of the monthly data collection process should be considered. This will allow the Authority to evaluate the process in its current form and to determine if the system and associated processes are fit for purpose and meet project objectives.</p> <p>This may also assist management regarding any future developments and/or strategies regarding direct debit payments.</p>	Significant	30/06/2019 (2 revisions)	<p>Update 16/09/2019:- Part 1 The Data Quality audit around the proposal for a move to Direct Debit collection of contributions was originally scheduled for implementation on 30th June 2019 but has been revised to 1st April 2020</p> <p>The introduction of this new process is conditional on a number of developments within the Civica software system. This is dependent on external support as well as formal consultation with approximately 500 scheme employers.</p> <p>Following discussions between the Head of Pensions Administration and the new Head of Finance and Corporate Services, it has been agreed that a more appropriate implementation date would be 1 April 2020. Operationally, this is not expected to cause any difficulties as the existing processes are sufficiently robust.</p> <p>Part 2 The consultation on the restructure of the Pensions Administration function closed mid-August and Phase 1 of the restructure (which amongst other things involves the creation of the project manager post referred to in the Management Action) is due for completion in mid-October 2019.</p> <p>The Authority expect to advertise this post at the end of September 2019. In the meantime, a cross-team Direct Debits working party has been established to ensure progress towards implementation without the project manager in post where possible.</p> <p>Implementation date revised to 01/04/2020 (revision 1).</p>

Sponsor	Category of Audit Work	Title of Audit / Date of Final Report	Recommendations Outstanding	Priority of Rec.	Original Completion Date	Current Status / Management Updates and Revised Completion Date
						<p>Update Note 6th July 2020:</p> <p>The Head of Pensions Admin confirmed that SMT decided to proceed with implementation of the Direct Debit process from 1st April 2020, recognising some employers would have difficulties in complying with the new arrangements due to Covid 19.</p> <p>As a result, the full completion of the project is expected to extend to 31st August 2020. A lessons learnt review will be undertaken after the project is completed by the new Project and Improvement Lead (once appointed).</p> <p>Recruitment of this post was delayed as the decision was taken to prioritise recruitment to the 2 managerial posts in the Pensions Admin function but the post is now out to external advertisement.</p> <p>Implementation date revised to 30/09/2020 (revision 2).</p>