



Report To:	LOCAL PENSIONS BOARD
Date:	9 August 2018
Reporting Officer:	Wendy Poole – Head of Risk Management and Audit Services
Subject:	RISK MANAGEMENT AND AUDIT SERVICES – ANNUAL REPORT 2017/2018
Report Summary:	The report summarises the work performed by the Service Unit and provides assurances as to the adequacy of the Greater Manchester Pension Fund's system of internal control.
Recommendations:	The Panel to note the report.
Policy Implications:	Effective Risk Management and Internal Audit supports the achievement of the Greater Manchester Pension Fund objectives and demonstrates a commitment to high standards of corporate governance.
Financial Implications: (Authorised by the Section 151 Officer)	Effective Risk Management and Internal Audit assists in safeguarding assets, ensuring the best use of resources and the effective delivery of services. It also helps to keep insurance premiums and compensation payments to a minimum.
Legal Implications: (Authorised by the Borough Solicitor)	Demonstrates compliance with the Accounts and Audit Regulations 2015, which require the Council to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector auditing standards or guidance"
Risk Management:	The services of the Risk Management and Audit Service Unit assists in providing the necessary levels of assurance that the significant risks relating to the Greater Manchester Pension Fund's operations are being effectively managed and controlled.
Access to Information:	<p>The background papers can be obtained from the author of the report, Christine Weston, Principal Auditor by contacting:</p> <p> Telephone: 0161 342 2356</p> <p> e-mail: christine.weston@tameside.gov.uk</p>

1 INTRODUCTION

- 1.1 The purpose of the report is to present a review of the Risk Management and Audit Service for 2017/18. It covers Internal Audit, Risk Management and Insurance.
- 1.2 The definition of Internal Audit is outlined by the Public Sector Internal Audit Standards as follows:
“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.
- 1.3 The key elements of the definition are:-
- **Risk Management** – A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation’s objectives.
 - **Control** – Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.
 - **Governance** – The combination of processes and structures implemented by the Board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

2 THE AUTHORITY FOR INTERNAL AUDIT

2.1 Local Government Act 1972 Section 151.

“Every Local Authority shall make arrangements for the proper administration of its financial affairs and shall secure that one of its officers has responsibility for the administration of those affairs”

The Council’s Constitution formally nominates the Director of Finance as the Council’s Section 151 Officer who will rely on the work of the Internal Audit Service for assurance that the Council’s financial systems (including those of the Greater Manchester Pension Fund) are operating satisfactorily.

2.2 Accounts and Audit Regulations 2015 Part 2, Section 3 – Responsibility for Internal Control

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.

2.3 Accounts and Audit Regulations 2015 Part 2, Section 5 – Internal Audit

- (1) A relevant body 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.
- (2) Any officer or member of a relevant body must, if required to do so for the purpose of the internal audit:
 - (a) Make available such documents and records; and
 - (b) Supply such information and explanation;as are considered necessary by those conducting the internal audit.

- (3) In this regulation “documents and records” includes information recorded in an electronic form.

This is supported by the Council’s Financial Regulations, which reflect Internal Audit’s statutory authority to review and investigate all areas of the Council’s activities in order to ensure that the Council’s interests are protected.

2.4 Accounts and Audit Regulations 2015 Section 6 – Review of Internal Control System

- (1) A relevant Authority must, each financial year:
- (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and
 - (b) prepare an annual governance statement.
- (2) If the relevant Authority referred to in paragraph (1) is a Category 1 Authority, following the review, it must:
- (a) consider the findings of the review required by paragraph (1)(a):
 - (i) by a committee; or
 - (ii) by members of the Authority meeting as a whole; and
 - (b) approve the annual governance statement prepared in accordance with paragraph (1)(b) by resolution of:
 - (i) a committee; or
 - (ii) members of the Authority meeting as a whole.
- (3) Relates to Category 2 Authorities and not applicable to the Council.
- (4) The annual governance statement, referred to in paragraph (1)(b) must be:
- (a) approved in advance of the relevant Authority approving the statement of accounts in accordance with regulations 9(2)(b) or 12(2)(b) (as the case may be); and
 - (b) prepared in accordance with proper practices in relation to accounts(a).

3 KEY ACHIEVEMENTS DURING 2017/2018

- 3.1 The major achievements of the Service Unit for 2017/2018 are as follows: -
- The Internal Audit function was judged to be compliant with the Public Sector Internal Audit Standards (PSIAS) following an External Peer Review in March 2018.
 - The implementation rate for audit recommendations was 90%.
 - Customer feedback is very positive with continued high levels of satisfaction demonstrated on customer questionnaires.
 - Annual reports, plans and regular progress reports presented to Members via the Audit Panel and the Greater Manchester Pension Fund Local Board.
 - The Annual Governance Statement was produced in accordance with best practice and agreed timescales and no adverse comments were received when our External Auditors (Grant Thornton) reviewed it.

4 COVERAGE FOR 2017/2018

- 4.1 The report presented to the Local Board in July 2017 provided an overview of the work planned for 2017/2018 for the Greater Manchester Pension Fund.
- 4.2 Table 1 below shows the full year position of the audit plan for the Greater Manchester Pension Fund. It details the approved plan, the revised plan, the actual days as at 31 March 2018 and the percentage completed. **Appendix 1** provides a detailed breakdown of the 2017/18 Audit Plan.

Table 1 – Annual Audit Plan Progress as at 31 March 2018

Service Area / Directorate	Approved Plan Days 2017/18	Revised Plan 2017/18	Actual Days to 31 Mar 2018	%
Greater Manchester Pension Fund	300	300	318	106

- 4.3 The successful delivery of the plan can be measured in two ways:-
- Actual Productive Audit Days Delivered against the Plan
The days delivered against the plan, is 318, which represents 106%.
 - Percentage of Planned Audits Completed
The second measure focuses on the planned audits, and calculates the actual rate of completion per audit, and then consolidates the individual outcomes into one single percentage figure. The figure for 2017/18 is 92%, which reflects the fact that there were a number of audits in progress at the year end.
- 4.4 The key areas covered during the period April 2017 to March 2018 included:-
- Pension Benefits Payable
 - Debtors
 - Treasury Management
 - First Bus Transfer to GMPF
 - Private Equity
 - Transfer of Funds to New Credit Manager
 - Local Investments Impact Portfolio
 - Calculation and Payment of Benefits
 - Guaranteed Minimum Payments
 - Visits to Contributing Bodies
 - Review of Fund Manager - Investec
 - Greater Manchester Property Venture Fund
 - Altair
- 4.5 A summary of the audit opinions issued in relation to 2017/18 compared to 2016/17 and 2015/16 is shown in Table 2 below: -

Table 2 – Final Reports System Based Audits

Opinion	Total for 2017/18	%	Total for 2016/17	%	Total for 2015/16	%
High	7	70	4	20	4	24
Medium	3	30	8	52	3	56
Low	0	0	2	28	0	20
Totals	10	100	14	100	7	100

5 ANTI-FRAUD WORK

National Fraud Initiative

- 5.1 The investigations have now been finalised in relation to the NFI 2016 Data Matching Exercise and Table 3 below summarises the results.

Table 3 – NFI Data Matches 2016

NFI Data Set	Total Number of Matches	Number of Rec'd Matches	Comments		
			Processed	In Progress	No. of Error/Frauds and Value
Pensions to DWP Deceased Persons	849	483	849		5 (F) £16,641
Pensions to Payroll	2,086	613	2,063	23	-
Deferred Pensions to DWP Deceased	87	76	87	-	1 (E)
Totals	3,059	1,173	3,001	58	5 (F) £16,641 1 (E)

- 5.2 With regards to the £16,641 figure above this relates to five cases and invoices have been raised for the overpayments. To date one account for £3,530.47 has been settled and the four outstanding accounts are with the Debtors Team for recovery.
- 5.3 Preparations are now underway for the 2018 exercise and the data sets will be submitted to the Cabinet Office in October 2018.

6 RISK MANAGEMENT AND INSURANCE

- 6.1 The approved priorities for 2017/2018 were:-
- To review the risk management system to ensure that it complies with best practice but is still practical for use by the organisation;
 - To facilitate the delivery of risk workshops to enable both the Corporate Risk Register to be updated and Operational Risk Registers to be maintained by managers;
 - To facilitate the continued implementation of the Information Governance Framework and prepare for the introduction of the General Data Protection Regulations which become effective from May 2018;
 - To review the Business Continuity Management system in place to streamline the process to create a management tool that is workable, with the capability to provide knowledge and information should a major incident occur affecting service delivery; and
 - To continue to support managers to assess their risks as services are redesigned to ensure that changes to systems and procedures remain robust and resilient offering cost effective mitigation and that claims for compensation can be successfully repudiated and defended should litigation occur.
- 6.2 Progress to review the risk management process has been delayed due to capacity issues and conflicting priorities.
- 6.3 Work focused on the information governance agenda in light of the introduction of the General Data Protection Regulations (GDPR) and the new Data Protection Act 2018, which became effective in May 2018. Work has concentrated on:
- Reviewing our policies and procedures to identify which need to be updated;
 - Working with the Information Champions Group to raise their awareness of the changes introduced by GDPR and the new Data Protection Act;
 - Undertaking Information Asset Audits across the Council, so that a Register of Processing Activities can be produced and the information collated can be used to update our privacy notices.

- An Information Governance newsletter has been introduced.

- 6.4 The team was restructured in February 2018 and a second Risk, Insurance and Information Officer is now in post
- 6.5 The Insurance Renewal process, which is undertaken annually in March, was completed successfully and the Council is now in the final two years of its long-term agreement with its insurance providers.

7 PERFORMANCE INDICATORS

- 7.1 The performance of the section is monitored in a variety of ways and a number of indicators have been devised to enable comparisons between financial years and between similar organisations. Formal benchmarking using the Chartered Institute of Public Finance and Accountancy has not taken place for a number of years due to budget cuts and capacity; however, this is being reviewed by the North West Chief Audit Executive Group to determine if a small number of key performance indicators could be compared locally.
- 7.2 The Key Performance Indicators for the whole of the Internal Audit Service for 2017/18 are detailed in Table 4 below and they are compared to the two previous years 2016/17 and 2015/16. All five performance indicators have been achieved.

Table 4 - Key Performance Indicators 2017/18

	INDICATOR	TARGET	17/18	16/17	15/16	Comments
1	Compliance with Public Sector Internal Audit Standards	100%	100%	100%	100%	Target Achieved
2	% of Plan Completed	93%	93%	93%	94%	Target Achieved
3	Customer Satisfaction (per questionnaires)	90% of customers "satisfied ≥ 65%"	100%	94%	95%	Target Achieved
4	% Recommendations Implemented	90%	90%	92%	92%	Target Achieved
5	No. of Irregularities Reported/Investigated	Downward Trend	8	15	14	Target Achieved

- 7.3 Whilst all five targets have been achieved, it must to be acknowledged that not all the measures used are fully within the control of the team as explained below.
- 7.4 With regards to the Percentage of Plan Complete this a volatile indicator and affected by the timing of audits, staff availability in both internal audit and services areas to support the audit, reactive work (irregularities) and the timing of in year priority requests.
- 7.5 The Percentage of Recommendations Implemented indicator whilst demonstrating that the standard and quality of recommendations made are acceptable, their implementation is the responsibility of management and delays can occur for example due to lack of capacity, new systems and service redesigns.
- 7.6 The number of Irregularities Reported/investigated has decreased from fifteen to eight, however, this is a reactive indicator and not within the team's control.

- 7.7 The effectiveness of the team in terms of adding value to the Greater Manchester Pension Fund is an important element of the role of Internal Audit (as per the definition outlined in section 1.1) and the service as a whole, however, it is extremely difficult to use quantitative indicators to measure this performance. Added value is demonstrated by the variety of work undertaken above, the responsive and flexible approach adopted, the positive comments and feedback received from auditees and the opinion of our External Auditors that they can place reliance on the work of Internal Audit.

8 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)

- 8.1 The process and procedures in place within Internal Audit are continually reviewed and any issues/inefficiencies identified are addressed immediately to assist and improve productivity.
- 8.2 The Audit Management System 'Galileo' has been upgraded to the latest version available, however, the planned improvements to review the process for conducting post audit reviews, improving the indexing system and enhancing the reporting function have been rescheduled to 2018/19 due to capacity issues.
- 8.3 Work across the team was undertaken in preparation for the Peer Review, which was undertaken in March 2018 to assess compliance with the Public Sector Internal Audit Standards (PSIAS). The service was judged to be compliant with the standards and the recommendations made have been included in the Quality and Assurance Improvement Programme for 2018/19 which has been included as an Appendix to the Risk Management and Audit Service Plan for 2018/19 Report also on the agenda.

9 INDEPENDENCE OF INTERNAL AUDIT

- 9.1 In accordance with the Public Sector Internal Audit Standards, the Internal Audit Team/Function has continued to remain independent of any non-audit operational responsibilities during 2017/18.
- 9.2 In the Peer Review Report dated 3 May 2018 a recommendation was included regarding the role of the Head of Risk Management and Audit as stated below. This is currently being reviewed:

"Standard - 1130 Impairment to Independence or Objectivity:

A management decision was taken to give the Head of Risk Management and Audit the role of the Senior Information Risk Owner (SIRO). As the nominated SIRO the Head of Risk Management and Audit owns information governance risks for the Council which impairs the independence required to provide assurance of this function".

10 AUDIT OPINION BASED ON RESULTS OF 2017/18 ACTIVITY

- 10.1 From the work undertaken during 2017/18 the Local Board can take assurance that good arrangements are in place to secure governance, risk management and internal control, within those areas reviewed. Where improvements have been highlighted, managers have agreed to implement the suggested recommendations and this will aid the management of risks and support the overall control environment.

11 ANNUAL GOVERNANCE STATEMENT

- 11.1 The Annual Governance Statement for 2017/18 was presented to the Council's Audit Panel on 30 July 2018 for approval and thereafter it was signed by the Executive Leader and Chief Executive and presented to the External Auditors (Grant Thornton).
- 11.2 The Annual Governance Statement covers the Greater Manchester Pension Fund and is attached at **Appendix 2** for information.
- 11.3 In their Audit Findings Report dated 30 July 2018, Grant Thornton confirmed that the Annual Governance Statement complies with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE and that it is consistent with the information they were aware of from their audit.

12 RECOMMENDATION

- 12.1 As set out at front of report.