

**CAMBRIDGESHIRE
PENSION FUND**



Pension Fund Board

Date: 25 January 2017

Report by: Governance and Legislation Manager

Subject:	Internal Audit Update – Internal Audit Report 2015-16
Purpose of the Report	To brief the Local Pension Board on the completed internal audit for 2015-16
Recommendations	That the Local Pension Board note the audit work undertaken.
Report Author and Enquiries to:	Jo Walton – Governance and Regulations Manager, LGSS Pensions Tel: 01604 367030 Email: jwalton@northamptonshire.gov.uk Or Paul Clarke, Group Auditor, LGSS Internal Audit Tel: 01604 367130 Email: pclarke@northamptonshire.gov.uk

1. Summary of Report

- 1.1 The report presents the final report on the 2015-16 audit of LGSS Pensions Administration. The audit assessed the adequacy of design and implementation of controls for the administration of the Pensions Services of Cambridgeshire and Northamptonshire Pension Funds. Based on the completion of fieldwork and the testing carried out, substantial assurance has been given for the controls in place and operating within LGSS Pensions for 2015-16. The final audit report is included as Appendix A.

2. Background

- 2.1 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.
- 2.2 The work of Internal Audit complements and supports the work of external auditors in forming their opinion on the financial accounts. Internal audit work is coordinated with the external auditors and they place reliance on the work of internal audit to reduce the level of testing they undertake themselves. This reduces overall costs by avoiding

unnecessary duplication of effort and supports delivery of an efficient and effective service.

3. Relevant Pension Fund Objectives

- 3.1 The audit work undertaken was designed to support the Pension Service in achieving its objectives through the effective management of risk. The work therefore supports all of the outcomes of the Pension Service:

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. <i>Objective 1</i>
Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers. <i>Objective 2</i>
Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment. <i>Objective 3</i>
Continually monitor and measure clearly articulated objectives through business planning. <i>Objective 4</i>
Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. <i>Objective 5</i>
Ensure regular monitoring of employer covenants, putting in place mitigations of adequate strength to protect the Fund. <i>Objective 6</i>
Ensure appropriate exit strategies are put in place both in the lead up to and termination of a scheme employer. <i>Objective 7</i>
Put in place performance standards for the Fund and its employers and ensure these are monitored and developed as necessary. <i>Objective 8</i>
Ensure employer contributions are as stable as possible, recognising the characteristics, circumstances and affordability constraints of each employer. <i>Objective 9</i>
Administer the Fund in a professional and efficient manner, utilising technological solutions and collaboration. <i>Objective 10</i>
Maintain accurate records and ensure data is protected and used for authorised purposes only. <i>Objective 11</i>
Promote the Scheme as a valuable benefit. <i>Objective 12</i>
Deliver consistent plain English communications to Stakeholders. <i>Objective 13</i>
Provide Scheme members with up to date information about the Scheme in order that they can make informed decisions about their benefits. <i>Objective 14</i>
Seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund. <i>Objective 15</i>
Ensure cash flows in to and out of the Fund are timely and of the correct amount. <i>Objective 16</i>
Ensure the long-term solvency of the Fund, taking a prudent long term view, so that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment. <i>Objective 17</i>
Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy. <i>Objective 18</i>
Maximise investment returns over the long term within agreed risk tolerances. <i>Objective 19</i>
Ensure an appropriate cash management strategy is in place so that net cash outgoings can be met as and when required. <i>Objective 20</i>

4. Finance & Resources Implications

4.1 Provision was made within the LGSS Audit Plan to undertake this work.

5. Risk Implications

a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
The audit work may identify significant weaknesses with potential for reputational damage to the Pension Service.	A process is in place for timely and effective response to the findings of internal and external auditors.	Green

b) Risk(s) associated with not undertaking the proposal

Risk	Risk Rating
Unmitigated risks to the objectives of the Pension Service are not identified and addressed. The legal obligation to ensure internal audit is undertaken would not be met.	Red

6. Communication Implications

Website	The work of auditors will be transparent and will be published on the internet.
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7. Legal Implications

7.1 The requirement for an Internal Audit function derives from section 151 of the Local Government Act 1972. All principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2003 in England (Appendix 41) [4] should make provision for Internal Audit in accordance with the Code.

8. Consultation with Key Advisors

8.1 BDO (Cambridgeshire Council's external auditors) and KPMG (Northamptonshire County Council's external auditors) have confirmed their requirements for the internal audit.

9. Alternative Options Considered

9.1 Continue with separate audits as was the case prior of the convergence process. This would be a failure to capitalise on the opportunity to deliver a more efficient and effective service.

10. Background Papers

- 10.1 Previous report on 18th March 2016 to the Pensions Committee – Internal Audit Update and Plan 2016-17.

11. Appendices

- 11.1 Appendix A – Internal Audit Report - LGSS Pensions Administration 2015-16 – Executive Summary and Action Plan

Checklist of Key Approvals <i>(To be included for all reports)</i>	
Is this decision included in the Business Plan?	NO
Will further decisions be required? If so, please outline the timetable here	NO
Is this report proposing an amendment to the budget and/or policy framework?	NO
Has this report been cleared by The Head of Pensions?	Mark Whitby – 22/12/2016

LGSS Audit & Risk Management Service

Internal Audit Report

LGPS Administration 2015/2016

Confidential

Client LGSS

Issued To Matt Bowmer, Director of Finance

Cc Chris Malyon , S151 LGSS
Mark Whitby, Head of Pensions
Joanne Walton, Governance Regulations
Manager
Akhtar Pepper, Operations and Technical
Paul Tysoe, Group Accountant

Date 11 August 2016

Lead Auditor Janette Lynn

Status of Report Final Report

Internal Audit Opinion Substantial Assurance

Assurance Summary

Control Environment Assurance	Substantial
Compliance Assurance	Substantial

<i>Organisational Impact</i>	Minor
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Executive Summary

1. Background to the review

The audit of the Local Government Pension Service for the Northamptonshire Pension Fund (NPF) and the Cambridgeshire Pension Fund (CPF) which is administered by LGSS includes the administration of:

- new members
- payment of pensioners and dependents
- transfers into and from the pension schemes
- receipt and recording of contributions from the employers
- administration processes on Altair operated by the LGSS pensions staff to ensure that there are appropriate separation of duties on key tasks
- reconciliations of financial systems
- User access

The audit provides assurance to the Pensions Committee and also the Pension Fund's External Auditors for their final accounts audit.

The audit seeks to provide assurance to management, External Audit and the employer organisations that expected controls are in place for pensions administration and key financial systems, such controls are adequate in design and function appropriately in practice.

1.1 Key Risks

The audit relates the following risks from the LGSS Pension Service risk register:

- B4 Pension Fund Contributions are not collected on an accurate and timely basis
- B5 Payments to pensioners and not paid accurately
- B6 Lack of staff to administer and account for the fund
- C2 Failure to comply with legislative and regulatory requirements
- C3 Failure to comply with Data Protection and Freedom of Information Acts
- D1 Inability to attract or retain staff with the right skills and experience

Based on previous experience and the requirements of external audit the key risks identified are:

- Risk 1 – Pension payments are not made in accordance with the LGPS and council policy (including rates, annual uplift, lump sums, pensions, deferred pensions, early retirements, annual pension statements);
- Risk 2 – Pension payments are not recorded properly and not accounted for correctly;
- Risk 3 – New members are not set up on a timely basis and do not receive appropriate information;
- Risk 4 – Contributions and accompanying schedules are not received on time or are not correct; (includes employee and employer contributions, additional contributions from all scheme employers;
- Risk 5 – Transfers in and out of the scheme are not subject to appropriate checks and authorisation;
- Risk 6 – Reconciliations are not completed i.e. between Altair and Oracle and also for the Pensions bank account;
- Risk 7 – Performance of the service provided is not monitored and reviewed;
- Risk 8 – User access is not reviewed and so staff may have inappropriate access to the pensions system

1.2 Objectives

Therefore, the objectives of the review were to provide management with assurance that there are appropriate controls in place to mitigate effectively the risks related to Pensions

1.3 Approach

In order to test the operating effectiveness of the controls in place we performed sample testing for both the NPF and the CPF as follows:

- new members;
- new pensioners, calculations and pensions actually paid ;
- transfers into and out of the LGPS to ensure the calculations were checked and monies paid out were authorised and receipts monitored;
- deaths of pensioners and dependent pensioner benefits;
- monitoring the receipt of contributions and supporting documentation from employer organisations;
- year end reconciliations of contributions received;
- reconciliation of bank accounts;
- reconciliation of pensions payroll to the Altair records;
- the annual uplift of pensions on Altair;
- access to Altair

2. Internal Audit Opinion and Main Conclusions

2.1 Main conclusions

Based on the completion of our fieldwork and the testing carried out, we are giving **substantial** assurance for the controls in place within LGSS pensions for the administration of LGPS.

The team is benefitting from the continued impact of improved systems capturing data electronically and providing management information to assist with key processes.

Whilst most areas have been given substantial assurance due to this the areas of reconciliation are moderate as these had not been completed or were currently work in progress.

The day to day administration of benefits i.e. pensions paid, lump sums and transfers in, where the key financial risks are found have substantial assurance. The incidence of non compliance on these day to day processes has seen a significant reduction as demonstrated by the findings in the audits over the last three years.

The table below provides a breakdown on the level of assurance for both NPF and CPF for each of the process areas identified:

Process Area	NPF	CPF
New members	Substantial	Substantial
New pensioners	Substantial	Substantial
Transfers in	Substantial	Substantial
Transfers out	Substantial	Substantial
Deaths of pensioners	Good	Good
Contributions	Substantial	Substantial
Reconciliations	Moderate	Moderate
Systems and User Access	Substantial	Substantial
Overall Level of Assurance	Substantial	Substantial

New members - substantial assurance

The Systems team have continued to improve their methods for capturing data from employers on new members and contract changes etc.

Improvements have been made since last year's audits so that information is now received electronically from the majority of employers or their payroll providers, reviewed and processed in a timely manner. These functions are monitored so that if delays occur or issues arise these are investigated and resolved.

New pensioners - substantial assurance

Twenty five new pensioners were tested for NPF and for CPF.

The administration process was tested to check that appropriate controls were in place before a pension was awarded to ensure that the individual had left employment, calculations were prepared based on final pay and or CARE and in line with the members request as to whether there were to be any conversion of benefits. Calculations were prepared, checked and authorised and a separation of duties between these phases was in place. Separation of duties was also in place for notifications to the payroll provider, and the pension actually paid was checked to confirm it was correct.

A separation of duties was also in place for the payment of any lump sums that were due, based on the above calculations, and appropriate evidence for the payment was held on file in most cases.

NPF

There were two instances where evidence of lump sum payments had not been placed on Altair.

Transfers in - substantial assurance

Five transfers in were tested for NPF and five for CPF

Appropriate checks were completed before a transfer in was estimated. Calculations were prepared based on evidence of their service in other LGPS schemes or on the monetary value of non LGPS schemes that was to be transferred, this was then equated to a value of service credit that was to be awarded.

Calculations were prepared, offers issued, and final calculations prepared when the employee confirmed their request to transfer their previous pensions into the scheme.

The receipt of monies was monitored and recorded on Altair and a transfer in service credit recorded on the member's records.

A separation of duties was in place for all stages of the process.

Transfers Out - substantial assurance

Ten transfers out were tested for NPF and fifteen for CPF. The auditor was advised that there had been a delay in processing the transfers out due to software upgrades that were due to take place shortly, hence the sample sizes to chose from were reduced from previous years numbers.

Appropriate checks were completed before a transfer out was permitted to ensure that the funds were to be transferred to an appropriate pension fund, that the member had left employment. Quotations were issued and on receipt of an authorisation from the member a final calculation was prepared based on evidence of their service and contributions paid.

Payments were then processed to the appropriate receiving pension provider.

A separation of duties was in place for all stages of the process.

NPF

Three payments had been made to pension providers and although the details had been recorded on Altair the supporting evidence had not been placed on the system. This was also true for a high value payment which had been authorised by the Head of Pensions.

Deaths of Pensioners - good assurance

a) Notified deaths and dependent pensions:

A walkthrough for two notified deaths was completed for the NPF and CPF

The administration process was tested to check that appropriate controls were in place when a death was notified, the actual death was confirmed and their pension payments stopped. Calculations were prepared for any dependent pensioners or lump sum payment due, these were checked and authorised and a separation of duties between these phases was in place. Separation of duties was also in place for notifications to the payroll provider, and the pension actually paid was checked to confirm it was correct.

A separation of duties was also in place for the payment of any lump sums that were due, based on the above calculations, and appropriate evidence for the payment was held on file.

b) Deaths of pensioners – check pension payments were stopped:

The records for five pensioners in the NPF and five in the CPF who had been reported as deceased were checked to confirm that their death had been confirmed, that pensions had been suspended and a reconciliation of payments completed to ensure that action was taken to recover monies owed to the scheme or the payment of any balances owed to the deceased pensioner's estate or dependents.

Possible un-notified death:

During the audit period whilst the pension team were undertaking the reconciliation of payroll to Altair it was identified that it appeared that an elderly pensioner had passed away but was still in receipt of pension. This is currently being investigated i.e. a copy of actual death certificate has been requested. The death had not been notified to the pensions service nor had it been picked up through the NFI (National Fraud Initiative) data matching process as the death had occurred between the data checking periods.

This incident has highlighted the need to review how the service checks if pensioners are still alive. Life certificates are not currently required and whilst the NFI process provides some checking facilities it may be that some pensioners would not be identified through this process. There are also particular risks around those pensioners who are resident outside of the UK and upon whom checks cannot easily be completed.

Contributions from employer organisations – substantial assurance

Fifteen employers contributions records were tested for NPF and CPF.

Monthly returns from employers were reviewed and checked to contributions received which were coded to the appropriate employer.

Where variances were identified between the employers level of contributions, and expected and actual payments received these had been resolved or were work in progress.

Reconciliations - moderate assurance

During the audit it was identified that a yearend reconciliation for 2014/2015 of contributions from employers, received and posted in the accounts had been undertaken but this had not been compared to the employers' payroll information that was submitted as part of the year end processes.

Monthly bank reconciliations had been completed.

A reconciliation between pensions payroll and Altair had commenced but was not fully completed. This had highlighted a large number of variances in actual and expected payments:

NPF 13,962 of which 12,858 were below the acceptable tolerance threshold of £100, leaving 822 to be investigated.

CPF 14,658 of which 12959 were below the acceptable tolerance threshold of £100, leaving 1496 to be investigated.

There were a number of reasons why these variances occurred and these were being investigated. The reconciliation process was very detailed as records had in some cases to be checked back to the date that the pension was first awarded to confirm the correct starting value, and how this was made up i.e. possibly a combination of pensions or benefits.

It was not possible to ascertain the potential call on the pension fund for any underpayments or the benefit from any recoupment as it is not known whether the record on payroll or Altair was correct.

Those with the highest variances are being investigated as priority – of the 31 cases investigated for the NPF £122k can potentially be reclaimed from members and £24k is owed to members.

A breakdown for the 44 cases investigated for the CPF was not available, so it is not possible to state whether the split would be similar as the administration for both schemes on Altair and payroll has historical differences.

The task of reconciliation will take some considerable time unless additional resources are allocated to this in order to bring this to a swift conclusion.

Although the Pensions Committee have agreed an overpayments policy which is being used to inform decision making, there remains a significant reputational risk for LGSS Pensions i.e the potential dissatisfaction of members and employers when pensioners are notified that they have been overpaid and repayment is required. Whilst reimbursement will only be sought for six plus the current years maximum, as agreed at the Pensions Committee, such charges may cause financial hardship or angst for pensioners.

Systems and User Access – substantial assurance

The Systems procedures were reviewed and checked to ensure that when users were set up staff had appropriate levels of access and that when staff left their access was removed.

The annual uplift process was also reviewed to confirm that appropriate controls were in place and that pensions were increased as expected based on national guidance.

It has also been identified that now that the pensions calculations are based Career Average Revaluations Earnings (CARE) which are uplifted for each year, in future the audit should include checking of these calculations for those active members not yet in receipt of pensions, to confirm that the correct increases are added to each year's value.

2.2 Main recommendations

For each of the issues identified we have made suggested recommendations in the accompanying action plan. When implemented these will positively improve the control environment and aid the Authority in its ability to effectively manage its risks.

2.3 Acknowledgement

We would like to take this opportunity to thank all members of staff whom we contacted during the course of this review for their time and assistance.

Findings and Management Responses

Area Risk Level	Key findings	Recommendations	Management Agreed actions / Response	Timescale / Owner
1	New Pensioners			
M	<p>NPF</p> <p>25 new pensioners were tested to confirm that the pension and any lump sum payment made to a new pensioner was correct. Although for lump payments a reference number was recorded on Altair under "Exit payment", for two of these evidence to support the payment was not held on Altair e.g. Oracle ERP screen print. Testing confirmed that correct payments had been made for these individuals.</p>	<p>When payments are made details of the payee, the amount and date e.g. Oracle print should be held on Altair to provide evidence of this.</p>	<p>To be advised to staff at team meeting.</p>	<p>Akhtar Pepper, 31/5/16</p>
2	Transfers Out			

Area Risk Level	Key findings	Recommendations	Management Agreed actions / Response	Timescale / Owner
M	NPF	When payments are made details of the payee, the amount and date e.g. Oracle print should be held on Altair to provide evidence of this.	To be advised to staff at team meeting.	Akhtar Pepper, 31/5/16
	a) The payments relating to ten transfers out had been made and recorded on the "Exit payments" screen. Evidence to support these was not held on Altair for three of these payments e.g. Oracle ERP print. Testing confirmed that correct payments had been made for these individuals.			
	b) A transfer out had been recorded on Altair as a "non-club transfer" incorrectly. This was an "interfund" payment to the West Yorkshire Pension Fund.	The descriptor used for fund transfers should be checked during processing to check that it is correct.	To be advised to staff at team meeting.	Akhtar Pepper, 31/5/16
	c) A high value payment had been authorised by the Head of Pensions but evidence to demonstrate this was not on Altair. Evidence for this was uploaded during the audit.	When high value payments require authorisation by Head of Pensions (above £250k) evidence of this should be held on Altair.	To be advised to staff at team meeting.	Akhtar Pepper, 31/5/16

Area Risk Level	Key findings	Recommendations	Management Agreed actions / Response	Timescale / Owner
3	Year End reconciliation of Employers contributions			
M	<p>The audit highlighted that a year end reconciliation of 2014/2015 employers' and employees contributions received had not been completed.</p> <p>The Systems team confirmed that a year end return had been received from all but 2 NPF and 1 CPF employers. Members contributions had been reconciled against their Altair record but a reconciliation of employers and employees contributions to monies received and posted in the accounts had not been completed.</p> <p>The PEN 18 system had been updated with year end information by the Systems team but variances had not been investigated by the accountancy team.</p> <p>Variances do not necessarily indicate that monies are owed, these could be due to incorrect recording on returns, or posting of receipts to the accounts. However there remains a risk that incorrect payments may have been made and not identified until this task is completed.</p>	The reconciliation of the 2014/2015 year end returns should be completed prior to the completion of the 2015/2016 reconciliation.	A review of the variances identified and checked with employers to ascertain why these have occurred and payments and transactions reconciled.	Paul Tysoe, 30/6/16

Area Risk Level	Key findings	Recommendations	Management Agreed actions / Response	Timescale / Owner
4	Pensions Payroll			
M	<p>A reconciliation between the pensions payroll and Altair for NPF and CPF has commenced.</p> <p>This has identified significant variances both in the number of pensioner records and also the values of pensions paid.</p> <p>NPF 13,962 (12,858 below £100, 822 over £100)</p> <p>CPF 14,658 (12,959 below £100, 1496 above £100)</p> <p>£100 has been determined as an acceptable tolerance threshold and therefore the cases below this threshold are not going to be investigated.</p> <p>Investigation of these variances has identified that these may have arisen due to a number of issues including:</p> <ul style="list-style-type: none"> - Records on payroll but not on Altair as these preceded the use of Altair 	<p>The reconciliation process should be completed in order to confirm the number and value of the adjustments that are required.</p> <p>The Pensions Management team should provide updates to the Pensions Committee on the work already completed and as the work progresses so that they are kept fully informed given the potential risks associated with this piece of work.</p>	<p>The reconciliation of Altair and Payroll to be continued with highest value items being prioritised.</p>	<p>Joanne Walton, Governance Regulations Manager .</p> <p>31/3/17</p>

Area Risk Level	Key findings	Recommendations	Management Agreed actions / Response	Timescale / Owner
	<ul style="list-style-type: none"> - Records which were not held on Altair as they were payments relating to teachers - Fire service pensions or elements of fire pension also paid - GMP adjustments that were on payroll and or not on Altair or had not been recorded correctly - Added years which were paid but not included in the Altair records as systems prior to this could not accommodate these transactions/adjustments (CPF) - Deaths which had occurred where pensioners had not been removed from one of the systems - Spouse pensions not adjusted on payroll after short term payments <p>Work is ongoing to resolve these queries.</p> <p>NPF 328 records have been checked to date. 328 investigated to date, 31 have financial implications, £138k overpaid, of which £122k can be reclaimed (6 yrs plus current yr) and £24k underpaid (6 yrs plus current yr).</p>			

Area Risk Level	Key findings	Recommendations	Management Agreed actions / Response	Timescale / Owner
	<p>CPF 44 records have been checked to date – breakdown as above not yet available.</p> <p>In addition to the financial risks associated with these potential incorrect payments, which cannot be confirmed until each case has been fully investigated, there also remains a reputational risk to LGSS Pensions who may as a result of resolving these issues face adverse criticism by members, employers and or the press. Some of these errors may span a considerable amount of time e.g. 20 years. The Pensions Committee had agreed an overpayments policy which states that only those incorrect payments for the last six plus the current year will be reclaimed.</p> <p>Some of the corrections could have a significant impact on the pensioners' income and they may not have sufficient resources to make the repayments. Equally the pensioners who have not received the correct payments and have been underpaid will need to be recompensed.</p>			

Area Risk Level	Key findings	Recommendations	Management Agreed actions / Response	Timescale / Owner
5	Deaths of Pensioners			
M	<p>The discovery of deceased pensioner still in receipt of pension has highlighted the need to have additional controls in place to verify that pensioners are still alive.</p> <p>Currently the pensions service is reliant on deaths of pensioners being notified to them by the next of kin/executors, by banks returning payments when accounts have been closed or by identifying them through the NFI checking process.</p> <p>This means that there could be time delays or there could be non notification if spouses/partners or others concealed the fact that an individual has passed away, and this would be easier to achieve if the person was resident abroad.</p> <p>The NFI data matching service has recently announced that it is now offering additional more frequent mortality screening service which local authorities can purchase.</p>	<p>The Pensions Service should establish a system to verify if:</p> <ul style="list-style-type: none"> - elderly pensioners are still alive; - pensioners living abroad are still alive; <p>to ensure that pensions of deceased pensioners are suspended promptly, without delay and that any over payments which may have arisen are recouped.</p> <p>Consideration should be given as to whether to engage in additional national and international checking procedures to assist in this process and whether to re introduce life certificates at certain periodic intervals e.g. at age 70 years and then repeat checks every 3 years.</p>	<p>A review of the controls in place to check if pensioners of a certain age are still alive will be completed.</p>	<p>Joanne Walton, Governance Regulations Manager .</p> <p>31/3/17</p>

Appendix 1 – Audit Definitions

There are three elements to each internal audit review, and an assurance opinion is provided against each element at the conclusion of the audit. The following definitions are used by Internal Audit in assessing the level of assurance which may be provided against each key element, and in assessing the impact of individual findings:

1.1 Control Environment Assurance

Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place which mitigate the risk of those objectives not being achieved. Completion of this work enables Internal Audit to give an assurance on the control environment.

Control Environment Assurance	
Level	Definitions
Substantial	There are minimal control weaknesses that present very low risk to the control environment.
Good	There are minor control weaknesses that present low risk to the control environment.
Moderate	There are some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

1.2 Compliance Assurance

However, controls are not always complied with, which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables internal audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.

Compliance Assurance	
Level	Definitions
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.
Good	The control environment has largely operated as intended although some errors have been detected.
Moderate	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

1.3 Organisational Impact

The overall organisational impact of the findings of the audit will be reported as major, moderate or minor. All reports with major organisational impact will be reported to SMT along with the relevant Directorate's agreed action plan.

Organisational Impact	
Level	Definitions
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

1.4 Findings prioritisation key

When assessing findings, reference is made to the Risk Management matrix which scores the impact and likelihood of identified risks.

For ease of reference, we have used a high/medium/low system to prioritise our findings, as follows:

<p>H</p>	<p>Failure to respond to the finding has a high probability of leading to the occurrence or recurrence of an identified high-risk event that would have a serious impact on the achievement of service or organisational objectives, or may lead to significant financial/ reputational loss.</p> <p>The finding is critical to the system of internal control and action be implemented immediately.</p>	<p>M</p>	<p>Failure to respond to the finding may lead to the occurrence or recurrence of an identified risk event that would have a significant impact on achievement of service or organisational objectives, or may lead to material financial/ reputational loss.</p> <p>The finding has a significant effect on the system of internal control and action should be implemented as a matter of priority.</p>	<p>L</p>	<p>The finding is important to maintain a reasonable system of internal control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve service objectives effectively and efficiently. Management should review, make changes if considered necessary or formally agree to accept the risks.</p>
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