



Annual report of the Audit and Risk Committee (ARC)

The Pensions Authority

For year ended 31 December 2017

Introduction

The ARC is part of the control environment tasked with providing independent advice to the Authority on matters including the suitability and robustness of the organisation's internal control, internal audit, risk management, governance systems procedures and the reliability of financial reporting.

The ARC also provides independent advice to the Executive of the Authority who are ultimately responsible for all matters relating to the presentation of financial statements and all issues arising from internal and external audits of the Authority.

Following the end of each financial year, the ARC, formally reports to the Authority outlining its activities during the year together with such advice and recommendations as it may deem appropriate.

The title "Audit and Risk Committee" formally replaced the previous title "Finance and Audit Committee" in May-2017. The ARC terms of reference are set out in the ARC Charter, which was updated and approved by the Authority in 2017 to reflect the requirements of the Code of Practice for the Governance of State Bodies 2016. The ARC, under its current Charter, also retains some of the key responsibilities of the previous Finance and Audit Committee, specifically those related to long-term financial management of the organisation.

Membership of the ARC

The ARC consists of four members:

- an independent Chairman
- a non-executive member
- a representative from the Department of Employment Affairs and Social Protection
- a representative from the Department of Finance.

The membership of the ARC at the end of 2017 was as follows:

- Mr. Bill Cunningham, Chairman
- Mr. Michael Roche, non-executive member
- Mr. Kevin Barron, representative of the Department of Employment Affairs and Social Protection
- Mr. Sean Kinsella, representative of the Department of Finance



The terms of appointment of Ms. Eilis Hamilton, Department of Employment Affairs and Social Protection, and Mr. John Palmer, Department of Finance, came to an end during 2017.

Work of the ARC in 2017

The ARC met five times in 2017 with full attendance of all members.

In 2017, the ARC's internal audit programme consisted of:

- an audit of the systems and controls within the Compliance Unit
- a high-level review of the effectiveness of internal controls.

The outcome of these reviews were positive and no significant issues of concern were raised. The ARC monitors the work of the Executive to ensure any issues raised in audits are addressed.

The ARC formally reported to the Authority regularly throughout the year providing detailed updates on its activities and advice and recommendations to the Authority where it was deemed appropriate.

Internal control

Throughout 2017 the ARC evaluated the robustness of the internal control environment. It did so by reviewing findings from internal and external audit reports, and monitoring the implementation of recommendations from internal and external auditors by the Executive. The ARC also met with external and internal auditors independently of the Executive to assess the effectiveness of the systems of internal control. The ARC sought updates at each of its meetings from the Executive of any instances of non-compliance or failures in the control systems. There were no significant internal control failures identified in 2017. The ARC is satisfied that there were robust systems of internal control in place in the Authority in 2017.

Internal auditor

As part of the implementation of a 'three line of defence' approach to risk management, the Authority has arranged for an annual internal audit to be carried out. The ARC is responsible for recommending the appointment of the internal auditors and agreeing the work plan for the auditors. Internal auditors, Crowleys DFK, were appointed in 2015 by the ARC for a three year term. As the current term of appointment comes to an end in June 2018, the ARC will be reviewing the tender process for an internal auditor at their meeting in May 2018.

External audit

The external auditor is the Comptroller and Auditor General (C&AG). In 2017 the external audit field work was outsourced by the C&AG to Eisner Amper who undertook the external audit of the Authority. The ARC considered the findings from the external



audit. The ARC met with representatives of Eisner Amper to discuss the audit findings, they also met independently of the Executive.

The ARC also met with the C&AG to discuss the audit and again met independently of the Executive. The C&AG issued an unqualified report for the Authority's 2016 accounts.

Risk management

The ARC reviewed the systems deployed by the Authority to ensure that risks are identified, assessed and controls put in place to manage identified risks. The ARC assessed the senior management team's quarterly reviews of the risk register, examining the risks identified and any changes to risks or risk scoring. The ARC is satisfied that the process of identifying, assessing and addressing key risks was sufficiently robust to ensure that an effective system of risk management was in place in the Authority in 2017.

Corporate governance

In 2017 full compliance with the updated Code of Practice for the Governance of State Bodies was required. The ARC assessed the progress on the compliance with the obligations throughout the year which will enable the Authority to report compliance with the requirements in its annual report for 2017. The ARC also reviewed the compliance requirements which applied specifically to the ARC and ensured the necessary steps were taken to achieve compliance with the Code's requirements relating to the ARC.

Financial reporting and financial management

The ARC assessed the financial reporting processes in the Authority by reviewing quarterly management accounts and the annual financial statements. The ARC reviewed expenditure against budget and examined and discussed with the Executive the reasons for any variances from planned expenditure.

The ARC has no responsibility for the day-to-day financial management and operations of the organisation by the Executive. The ARC provided oversight on the investments of the Authority on a quarterly basis. The ARC also reviewed and recommended to the Authority the approval of:

- the 2018 budget
- the fee recommendation for 2018
- future reserve requirements

Other activity in 2017

Over the course of its meetings in 2017 the ARC:

- received updates from the Pensions Regulator on the compliance activities of



the Authority and on matters including pensions reform initiatives, the transposition of the IORPS II Directive, organisation structure, staffing, IT, GDPR and data management

- received presentations from the Heads of the Compliance Unit and the Regulatory Intelligence Unit on their objectives and activities for the year
- received a presentation from the Chairman of the Authority, David Begg, on the challenges facing the Authority.

Outlook for 2018

The Authority faces a number of significant challenges in 2018 with the implementation of reform initiatives and the transposition of IORPS II. These changes will have a significant impact on the work of the Authority as it moves to a prospective risk based model of supervision. Ongoing monitoring of staff resources will be required by the Executive as these changes take place and new practices and procedures are introduced following the implementation of the reform initiatives.

General Data Protection Regulations (GDPR) will come into force from 25 May 2018 placing increased obligations and responsibilities on organisations that retain and process data. The Authority as a data controller will need to demonstrate compliance with the GDPR requirements within the timeframe.

The ARC will monitor the impact these challenges will have on the maintenance of a robust system of control within the Authority.

Conclusion

The ARC is satisfied that a robust system of internal controls and financial management is in place in the Authority. It is also satisfied that there is an appropriate system in place for effective risk management and the maintenance of a high standard of corporate governance.

On behalf of the ARC I would like to thank the Executive for their ongoing commitment in supporting the work of the ARC. I would also like to thank my fellow ARC members for the considerable time spent in preparing for and attending meetings and their valued contributions on the wide range of issues examined in 2017.

The ARC would also like to express its appreciation for the ongoing support it receives from the members of the Authority.

Mr Bill Cunningham

Chairman

April 2018