

Annual report of the Audit and Risk Committee
The Pensions Authority
For year ended 31 December 2019

Introduction

The Audit and Risk Committee (ARC) is part of the control environment within the Pensions Authority. The ARC is tasked with providing independent advice to the Authority on matters including the suitability and robustness of the organisation's internal control, risk management, governance procedures and the reliability of financial reporting.

The ARC is independent of the day to day financial management of the organisation which is the responsibility of the Executive. In particular the ARC ensures that the internal control systems including audit activities are monitored actively and independently.

Membership of the ARC

The ARC consists of four members, an independent Chairperson, an independent non-executive member, a representative of the Department of Employment Affairs and Social Protection and a representative of the Department of Finance. A schedule of membership and attendance at the five ARC meetings in 2019 is set out below.

ARC meetings 2019		
Name	Position	Attendance
Bill Cunningham	Chairperson	5/5
Kevin Barron	Representative of the Department of Employment Affairs and Social Protection	4/5
Michael Roche	Non-Executive member	4/5
*Sean Kinsella	Representative of the Department of Finance	1/2
*Brendan O'Leary	Representative of the Department of Finance	1/2

*Sean Kinsella was on leave from the Department of Finance with effect from July 2019. Brendan O'Leary was appointed as the Department of Finance representative with effect from 4 November 2019.

ARC Charter

The ARC terms of reference are set out in the ARC Charter. The ARC conducted its annual review of the Charter during 2019 and it was approved by the Authority on 10 December 2019.

Work of the ARC in 2019

The ARC, in fulfilling the requirements of its advisory function, assessed the performance of the key elements of the systems of internal control in operation in the Authority in 2019.

Internal audit

Internal audit provides an objective evaluation of and opinion on the overall adequacy and effectiveness of the Authority's system of governance, risk management and internal controls. The 2019 internal audit work program was approved by the ARC. The ARC met with the internal auditors, with no Executive members present, to discuss the outcome of the audit findings and monitored the implementation of audit recommendations by the Executive throughout 2019.

Details of the 2019 audit work program are set out below.

Audit completed in 2019	Objective	Findings		
		High	Medium	Low
Review of risk management in the Authority.	The objective of the audit was to provide the ARC with an opinion on the level of reliance that can be placed on the Authority's risk management framework.	0	2	2
Outcome of the audit	The Authority can, in the opinion of the internal auditors, obtain significant assurance from the risk management processes in operation. Management are addressing the medium and low findings raised.			

Audit completed in 2019	Objective	Findings		
		High	Medium	Low
High level review of internal controls in the Authority.	The objective of the audit was to provide the ARC with an opinion on the level of reliance that can be placed on the operation of the Authority's internal controls.	0	1	3
Outcome of the audit	The audit assessment indicates that significant assurance can be placed on the sufficiency and operation of the Authority's internal control framework. Management are addressing the medium and low findings raised.			

External audit

The external auditor of the Authority is the Comptroller and Auditor General (C&AG). The ARC considered the findings of the C&AG annual audit and met with the C&AG, with no Executive members present, to discuss the audit findings. The ARC monitored the implementation of audit recommendations by the Executive throughout 2019.

A summary of the audit is set out below.

Audit completed in 2019	Objective	Findings		
		High	Medium	Low
Audit of the Authority's financial statements 2018.	To provide independent assurance on the truth and fairness of the financial statements of the organisation.	0	4	0
Outcome of the audit	The C&AG issued an unqualified audit opinion for the Authority's 2018 financial statements. . Management are addressing the medium findings raised.			

Finance oversight

The ARC has no responsibility for the day-to-day financial management or operations of the organisation which is the responsibility of the Executive. During 2019 the ARC reviewed expenditure against budget each quarter and examined and discussed with the Executive the reasons for any material variances from planned expenditure. The ARC reviewed the investments of the Authority each quarter.

The ARC also reviewed and provided comments to the Authority on:

- the 2020 budget
- the fee recommendation for 2020

Risk management

A risk register is compiled and managed by the Executive and identifies key risks facing the Authority and the actions being taken by the Executive, to the extent possible, to mitigate those risks. The ARC reviewed the risk management policies and practices of the Authority and conducted a quarterly review of the Authority's risk register and provided feedback to the Authority on their quarterly review of the risk register.

The ARC is satisfied that the process of identifying, assessing and addressing key risks is sufficiently robust to ensure that an effective system of risk management is in place in the Authority in 2019.

Plan for 2020

The Authority is currently undergoing a significant period of change, with challenges being presented by the move to risk based supervision in line with the requirements of the IORP II Directive, the ongoing work of the Authority on pensions reform and the increasing data reporting obligations coming from the EU. While there is considerable uncertainty on the scale and timing of the move to risk-based supervision, it will require the Authority to substantially increase employee numbers in advance of absolute clarity on requirements. The Authority will also have to incur significant capital investment in new IT systems to meet the emerging, increased EU data reporting obligations. The growth in employee numbers and the development of new IT systems



will have a considerable impact on expenditure in the coming year which will need to be monitored closely.

In addition to the programme of work set out in its charter, the ARC will monitor the impact these challenges will have on the maintenance of a robust system of internal control and risk management within the Authority and on the financial resources available to the Authority.

Corporate governance

During 2019 the ARC received updates from the Pensions Regulator on the supervision activities of the Authority and on matters including pensions reform initiatives, the transposition of the IORPS II Directive, IT systems development and data management projects, fee income and human resources.

The ARC, as a matter of course, meets for a short period, with no Executive members present, at the end of each of its meetings.

The ARC presented a report to the Authority after each of its meetings in 2019. The ARC was compliant with its obligations under the Code of Practice for the Governance of State Bodies in 2019. In meeting the requirements of the Code, the ARC conducted a self-assessment of its own performance in 2019. The outcome of the self-assessment was positive. The Chairman of the Authority noted his satisfaction in the performance of the ARC and the ARC Chairman in his review, conducted on 10 December 2019.

Conclusion

The ARC is satisfied that a robust system of internal control 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 in the Authority.

I would 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 2019.

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

On behalf of the ARC I would like to thank the Executive for their ongoing commitment in supporting the work of the ARC.

Mr Bill Cunningham

Chairman

March 2020