



LOCAL PENSION BOARD – 24 MAY 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT ARRANGEMENTS (INCLUDING INTERNAL AUDIT WORK CONDUCTED DURING 2020-21 AND THE INTERNAL AUDIT PLAN 2021-22) AND THE PENSION FUND RISK REGISTER

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Board (the Board) about: -
 - a. the internal audit arrangements for the Leicestershire County Council Pension Fund (the Fund)
 - b. to summarise the outcomes of audits conducted during 2020-21 and outline the internal audit plan for 2021-22
 - c. to to inform the Board of any changes relating to the risk management and internal controls of the Pension Fund, as stipulated in the Pension Regulator's Code of Practice.

Background

2. The Terms of Reference for the Leicestershire Local Pension Board (the Board) record that it shall, '*...assist (Leicestershire) County Council (the Council), as administering authority, in ensuring the effective and efficient governance and administration of the (Local Government Pension) Scheme*'.
3. The Council is required to make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. That officer is the Council's Director of Corporate Resources who undertakes the role and responsibilities of the Fund's Treasurer (the Treasurer).
4. The Council's Financial Procedure Rules apply to the administration of the Fund, and specifically rule 4F (15) which places responsibility on the Director of Corporate Resources for arranging a continuous internal audit of the County Council's financial management arrangements. This responsibility is derived from the Local Government Act 1972 and the Accounts and Audit Regulations 2015. Leicestershire County Council Internal Audit Service (LCCIAS) managed by the Head of Internal Audit and Assurance Service (HoIAS), provides the internal audit function to the Fund.

5. The Board's constituted responsibility for ensuring effective and efficient governance, allows for reporting plans for, and the results of internal audit activity to the Fund's designated governing body.

The Internal Audit Function

6. The Public Sector Internal Audit Standards (PSIAS), Revised 2017, define internal audit as: - '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'.
7. The PSIAS require that after the closure of the audit year, the nominated Head of Internal Audit Service (at the County Council, the Head of Internal Audit & Assurance Service undertakes this role), reports to those charged with governance (the Board), on work conducted during the year containing a summary of findings, recommendations and opinions. The PSIAS also require that at the beginning of the audit year, an annual plan of audits should be agreed with the Treasurer and noted by the Board.
8. Most planned audits are 'assurance' type, which requires undertaking an objective examination of evidence to reach an independent opinion on whether risk is being mitigated. Other planned audits are 'consulting' type, which are primarily advisory and allow for guidance to be provided to management. These are intended to add value, for example, by commenting on the effectiveness of controls designed before implementing a new system. Unplanned 'investigation' type audits may also be required.
9. For each audit, Terms of Engagement are agreed with the Treasurer or his representative. After the audit, the Treasurer receives a report containing any findings and recommendations for control improvements and an 'opinion' on what level of assurance can be given that risks are being managed. There are four assurance levels: full; substantial; partial; and little. If any recommendations are graded high importance (HI) i.e. denoting either an absence of a key control or evidence that a key control is not being operated and as such the system is open to material risk exposure, this would normally mean that the opinion would be graded as only 'partial' assurance. HI recommendations would be reported to the Local Pensions Committee and would remain in that Committee's domain until the HoIAS was satisfied that corrective action had been implemented. Additionally, because of the County Council's statutory duty to administer the Fund, HI recommendations will continue to be tabled at meetings of the Corporate Governance Committee.
10. The Board may choose to ask the HoIAS to explain HI recommendations and especially any slippage beyond agreed dates in implementing actions.

Internal Audit Work Conducted During 2020-21

11. Appendix 1 contains a brief summary of the work conducted by LCCIAS during 2020-21. Two audits outstanding from the previous year were concluded and four assurance audits were undertaken. The assurance grading was overall positive. There were no HI recommendations. Of the four audits undertaken, three were shared with the Fund's External Auditor (Grant Thornton LLP) in order to inform their audit risk assessment in preparation for their annual audit of the Fund's accounts. In addition to this, detailed advice was given in two separate areas, ie, Immediate payments and input to the wider Internal Audit Group as part of the 'pooled' funds work.
12. LCCIAS also co-ordinated the County Council's requirements for the biennial National Fraud Initiative (NFI) counter fraud data matching exercise. Investigations into cases reported are currently ongoing.
13. Four members of staff from Internal Audit were temporarily re-deployed to the Pension Section to provide much needed support to essential tasks, within the section, as a result of the Covid-19 pandemic. In total, over 100 days support was provided.
14. As part of the ongoing collaborative work with partner fund internal auditors, the LGPS Central Limited AAF Internal Controls Report for the period 1 April to 31 December 2020, was received. The report was unqualified as was the report for the previous quarter, ie. 1 January to 31 March 2020. Whilst ten exceptions had been identified, LGPS staff confirmed that they were satisfied that no investors were adversely affected nor any information incorrectly reported. In addition to this, a bridging letter for the period 1 January to 31 March 2021 was also provided, giving further assurance on the control environment during the quarter.
15. The table below shows planned against actual performance both in terms of number of audits and days allocated.

Table 1 : Overall performance against 2020-21 internal audit plan

	<u>Audits</u>	<u>Complete @ 31/3/21</u>	<u>Incomplete @ 31/3/21</u>	<u>Plan days</u>	<u>Actual days</u>	<u>Diff</u>
Carried f/d Jobs	2	2	0	5	7	+2
Planned+Advisory	8	7	1	62	63	+1
Client management	1	1	0	5	5	0
Total	11	10	1	72	75	+3

16. The total charge to the Fund for all internal audit work undertaken during 2020/21 was £26,175. This excludes re-deployed staff time.

The Internal Audit Plan 2021-22

17. Appendix 2 contains a brief summary of audits planned during 2021-22. To compile the plan, the HoIAS held discussions with the Fund Treasurer and the Pensions

Manager. An assumption has been made that in their audit of the Fund's accounts, the External Auditors (Grant Thornton) will continue to utilise LCCIAS's work in their audit risk assessment.

18. The final part of the plan is client management and includes the HoIAS duties of planning, reporting and attending the Board.
19. The cost of the planned 75 days of internal audit work is charged to the administration costs of the Fund and is likely to be in the region of £26,175.

Risk Management and Internal Control

20. The The Pension Regulator's (TPR) code of practice on governance and administration of public service pension schemes requires that administrators need to record, and members be kept aware of risk management and internal controls. The code states this should be a standing item on each Pension Board and Pension Committee agenda.
21. The risk register is the responsibility of the Pensions Manager, and is maintained and updated by him. The Internal Audit plan is partly based on some risks that feature in the risk register. The latest risk register has been attached as Appendix 3 to this report. One new risk has been added since the last update (February 2021), as detailed below:
 - Risk 8 – If the fund's in-house AVC provider (The Prudential) does not meet its service delivery requirements the Pension Fund may be late in making payment of benefits to scheme members.

In addition, Risk 2 has been amended slightly to include year-end.

Recommendation

22. The Board is asked to note the report and the revised Pension Fund risk register.

Equality and Human Rights Implications

None specific

Appendices

- | | | |
|------------|---|--|
| Appendix 1 | - | Internal Audit Work Conducted in 2020-21 |
| Appendix 2 | - | Internal Audit Plan 2021-22 |
| Appendix 3 | - | Risk Register (May 2021) |

Officers to Contact

Neil Jones (Head of Internal Audit & Assurance Service)
neil.jones@leics.gov.uk
 (0116) 305 7629

Chris Tambini (Fund Treasurer)
Chris.tambini@leics.gov.uk
(0116) 305 6199)

This page is intentionally left blank