

*Meeting:* **Local Pension Board**

*Date/Time:* **Friday, 19 June 2015 at 9.30 am**

*Location:* **Goscote Committee Room, County Hall, Glenfield.**

*Contact:* **Matthew Hand (0116 305 6038)**

*Email:* **matthew.hand@leics.gov.uk**

### AGENDA

<u>Item</u>	<u>Report by</u>	
1. Election of Chairman.		
2. Election of Vice Chairman.		
3. Question Time.		
4. Questions asked by members under Standing Order 7(3) and 7(5).		
5. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
6. Declarations of interest in respect of items on the agenda.		
7. The Role of the Local Pension Board	Director of Corporate Resources	(Pages 3 - 30)
8. External Audit Plan.	Director of Corporate Resources	(Pages 31 - 58)
9. Internal Audit Arrangements (Including Internal Audit Work Conducted During 2014-15 and the Internal Audit Plan 2015-16)	Director of Corporate Resources	(Pages 59 - 66)



10. Quarterly Admin Report.

Director of  
Corporate  
Resources

(Pages 67 - 70)

11. Date of Next Meeting.

12. Any other items which the Chairman has  
decided to take as urgent.

**TO:**

Employer representatives

Mr. D. Jennings CC  
Mr. A. M. Kershaw CC  
Leicester City Representative

Employee representatives

Ms. D. Haller  
Ms. D. Stobbs  
Ms. M. Hill



## LOCAL PENSION BOARD – 19 JUNE 2015

### REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

#### THE ROLE OF THE LOCAL PENSION BOARD

##### Purpose of the Report

1. The purpose of this report is to provide members with information concerning the formation of the Local Pension Board, its purpose and structure.

##### Background

2. In June 2013 a discussion paper was issued by the Department for Communities and Local Government (DCLG) concerning potential new governance arrangements for the Local Government Pension Scheme (LGPS). In June 2014 draft regulations were issued that laid out initial requirements in respect of a proposed Local Pension Board and in January 2015 The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 were laid that introduced the requirement for the Board to be established by April 1 2015.

##### Role

The role of the Board is to assist the scheme manager (known as the administering authority) in securing compliance with the LGPS regulations, other legislation and the requirements of the Pensions Regulator. The focus of the Board is administration not investments. It is important to note that the Local Pension Board is not a decision-making Board. Attached as Appendix A are the Terms of Reference for the Local Pensions Board. Appendix B is a Statement of Operational Principles for the Local Pension Board, which sets out further detail of the way in which the Board will operate. Both documents were approved by the Pension Fund Management Board (now known as the Local Pensions Committee), the Constitution Committee and the County Council

The Local Pension Board for the Leicestershire Pension Fund comprises of six representatives; three employer representatives all elected members (two from Leicestershire County Council and one from Leicester City Council) and three employee representatives (all scheme members).

A training event took place on 13 April for representatives of the Local Pension Board and Local Pensions Committee provided by Local Government Association, Investec and Officers.

### **Meetings**

3. It is currently anticipated that meetings of the Local Pension Board will be held quarterly and these meetings will be held about a month after the normal quarterly meetings of the Local Pensions Committee.
4. It is anticipated that the remit of the Local Pension Board will develop over time and expand as the skills of the individuals grow. Some of the issues that are expected to be considered by the Board are;
  - Quarterly administration report
  - Ensuring compliance with Legislation and the requirements of the Pensions Regulator
  - Updates on potential changes to LGPS Regulations
  - Reports relating to internal and external audit work
  - Consideration of the Communication Policy Statement
  - Scrutiny that decision-making of the Local Pension Committee and Investment Subcommittee has been carried out effectively.

This list is not intended to be definitive and there will no doubt be other matters that are relevant for consideration by the Local Pension Board.

The presentation (attached as Appendix C) is intended to provide an introduction to the LGPS since the start of the career average revalued earnings (CARE) scheme in April 2014. It also details the national pension changes that are impacting on pension administration.

### **Recommendation**

5. The Board is asked to note the report.

### **Equality and Human Rights Implications**

None specific

### **Background Papers**

Report to the Council – 25 March 2015 - Establishment of the Local Pension Board

[http://politics.leics.gov.uk/Published/C00000134/M00004177/AI00043380/\\$ReportoftheConstitutionCommitteeB.docA.ps.pdf](http://politics.leics.gov.uk/Published/C00000134/M00004177/AI00043380/$ReportoftheConstitutionCommitteeB.docA.ps.pdf)

Report to the Pension Fund Management Board – 14 November 2014 – Establishing a new Local Pension Board.

[http://politics.leics.gov.uk/Published/C00000740/M00004095/AI00039883/\\$LocalPensionsBoard.docA.ps.pdf](http://politics.leics.gov.uk/Published/C00000740/M00004095/AI00039883/$LocalPensionsBoard.docA.ps.pdf)

Report to the Constitution Committee – 10 March 2014 – Establishment of a  
Local Pension Board

[http://politics.leics.gov.uk/Published/C00000150/M00004388/AI00043302/\\$EstablishmentofLocalPensionBoard.docA.ps.pdf](http://politics.leics.gov.uk/Published/C00000150/M00004388/AI00043302/$EstablishmentofLocalPensionBoard.docA.ps.pdf)

**Appendices**

Appendix A – Terms of Reference

Appendix B – Statement of Operational Principles

Appendix C – Presentation – An Introduction to Local Government Pensions

**Officers to Contact**

Ian Howe – telephone (0116) 305 6945

Chris Tambini – telephone (0116) 305 6199

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**Appendix A****TERMS OF REFERENCE FOR THE LEICESTERSHIRE LOCAL PENSION BOARD**

1. The Leicestershire Local Pension Board shall not have the power to appoint subcommittees.
2. The Leicestershire Local Pension Board shall have the following general role and function:-
  - a. To assist the County Council, as administering authority, in securing compliance with:-
    - i. Legislation in force for the time being; and
    - ii. Requirements imposed by the Pensions Regulator in relation to the Scheme.
  - b. To assist the County Council, as administering authority, in ensuring the effective and efficient governance and administration of the Scheme.

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**Appendix B****OPERATION PRINCIPLES FOR THE LEICESTERSHIRE LOCAL PENSION BOARD****Role of the Board**

The Leicestershire Local Pension Board is a statutory committee of the County Council appointed to:-

- a. assist the County Council, as administering authority, in securing compliance with:-
  - i. Legislation in force for the time being; and
  - ii. Requirements imposed by the Pensions Regulator in relation to the Scheme.
- b. assist the County Council, as administering authority, in ensuring the effective and efficient governance and administration of the Scheme.

**Standing Orders**

The Meeting Procedure Rules (Standing Orders) laid down by the County Council and set out in Part 4A of its Constitution will apply with any necessary modifications including the following:-

The Chairman of the Leicestershire Local Pension Board will be one of the employer representatives from Leicestershire County Council, and will be elected on an annual basis by members of the Board. The Vice Chairman will be the other employer representative of Leicestershire County Council. In the event of the non-attendance of both the chair and Vice Chair the employer member representing Leicester City Council will substitute as Chair.

The Board shall have a formal quorum of three, which must include at least one of the employer representatives or their substitute.

**Membership**

The Leicestershire Local Pension Board will consist of three employer representatives and three scheme member representatives, as follows:-

- a. The employer representatives will comprise two elected members from Leicestershire County Council (the administering authority) and one from Leicester City Council and the selection of members by each authority will reflect the principles of maintaining the relevant political balance.
- b. The scheme member representatives must be members of the Fund in either and active, deferred or pensioner member capacity.

Scheme member representatives shall be appointed by a vote at the Fund's Annual General Meeting and will normally serve a term of three years, provided that they remain members of the Scheme, but shall be free to stand for re-election at the end of that period providing they are still members of the Fund.

At the setting up of the Leicestershire Local Pension Board the appointments will be for periods of one, two and three years in order to ensure that at least one scheme member representative position will become available at the Fund's Annual General Meeting.

There is a duty on the County Council as administering authority to ensure that employer and member representatives appointed to the Leicestershire Local Pension Board have the relevant experience and capacity to perform their respective roles.

It is not expected that individual members of the Local Pension Board will have all the required skills when they are appointed. The Scheme Manager will attempt, as far as is practical, to ensure that the training which is required to bring their skills up to an acceptable level is provided within a reasonable period of time. Local Pension Board members are expected to undertake training, as decided by the Scheme Manager, that it is considered will be useful to them from time to time.

### **Substitutes**

Substitutes are only permitted for the employer representatives.

### **Code of Conduct**

The Scheme Manager shall ensure that there are no potential or actual conflicts of interest between the work of the Leicestershire Local Pension Board and the personal interests of the Board members. Local Pension Board members have a responsibility to ensure that they declare any conflicts of interest.

The employer representatives on the Board will be bound by their relevant Codes of Conduct. Consideration will be given to the adoption of a Code of Conduct for scheme representatives in order to comply with the key principles of public life recommended by the Committee on Standards in Public Life.

### **Publication of Information**

The Access to Information Procedure Rules, set out in Part 4B of the County Council's constitution, shall apply to the operation of the Board. The County Council, as administering authority, will also publish appropriate information relating to the Leicestershire Local Pension Board on its website.

### **Advisers to the Board**

The Board may be supported in its role and responsibilities through the appointment of advisers and shall, subject to any applicable regulation and legislation from time to time in force, consult with such advisers to the Board and on such terms as it shall see fit to help better perform its duties including:

- A Governance Adviser

- The Fund's Actuary;
- The Fund's Administrator;
- The Fund's Legal Adviser;
- The Fund's Investment Manager(s);
- The Fund's Investment Adviser(s);
- The Scheme Manager.
- Other advisers, so approved by the Scheme Manager.

The Board shall ensure that the performances of the advisers so appointed are reviewed on a regular basis.

### **Remuneration and Allowances**

The rules in relation to remuneration and allowances shall be the same as those applied to the Pension Fund Management Board.

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# **Local Pension Board**

## **An Introduction to Pensions**

**June 2015**

**Ian Howe**  
**Pensions Manager**

# Areas to go through

- What does the Pension Section do?
- Summary of the Local Government Pension Scheme (LGPS) changes since April 2014, known as the “largest change to public sector pensions in a generation”
- Changes to pensions (at national level and the impacts on us)
- Structure of the Pension Section
- Vision for the future

# What does the Pension Section do?

- Provides pension administration for the Leicestershire Pension Fund.
  - Active contributors 32,425
  - Preserved members 26,234
  - Pensioners 24,690
  - Employers 201
- Scheme members) New starters, transfers in, breaks in service, combining records, leavers (refunds, preserved benefits, transfers out, deaths in service, retirements – voluntary, age, ill health, redundancy, efficiency, flexible), divorce, transfers out, paying extra, providing benefit statements, deaths of preserved and pensioner members, pension tax collecting.
- The Pension Section also provides fire-fighters pensions administration for three Fire Authorities (Leics, Derbys, Notts).
- (Employers) Year-end, FRS, valuation, employer contributions rates, admission agreements, bonds/guarantors, capital costs, training.

# LGPS 2014 - What are main points?

- Start date 1 April 2014
- Career Average Revalued Earnings (CARE) scheme and actual pensionable pay. Referred to as a “Pension Account”
- 1/49<sup>th</sup> accrual (previously 1/60<sup>th</sup> = April 2008 to March 2014, prior to April 2008 = 1/80<sup>th</sup>)
- No automatic right to a retirement lump sum but may still give up pension to achieve a lump sum
- Revaluation of active members’ benefits in line with consumer price index (CPI)
- Normal pension age linked to state pension age – i.e. if a member’s state pension age rises, then their normal pension age will do so to (but only for post 2014 CARE service element).



# **LGPS 2014 What are the main points?**

- A low cost 50/50 option – allows active members to pay 50% contributions for 50% of main benefits.
- Death in service and ill health still on main scheme benefits\* (\*Note a later point on death grants).
- Pensions in payment to increase in line with CPI
- Average member contributions yield 6.5% with tiered contributions (assuming everyone stays in the main scheme and there is not a “drift” to the 50/50 scheme)
- Contribution bandings are calculated on actual pensionable pay for part timers e.g. a part timer may pay lower rate than they paid before the 2014 scheme.

# LGPS 2014 What are the main points?

- Contributions are taken on non-contractual overtime for all scheme members and used in the calculation of CARE benefits from 1 April 2014. This would include additional hours for part timers.
- However, the calculation of benefits accrued to 31 March 2014 are still based on final pay as defined within the regulations

# LGPS 2014 What are the main points?

## 2015 LGPS employee contributions

From	To	Gross rate
	Up to £13,600	5.5%
£13,601	£21,200	5.8%
£21,201	£34,400	6.5%
£34,401	£43,500	6.8%
£43,501	£60,700	8.5%
£60,701	£86,000	9.9%
£86,001	£101,200	10.5%
£101,201	£151,800	11.4%
	More than £151,801	12.5%

# LGPS 2014 What are the main points?

- Optional lump sum commutation at a rate of £12 of lump sum for every £1 of pension
- A member may leave employment voluntarily at age 55 or over and elect to receive immediate payment of pension (with an actuarial reduction that may be waived, whole or part, by employer) - employer discretion. (LCC will not waive reduction)
- Early/late retirement factors from age 55 on an actuarially neutral basis.
- A vesting period of 2 years (no longer 3 months), option for those in “cross over” period.
- Minimum age of 55 still applies for early payment of unreduced benefits on redundancy or efficiency.

# LGPS 2014 What are the main points?

- Ill health retirement pensions to be based on the current 3 tier ill health provisions.
- Spouse and partner pensions to continue on a 1/160th accrual
- Death in service lump sum is 3 x pensionable pay – note; only highest death grant counts!
- Benefits accrued to 31 March 2014 are still based on protected final pay at leaving.

# LGPS 2014 What are the main points?

Additional voluntary contributions (AVCs). Contracts entered into before 1 April 2014.

- 50% limit on AVCs still applies, i.e. AVCs up to 50% of pensionable pay\* are permissible (\*2008 definition of pensionable pay).
- Scheme member can take 100% of their AVC pot as tax free cash at retirement (subject to HMRC rules).

# LGPS 2014 What are the main points?

Additional voluntary contributions (AVCs). Contracts entered into from 1 April 2014, onwards.

- AVCs can be paid on 100% of pensionable pay\*, after allowing for statutory deductions LGPS contributions, NI etc. (\*2014 definition of pensionable pay)
- Scheme member can still take 100% of their AVC pot as tax free cash at retirement (subject to HMRC rules). This was 25% but has recently been changed back to reflect the pre April 2014 position.

# LGPS 2014 How are benefits calculated?

## A Simple Example

The following example is a retirement where the person is retiring voluntarily and is;

- Full time throughout (no part time service or breaks in service)
- Has no 50/50 service
- Has no extra contracts “AVCs or ARCs”
- Has no conversion of annual pension to lump sum
- Has no pay protection
- Has no transfers in
- Has no annual allowance or life time allowance HMRC tax implications



# LGPS 2014 How are benefits calculated?

## A Simple Example

Born 1/7/57, Joined LGPS 1/4/93, Retires 31/3/19 Age 61 at retirement, Total service 26 years

From	To	Pen Pay	Accrual	Membership	Pension	Lump Sum	Revalued Pension
1/4/93	31/3/08	16,750	1/80 +3/80	15	<b>3,140*</b>	<b>9,421</b>	n/a
1/4/08	31/3/14	16,750	1/60	6	<b>1,675*</b>	n/a	n/a
1/4/14	31/3/15	15,000	1/49	1	306	n/a	<b>344</b>
1/4/15	31/3/16	15,500	1/49	1	316	n/a	<b>345</b>
1/4/16	31/3/17	16,000	1/49	1	326	n/a	<b>346</b>
1/4/17	31/3/18	16,500	1/49	1	336	n/a	<b>346</b>
1/4/18	31/3/19	17,000	1/49	1	346	n/a	<b>346</b> <b>= 1,727*</b>
	Assumes CPI @ 3% pa					<b>9,421</b>	<b>6,542*</b>

# LGPS 2014 How are benefits calculated?

A Simple Example .....or is it?

Born 1/7/57, Joined LGPS 1/4/93, Retires 31/3/19 Age 61 at retirement, Total service 26 years

From	To	Pension	Lump Sum	Normal Retirement Age	% Reduction	Lump Sum	Final Pension
1/4/93	31/3/08	<b>3,140</b>	9,421	60	n/a	9,421	<b>3,140*</b>
1/4/08	31/3/14	<b>1,675</b>	n/a	Between 60 and 65 (the norm is 65)	<b>8% (approx.)</b>	n/a	<b>1,541*</b>
1/4/14	31/3/19	<b>1,727</b>	n/a	State Pension Age	<b>25% (approx.)</b>	n/a	<b>1,295*</b>
Total						<b>9,421</b>	<b>5,976*</b>

# Changes to pensions at national level

- Freedom and Choice – Broadly allows scheme members to transfer out of the LGPS to a Defined Contribution (DC) scheme to take the pension as “cash”
- Fire-fighters scheme changes from April 2015
- Reducing tax thresholds and new tax rules for pensions – Lifetime Allowance, Annual Allowance and the new Money Purchase Annual Allowance since April 2015
- Reducing deadlines for the production of annual benefit statements and monthly posting of contributions
- Governance changes – Local Pension Board
- Guaranteed Minimum Pension (GMP) reconciliation

# Structure - Pension Section

Three Teams; Benefits, Technical and Fire

1 x Pensions Manager

2.6 x Pensions Team Managers

4.8 x Pensions Assistant Team Managers

15.5 x Pensions Officers

4 x Pension Assistants

1.8 x Business Support

29.7 Total

# Vision for the Future

- Greater move towards on-line “modellers” for scheme members so they can run their own “what if” scenarios – e.g. how much will my preserved benefit be worth if I claim it at age 57, 58, 59, 60 etc.
- Introduce a formal qualification within the Pension Section (the three year Foundation Degree in Pensions Administration) to broaden and expand knowledge within the Section and to start to develop the managers of the future.
- Develop systems to allow employers to submit pension data directly to pensions in a consistent, secure and validated way, thereby reducing risk or errors and improving efficiency within pensions.
- Train and develop current staff to learn more areas of pension administration

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**LOCAL PENSION BOARD – 19<sup>TH</sup> JUNE 2015**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**PENSION FUND EXTERNAL AUDIT PLAN 2014/2015**

**Purpose of the Report**

1. To inform the Board of the Pension Fund External Audit Plan for the 2014/2015 financial year, as prepared by PricewaterhouseCoopers LLP (PwC).

**Background**

2. The proposed Audit Plan for the Pension Fund is attached. A representative from PwC will be in attendance at the meeting to present the contents of the report, and to answer any questions that the Board may have.
3. The Audit Plan is in line with that of previous years and is considered to be fairly standard in nature.

**Recommendation**

4. The Board is asked to note the Pension Fund Audit Plan for 2014/2015.

**Equality and Human Rights Implications**

None specific.

**Appendix**

External Audit Plan

**Officer to Contact**

Colin Pratt - telephone 0116 305 7656  
Chris Tambini - telephone 0116 305 6199

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*Leicestershire County  
Council  
Leicestershire County Council Pension  
Fund  
External Audit Plan 2014/15*

Prepared for the Local  
Pension Board

June 2015

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## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In April 2010 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

# Executive summary

## Background

We have prepared this audit plan to provide the Corporate Governance Committee of Leicestershire County Council Pension Fund (the 'Fund') with information about our responsibilities as external auditors of Leicestershire County Council (the 'Authority') and how we plan to discharge them for the audit of the financial year ending 31 March 2015. This is the last financial year for which PwC will be your external auditors under our contract with the Audit Commission.

The Leicestershire County Council acts as the administering authority for the Fund, and as such is accountable for the stewardship of the Fund. The responsibility for this stewardship is discharged on a day to day basis by the Members of the Local Pension Committee ("the Committee"). It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice ("the Code").

From discussions with management as part of our planning meeting on 14th May 2015, there is nothing that we have identified from discussions that would impact our audit approach

## Framework for our audit

We are appointed as your auditors by the Audit Commission as part of a national framework contract and consequently we are required to incorporate the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010

for local government bodies (the 'Audit Code') as well as the requirements of International Standards on Auditing (UK & Ireland) ('ISAs').

The remainder of this document sets out how we will discharge these responsibilities and we welcome any feedback or comments that you may have on our approach.

## Our Responsibilities

Officers and members of each local authority are accountable for the stewardship of public funds. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice ("the Code"), supplemented by the Statement of Responsibilities of Auditors and of Audited Bodies. Both documents are available from the Chief Executive or the Audit Commission's website.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

Our audit engagement begins with an evaluation of the Fund on our 'acceptance & continuance database' which highlights an overall engagement risk score and highlights areas of heightened risk.

# Audit approach

## The PwC Audit

1. Client acceptance & independence
2. Deep business understanding
3. Relevant risks
4. Intelligent scoping
5. Robust testing
6. Meaningful conclusions

PwC's audit is built on a foundation of smart people, a smart approach and smart technology. This together with our six-step audit process, results in an audit that is robust, insightful and relevant.



Our unique methodology involves our people, a tailored audit approach and our use of technology. Our 'smart' approach underpins your audit. The core elements of our audit are outlined below:

### *Client acceptance & independence*

Our audit engagement begins with an evaluation of the Authority on our 'acceptance & continuance system' which highlights an overall engagement risk score and highlights areas of heightened risk.

At the beginning of our audit process we are also required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters. We have

set out in Appendix A the relationships that, in our professional judgement, may be perceived to impact upon our independence and the objectivity of our audit team, together with the related safeguards.

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Authority, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

### *Relevant risks*

Our audit is risk based which means that we focus on the areas that matter. We have carried out a risk assessment for 2014/15 prior to considering the impact of controls, as required by auditing standards, which also draws on our understanding of your business.

We determine if risks are significant, elevated or normal and whether we are concerned with fraud, error or judgement as this helps to drive the design of our testing procedures:

- 
- |                      |   |
|----------------------|---|
| ● <b>Significant</b> | Those risks with the highest potential for material misstatement due to a combination of their size, nature and likelihood and which, in our judgement, require specific audit consideration. |
| ● <b>Elevated</b>    | Although not considered significant, the nature of the balance/area requires specific consideration.  |
- 

The table below highlights all risks which we consider to be either significant or elevated in relation to our audit for the year ending 31 March 2015.

**Risk**

**Categorisation**   **Audit approach**

**Management override of controls**

ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.

Significant ●

As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements.

We will perform procedures to:

- Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards;
- Test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus;
- Review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions);
- Evaluate the business rationale underlying significant transactions outside the normal course of business; and
- Perform unpredictable procedures targeted on fraud risks.

We may perform other audit procedures if necessary.

**Risk of fraud in revenue and expenditure recognition**

Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition.

We extend this presumption to the recognition of expenditure in local government.

Significant ●

We will perform procedures to:

- Test the appropriateness of journal entries and other year-end adjustments affecting revenue;
- Consider recognition criteria for investment income.

We have noted during the year that internal audit have performed some work regarding member contributions and will consider these findings within our audit fieldwork

**Risk**

**Valuation of hard to value investments**

Leicestershire County Council Pension Fund holds a mixture of categories of investment within the Pension fund portfolio. For a proportion of these assets a readily available market price is not always available.



**Categorisation**

Elevated ●

**Audit approach**

We will review the monitoring procedures in place over these categories of investments with management.

We will confirm the valuation of hard-to-value investments at year end with the individual investment managers and assess the accuracy of the year end valuation by reviewing the latest audited accounts to information provided to management to assess the reasonableness of these unit prices.

We will review the latest investment manager controls reports, where available, to update our understanding of controls and procedures in place over valuation of such assets.

**Overall  
Materiality:  
£27.35m**

**Triviality:  
£1.36m**

## *Intelligent scoping Materiality*

£m

Overall materiality 27.35

Clearly trivial reporting de minimis 1.36

We set overall materiality to assist our planning of the overall audit strategy and to assess the impact of any adjustments identified.

Overall materiality for the 2014-15 audit has been set at 1% of net assets for the year ended 31 March 2015. We will update this assessment as necessary in light of the Authority's actual results.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We would like to seek the Audit Committee's views on this de minimis threshold.

## *Robust Testing*

### *Where we do our work*

As previously mentioned our audit is risk based which means we focus our work on those areas which, in our judgement, are most likely to lead to a material misstatement. In summary, we will:

- Consider the key risks arising from internal developments and external factors such as policy, regulatory or accounting changes;
- Consider the robustness of the control environment, including the governance structure, the operating environment, the information systems and processes and the financial reporting procedures in operation;
- Understand the control activities operating over key financial cycles which affect the production of the year-end financial statements;
- Validate key controls relevant to the audit approach; and
- Perform substantive testing on transactions and balances as required.

### *When we do our work*

Our audit is designed to quickly consider and evaluate the impact of issues arising to ensure that we deliver a no surprises audit at year-end. This involves early testing at an interim stage and open and timely communication with management to ensure that we meet all statutory reporting deadlines. We engage early, enabling us to debate issues with you.



### Summary of our approach

This is not an exhaustive list of all the tests that we will perform, but summarises the main aspects:

	Overall control environment	Investments and investment return	Contributions	Benefits and expenditure
Governance controls	✓	✓	✓	✓
Administration and accounting controls	✓	✓	✓	✓
Service organisation controls	✓			✓
Analytical procedures		✓	✓	✓
Detailed testing		✓	✓	✓
Independent confirmations		✓		

### Focus area

### Planned response includes

#### Investment assets and returns

##### Existence of investments

- Understand the Committee and management monitoring controls, including reviewing Committee meeting minutes.
- Obtain independent confirmations of assets from the custodian and investment managers.
- Review internal controls reports on investment management and custody.

##### Valuation of investments

- Test valuation of quoted investments against third party sources.
- Understand how the Committee and management validate asset values provided by investment managers for investments which are not quoted.
- Review valuations for pooled investment vehicles and private equity investments, including reviewing the most recent audited accounts for the funds and any available internal controls reports.

##### Completeness of investments

- Review the reconciliations of cash inflows and outflows from the Fund's bank account compared to contributions and other income, benefits and expenses and the movements in investments.
- Review the reconciliations performed in-house between investment manager and custodian assets.

##### Performance of investments reported is consistent with the accounts

- Complete an analytical review of investment returns for reasonableness compared with the Fund's benchmarks and other external indices.

##### Allocation of investments is in accordance with the Statement of Investment Principles ('SIP')

- Review the allocation of investments compared with the requirements of the SIP.

#### Contributions

##### Payment of employer contributions in accordance with the Rates and Adjustment Certificate and employee contributions per the prescribed rates for local government employees (England and Wales) ("the schedules")

- Review the controls over payroll and validate on a sample basis that these are operating as expected.
- Undertake analytical review of contributions for reasonableness compared with the prior year, allowing for changes in membership, pay and rates of contributions.
- Consider the monthly contributions received and investigate any

### Contributions

- unusual fluctuations.
- Test on a sample basis that the contributions are calculated and paid in accordance with the relevant schedules.
- Review the timing of the payment of contributions according to bank details compared with the requirements of the schedules.

### Benefits and membership

Benefits are correctly calculated according to the local government regulations

- Review the controls operated by the administration team (including over the pension payroll) and validate on a sample basis that these are operating as expected.
- Review the internal controls report on administration.
- Undertake analytical review of pensions paid for reasonableness compared to the prior year, allowing for changes in membership and the effects of the pensions increase.
- Consider the monthly total pensions paid and investigate any unusual fluctuations.
- Perform substantive testing on a sample basis over material types of benefit payments.

Membership statistics accurately reflect the membership of the scheme

- Review the results of any pensioner existence checking exercise completed during the year.
- Compare membership statistics and movements reported against the supporting data from the administration system and review for reasonableness compared with our expectations.

### Other areas

Current assets and liabilities are appropriately accounted for

- Review balances compared with the prior year and against our expectations from testing of income and expenditure.
- Obtain independent confirmation of cash balances.
- Review controls over cash movements and bank account authority levels.

Related party transactions

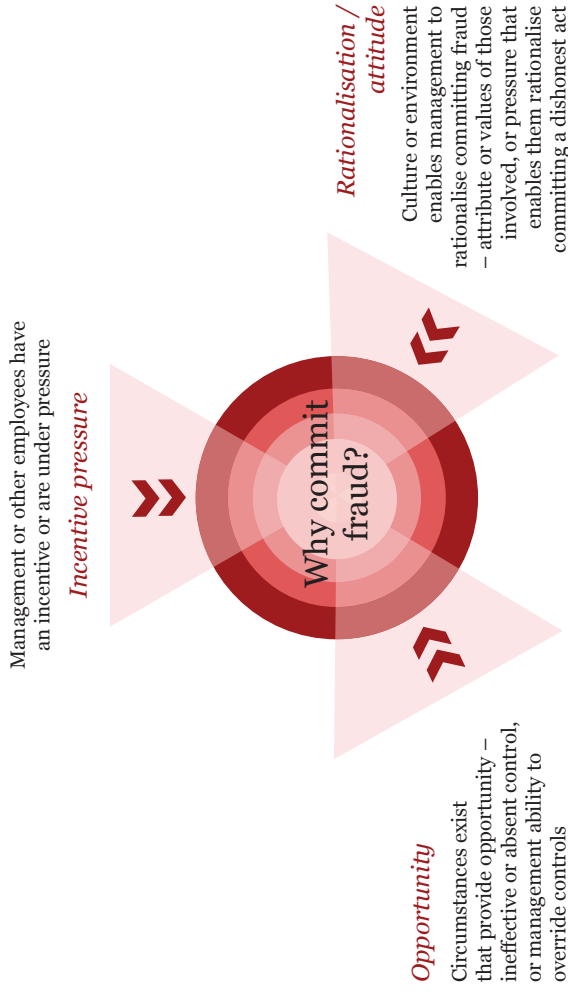
- Understand the controls that the Committee and management have over the identification of related parties and transactions with them.
- Make specific enquiries for any transactions which look to be outside of the normal course of business.

# Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility	Management's responsibility	Responsibility of the Corporate Governance Committee
Our objectives are:	Management's responsibilities in relation to fraud are:	Your responsibility as part of your governance role is:
<ul style="list-style-type: none"><li>• To identify and assess the risks of material misstatement of the financial statements due to fraud;</li><li>• To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and</li><li>• To respond appropriately to fraud or suspected fraud identified during the audit.</li></ul>	<ul style="list-style-type: none"><li>• To design and implement programmes and controls to prevent, deter and detect fraud;</li><li>• To ensure that the entity's culture and environment promote ethical behaviour; and</li><li>• To perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.</li></ul>	<ul style="list-style-type: none"><li>• To evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate 'tone at the top'; and</li><li>• To ensure any alleged or suspected instances of fraud brought to your attention are investigated appropriately.</li></ul>

## Conditions under which fraud may occur



## Your views on fraud

We enquire of the Audit Committee:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

# Audit team

The individuals in your PwC team have been selected to bring you extensive audit experience from working with Local Authorities, the wider public sector. We also recognise that continuity in the audit team is important to you and the senior members of our team are committed to developing longer term relationships with you. The core members of your audit team are:

Audit Team	Responsibilities
<b>Engagement Leader</b> <b>Richard Bacon</b> +44 (0) 121 265 5492 richard.f.bacon@uk.pwc.com	Richard is responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the audit plan, the quality of outputs and signing of opinions and conclusions. Richard is also responsible for liaison with the Leader of the Council and the Executive.
<b>Pensions Manager</b> <b>David Wallace</b> david.wallace@uk.pwc.com	Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs.
<b>Team Leader</b> <b>Dan French</b> +44 (0) 772 217 9364 daniel.p.french@uk.pwc.com	Dan is responsible for leading the fieldwork team, including the audit of the Pension Fund account, Net assets statement, and governance aspects of our work. Regular liaison with the finance team.

*The audit fees remain at the same level as in the previous year.*

# *Audit fees*

The Audit Commission has provided indicative audit fee levels for the 2014/15 financial year. The base fee scale for our audit of the Fund is £27,637 (2013/14: £27,637).

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to use, as planned, the work of internal audit;
- We do not review more than 3 iterations of the statement of accounts;
- We are able to obtain assurance from your management controls;
- No significant changes being made by the Audit Commission to the local value for money work requirements; and
- Our value for money conclusion and accounts opinion being unqualified.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed and agreed in advance with you and the Audit Commission.

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## *Audit Timings*

With regards to the timings of executing the audit work, this will be performed in two stages:

- Week commencing 18<sup>th</sup> May – Audit planning and FRS 17 work
- Fortnight commencing 13<sup>th</sup> July – Commencement of year audit fieldwork

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# *Appendices*



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# *Appendix A: Independence threats and safeguards*

At the beginning of our audit process we are required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters and there are no matters which we perceive may impact our independence and objectivity of the audit team. We have set out in the main authority Audit Plan the relationship that, in our professional judgement, may be perceived to impact upon our independence and the objectivity of our audit team, together with the related safeguards.

## *Relationships and Investments*

Senior officers should not seek or receive personal financial or tax advice from PwC. Non-executives who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Therefore at the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Authority, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

# Appendix B: Audit quality

Quality is built into every aspect of the way that we deliver the Authority audit. We take great pride in being your auditors and in the value of assurance that the audit opinion provides. A timely, independent and rigorous audit is fundamental. This in turn necessitates getting the basics right – clarity on audit risks, scope, resource, timetables, deliverables and areas of judgement – which is supported by our team that has extensive experience and relevant training.

The table below sets out some of the key ways in which we ensure we deliver a high quality audit.

<b>Procedure</b>	<b>Description</b>
People	Quality begins with our people. To ensure that every engagement team provides quality, we use carefully designed protocols for recruiting, training, promoting, assigning responsibility and managing and overseeing the work of our people. We invest significant amounts of time and money for the training and development of our audit professionals. Every new team member is carefully selected to ensure they have the right blend of technical expertise and industry experience to support the Authority audit.
Client acceptance and retention	Our client acceptance and retention standards and procedures are designed to identify risks of a client or prospective client to determine whether the risks are manageable.
Audit methodology	The same audit methodology is used for all Local Authority audit engagements, thereby ensuring uniformity and consistency in approach. Compliance with this methodology is regularly reviewed and evaluated. Comprehensive policies and procedures governing our accounting and auditing practice – covering professional and regulatory standards as well as implementation issues – are constantly updated for new professional developments and emerging issues, needs and concerns of the practice.
Technical consultation	Consultations by engagement teams, typically with senior technical partners unaffiliated with the audit engagement, are required in particular circumstances involving auditing, accounting or reporting matters including matters such as going concern and clinical quality issues. In addition, we regularly consult with our industry specialists in the Local Government Centre of Excellence and our accounting technical experts that sit on the Audit Commission Auditors' Group.

<b>Procedure</b>	<b>Description</b>
Technical updates	<p>PwC prepares numerous publications to keep both PwC staff and our clients abreast of the latest technical guidance. These include:</p> <ul style="list-style-type: none"> <li>• A weekly publication covering the week's accounting and business developments;</li> <li>• A periodic publication providing in-depth analysis of significant accounting developments; and</li> <li>• A publication issued shortly after meetings of standard setters, including IFRIC and the EITF, to provide timely feedback on issues discussed at the meeting.</li> </ul> <p>We also provide Local Government specific technical updates through regular publications issued by our Local Government Centre of Excellence and weekly conference calls for all Local Authority engagement teams during the final audit period. We will share our technical updates with you throughout the year.</p>
Independence standards	<p>PwC has policies and systems designed to comply with relevant independence and client retention standards. Before a piece of non-audit work can begin for the Authority, it must first be authorised by the engagement leader who evaluates the project against our own internal policies and safeguards and against your policy on non-audit services. Above a certain fee threshold, we then seek approval from the Audit Commission before proceeding with any work.</p>
Ethics	<p>Our Ethics and Business Conduct Programme includes confidential communication channels to voice questions and concerns 24 hours a day, seven days a week. Confidentiality helps us to ensure that we receive the candid information and that we respond with the appropriate technical and risk management resources.</p>
Independent review	<p>Our audits are subject to ongoing review and evaluation by review teams within PwC and also by the Audit Quality Review Team (AQRT, formerly the Audit Inspection Unit). The most recent report on PwC was issued in May 2014 and although there are some areas for development identified the general theme was that audit quality has continued to improve. The firm has developed action plans for all areas for development identified by the AQRT.</p> <p>As auditors appointed by the Audit Commission we are also required to comply with their annual Regulatory Compliance and Quality Review programme. The results for our 2013/14 audits are expected in 2015 and will be publicly available on the Audit Commission's website should you wish to take a look.</p>

## *Smart People*

We deploy quality people on your audit, supported by a substantial investment in training and in our industry programme. The members of staff deployed on your audit have been primarily taken from our dedicated Government and Public Sector team. These staff members have a wide and deep knowledge both of the Authority and the local government sector.

Key members of the audit team including the engagement manager and team leader have been involved in the audit of the Authority for a number of years. This ensures continuity which is beneficial both for our people and your audit through ensuring that accumulated knowledge remains within the audit team, improving the quality of the audit we deliver.

## *Smart Approach*

### *Data auditing*

We use technology-enabled audit techniques to drive quality, efficiency and insight.

In 2014/15 we anticipate the work will include:

- Testing journals using data analytics, ensuring we consider the complete population of journals and target our detailed testing on the items with the highest inherent risk.
- The production of a journals 'insight report' which shows the comparable use of journals across the organisation and explores some of the root causes. We use the data gathered as part of our journals testing to share our findings and observations with management.

### *Centre of Excellence*

We have a Centre of Excellence in the UK for Local Government which is a dedicated team of specialists which advises, assists and shares best practice with our audit teams in more complex areas of the audit.

Our team has been working side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

### *Delivery centres*

We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and consistency and casting checks of the financial statements.

The use of our delivery centres frees up your audit team to focus on other areas of the audit.

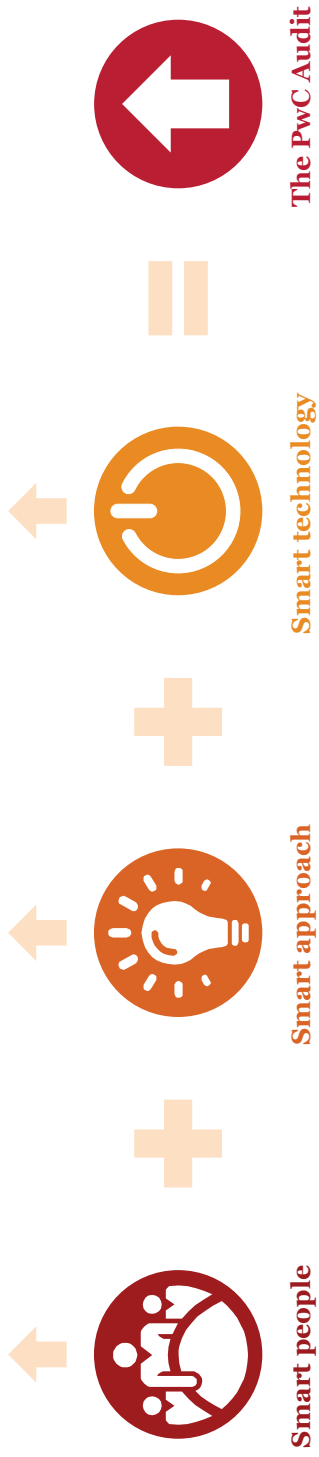
We have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service Delivery Centres in Poland for the facilitation of basic audit tasks, as highlighted earlier. We have also agreed with the Audit Commission how this

will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring. Further information is included in Appendix E.

### *Smart Technology*

We have designed processes that automate and simplify audit activity wherever possible. Central to this is PwC's Aura software, which has set the standard for audit technology. It is a powerful tool, enabling us to direct and oversee audit activities.

Aura's risk-based approach and workflow technology results in a higher quality, more effective audit and the tailored testing libraries allow us to build standard work programmes for key Authority audit cycles.



Our 'smart' approach underpins your audit.

# Appendix C: Other engagement information

The Audit Commission appoint us as auditors to Leicestershire County Council and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors.

There are five further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

## *Electronic communication*

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

### *Access to audit working papers*

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

### *Overseas processing of information*

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service Delivery Centres in Poland for the facilitation of basic audit tasks. This arrangement was approved by the Corporate Governance Committee in 2014. Please refer to the letter at the end of this Appendix for further information on the types of tasks we may off-shore. We confirm that:

- When work is off-shored the firm delivering the audit remains entirely responsible for the conduct of the audit. As such the data will be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data.
- All firms within the PricewaterhouseCoopers network, including the PwC Service Delivery Centres, have signed an intra-group data protection agreement which includes data protection obligations equivalent to those set out in the EU model contract for the transfer of personal data to data processors outside of the European Economic Area.
- We shall comply at all times with the seventh principle in Part 1 of Schedule 1 to the Data Protection Act 1998.
- Your audit team members will remain your key audit contacts, you will not need to communicate with our overseas delivery teams.
- The audit team members are responsible for reviewing all of the work performed by the overseas delivery teams.
- We already successfully use a UK based delivery centre for financial statements quality checks and that this service will remain in the UK.

If you have any questions regarding this process or if you require further information then please contact Richard Bacon.

### *Quality arrangements*

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Richard Bacon, our Government & Public Sector Assurance Lead Partner at our office at Cornwall Court, Birmingham, B3 2DT, or James Chalmers, UK Head of Assurance, at

our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

*Events arising between signature of accounts and their publication*

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.





In the event that, pursuant to a request which Leicestershire County Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Leicestershire County Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Leicestershire County Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Leicestershire County Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for Leicestershire County Council and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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**LOCAL PENSION BOARD – 19 JUNE 2015**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**INTERNAL AUDIT ARRANGEMENTS (INCLUDING INTERNAL AUDIT WORK CONDUCTED DURING 2014-15 AND THE INTERNAL AUDIT PLAN 2015-16),**

**Purpose of the Report**

1. To inform the Local Pension Board (the Board) about the internal audit arrangements for the Leicestershire County Council Pension Fund (the Fund).
2. To summarise the outcomes of audits conducted during 2014-15 and outline the internal audit plan for 2015-16.

**Background**

3. 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*'.
4. 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 Chief Financial Officer (CFO) who undertakes the role and responsibilities and of the Fund's Treasurer (the Treasurer).
5. The Council's Financial Procedure Rules apply to the administration of the Fund, and specifically rule 4F (15) which places responsibility on the CFO 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 Accounts and Audit Regulations 2011. Leicestershire County Council Internal Audit Service (LCCIAS) managed by the Head of Internal Audit Service (HoIAS), provides the internal audit function to the Fund.
6. Prior to the 2015-16 financial year, the Fund's internal audit annual plans and reports on work conducted were reported to the County Council's Corporate Governance Committee. However, the Board's newly constituted responsibility for ensuring effective and efficient governance, allow for reporting plans for and results of internal audit activity to the Fund's designated governing body.

### **The Internal Audit Function**

7. The Public Sector Internal Audit Standards (PSIAS) 2013 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'.
8. LCCIAS has adopted the principles of the PSIAS. These are explained in more detail in the Leicestershire County Council Internal Audit Charter. The methodologies and approaches defined in the Charter will be applied to all audits conducted on County Council (including Pensions) audits.
9. The PSIAS require that at the beginning of the audit year, an annual plan of audits is agreed with the Treasurer and noted by the Board. 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 be required.
10. For each audit, Terms of Engagement will be agreed with the Treasurer or his representative. After the audit, the Treasurer will receive 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 will be reported to the Local Pensions Committee and will remain in that Committee's domain until the HoIAS is satisfied that corrective action has 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.
11. The Board may choose to ask the HoIAS to explain HI recommendations and especially any slippage beyond agreed dates in implementing actions.
12. After the closure of the audit year, the PSIAS require the HoIAS to report to those charged with governance, in this case the Board, on work conducted during the year containing a summary of findings, recommendations and opinions.

### **Internal Audit Work Conducted During 2014-15**

13. Appendix 1 contains a brief summary of the work conducted by LCCIAS during 2014-15. Eight assurance audits were undertaken and the assurance grading was positive. There were no HI recommendations but one recommendation was escalated to the Local Pensions Committee. Five of the audits were utilised by the Fund's External Auditor (Pricewaterhousecoopers LLP) in their annual audit of the Fund's accounts.

14. Internal Audit Service gained the Pensions Service some efficiency in routine administration and co-ordinated the County Council's requirements for the biannual National Fraud Initiative counter fraud data matching exercise.
15. The HoIAS commented on the planned governance changes.

### **The Internal Audit Plan 2015-16**

16. Appendix 2 contains a brief summary of audits planned during 2015-16. To compile the plan, the HoIAS held discussions with the Fund Treasurer, the Pensions Manager and the Investments Manager. An assumption has been made that in their audit of the Fund's accounts, the new External Auditors will continue to utilise LCCIAS' work.
17. There is a small allocation for completing audits that were not concluded last year.
18. Pension's creation (i.e. the robustness of the calculations process) is normally audited bi-annually. However, there are now significantly more cases containing Career Average Revalued Earnings calculations, and so it is considered prudent to audit the risk again this year. The ICT auditor will comment on both information and system security for a proposed development to receive data direct from employers.
19. The final part of the plan is client management and includes the HoIAS duties of planning, reporting and attending the Board.
20. The cost of the planned 65 days of internal audit work is charged to the administration costs of the Fund and is likely to be in the region of £17,000.

### **Recommendation**

21. The Board is asked to note the report.

### **Equality and Human Rights Implications**

None specific

### **Background Papers**

The Internal Audit Charter -

[http://cexmodgov1/Published/C00000434/M00003852/AI00040093/\\$IAppendix1TheInternalAuditCharter.docxA.ps.pdf](http://cexmodgov1/Published/C00000434/M00003852/AI00040093/$IAppendix1TheInternalAuditCharter.docxA.ps.pdf)

### **Appendices**

- Appendix 1 - Internal Audit Work Conducted in 2014-15
- Appendix 2 - Internal Audit Plan 2015-16

### **Officers to Contact**

Neil Jones (Head of Internal Audit Service) [neil.jones@leics.gov.uk](mailto:neil.jones@leics.gov.uk) (0116) 305 7629

Chris Tambini (Fund Treasurer) [Chris.tambini@leics.gov.uk](mailto:Chris.tambini@leics.gov.uk) (0116) 305 6199)

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**Internal Audit Work Conducted In 2014-15**

**Appendix 1**

<b>Audit Title</b>	<b>PWC</b>	<b>Audit objective...to ensure...</b>	<b>Opinion</b>
Contribution Banding Changes	Yes	Pension contribution banding changes for a sample of LCC employees have been accurately applied with effect from 1st April 2014.	Substantial
Pensions Increase	Yes	The validity and accuracy of the annual Pensions Increase.	Full
Joint Audit – Contribution Calculations	Yes	Contributions to the pension fund have been correctly applied from April 2014 from the following: <ul style="list-style-type: none"> <li>○ Leicestershire County Council (LCC)</li> <li>○ Other Employing Bodies, where LCC administers the payroll on their behalf</li> <li>○ Other Employing Bodies, where LCC does not administer the payroll on their behalf</li> </ul>	Full
Joint Audit – Investments	Yes	Reconciliations on the Pension Fund bank accounts and GL adjustment accounts are being promptly and accurately undertaken and that the Summary Valuation reports are being completed in accordance with supporting documentation.	Full
Pensions Creation	Yes	The accuracy of payments for new pensions, lump sums & death grants. (Bi-annual audit). Samples contained some Career Average Revalued Earnings (CARE) cases. No recommendations	Full
Investments	No	Robust appointment of Fund Managers and allocation of investments between them, and to ensure there is separation of the Custodian and Fund Manager functions.  Other investment jobs completed on a rolling programme include the following: <ul style="list-style-type: none"> <li>- Committees/Governance</li> <li>- Performance of Fund Managers</li> <li>- Asset/Property portfolio</li> </ul>	Draft pending

**Internal Audit Work Conducted In 2014-15**

**Appendix 1**

Upgrade to Altair System	No	Relevant ICT controls and project management disciplines are employed for the upgrade to the Pensions System.	Substantial
Governance	No	<p>There is appropriate and effective governance of the Leicestershire Pension Fund, i.e. Local Pensions Committee (LPC) and the Investment Sub-Committee fulfils its responsibilities and to ensure a Local Pension Board (LPB) has been established.</p> <p>This Internal Audit Service report contained a recommendation highlighting that there were potential conflicts of interest in using the same company for both actuarial and investment advice. Whilst the recommendation wasn't graded high importance, the CFO decided to report the finding to the Local Pensions Committee at its meeting on 29 May 2015. The Committee decided that 'market testing' be carried out, taking into account both the quality and costs of these services.</p>	Substantial
IDEA Work	No	Internal Audit Service has software which can quickly match and sort large amounts of data. Tasks commissioned by the Pensions Manager lead to Pensions Section efficiencies	N/A
National Fraud Initiative (NFI)	No	National Fraud Initiative (NFI), an exercise that matches data within and between public and private sector bodies in order to prevent and detect fraud. Includes co-ordination of data download, monitoring/progressing findings, investigating queries from other authorities and updating NFI website accordingly. The Pension's Manager is responsible for investigating matches and reporting on their conclusion	N/A



**Internal Audit Plan 2015-16**

**Appendix 2**

<b>Audit title</b>	<b>PWC</b>	<b>Audit objective...to ensure...</b>	<b>Days</b>	<b>Planned</b>
Governance and Investments		Conclude work in progress at the end of March 2016	3.0	To conclude end of May
Contribution Banding Changes	Yes	Pension contribution banding changes for a sample of LCC employees have been accurately applied with effect from 1st April 2015.	6.0	Complete - Substantial assurance
Pension Increase	Yes	The validity and accuracy of the annual Pensions Increase.	5.0	Underway
Contribution Calculations	Yes	Contributions to the pension fund have been correctly applied from April 2015 from the following: <ul style="list-style-type: none"> <li>o Leicestershire County Council (LCC)</li> <li>o Other Employing Bodies, where LCC administers the payroll on their behalf</li> <li>o Other Employing Bodies, where LCC does not administer the payroll on their behalf</li> </ul>	6.5	May 2015
Investment Accounting	Yes	Reconciliations on the Pension Fund bank accounts and GL adjustment accounts are being promptly and accurately undertaken and that the Summary Valuation reports are being completed in accordance with supporting documentation.	5.5	Jan 2016
Pension Transfers	Yes	Undertaken bi-annually.	10.0	Jan 2016
Pensions Creation	Yes	Calculations are compliant with regulations, accurate and consistent. Will include CARE cases.	10.0	Jan 2016
Investments		An area to be chosen from the rolling programme of audits	10.0	TBC
Employers' direct data submission		ICT auditor consulting role to ensure that risks have been identified and controls have been considered and built in to the development specifications	2.0	TBC
NFI		Monitoring that any pensions matches (normally continuing payments after death) are investigated	3.0	Ongoing
Client management		To include: - <ul style="list-style-type: none"> <li>• research, annual planning and reporting</li> <li>• HoIAS attendance at the Local Pension Board</li> <li>• advice to the Fund Treasurer including, if it occurs during 2015-16, assistance with/commentary on the approach to the Local Pension Board review of its performance</li> <li>• providing internal audit resource to assist with pensions administration tasks (IDEA)</li> </ul>	4.0	
<b>Total</b>			<b>65.0</b>	

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**LOCAL PENSION BOARD – 19 JUNE 2015**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**PENSION FUND ADMINISTRATION REPORT - JANUARY to MARCH 2015  
QUARTER**

**Purpose of the Report**

1. To inform the Board of relevant issues in the administration of Fund benefits, including the performance of the Pensions Section against its Performance Indicators.

**Background**

2. Prior to the introduction of the Local Pension Board this report was taken to the Pension Fund Management Board (recently renamed the Local Pensions Committee). This report will now be considered by the Local Pension Board.

The Pensions Section is responsible for the administration of Local Government Pension Scheme benefits of the Leicestershire Pension Fund's 83,000+ members.

**Performance Indicators**

3. Attached as the appendix to this report are the performance indicators for the Pensions Section, which form part of the Section's Service Plan and have been agreed by the Assistant Director of Customer Services and Operations. These indicators are split into 2 broad categories – how quickly processes are carried out, and how customers feel they have been kept informed and treated by staff.

**Performance of Pensions Section**

4. In the January to March 2015 quarter the performance target results have remained very similar to the previous quarter. The results are detailed in Appendix A.

The amount of Positive feedback received from customers remains high. Business processes in the areas of pension payments made with 5 working days and death benefits sent within 10 working days have both improved since last quarter.

**Administration**

5. Previously, the administration report considered by the Pension Fund Management Board included matters worthy of note. However, as this is the first administration report for the Local Board, a presentation has been prepared for members which broadly sets out the following;
- Details of what the Pension Section does
  - A summary of the Local Government Pension Scheme (LGPS) changes since April 2014
  - External national pension changes
  - Structure of the Pension Section
  - A Vision for the future

This presentation formed part of the earlier report, The Role of the Local Pension Board

**Recommendation**

6. The Board is asked to note the report.

**Equal Opportunities Implications**

None specific

**Background Papers**

None

**Appendix**

Quarterly Results – January – March 2015

**Officers to Contact**

Ian Howe – telephone (0116) 305 6945  
Chris Tambini – telephone (0116) 305 6199

**APPENDIX**

Quarter - Jan to March 2015									
Business Process Perspective	Target	This Quarter	Previous quarter	Customer Perspective - Feedback	Target	This Quarter	Previous Quarter		
Retirement Benefits notified to members within 10 working days of paperwork received	92%	98%	▲	99%	Establish members understanding of info provided - rated at least mainly ok or clear	95%	100%	▲	98%
Pension payments made within 5 working days of receiving election	92%	84%	▼	81%	Experience of dealing with Section - rated at least good or excellent	92%	89%	▼	87%
Death benefits/payments sent to dependant within 10 working days of notification	90%	88%	▶	78%	Establish members thoughts on the amount of info provided - rated as about right	92%	99%	▲	97%
				Establish the way members are treated - rated as polite or extremely polite	97%	100%	▲	97%	
				Email response - understandable	95%	93%	▶	97%	
Good or better than target	▲			Email response - content detail	92%	97%	▲	97%	
Close to target	▶			Email response - timeliness	92%	99%	▲	96%	
Below target	▼								

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