



**LOCAL PENSION BOARD – 16 JUNE 2016**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**INTERNAL AUDIT ARRANGEMENTS (INCLUDING INTERNAL AUDIT WORK CONDUCTED DURING 2015-16 AND THE INTERNAL AUDIT PLAN 2016-17),**

**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 2015-16 and outline the internal audit plan for 2016-17.

**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 the Accounts and Audit Regulations 2015. 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. 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**

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 after the closure of the audit year, the HoIAS provides an annual report to those charged with governance (the Board), containing an internal audit opinion on the overall adequacy and effectiveness of the Fund's control environment; a summary of the audit work from which the opinion is derived and a comparison of the work actually undertaken with the work that was planned including a summary of the performance of the internal audit function.
10. 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.
11. 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.
12. 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.
13. 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 2015-16**

14. Appendix 1 contains a brief summary of the work conducted by LCCIAS during 2015-16. Seven assurance audits were undertaken and the assurance grading was overall positive. There were no HI recommendations. Of the seven audits undertaken, four were shared with the Fund's External Auditor (KPMG LLP) in order to form their audit risk assessment in preparation for their annual audit of the Fund's accounts.
15. Using a data-matching tool, LCCIAS gained the Pensions Service some efficiency in routine administration. LCCIAS also co-ordinated the County Council's requirements for the biannual National Fraud Initiative counter fraud data matching exercise.
16. LCCIAS commented on the combined pensions and investments risk register.
17. Based on a combination of the results (opinions) of internal audits undertaken (see appendix 1), experience and knowledge of the governance arrangements, the approach to risk management and knowledge of the County Council's core financial systems, the HoIAS' is reporting reasonable assurance that the Fund's control environment (the frameworks for governance, risk management and internal control) is adequate and effective.
18. The table below shows planned against actual performance both in terms of number of audits and days allocated.

**Table 1 : Overall performance against 2015-16 internal audit plan**

	<u>Audits</u>	<u>Complete @ 3/6</u>	<u>Incomplete @ 3/6</u>	<u>Plan days</u>	<u>Actual days</u>	<u>Diff</u>
B/fwd from 14-15	2	2	0	3.0	9.4	+6.4
Follow up HI recs	-	-	-	-	-	-
Planned	9	8	1	58.0	38.6	-19.4
Client management	-	-	-	4.0	20.5	+16.5
<b>Total</b>	<b>11</b>	<b>10</b>	<b>1</b>	<b>65.0</b>	<b>68.5</b>	<b>+3.5</b>

19. The one job 'incomplete' at 4 June was a planned job that was undertaken by the External Auditor. The extra days incurred were due to the change in External Auditor, review of the combined risk register and assistance with changes to employer data submission. The total cost to the Fund for all work undertaken during 2015-16 was £19,180.

### **The Internal Audit Plan 2016-17**

20. Appendix 2 contains a brief summary of audits planned during 2016-17. 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 in their audit risk assessment.
21. There is a small allocation for completing audits that were not concluded last year.

22. 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.
23. LCCIAS will comment on both information and system security for a proposed development to receive data direct from employers.
24. The final part of the plan is client management and includes the HoIAS duties of planning, reporting and attending the Board.
25. 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 £19,000.

### **Recommendation**

26. 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 2015-16
- Appendix 2 - Internal Audit Plan 2016-17

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