



LOCAL PENSION BOARD – 17 JUNE 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT ARRANGEMENTS (INCLUDING INTERNAL AUDIT WORK CONDUCTED DURING 2018-19 AND THE INTERNAL AUDIT PLAN 2019-20)

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Board (the Board) about the internal audit arrangements for the Leicestershire County Council Pension Fund (the Fund) and to summarise the outcomes of audits conducted during 2018-19 and outline the internal audit plan for 2019-20.

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. In April 2018 after a peer review, LCCIAS was deemed to conform to the PSIAS. These are explained in more detail in the Leicestershire County Council Internal Audit Charter (revised November 2016). The methodologies and approaches defined in the Charter will be applied to all audits conducted on County Council (including Pensions) audits.
8. 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.
9. 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.
10. 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.
11. 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 2018-19

12. Appendix 1 contains a brief summary of the work conducted by LCCIAS during 2018-19. Six assurance audits were undertaken and the assurance grading was overall positive. There were no HI recommendations. Of the six audits undertaken, three were shared with the Fund's External Auditor (Grant Thornton) in order to inform their audit risk assessment in preparation for their annual audit of the Fund's accounts.
13. LCCIAS also co-ordinated the County Council's requirements for the biennial National Fraud Initiative (NFI) counter fraud data matching exercise.
14. During the NFI work, one overseas pensioner fraud case was identified. The pensioner's last known address was in New Zealand and they were reported on the NFI list as having died on 5/10/2017. The Council's Pensions Manager was first made aware of this on 21/1/2019. The Pensions Section looked into the case quickly and managed to cease the pension immediately, so the last payment was made in December 2018. The Pensions Section had received a fraudulently signed pensioner annual life certificate (stating the person was alive) signed 28/9/18, i.e. almost a year after the confirmed date of death. The monthly pension therefore continued to be paid.
15. An overpayment of pension of £3,554.39 had been made between the date of death and date of pension ceasing. This case was reported to Action Fraud (the UK's national reporting centre for fraud run by the City of London Police working alongside the National Fraud Intelligence Bureau), but as expected, the Police have decided not to take any further action. The Pensions Section have written twice to the last known address and the last known email to try and trace the next of kin to reclaim the overpayment but there has been no response. Whilst the County Council takes a zero tolerance policy approach on fraud, given the overpayment is low in overall financial terms, the Pensions Section were unable to trace the next of kin in New Zealand and the potential legal and Pension Section cost and time associated in trying to reclaim the overpayment, a write off was agreed with the Assistant Director of Strategic Finance and Property.
16. It's important to note that this control weakness is restricted to overseas pensioners – the Faraday reports that the Pensions Section receive only pick up UK-registered deaths. An audit on the process followed for annual life certificates has been included in the 2019/20 Internal Audit plan.
17. The table below shows planned against actual performance both in terms of number of audits and days allocated.

Table 1 : Overall performance against 2018-19 internal audit plan

	<u>Audits</u>	<u>Complete @ 31/5</u>	<u>Incomplete @ 31/5</u>	<u>Plan days</u>	<u>Actual days</u>	<u>Diff</u>
B/fwd from 17-18	2	2	0	6.0	6.0	0
Planned	7	7	0	44.0	49.0	+5
Planned not	2	0	2	16.0	0.0	-16

started						
Client management	1	1	0	4.0	9.0	+5
Total	12	10	2	70.0	64	-6

18. Two of the jobs planned and not started were in relation to the re-structure and the governance arrangements around the 'pooling' of investments via LGPS Central. This is because the company went live 1st April 2018, but arrangements in many areas were yet to be fully established. However, ongoing discussions with Partner Fund Internal Audit (IA) Sections continued throughout the year, including compilation of a Pensions Assurance Framework around key risk areas. A draft four-year cyclical programme of audits covering the period 2019/20 to 2022/23 has been developed outlining work to be undertaken by each Partner Fund IA to ensure fairness and to ensure the cost of auditing the Pensions Pool is spread equally across the Pension Funds over a four-year period. The collective audit work will be supplemented with individual partner fund internal audit work specific to each administering authority. Work around this has been built into the 2019/20 IA plan. Time spent on this exercise in 2018/19 has been incorporated within 'Client management' above, hence the over-run.
19. The total charge to the Fund for all internal audit work undertaken during 2018/19 was £18,880.

The Internal Audit Plan 2019-20

20. Appendix 2 contains a brief summary of audits planned during 2019-20. 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.
21. The new pension system is now in place and fully operational. Four audits have been included, specifically to test the robustness of the system and output information to ensure accuracy.
22. The final part of the plan is client management and includes the HoIAS duties of planning, reporting and attending the Board.
23. The cost of the planned 85 days of internal audit work is charged to the administration costs of the Fund and is likely to be in the region of £25,075.

Recommendation

24. The Board is asked to note the report.

Equality and Human Rights Implications

None specific

Appendices

- Appendix 1 - Internal Audit Work Conducted in 2018-19
- Appendix 2 - Internal Audit Plan 2019-20

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