



## **LOCAL PENSION BOARD – 4 MAY 2022**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **INTERNAL AUDIT ARRANGEMENTS (INCLUDING INTERNAL AUDIT WORK CONDUCTED DURING 2021-22) AND THE INTERNAL AUDIT PLAN 2022-23**

##### **Purpose of the Report**

1. The purpose of this report is to inform the Local Pension Board (the Board) about: -
  - a. the internal audit arrangements for the Leicestershire County Council Pension Fund (the Fund)
  - b. to summarise the outcomes of audits conducted during 2021-22 and outline the internal audit plan for 2022-23

##### **Background**

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

### **The Internal Audit Function**

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

### **Internal Audit Work Conducted During 2021-22**

11. Appendix 1 contains a brief summary of the work conducted by LCCIAS during 2021-22. One audit, outstanding from the previous year was concluded and four assurance audits were undertaken. The assurance grading was overall positive. There were no HI recommendations. Final reports for all completed audits were shared with the Fund's External Auditor (Grant Thornton LLP) in order to inform

their audit risk assessment in preparation for their annual audit of the Fund's accounts.

12. LCCIAS also co-ordinated the County Council's requirements for the biennial National Fraud Initiative (NFI) counter fraud data matching exercise. The exercise identified four cases where pensions were continuing to be paid to deceased persons so monthly payments were immediately suspended, and the cases were subjected to further investigation. The Pensions Service confirmed that, whilst not high in value (just over £18,000 in total), staff were continuing seek repayment, but this was hindered by deaths occurring overseas and the impact of covid-19 on General Register Office services. As a result of the overpayments identified, process changes have been introduced to prevent recurrence. Firstly, the Pensions Service is undertaking a full review of any current pension payments where "care of" addresses are held for the individual, e.g. c/o a firm of solicitors. Secondly, a decision has been taken to subscribe to the NFI Mortality Screening Service which, for an additional nominal fee, will see data on overseas pensioners matched against the DWP's Deceased Persons database on a twice-yearly basis in an attempt to identify deaths earlier in the process, thus facilitating earlier suspension of payment and investigation/recovery of any amounts overpaid. The first data matching took place in November 2021 and no issues of concern arose from the output received. Additionally, the Internal Audit Service (IAS) subscribes to the National AntiFraud Network (NAFN) and in conjunction with the Pensions Service is exploring what additional (call off) products are available that could be utilised in recovery situations.
13. Whilst the risk register is the responsibility of the Pensions Manager and is maintained and updated by him, Internal Audit continue to review and comment on any updates. This has resulted in the increase in client management time, which has been amended to reflect this, moving forward.
14. Ongoing collaborative work with partner fund internal auditors, continues with Leicestershire staff providing feedback, as part of the wider Internal Audit Working Group (IAWG). Leicestershire concluded a review of LGPS Central Investments with an overall 'substantial' opinion, as part of the four year rolling programme of audits agreed with the IAWG. Note: Work on this audit was initially started as part of the 2020/21 Internal Audit plan. The 2021/22 audits were assigned to colleagues at Nottinghamshire County Council (Investments), and Worcestershire County Council (Governance). Work on the Investments audit is complete with a draft report issued. Early indications are positive with a 'substantial' opinion offered. The Governance audit is currently work in progress, yet to be concluded.
15. The table overleaf shows planned against actual performance both in terms of number of audits and days allocated.

**Table 1 : Overall performance against 2021-22 internal audit plan**

	<b>Audits</b>	<b>Complete @ 31/3/22</b>	<b>Incomplete @ 31/3/22</b>	<b>Plan days</b>	<b>Actual days</b>	<b>Diff</b>
Carried f/d Jobs	1	1	0	4	9	+5
Planned+Advisory	9	6	3	66	63	-3
Client management	1	1	0	5	8	+3
<b>Total</b>	<b>11</b>	<b>8</b>	<b>3</b>	<b>75</b>	<b>80</b>	<b>+5</b>

16. The total charge to the Fund for all internal audit work undertaken during 2021/22 was £27,920.

### **The Internal Audit Plan 2022-23**

17. Appendix 2 contains a brief summary of audits planned during 2022-23. To compile the plan, the HoIAS held discussions with the Fund Treasurer and the Pensions Manager. An assumption has been made that in their audit of the Fund's accounts, the External Auditors (Grant Thornton) will continue to utilise LCCIAS's work in their audit risk assessment.
18. The final part of the plan is client management and includes the HoIAS duties of planning, reporting and attending the Board, and includes additional time for input to the Risk Management process mentioned in Para.13 above.
19. The cost of the planned 86 days of internal audit work is charged to the administration costs of the Fund and is likely to be in the region of £30,014.

### **Recommendation**

20. The Board is asked to note the report.

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

None specific

### **Appendices**

- Appendix 1 - Internal Audit Work Conducted in 2021-22  
Appendix 2 - Internal Audit Plan 2022-23

### **Officers to Contact**

Neil Jones (Head of Internal Audit & Assurance 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)