



LOCAL PENSION COMMITTEE – 10 JUNE 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT AND INTERNAL CONTROLS

Purpose of the Report

1. The purpose of this report is to inform the Committee of any changes relating to the risk management and internal controls of the Pension Fund, as stipulated in the Pension Regulator's Code of Practice and summarise the information the Local Pension Board received regarding:
 - a. The internal audit arrangements for the Fund.
 - b. Outcomes of Audits conducted during 2021-22 and outline the internal audit plan for 2022-23.

Background

2. The Pension Regulator's (TPR) code of practice on governance and administration of public service pension schemes requires that administrators need to record, and members be kept aware of 'risk management and internal controls. The code states this should be a standing item on each Pension Board and Pension Committee agenda.
3. In order to comply with the code, the risk register and an update on supporting activity is included on each agenda.

Risk Register

4. No changes have been made to the Fund's risk register since its consideration at the Committee meeting on 25 March 2022. The Local Pension Board also supported the latest risk register at their meeting 4 May 2022.

5. To meet best practice for Fund governance the risk register has been shared with Internal Audit. Internal Audit have considered the register and are satisfied with the current position.

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 Local Pension Board, for best practice this is also being reported to the Committee.

Internal Audit Work Conducted During 2021-22

8. The Pension Board received a 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 high importance (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.
9. Leicestershire County Council Internal Audit Service also co-ordinated the County Council's requirements for the biennial National Fraud Initiative counter fraud data matching exercise.
10. 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.
11. As a result of the overpayments identified, process changes have been introduced to prevent recurrence.

12. 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.
13. 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.
14. 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.
15. As part of the ongoing collaborative work with partner fund internal auditors, 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 Working Group.
16. 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 with a with a ‘substantial assurance’ opinion offered. The scope included:
 - Performance reporting - review the processes for capture, completion, validation of routine reporting to pooling partners and PAF to provide assurance to members that reports are complete, accurate and provide effective investment management information.
 - i. Capture of source documentation from funds and private markets managers;
 - ii. Compilation and comparison to expectations.
 - iii. Assurance of adherence to investment guidelines;
 - iv. Review and challenge through LGPS Central processes;
 - v. Quality assurance processes for reporting.
 - Following up recommendations from previous internal audit work
17. The Governance audit is currently work in progress, yet to be concluded.

18. The Pension Board further received a 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.
19. The Local Pension Board welcomed the report at its meeting on the 4 May 2022 and supported the findings and Internal Audit Plan 2022-23.

Recommendation

20. It is recommended that the Committee approve the revised risk register of the Pension Fund.

Equality and Human Rights Implications

None

Appendix

Appendix - Risk Register

Background Papers

4 May 2022 - Local Pension Board – Internal Audit Arrangements (Including Internal Audit Work conducted During 2021-22) and the Internal Audit Plan 2022-23.

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=1122&MId=6816>

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