



**LOCAL PENSION BOARD – 26 APRIL 2023**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**INTERNAL AUDIT ARRANGEMENTS (INCLUDING INTERNAL AUDIT WORK CONDUCTED DURING 2022-23) AND THE INTERNAL AUDIT PLAN 2023-24**

**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) and LGPS Central.
  - b. to summarise the outcomes of audits conducted during 2022-23 and outline the internal audit plan for 2023-24

**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 HoIAS 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 an audit, the Treasurer receives a report containing any findings and recommendations for control improvements and an 'opinion' on the level of assurance that can be given that the risks are being managed. There are four assurance levels: full; substantial; partial; and little. If any recommendations are graded high importance (HI), such as 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 are 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 2022-23**

11. Appendix 1 contains a brief summary of the work conducted by LCCIAS during 2022-23. Three audits, outstanding from the previous year were concluded and five assurance audits were undertaken. The assurance grading was positive overall. There were no HI recommendations. Three planned audits were deferred into 2023-24, purely due to delayed developments nationally. 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. Reports for the latest exercise (2022/23) were released late January 2023, so investigations are still at the early stages. In addition, the Pensions Service has continued to subscribe to the NFI Mortality Screening Service, for an additional nominal fee, to identify overseas pensioners against the DWP's Deceased Persons database. The most recent exercise was undertaken in June 2022. This identified six cases where pensions were continuing to be paid to deceased persons so monthly payments were immediately suspended. The Pensions Service have pursued all six cases, with one case offset against the widow's entitlement, and another where the overpayment has been repaid. The remaining four cases are still being pursued, though the overall amount outstanding in overpayments is less than £6K. Whilst it was agreed that six monthly death checks would be undertaken using the NFI Mortality Screening Service, a check was not available in November 2022, as data had been uploaded for the biennial NFI exercise, in the previous month (October 2022). Therefore, the next exercise will take place in June 2023.
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.
14. Regarding the internal audit arrangements for LGPS Central, ongoing collaborative work with partner fund internal auditors continues, with Leicestershire staff providing feedback as part of the wider Internal Audit Working Group (IAWG). A four-year internal audit plan of work from 2019/20 to 2022/23 was agreed as part of this arrangement. The 2022/23 audits were assigned to colleagues at Chester West and Chester (Governance), and Derbyshire County Council (Investments). Following completion of these, and once an updated pool risk register has been received, the pool assurance map updating the four-year cycle will re-start. A revised plan will be presented to a future Pension Board meeting. It is likely that Leicestershire County Council will not be required to complete pool internal audit work until 2024/25.
15. The table below shows planned against actual performance both in terms of the number of audits and days allocated.

**Overall performance against 2022-23 internal audit plan**

	<b><u>Audits</u></b>	<b><u>Complete @ 31/3/23</u></b>	<b><u>Incomplete @ 31/3/23</u></b>	<b><u>Plan days</u></b>	<b><u>Actual days</u></b>	<b><u>Diff</u></b>
Carried f/d Jobs	3	3	0	7	7	0
Planned+Advisory	7	7	0	50	52	+2
Deferred	3	0	3	21	0	-21
Client management	1	1	0	8	8	0
<b>Total</b>	<b>14</b>	<b>8</b>	<b>3</b>	<b>86</b>	<b>67</b>	<b>-19</b>

16. The total charge to the Fund for all internal audit work undertaken during 2022/23 was £23,383.

### **The Internal Audit Plan 2023-24**

17. Appendix 2 contains a brief summary of audits planned during 2023-24. 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.

19. The cost of the planned 81 days of internal audit work is charged to the administration costs of the Fund and is likely to be in the region of £30,000.

### **Recommendation**

20. The Board is asked to note the report.

### **Equality Implications**

21. Nonspecific

### **Human Rights Implications**

22. Nonspecific

### **Appendices**

Appendix 1 - Internal Audit Work Conducted in 2022-23  
Appendix 2 - Internal Audit Plan 2023-24

### **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)