



LOCAL PENSION BOARD – 17 APRIL 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT ARRANGEMENTS INCLUDING INTERNAL AUDIT WORK CONDUCTED DURING 2023-24 AND THE INTERNAL AUDIT PLAN 2024-25

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 2023-24 and outline the internal audit plan for 2024-25.

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 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), 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 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 2023-24

11. Appendix 1 contains a summary of the work conducted by LCCIAS during 2023-24. The assurance grading was overall positive. All planned audits completed during the year resulted in a 'substantial' opinion with a small number of medium-term recommendations. Examples of some recommendations included the need to have formal written procedures outlining roles and responsibilities within the Pension

Creation process, cover arrangements for key staff within the Investments Section to ensure business continuity specifically in relation to inputting contributions received from external organisations, promptly onto the accounting system, and the need to complete spot checks at the start of the year when contribution bandings are most likely to change. Three planned audits have been deferred into 2024-25, purely due to delayed developments nationally. However, one of the three was replaced with an alternative audit, covering Life Certificates (Overseas Pensioners). 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. This exercise identified four cases where pensions were continuing to be paid to deceased persons. For one case, the overpayment was recovered from the spouse's pension. The remaining three cases, totalling around £4K, continue to be pursued by the Pensions Service. The next biennial exercise is due to be undertaken during 2024/25 with reports available around January 2025.
13. In addition to the biennial NFI exercise, the Pensions Service has continued to subscribe to the six monthly NFI Mortality Screening Service (MSS), where pensions records are checked against DWP's Deceased Persons database. Following the success of the first exercise in June 2022, which identified six cases where pensions were continuing to be paid to deceased persons, subsequent exercises, i.e., June and November 2023 were expanded to include all pension records. Previously, only overseas pensions data was submitted. An advantage of the MSS is that the Pension Section can become aware of deaths at an earlier stage in the process. This enables pensions to be suspended at an early point in time which can limit financial risk, e.g., of non-recovery of large debts.
14. The June 2023 exercise identified three cases where pensions were continuing to be paid to deceased persons. One case amounting to over £10K was recovered from the death grant. The remaining two cases, totalling around £2.6K continue to be pursued by the Pension Service.
15. The November 2023 exercise also identified three cases where payments had continued for deceased persons, totalling over £15K. However, a widow has been identified for the largest overpayment of £12.6K and the Pension Service are seeking to offset the overpayment from her entitlement.
16. 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. The last risk register was taken to the Pension Committee on 8th March 2024, and this referenced the new corporate risk management policy statement. No changes were made to the scores.
17. 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). The first four-year cycle of agreed internal audits have now been completed, namely, 2018/19 to 2022/23 as part of this arrangement, and a revised four-year

plan of audit work from 2023/24 to 2027/28 has been agreed, outlined in Appendix 2. The 2023/24 audits were assigned to colleagues at West Midlands (Governance), and Staffordshire County Council (Investments). Leicestershire County Council are due to complete audit work during 2024/25, on behalf of the IAWG. The audit will be Governance focussed with further discussions to take place to agree the scope.

18. One of the roles of the IAWG is to review the AAF/0106 Control Report (Type 2). However, LGPS Central External Auditors experienced some difficulties in producing the latest report on a timely basis, i.e. The year ending December 2022 was not available for review until January 2024 and was 'Qualified.' Due to the time taken in producing the AAF/0106 Control Report, LGPS Central asked all partner fund internal auditors to discuss with their External Auditors and S151 Officers, the possibility of agreeing an alternative approach on a short-term basis. The alternative approach was for a 'Type 1' report and an assurance stack.

Note:

Type 1 – Provides a report of procedures/controls an organisation has put in place at a point in time.

Type 2 – Provides evidence of how an organisation operated its controls over a set period, e.g. A year.

19. The views of the External Auditor (Grant Thornton) were sought, and they expressed some concerns at the proposal for a Type 1 report. Without assurance on operating effectiveness of controls over valuations, Grant Thornton said that they would need to look directly at valuations of individual fund managers generating a significant increase in work.
20. Based on this, Leicestershire requested a Type 2 report, as did other Partners. However, Central have recently confirmed that after assessing all factors, including the late completion of the 2022 report, the desire to reset the scope of the report in certain areas increase coverage and include further relevant controls, and move the reporting period in line with the year-end partner funds, the company's Audit Risk and Compliance Committee and Board have concluded that the right approach to adopt is to reset the process and have asked the Executive to:
- commence work on a Type 1 AAF report as at 31 March 2024, which would aim to be delivered in August 2024;
 - carry out pre-control and other work in support of an aim to commence work on a Type 2 AAF (for the period April 2024 - March 2025) in September 2024; and
 - continue to support Partner Funds with access to any other forms of assurance that are being performed in respect of the period to 31 March 2024 such as the results of relevant internal audit or compliance testing.
21. In addition, the current 2023/24 budget for LGPS Central was not able to meet the increased costs of a Type 2 AAF 01/20 report. This will inevitably increase costs for individual partner funds as external Audit will need to complete further testing, as mentioned earlier. We will need to discuss this with Grant Thornton.

Overall performance against 2023-24 internal audit plan

22. The table below shows planned against actual performance both in terms of number of audits and days allocated.

	<u>Audits</u>	<u>Complete @ 31/3/24</u>	<u>Incomplete @ 31/3/24</u>	<u>Plan days</u>	<u>Actual days</u>	<u>Diff</u>
Planned	6	6	0	47	49	+2
Advisory	2	2	0	9	11	+2
Deferred	3	n/a	n/a	17	0	-17
Replacements	n/a	1	0	0	5	+5
Client management	1	1	0	8	11	+3
Total	12	10	0	81	76	-5

23. The total charge to the Fund for all internal audit work undertaken during 2023/24 was £29,807.

The Internal Audit Plan 2024-25

24. Appendix 3 contains a summary of audits planned during 2024-25. To compile the plan, the HoIAS held discussions with the Fund Treasurer and the Pensions Manager. Risk registers were also reviewed as part of the process. 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.
25. The final part of the plan is client management and includes the HoIAS duties of planning, reporting, and attending the Board.
26. The cost of the planned 87 days of internal audit work is charged to the administration costs of the Fund and is likely to be in the region of £34k.

Recommendation

27. The Board is asked to note the report.

Equality Implications

None.

Human Rights Implications

None.

Appendices

Appendix 1 - Internal Audit Work Conducted in 2023-24

Appendix 2 - Cyclical Programme of Collective Internal Audit Work (2023-2027)

Appendix 3 - Internal Audit Plan 2024-25

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