



LOCAL PENSION COMMITTEE – 19 JUNE 2024
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 Local Pension 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, as well as provide updates on:
 - a. Information provided to the Local Pension Board on the internal audit arrangements for the Pension Fund, and outcomes of audits conducted during 2023-24 and outline the internal audit plan for 2024-25.
 - b. Completion of the Fund's accounts external audit for 2022/23.

Policy Framework and Previous Decisions

2. The Local Pension Committee's Terms of Reference sets out that its principal aim is to consider pension matters with a view to safeguarding the interests of all Pension Fund members.
3. This includes the specific responsibility to monitor overall performance of the pension funds in the delivery of services and financial performance, and to consider all matters in respect of the pension funds including:
 - to ensure an appropriate risk management strategy and risk management procedures;
 - ensuring appraisal of the control environment and framework of internal controls in respect of the Fund to provide reasonable assurance of effective and efficient operations and compliance with laws and regulations.

Background

4. 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 Local Pension Board and Local Pension Committee agenda.

5. In order to comply with the Code, the risk register and an update on supporting activity is included on each agenda for this Committee.

Risk Register

6. There are 19 risks listed on the Register and these are split into six different risk areas. The risk areas are:
 - Investment
 - Liability
 - Employer
 - Governance
 - Operational
 - Regulatory
7. Risks are viewed by impact and likelihood and the two numbers multiplied to provide the **current risk score**. Officers then include future actions and additional controls, and the impacts and likelihoods are then rescored. These numbers are multiplied to provide the **residual risk score**.
8. The current and residual risk scores are tracked on a traffic light system: red (high), amber (medium), green (low).
9. The latest version of the Fund's risk register was approved by Committee on the 8 March 2024. There have been no changes to the risk scores since the 8 March 2024 meeting however there have been some minor changes which are highlighted below.
10. To meet Fund Governance best practise, the risk register has been shared with Internal Audit. Internal Audit have considered the register and are satisfied with the current position.
11. The risk register is attached to the report at Appendix A and Risk Scoring Matrix and Criteria at Appendix B.

Revisions to the Risk Register

Changes to Risk Response Categorisation

12. In discussion with Internal Audit the following risks have been moved from 'Treat' to 'Tolerate' recognising the low residual risk level.
 - Risk 6: If the pensions fund fails to receive accurate and timely data from employers, scheme members pension benefits could be incorrect or late. This includes data at year end.
 - Risk 7: If contribution bandings and contributions are not applied correctly, the Fund could receive lower contributions than expected.

- Risk 12: If the Pension Fund fails to hold all pensioner data correctly, including Guaranteed Minimum Pension (GMP) data, individual members annual Pensions Increase results could be wrong.
- Risk 14: If immediate payments are not applied correctly, or there is human error in calculating a pension, scheme members pensions or the one-off payments could be wrong.

13. Additional wording has been set out in the current controls column to reflect an additional control relating to a type of bank account verification which has been expanded to include all pensions and transfer payments.

The Internal Audit Function

14. The Public Sector Internal Audit Standards (PSIAS), (revised in 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'.
15. The PSIAS require that, after the closure of the audit year, the nominated Head of Internal Audit Service (for the County Council, the Head of Internal Audit & Assurance Service (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 Local Pension Board.
16. 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.
17. 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.

18. 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 2023-2024

19. Appendix C contains a summary of the work conducted by Leicestershire County Council Internal Audit Service (LCCIAS) during 2023-24. This was presented to the Local Pension Board on 17 April 2024. The assurance grading was overall positive.
20. 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 organisation, 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.
21. 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 in order to inform their audit risk assessment in preparation for their annual audit of the Fund's accounts.
22. LCCIAS also co-ordinated the County Council's requirements for the biennial National Fraud Initiative (NFI) counter fraud data matching exercise. 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 Pension Service. The next biennial exercise is due to be undertaking during 2024/25 with reports available around January 2025.
23. 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, for example, non-recovery of large debts.

24. 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.
25. 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.
26. 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.
27. 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, i.e. 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, as outlined at Appendix D. The 2023/24 audits were assigned to colleagues at West Midlands (Governance), and Staffordshire County Council (Investments). Leicestershire 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.
28. One of the roles of the IAWG is to review the AAF/0106 Control Report (Type 2). However, LGPS Central's 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 consulted all partner funds 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 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 operates its controls over a set period, for example, a year.

29. Based on this, Leicestershire requested a Type 2 report, as did other partner funds. 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 to 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 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.
30. This will inevitably increase costs for individual partner funds as External Auditors will need to complete further testing, as mentioned earlier. This will be discussed with Grant Thornton LLP.
31. The table below shows planned against actual performance both in terms of number of audits and days allocated.

Overall performance against 2023-24 internal audit plan

	<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

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

The Internal Audit Plan 2024-25

33. The Local Pension Board received a summary of audits planned during 2024-25. This is detailed in Appendix E. 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 will continue to utilise LCCIAS's work in their audit risk assessment.
34. The final part of the plan is client management and includes the HoIAS duties of planning, reporting, and attending the Board.
35. 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. The Local Pension Board welcomed the report at its meeting on 17 April 2024.

External Audit

36. Grant Thornton LLP are the External Auditors for Leicestershire County Council and the Pension Fund. Leicestershire County Council's financial statements also comprise the Pension Fund Accounts for the Local Government Pension Scheme.
37. The external audit of the 2022/23 financial statements, comprising the accounts for the County Council, the Annual Governance Statement and the accounts for the Pension Fund, were recently completed and reported to the 20 May 2024 Corporate Governance Committee and approved by the Constitutional Committee on 25th May 2024. There were no delays encountered on the Pension Fund audit opinion.
38. The External Auditor has completed their work and no material adjustments were required to the accounts.
39. During the audit there was one non-material adjustment identified totalling £3.8m relating to the valuation of hard to value pooled assets, which was not available when the accounts needed to be prepared. For these assets, estimates have to be made as the valuations are not known for many months until after the year end date. The amount was not material overall and this was not adjusted for in the accounts. This was agreed with the External Auditor.
40. The proposed audit fees for the pension fund have been increased slightly from £36,793 to £38,193 due mainly to work required to review the Triennial pension fund valuation. A separate additional fee of £19,200 is made for work relating to the IAS19 accounting assurance letters undertaken by the Pension Fund's auditor on behalf of the main admitted bodies of the Fund. These charges are fully recharged to the respective admitted bodies.

Recommendation

The Local Pension Committee is asked to note the report and approve the revised Pension Fund risk register.

Equality Implications

14. There are no equality implications arising from the recommendations in this report.

Human Rights Implications

15. There are no human rights implications arising from this report.

Background Papers

17 April 2024 - Local Pension Board – Internal Audit Arrangements
<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=1122&MId=7546>

24 May 2024 - Constitution Committee - Statement of Accounts, Annual Governance Statement and Pension Fund Accounts 2022/23

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=150&MId=7788>

Appendices

Appendix A – Risk Register

Appendix B – Risk Scoring Matrix and Criteria

Appendix C – IA Work Conducted 2023-24

Appendix D – Four-year cyclical programme

Appendix E – Pension Fund Plan 2024-25

Officers to Contact

Simone Hines, Assistant Director Finance, Strategic Property and Commissioning

Tel: 0116 305 7066 Email: Simone.Hines@leics.gov.uk

Ian Howe, Pensions Manager

Tel: 0116 305 6945 Email: Ian.Howe@leics.gov.uk