



**LOCAL PENSION BOARD – 25 JUNE 2025**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**INTERNAL AUDIT ARRANGEMENTS (INCLUDING INTERNAL AUDIT WORK CONDUCTED DURING 2024-25) AND THE INTERNAL AUDIT PLAN 2025-26**

**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 Limited.
  - b. to summarise the outcomes of audits conducted during 2024-25 and outline the internal audit plan for 2025-26.
  - c. implementation of the Global Internal Audit Standards in the UK Public Sector (GIAS/UK Public Sector).

**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 Fund 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. New Global Internal Audit Standards (GIAS) were introduced from January 2025. The UK public sector Internal Audit Standards Advisory Board determined the new GIAS were applicable to the internal audit of UK public sector bodies (subject to a small number of additional requirements and interpretations) and would replace the current PSIAS, but from a later date.
9. From 1 April 2025, it is expected that internal audit teams in the public sector will be working to the new internal audit standards. These will be a combination of GIAS and the Application Note, Global Internal Audit Standards in the UK Public Sector, and combined are to be referred to as the '*Global Internal Audit Standards in the UK Public Sector*' or *GIAS (UK Public Sector)*.
10. Although 1 April 2025 marks the effective date for the new standards, internal audit teams will not be required to show complete compliance on this date. They are expected to operate in alignment with the new standards from 1 April 2025, thereby gradually achieving their conformance.
11. There are several new standards to review and implement, and the HoIAS is completing a 'gap analysis' reviewing current processes against the 15 GIAS Principles, and creating a plan of actions.
12. 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.
13. For each audit, Terms of Engagement are agreed with the Treasurer or 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 would be reported at meetings of the Corporate Governance Committee.

14. 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 2024-25**

15. Appendix 1 contains a summary of the work conducted by LCCIAS during 2024-25. The assurance grading was positive overall, with no HI recommendations to report. One planned audit (Good Governance Project) has been deferred into 2025-26 due to changes nationally. Final reports for all completed audits were shared with the Fund's External Auditor (Grant Thornton LLP) to inform their audit risk assessment in preparation for their annual audit of the Fund's accounts.
16. LCCIAS also co-ordinated the County Council's requirements for the biennial National Fraud Initiative (NFI). The NFI is a mandatory data-matching exercise coordinated by the Cabinet Office which seeks to identify potential anomalies and fraud through matching the Council's data sets, for example, payroll, pensions, creditors, employee data (potential conflicts of interest), blue badges, concessionary travel, etc., with those of other mandatory participants, including the Department for Work and Pensions (DWP) deceased persons data and director data held at Companies House.
17. Reports for the latest exercise (2024/25) were released late January 2025. This exercise identified nine cases where pensions were continuing to be paid to deceased persons, totalling £5637.21. For one case, the overpayment of £747.45 has been recovered from the spouse's pension. An invoice has been raised for another case, for £321.68. Death certificates have been requested for a further two cases, equating to £2527.46 (Gross). The remaining five cases, totalling £2,040.62 (Gross), continue to be pursued by the Pensions Service. Where gross amounts are quoted, these will be adjusted once confirmation from a family member, or receipt of a death certificate are received. The next biennial exercise is due to be undertaken during 2026/27 with reports available around January 2027.
18. 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 the DWP's Deceased Persons database. 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.

The last exercise, undertaken in June 2024, identified a further nine unrelated cases totalling over £18K, where pensions were continuing to be paid to deceased persons. Overpayments totalling £192.55 for two cases, were written off. Invoices were issued for a further two cases, of which one has been repaid, and in one case the overpayment has been recovered from the spouse's entitlement. The remaining four cases, totalling around £14,420 continue to be pursued by the Pension Service.

The next MSS exercise is due to be undertaken in June 2025. During 2025/26 the Pension Service will tender for a mortality screening solution. The solution should improve efficiency and reduce risk of overpayments to deceased pensioners.

19. As stipulated in the Pension Regulator's Code of Practice, the Board is informed of any changes relating to the risk management and internal controls of the Pension Fund. Whilst it is the responsibility of the Pensions Manager to maintain and update the risk register, LCCIAS continues to review and comment on any updates.
20. In 2013, there was a directive from Government requiring Local Authorities to join together to work collaboratively to create Investment Pools to make better use of investments and reduce investment costs (incurred through the use of individual Investment Managers who are employed by the Pension Funds in order to increase returns and, for this service, charge a fee).
21. The Pool which has been formed allows eight administering authorities (Partner Funds) to collectively invest assets on behalf of the LGPS Funds that they administer. In order to achieve this, the Pool has created an FCA (Financial Conduct Authority) regulated Company LGPS Central Ltd (The Company) which went live on 1 April 2018. The eight administering authorities are shareholders (each having one equal vote):
  - Cheshire
  - Derbyshire
  - Leicestershire
  - Nottinghamshire
  - Staffordshire
  - Shropshire
  - West Midlands (including West Midlands ITA); and
  - Worcestershire
22. In addition to being shareholders, Partner Funds are also the sole clients of the Company whose role it is to provide a range of internally and externally managed investment products for the use by the Partner Funds.
23. Regarding the internal audit arrangements for LGPS Central Limited, Partner Fund Internal Audit functions worked collaboratively to develop a Pensions Assurance Framework focussed on key risk areas. A four-year cyclical audit programme was developed, detailing the work to be undertaken by each Partner Fund Internal Audit to ensure fairness and to ensure the cost of auditing the Pensions Pool is spread equally across the Pension Funds over a four-year period. Continuous collaborative work with partner fund internal auditors is ongoing, with Leicestershire staff providing feedback, as part of the wider Internal Audit Working Group (IAWG).
24. The first four-year cycle of agreed internal audits has 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, as outlined in Appendix 3. The 2024/25 audits were assigned to colleagues at Shropshire County Council (Investments), and Leicestershire County Council (Governance). The overall assurance level assigned for the Investments report was 'Good.' A draft Governance report has recently been issued to LGPS Central for comment.

25. One of the roles of the IAWG is to review the AAF/0106 Control Report (Type 2). This is an Assurance Report on Internal Controls of Service Organisations made available to third parties. However, LGPS Central External Auditors experienced some difficulties in producing the latest report on a timely basis. 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 report – Provides a report of procedures/controls an organisation has put in place at a point in time.
- Type 2 report – Provides evidence of how an organisation operated its controls over a set period, e.g. A year.

Views of the Council's 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. Based on this, Leicestershire requested a Type 2 report, as did other Partners.

26. However, LGPS Central then 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 had concluded that the right approach to adopt was to reset the process and asked the Executive to:

- Commence work on a Type 1 AAF report as of 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.

27. At the end of August 2024, LGPS Central's Chief Legal, Compliance and Risk Officer issued an 'Assurance Pack' to support each Council's annual financial audit for the year to 31 March 2024. This contained: -

- LGPS Central Limited AAF 01/20 (Type 1) at 31 March 2024.
- A Supplemental Assurance Pack for the period to 31 March 2024; and
- Bridging Letters from the date of the last AAF 01/20 audit period to 31 March

28. The above Type 1 report was reviewed by the IAWG with further information requested from LGPS Central Limited to provide assurance on controls. As mentioned above, a Type 2 report is due to be produced for the period April 2024 to March 2025. This should be available early July 2025.

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

**Overall performance against 2024-25 internal audit plan**

	<b><u>Audits</u></b>	<b><u>Complete @ 31/3/25</u></b>	<b><u>Incomplete @ 31/3/25</u></b>	<b><u>Plan days</u></b>	<b><u>Actual days</u></b>	<b><u>Diff</u></b>
Planned	8	6	2	64	60	-4
Advisory	2	2	0	9	4.6	-4.4
Deferred	1	n/a	n/a	6	0	-6
Replacements	0	0	0	0	0	0
Client management	1	1	0	8	12	+4
<b>Total</b>	<b>12</b>	<b>9</b>	<b>2</b>	<b>87</b>	<b>76.6</b>	<b>-10.4</b>

30. The total charge to the Fund for all internal audit work undertaken during 2024/25 was £31,198.

**The Internal Audit Plan 2025-26**

31. Appendix 2 contains a summary of audits planned during 2025-26 and includes two audits that have been carried forward from 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.
32. The final part of the plan is client management and includes the HoIAS duties of planning, reporting and attending the Board.
33. The cost of the planned 90 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**

34. The Board is asked to note the report.

**Equality and Human Rights Implications**

Nothing specific

**Appendices**

Appendix 1 - Internal Audit Work Conducted in 2024-25

Appendix 2 - Internal Audit Plan 2025-26

Appendix 3 - Cyclical Programme of Collective Internal Audit Work (2023-2027)

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