

**Open Report on behalf of Executive Director of Finance and Public Protection**

Report to:	<b>LGPS Local Pension Board</b>
Date:	<b>25 July 2018</b>
Subject:	<b>Internal Audit of the Pension Fund</b>

**Summary:**

This report brings to the Board information on the internal audits that have been undertaken over the past year on the Lincolnshire Pension Fund and on the administration service provided by WYPF.

**Recommendation(s):**

That the Board note the report.

**Background**

1. The Pension Fund is regularly audited by a number of different parties; by Lincolnshire County Council's (LCC) internal audit team, by KPMG as the Council's external auditors, and by City of Bradford Metropolitan Council's (CBMC) internal auditors on the shared Pensions Administration service. In addition, West Yorkshire Pension Fund (WYPF) undertake a number of quality audits each year, ensuring that processes and policies are followed across the Pensions Administration section.
2. The Pension Board received a presentation last year from the Fund's external auditor, KPMG, at the October 2017 Board meeting and reviewed the Governance Statement for the 2016/17 audit. The internal audit team at LCC have performed two audits of areas of the Pension Fund over the last year, one as part of the key controls testing that is undertaken across the Council's financial systems annually and one on the internal audits undertaken by Bradford MDC on the administration service provided by WYPF. Bradford MDC have performed completed four audits of WYPF in the financial year. Details of the LCC audits, the Bradford MDB audits and the quality audits from WYPF are shown below.

**LCC – Key Control Testing**

3. Key control testing is undertaken each year on finance, payroll and pension systems / processes to enable the Head of Internal Audit to form an opinion on the Council's financial control environment and to inform External Audit's

control evaluation. As transactions are sampled across the year, the work also supports risk based reviews completed on these systems. This audit aims to provide assurance that key controls are in place within system examined, controls are consistently operated and transactions examined are complete and accurate.

4. Within the Pension Fund, the key controls and sample of transactions is reviewed across the monthly reconciliation and the existence and valuation of investments. The executive summary of the assurance provided on the Pension Fund areas audited is shown below:

#### **Pension Fund – High Assurance**

Full and detailed reconciliations of the Pension Fund are completed monthly. A check list is completed each month by the reconciliation preparer and the Fund Manager or Investment Manager signs off after review. For the samples we tested we found that the calculations on the reconciliation totals were all correct and all the investment records agreed to the underlying records apart from one relating to the internal portfolio. After investigation we found that this was where a figure was used from a custodian document where the figure had been transposed in error. This had no effect on the overall reconciliation but we would recommend that in future, any figures taken from custodian figures are checked against the income receivable spreadsheet to ensure that they agree.

5. As can be seen above, the assurance given was **High**, this is the same as the Effective assurance that was given previously, with the same definition, just a change in language used.
6. One recommendation was identified, as shown in the summary above, however it related to the internally managed portfolio which was externalised in February 2017, therefore no action was required.

#### **LCC Internal Audit – Pensions Administration**

7. WYPF has an Internal Audit service, provided by Bradford Metropolitan District Council (MDC), who has delivered a 185 day plan for the past few years, which is increasing to 270 days in 2018/19. In order to maximise efficiencies and avoid duplication, LCC internal audit have sought to take assurance on relevant work conducted by Bradford MDC. The Highlight Report is attached at Appendix A.
8. To place assurance on the outcomes of the audits of WYPF, LCC's internal audit looked to understand and assess Bradford MDC's:
  - approach to audits and coverage;
  - sampling approach; and
  - review and quality assurance processes.

9. Approach to audits and coverage  
The team maintains a five year cyclical audit plan which has set audit frequencies for all areas of pension administration. LCC reviewed this and found it to contain all expected areas for review. The risks, controls and testing schedule applied to each audit were assessed in more detail, and again this was found to include all the elements one would expect. 2018/19 plan has been increased to 270 days to incorporate other audits such General Data Protection Regulations and Transfer of Data. This further increases the assurance as audit coverage will now include the wider risks facing WYPF.
10. Sampling approach  
The audit team use a proportionate approach to sampling based on number of members per organisation. This approach means that Lincolnshire Pension Fund members/transactions equates to 30-35% of the sample. Assurance is also enhanced by the fact that the same process is applied to all members so effectiveness of control application can be drawn from the whole sample.
11. Review and quality assurance processes  
It was confirmed that Bradford MDC aims to conform to the Public Sector Internal Audit Standards (PSIAS). The audit team has a quality assurance framework which includes supervisory review of all audits before they are released to the client. Bradford MDC has also recently had an External Quality Assessment against the PSIAS. At the time of LCC's visit they were still awaiting the report, but initial feedback had been positive.
12. In addition, recent audit reports were reviewed and assurance outcomes assessed. The Pension Administration audits reviewed and the outcomes (where available) are listed below:
- Annual Benefit statements      Audit Opinion - Excellent
  - Death Benefits                      Audit Opinion – Excellent
  - LGPS Contributions              Audit Opinion - Good
  - Transfers In                          Audit Opinion - Good
  - Transfers Out                      Audit Opinion – Effective
  - New Pensions/Lump Sums – Deferred Pensions    In Progress
  - Reimbursement                      In Progress
13. The conclusion drawn from the audit was that LCC internal audit were able to place assurance on the robust nature of the audits completed by Bradford MDC on the WYPF. They were pleased to see that the audits themselves have positive assurance levels to date, and that actions are implemented promptly.
14. LCC internal audit are happy to place reliance on this assurance over Pension Administration and plan to maintain the new relationship with Bradford MDC. Future information and assurances will be shared to help support one another's audit work.

## **Bradford MDC Internal Audits**

15. The Internal Audit function for the West Yorkshire Pension Fund is carried out by Bradford Council. Each year a listed number of planned audits are performed on financial systems and procedures across the organisation. Listed below is a summary of audits that impacted the Lincolnshire Fund, that were carried out during the financial year 2017/18.
- Transfers Out – This was an audit of the risks and control processes in place to manage benefit transfers for individuals leaving employment of a West Yorkshire Pension Fund. The control environment was found to be of an effective standard with no recommendations arising from the work carried out.
  - Reimbursement of Agency Payments – This audit examined the reimbursement of payments made in respect of the administration service provided by the WYPF for Lincolnshire Pension Fund, for the Fire Scheme pensions of West Yorkshire, North Yorkshire, Humberside, South Yorkshire, Lincolnshire, Royal Berkshire, Buckinghamshire and Milton Keynes, and also for Teachers Gratuities for Bradford MDC. The work identified that services provided were not backed up with an up to date contractual agreement due to delays in completing legal reviews. The resulting recommendation for improvement was made and accepted.
  - New Pensions and Lump Sums – Deferred Pensions – This audit examined pension benefit calculations of deferred benefits for those members who have left the employment of a scheme employer. The control environment for this process was found to be fully effective with no issues identified.

## **WYPF Quality Audits**

16. A number of quality audits have been completed by WYPF, and a summary list with responses is attached at Appendix B. These review the processes and procedures in place to ensure that they are fit for purpose, and the outcomes are reported at the Management Review meetings. The areas covered are shown below:
- Transfers in
  - Provision and Interpretation of Information Relating to the LGPS and Firefighters Pension Schemes
  - Document Imaging Team Functions
  - Internal Quality Audits
  - Overpayment Process
  - The provision of advisory services relating to incapacitated pensioners

## Conclusion

17. The Pension Fund is regularly audited by both external and internal audit, to ensure that processes and controls are in place to manage both the investments and the pensions administration effectively. In addition, WYPF is audited by Bradford MDC and also undertake Quality Assurance Audits internally, to ensure all processes are fit for purpose. The reports highlighted in this paper should provide assurance to the Pension Board that the Fund is regularly monitored to ensure that it is well managed in all aspects.

## Consultation

### a) Have Risks and Impact Analysis been carried out?

Yes

### b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

## Appendices

These are listed below and attached at the back of the report	
Appendix A	LCC Internal Audit Highlight Report – Pensions Administration
Appendix B	WYPF Internal Audits completed during 2017/18

## Background Papers

Not applicable.

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