

Lancashire County Pension Fund

Internal audit plan for the year 1 April 2011 to 31 March 2012

The Pension Fund Committee is invited to consider and approve this internal audit plan.

1. Executive summary

- 1.1. This paper sets out the plan of work to be undertaken by the internal audit service for the coming financial year. The plan amounts to a total resource of 112 audit days (2010/11: 120 days), and the Pension Fund Committee is asked to approve it, as providing the assurance it requires over the internal control of the pension fund.

2. Background

- 2.1. The plan is intended to provide assurance to the Pension Fund Committee and to the chief executive and leader of the council who are jointly required to sign an annual governance statement (AGS), incorporating a statement on internal control. As the county council is responsible for the administration of the pension fund, including the provision of systems, controls and governance, the AGS also embraces the activities of the pension fund.
- 2.2. The responsibility for maintaining and reviewing the system of internal control and for implementing a system of risk management clearly rests with management. However the process by which the AGS is made includes obtaining assurances on the effectiveness of key controls and internal audit provides one of the key sources of assurance.
- 2.3. The aim of this plan is to focus on an assessment of the risks to the achievement of the pension fund's objectives, and the provision of assurance that the actions planned and the controls implemented to mitigate these risks are adequate and effective. The Audit Service provides assurance that key controls are adequately designed and are operating effectively as intended.

3. Deployment of audit resources

- 3.1. The plan is stated in terms of estimated days input. However, neither the resources available, nor the exact time that will be taken for any single piece of audit work is capable of exact estimation at this stage. The plan therefore represents only best estimates of the audit resources and the ways in which they will be deployed.

Lancashire County Pension Fund

Internal audit plan for the year 1 April 2011 to 31 March 2012

- 3.2. The planned deployment of audit resources for the pension fund is as follows:

| Proposed work | Estimated audit days |
|---|-----------------------------|
| Pension fund | |
| New investment strategy | 25 |
| Governance arrangements | 5 |
| Global custodian | 20 |
| Procurement of new investment manager | 15 |
| New bank account | 10 |
| Investment manager assurance statements | 5 |
| Pension administration | |
| Pension administration – Altair system | 25 |
| Follow up | 2 |
| General management | 5 |
| Total audit days | 112 |

- 3.3. The plan again focuses on two distinct areas which cover the governance and management of the pension fund's assets and pension administration. The audit reviews identified under each of these areas is explained in more detail below.

Pension fund

- 3.4. We have included audit resources to review the arrangements for investing funds under the revised investment strategy which was approved in December 2010. The revised strategy requires the fund to make a wider range of individual investment decisions, rather than simply placing funds with investment managers. This will involve implementing new procedures and processes which we will consider to assess the adequacy of the internal control arrangements.
- 3.5. We plan to undertake an overview of the governance arrangements currently operated for the pension fund which will include consideration of the current committee structure, and the liaison and reporting lines between members and senior officers in addition to the roles and responsibilities of key individuals associated with the pension fund.

Lancashire County Pension Fund

Internal audit plan for the year 1 April 2011 to 31 March 2012

- 3.6. We also propose to review the new arrangements which will be introduced during the coming year following the re-tendering of the global custodian services. It is intended that there will be a more direct link between the new global custodian's own systems and the council's Oracle Financials system and we plan to audit the security and integrity of data passing over this link. We also plan to review the ongoing oversight by the council over the new global custodian's activity.
- 3.7. As part of the pension fund's 2011/12 business plan it is the intention to review the current fund manager mandates, with a view to re-tendering a number of them. We will review the adequacy of the processes employed for the procurement of one of the new investment managers.
- 3.8. From April 2011 the pension fund will have its own bank account, separate from that of the county council, and we propose to review the controls introduced for this new arrangement.
- 3.9. Our work will continue to take maximum advantage of existing management assurance processes and reports, and follow an approach in line with guidance issued by the Society of County Treasurers and CIPFA. This will involve using statutory reporting from the investment managers and custodian in the first instance. These documents will be used to gain assurance over the external investment management activities where appropriate.

Pension administration

- 3.10. In the same way that we are required to consider controls over the county council's corporate financial systems, any assessment of the risks to the pension fund will require our assurance over the key controls over the administration of the fund. This year's work will be focussed on testing the key controls we documented as part of last year's review and the implementation of a new pensioner payroll system integrated within the pensions administration system.

Follow up reviews

- 3.11. Audit resources have been identified to ensure that all reviews are followed up and our findings are re-assessed as the actions previously agreed with management are implemented.

General management activities

- 3.12. An allocation of 5 days has also been made to cover other management and tasks in support of the internal audit service to the pension fund:
- Attendance at meetings;
 - Liaison with the Audit Commission; and
 - Central reporting.