

Internal audit assurance for the Pension Fund Committee

1 Introduction

- 1.1 Lancashire County Council, as the administering authority of the Lancashire County Pension Fund (LCPF), has prepared a governance compliance statement that sets out the role of the council's Pension Fund Committee, Investment Panel and Pension Board.
- 1.2 The terms of reference for the council's Audit, Risk and Governance Committee give it a wider remit to oversee internal audit activity, and its terms of reference address its oversight of the work of the Internal Audit Service in some detail. This includes a requirement to,

"Consider reports from the Head of Internal Audit on Internal Audit's performance during the year, including the performance of external providers of internal audit services. These will include updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work"
- 1.3 The Internal Audit Service's annual programme of work includes work relating to the Pension Fund and the Audit, Risk and Governance Committee considers both the annual plan and the outcomes of the work done during the year.
- 1.4 This report is therefore presented to the Pension Fund Committee for its information regarding the outcomes of the internal audit work done during 2022/23 and the work included in the annual audit plan for 2023/24 relating to the LCPF.

2 Sources of assurance

- 2.1 Assurance is available to the Council from its own Internal Audit Service, work undertaken independently by KPMG and internal assurance reviews completed by Local Pension Partnership Ltd (LPP) and/or its subsidiary companies.
- 2.2 Local Pension Partnership Administration Ltd (LPPA) has periodically provided the Internal Audit with compliance statements within the 2022/23 financial year which certify that during the year:
 - the Fund has been administered in all material respects and all benefits have been paid in accordance with the Regulations and with all statutory provisions affecting it from time to time;
 - to the best of LPPA's knowledge and belief, all contributions and other payments due to the Fund have been paid in accordance with the agreed rates and adjustments certificates for the Fund;
 - LPPA is not aware of any circumstances relating to its administration of the Fund which could prejudice the registered status of the Fund; and
 - records have been maintained throughout the period in accordance with the terms of LPPA's agreement with the council.
- 2.3 The statements received have been made with no qualifications.

3 Internal audit work 2022/23

- 3.1 Details of the work undertaken by the Internal Audit Service and the assurance it provides for 2022/23 are set out below, and explanations of the assurance provided are set out in the annex to this report.

Audit work	Status/Assurance
Assurance provided by the county council's Internal Audit Service over the work of the Lancashire County Pension Fund Service	
Pensions processing	Draft report - Substantial Assurance
Pensions treasury management	Draft report - Substantial Assurance
Accounting for the Pension Fund through the council's general ledger	Substantial Assurance
Obtaining and understanding the assurance provided by LPPs own resources.	Completed
Assurance relating to LPPA's administration of benefits	
Operational Quality	Immediate Action Needed
Contractual Service Level Agreement	Enhancement Required
Procurement & Vendor Management	Significant Improvement Required
Operational Capacity Planning	Significant Improvement Required
Assurance relating to Local Pensions Partnership Investments (LPPI)	
Type II Independent Service Auditor's Assurance Report – KPMG	Qualified Opinion

Pensions processing

- 3.2 At the time of writing this report the Pensions Processing Audit was at a draft reporting stage. The audit is providing substantial assurance that as to the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks.

Pensions treasury management

- 3.3 At the time of writing this report the Pensions Processing Audit was at a draft reporting stage. The audit is providing substantial assurance as to the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the pension's treasury management function.

General Ledger

- 3.4 The audit is providing substantial assurance as to the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the operation of the General ledger.

4 Assurance relating to LPPA's administration of benefits

Operational Quality

- 4.1 The Operational Quality review was a consultative review completed by LPPA's Internal audit service. The work was commissioned by LPPA's Executive

Leadership Team. The scope of the work was to focus on areas within LPPA that were known concerns and previously identified as having potential for improvement. The aim of the review was to aid LPPA to drive change and deliver improvements. The review identified a number of improvements that when implemented should overall result in less administrative errors.

Contractual Service Level Agreement

- 4.2 The review established that LLPA's approach in monitoring, measuring and reporting performance of SLAs provides an accurate way of measuring performance against the service level agreed. The Achieved SLA performance was accurately reflected in the quarterly reports provided to clients. The audit reconciled the current management information to underlying data. No errors or issues with the integrity of the data was identified. The Audit identified opportunities to further enhance the Management Information produced.

Procurement & Vendor Management

- 4.3 Procurement activities previously sat at LPP Group level, and the Group undertook the process for administration of the system. There was no focus at the subsidiary level and no one point of ownership which was a known weakness for LPPA ELT. This audit provided focus and a dedicated LPPA point of ownership has been provided. LPPA has recognised that, whilst it has taken some steps to improve its procurement and vendor management practices since its formation in 2020, governance and management of them require enhancement. Actions are currently underway to develop practices and this internal audit has identified areas where they believe enhancement is appropriate.

Operational Capacity Planning

- 4.4 There is an improved understanding within Operations of its resource requirements, with more focused resource targeting to tackle current workloads and priorities and there is greater collaboration with HR and IT. There is still scope for further improvement. Further detailed information would be beneficial in terms of aged analysis and cases to be actioned at each stage. Whilst Operations Management are making progress in developing their understanding, they are constrained by both the wider organisational imperative to tackle work backlogs and restore service levels. Backlogs are currently envisaged to be eliminated by the end of Q2 2023/2024, which should, offer Operations Management the time to undertake further developmental activity.

5 Assurance relating to LPPI

- 5.1 An independent service auditor's assurance report on control activities has been produced. This is the second such independent assurance assessment. For each Control Objective within this report, KPMG evaluated in all material respects that the Control Activities were operated effectively aside from the matters described in the Basis for Qualified Opinion. The matters detailed in the Basis for Qualified Opinion relate to improvements to the control environment with respect to restricting physical access to systems by authorised individuals.

6 Internal audit plans for 2023/24

- 6.1 The following work relating to the Lancashire County Pension Fund has been included on the audit plan for the county council in 2023/24 which was approved by the council's Audit, Risk and Governance Committee on 25 April 2023.

Operational area of activity	Audit work
Pension Administration	Following the implementation of a new pension administration system a review to determine the adequacy and effectiveness of the administration of the scheme to providing a good quality member experience and to discharge the responsibilities of the scheme manager and Local Pension Board in paying benefits to members. This includes the payment of complete and accurate benefits to each member, in accordance with the Rules, and in line with service level agreement deadlines.
Accounting for the Pension Fund through the council's general ledger	Compliance testing of key controls in operation to mitigate the key risks regarding the general ledger.
Obtaining and understanding the assurance provided by LPPs own resources.	Assessment of the assurance over the operation of the Pension Fund by the Local Pensions Partnership Ltd (LPP).
Follow up Audit	Follow up on the progress of the previously agreed recommendations.

Audit assurance levels and classification of residual risks

The assurance levels and classification of risks within Lancashire County Council's Internal Audit Service are as follows.

Audit assurance levels

Note that our assurance may address the adequacy of the control framework's design, the effectiveness of the controls in operation, or both. The wording below addresses all of these options and we will refer in our reports to the assurance applicable to the scope of the work we have undertaken.

Substantial assurance: the framework of control is adequately designed and/ or effectively operated overall.

Moderate assurance: the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.

Limited assurance: there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.

No assurance: there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

Classification of residual risks requiring management action

Extreme residual risk: critical and urgent in that failure to address the risk could lead to one or more of the following: catastrophic loss of the county council's services, loss of life, significant environmental damage or significant financial loss, with related national press coverage and substantial damage to the council's reputation. *Remedial action must be taken immediately.*

High residual risk: critical in that failure to address the issue or progress the work would lead to one or more of the following: failure to achieve organisational objectives, significant disruption to the council's business or to users of its services, significant financial loss, inefficient use of resources, failure to comply with law or regulations, or damage to the council's reputation. *Remedial action must be taken urgently.*

Medium residual risk: failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. *Prompt specific action should be taken.*

Low residual risk: matters that individually have no major impact on achieving the service's objectives, but where combined with others could give cause for concern. *Specific remedial action is desirable.*

The assurance levels within LPPA's Internal Audit Service are as follows.

Internal audit assurance for the Pension Fund Committee

Overall report rating	Description of risk mitigation and control effectiveness
Effective;	An “Effective” (Green) rating indicates that the activities assessed in the audit are being undertaken in a way that meets the LPPA risk appetite for them.
Enhancement Required;	An “Enhancement Required” (Yellow) rating indicates that the activities assessed in the audit are being undertaken above the LPPA risk appetite for them and the control environment requires some work to bring the risks to LPPA risk appetite.
Significant Improvement Required	A “Significant Improvement Required” (Amber) rating indicates that the activities assessed in the audit are being undertaken above the LPPA risk appetite for them and the control environment requires considerable work to bring them to LPPA risk appetite.
Immediate Action Needed	An “Immediate Action Needed” (Red) rating indicates that the activities assessed in the audit are being undertaken above the LPPA risk appetite for them and / or LPPA is in breach of obligations and the control environment is incapable of bringing them to LPPA risk appetite.
<p>Each issued audit report rating is determined on a judgemental basis by the Internal Audit & Monitoring Officer. The rating considers factors including (but not limited to):</p> <ul style="list-style-type: none"> • Significance of the inherent risk exposure and residual risk position for each risk considered within the audit; • Determination, appropriateness and meeting of risk appetite for the risks assessed within the audit; • Mix (i.e. manually undertaken or systemised) and effectiveness of application of controls applied in achieving statutory and/or other compliance requirements for the risks assessed; and • Understanding and effective management of potential fraud exposures. <p>Internal Audit will also raise observations within its audit reports where it has identified scope to potentially, for example, improve effectiveness and efficiency, reduce cost, and improve value for money for consideration by LPPA.</p>	