

Report of the Director, West Yorkshire Pension Fund, to the meeting of the WYPF Pension Board to be held on 8 November 2017.

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Subject:

West Yorkshire Pension Fund – five year internal audit plan 2017/18 to 2021/22

Summary statement:

This report presents the latest five year internal audit plan for West Yorkshire Pension Fund (WYPF). The plan is reviewed annually between WYPF finance team and CBMDC internal audit by carrying out a detailed assessment of WYPF business risks, pensions and investment regulatory compliance environments, and service developments.

The latest plan also takes into account the need for more internal audit resource to cover increase operational activities from shared services and our participation in the Northern Pool as a result of the government directives for LGPS pooling of investments. We are working with CBMDC internal audit to secure additional resources.

Recommendation

It is recommended that this report is noted.

Mr Rodney Barton
Director WYPF

Portfolio:

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Overview & Scrutiny Area:

1. SUMMARY

- 1.1 We held our annual internal audit planning meeting with CBMDC internal audit in January 2017 and reviewed a number of key service areas in terms of business and operation risks, with specific focus on new statutory requirements and enforced changes as a result of government agenda for pooling. Our primary aim is to refocus internal audit activities and use this to manage inherent and new emerging risks, as well as to use CBMDC internal audit to deliver service improvements, increase efficiency and remove wastage. There is also an action to set a minimum number of audit reviews, but encourage more frequent reviews for high profile areas of our operations. This ensures all key areas are covered routinely within the five year plan, at divisional level, four audit reviews for pension admin services and also four reviews for investment management. Therefore, a minimum of eight reviews, this level could be increased at any time based on in-year review or as part of the annual audit planning activity. However, we would not reduce reviews below the minimum of eight (four for each division).
- 1.2 In addition to the five year plan we also produce a detailed resource plan for the financial year 2017/18 allowing CBMDC internal audit and WYPF service managers to deliver all internal audit reviews planned in the year. To conclude the audit each year we also review internal audit recommendations, this provides key governance information on risk management and control.

Key information provided in this report are:

- a) WYPF Annual Internal audit plan 2017/18
- b) WYPF Five year internal audit plan 2017/18 to 2021/22
- c) List of internal audits completed during 2016/17
- d) WYPF progress on implementing internal audit recommendation provided in 2016/17

2. BACKGROUND

2.1 WYPF Annual Internal audit plan 2017/18

- 2.1.1 Our joint plan with CBMDC internal audit for 2017/18 is to deliver a total of twelve internal audit reviews. This is four reviews above the minimum target of eight reviews. Table 1 below provides full listing of the plan. We plan to utilise a total of 185 audit days, estimated cost £62k and an average cost of £5.2k per audit. The planned expenditure is significantly less than internal audit cost for comparative organisations within the public sector.

2.1.2 Our service target is to improve on internal audit opinions and recommendations, by working with CBMDC internal audit, to review, strengthen controls and anticipate key service operational and regulatory changes. In order to deliver the 2017/18 annual plans finance officers are working with managers to look at previous recommendations to ensure current improved controls are still effective and where any control is identified as not working managers and finance officers work with CBMDC internal audit to design and implement improved controls.

Table 1: WYPF Annual Internal audit plan 2017/18

Title	Job	Last Reviewed	Opinion	Days
Benefits				
New Pensions and Lump Sums - Deferred Pensions	80005	10/12/2012	Satisfactory	20
Transfers Out	80013	09/12/2012	Good	15
Reimbursement of Agency Payments Incl. Lincolnshire	80010	13/12/2015	Satisfactory	15
AVC Arrangements	80011	22/05/2015	Excellent	15
	Sub Total			65
Investments				
UK and Overseas Equities	82012	30/11/2015	Excellent	15
UK Fixed and Index Linked Public and Corporate Bonds	82043	23/07/2010	N/A	15
UK Unit Trusts (Property and Other)	83037	New	Excellent	15
Treasury Management	82046	14/12/2015	Excellent	15
Stock Lending	82044	19/06/2014	Excellent	15
Verification of Assets	82014	05/02/2015	Excellent	15
	Sub Total			90
Annual Accounts Verification	82050	Annual	N/A	10
Fraud Prevention Work - NFI		Annual	N/A	15
Slippage from 17/18				5
Costs £62k, £5.2k per activity.	Total			185

2.1.3 The five year audit plan 2017/18 to 2021/22 is attached at Appendix A

2.2 List of internal audits completed during 2016/17

2.2.1 Listed below is a summary of reviews that were carried out during the financial year 2016/17.

a) Annual benefit statements

All active members of West Yorkshire Pension Fund receive an annual benefit statement. This provides a number of pension details which demonstrate the value of their current benefits calculated from information provided by the member's employer on their monthly returns. No issues were identified during the course of this audit.

b) Local government scheme contributions

This audit looked at both the employer and employee contributions remitted by each employer on a monthly basis, and also income received in respect of early retirements and unfunded benefits. The control environment was largely as expected with two suggested actions for improvement provided.

c) Transfers in

This work looked at individuals who had built up previous pension benefits in their former employments and now wished to amalgamate them with their new West Yorkshire Pension Fund contributions. The standard of control in this area was found to be of a good standard; however, a recommendation was made to improve the accuracy of the relevant transfer-in dates and the quality control checking process.

d) Review of the West Yorkshire Pension Fund 2015/16 accounts

This is an annual account review process that ensures the final account is consistent with internal control reviews carried out by our internal audit team during the year.

e) Purchase of additional pension

Active members of West Yorkshire Pension Fund are able to choose to increase their future pension benefits by purchasing additional pension to a maximum amount of £6,755 over a flexible number of years. The standard of control of risks in this process was found to be good; however, a recommendation was made as a result of an error identified which should ensure future accuracy of the process.

f) New pensions and lump sums – death benefits

This audit examined the calculation of death benefits following the death of an active/deferred member or pensioner. The control environment for this process was found to be excellent.

g) Fund of hedge funds

At the time of the audit, the fund of hedge funds made up approximately 2% of the investment portfolio. The control of risks in this process was largely as expected and therefore of a good standard.

h) UK and foreign private equity funds

Control of this asset class was found to be satisfactory, however, a recommendation was made to improve control over electronic communication and the independent verification of cashflow statements to WYPF records. This audit looks to ensure that investments are made in compliance with the decisions of the Investment Advisory Panel and in accordance with WYPF policies. No issues were identified with this process which was therefore deemed to be excellent.

i) Equities

These investments are held under the custody of the HSBC and represent a significant proportion of the West Yorkshire Pension Fund investment portfolio. The audit review found the process to be well controlled.

j) Treasury management

This audit reviewed the arrangements in place for treasury management to ensure that surplus cash is invested in the most appropriate ways. Controls in this area were found to be excellent.

k) Direct property

The investment in direct property was examined for the first time, as this is a relatively new asset class in the WYPF investment portfolio. The control environment was deemed to be of a good standard with a suggested action being provided for future improvement.

l) Follow-up audit – reimbursement of agency payments

A follow up of the reimbursement of agency payments audit, carried out in 2015, was undertaken to determine the level of implementation of outstanding agreed High Priority recommendations. The result of this process was deemed to be excellent with high priority recommendations from the original audit found to have been fully implemented.

2.2.2 The schedule of progress on implementing internal audit recommendations in 2016/17 is attached at Appendix B

3 Recommendation

- It is recommended that this report is noted

4 Appendices

- Appendix A – Five Year Internal Audit Plan 2017/18 to 2021/22
- Appendix B - Status of all Audit Recommendations in reports issued up to 31.3.2017

