

Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 22 September 2020.

Subject:

West Yorkshire Pension Fund five-year internal audit plan 2020/21 to 2024/25

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 has been reworked to take account of Covid-19 impact on services and operations. It is also anticipated that internal audit resources may be moved at short notice to support high risk areas. In order to manage audit work plan, address emerging risks and maintain sector intelligence there is a regular monthly meeting between CBMDC Internal Audit Manager and WYPF Financial Controller; and a quarterly meeting with the Director of WYPF.

Rodney Barton
Director WYPF

Portfolio:

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Overview & Scrutiny Area:

1 SUMMARY

- 1.1 This report presents the latest annual internal audit plan 2020/21 and 5 years plan. We reviewed a number of key service areas in terms of business and operational risks, with specific focus on new statutory and compliance areas. As in previous years we also are looking at inherent and emerging risks.
- 1.2 In 2018/19 we increased internal audit resources and as a result we are conducting more in depth internal audit reviews, engaging more with Northern LGPS partners on issues and hold more frequent business review meetings with internal auditors to improve business knowledge and intelligence, resulting in improved internal audit service quality and reviews for WYPF.
- 1.3 All internal audit recommendations in 2019/20 were delivered within agreed timescales. In addition to the five year plan we also produce a detailed resource plan for the financial year 2019/20 allowing CBMDC internal audit and WYPF service managers to deliver all internal audit reviews planned in the year. To conclude each year's internal audit plan we review internal audit recommendations, which provides key governance information on risk management and control.

Key information provided in this report are:

- a) WYPF Five-year internal audit plan 2020/21 to 2024/25
- b) List of internal audits completed during 2019/20

2 WYPF Annual Internal audit plan 2020/21

- 2.1 Each year we plan to deliver between 9 and 11 internal audit reviews. Occasionally the number of audit reviews are increased to address emerging risks, in 2019/20 a total of 13 reviews were carried out. High risk service areas such as UK and Overseas Equities are repeated each year, medium risk services are covered within two to three years and low risk areas are covered within four to five years. There is adequate resources to deliver one-off service reviews by Internal Audit. We hold monthly risk management review meetings and at the meeting we review service activities and consider the need to refocus audit activities to cover emerging service risks. This approach has improved internal audit engagements, ensuring service improvements and improved risk management.
- 2.2 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 operational and regulatory changes. In order to maintain quality of audit reviews finance officers are working with managers to look at previous recommendations to ensure current improved controls remain effective, and where controls are identified as insufficient, managers and finance officers work with CBMDC internal audit to design and implement improved controls.

2.3 Detailed internal audit plan.

West Yorkshire Pension Fund Five Year Audit Plan 2020 - 2025	Frequency	Last Audit	Recomen-dations	Days	20/21	21/22	22/23	23/24	24/25	Total
Annual Accounts Verification	Annual	Jul 19	1	10	✓	✓	✓	✓	✓	
Audits Per Year					1	1	1	1	1	5
Benefits										
Local Government Scheme Contributions	Every 2 Years	Nov 18	0	20		✓		✓		
New Pensions and Lump Sums - WYPF										
- Normal and Early Retirements	5 Yearly	Oct 19	1	25					✓	
- Death in Service, Post Retirement Widow and Dependent Benefits	5 Yearly	Mar 17	0	25		✓				
- Ill Health Pensions	5 Yearly	Feb 19	1	25				✓		
- Flexible Retirements	5 Yearly	Apr 16	1	25	✓					
- Deferred Pensions	5 Yearly	Mar 18	0	25			✓			
Transfers Out	3 Yearly	Nov 17	0	20	✓					
Transfers In	3 Yearly	Oct 19	2	20		✓			✓	
Reimbursement of Agency Payments	5 Yearly	Mar 18	2	20			✓			
Life Existence / Certificates	5 Yearly	Oct 15	0	20	✓					
AVC Arrangements	5 Yearly	Sep 17	0	20			✓			
Admission of New Bodies	5 Yearly	Feb 20	0	20					✓	
Pensioners Payroll	Twice in 5 Years	Mar 19	2	25	✓			✓		
Purchase of Additional Pension	5 Yearly	Mar 17	2	20		✓		□		
Annual Benefits Statements	Twice in 5 Years	Mar 20	0	20			✓		✓	
New Pensions and Lump Sums - Fire Service	Twice in 5 years	Jul 18	1	20	✓			✓		
Audits Per Year					5	4	4	4	4	21
Investments										
UK and Overseas Equities	Annual	Mar 20	0	15	✓	✓	✓	✓	✓	
UK Fixed and Index Linked Public and Corporate Bonds	3 Yearly	Sep 19	0	15			✓		✓	
UK and Overseas Unit Trusts (Property and Other)	3 Yearly	Mar 20	1	15			✓		✓	
Fund of Hedge Funds	5 Yearly	Jun 16	1	15	✓					
UK and Overseas Private Equities	3 Yearly	Jun 19	3	15	□	✓			✓	
Global Bonds	5 Yearly	Dec 18	0	15				✓		
Treasury Management (Short Term Cash Lending)	Annual	Dec 19	0	15	✓	✓	✓	✓	✓	

West Yorkshire Pension Fund Five Year Audit Plan 2020 - 2025	Frequency	Last Audit	Recomen-dations	Days	20/21	21/22	22/23	23/24	24/25	Total
Stock Lending	5 Yearly	Oct 17	1	15		✓				
Compliance with IAP Investment Decisions and Policies	3 Yearly	Nov 16	0	15	✓			✓		
Verification of Assets	5 Yearly	Feb 15	0	15	✓					
Audits Per Year					5	4	4	4	5	22
WYPF ICT				15			✓			
					0	0	1	0	0	1
Total number of audits					11	9	10	9	10	49
One off audits										
Transfer of Data to New Pensions System	One off	Jul 12								
Monthly Contribution Data Usage	One off	Aug 15								
Information Governance Including GDPR	One off	May 19								
Transfer of Data From Outside Bodies	One off	Jun 19								
Pooling Arrangements	One off	Mar 19								
Custodial Transfer Arrangements	One off	Jul 20								
Accuracy of Contributions Recorded on Member Records	One off	Feb 20								
GLIL	One off	Jul 20								
ISAE 3402 (Support Work)	One off	2018/19								

3 Internal Audits completed during 2019/20

Listed below is a summary of reviews that were carried out during the financial year 2019/20.

3.1 UK and Overseas Private Equities

Control of this asset class was found to be of a good standard, however, recommendations were made to further enhance control in this area of activity.

3.2 Transfer of Data

A pensions administration service is provided for a significant number of Fire and Rescue Authorities, Lincolnshire Pension Fund and London Borough of Hounslow Pension Fund. This audit was a high level review of the management processes which support the transfer of external data into the UPM system, when a new outside client

is established under a shared service agreement. The standard of control in this area was deemed to be partially effective and resulted in a number of recommendations to improve the level of control in the process.

3.3 Admission of New Bodies

This audit covered the admission of new employer bodies to the West Yorkshire Pension Fund and the standard of control was found to be excellent.

3.4 New Pensions and Lump Sums - Normal and Early Retirements

This audit examined the calculation of the annual pension and the lump sum following a member's decision to retire. The standard of control in this process was found to be good, with one recommendation for improvement being made.

3.5 Review of the West Yorkshire Pension Fund 2018/19 Accounts

This is an annual accounts review process, that ensures the final accounts are consistent with internal control reviews carried out by our Internal Audit Team during the year.

3.6 Annual Benefit Statements

All active and deferred members of West Yorkshire Pension Fund receive an Annual Benefit Statement, this provides a number of pension details which illustrate 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.

3.7 Equities

Since November 2019, all quoted investments are now held under the custody of the Northern Trust Bank (previously HSBC), and represent a significant proportion of the West Yorkshire Pension Fund investment portfolio, the annual audit review of this asset class found the process to be well controlled.

3.8 Treasury Management

This audit reviewed the arrangements in place for Treasury Management, to ensure that cash balances are invested in the most appropriate ways. Controls in this area were found to be excellent.

3.9 UK Fixed and Index Linked Public and Corporate Bonds

Investment in this asset class at the time of the audit was approximately 13% of the of the total investment portfolio. The control environment for this asset class was deemed to be excellent with no issues identified.

- 3.10 UK and Overseas Unit Trusts (Property and Other)
Approximately 4.3% of the West Yorkshire Pension Fund investment portfolio is held in property unit trusts. The control environment surrounding the UK Property Unit Trusts was deemed to be largely as expected with one recommendation for improvement being made.
- 3.11 Accuracy of Contributions Recorded on Member Records
WYPF changed to a monthly contributions postings process several years ago with the aim of simplification, systems integration, increased data accuracy and complete up to date member's records. This audit, aimed to provide assurance on the accuracy of the contributions and other data recorded on member records, which had been received from contributing bodies. A number of issues were identified during the course of this audit which have resulted in recommendations being made to ensure that records are as accurate as possible going forward.
- 3.12 Information Governance and General Data Protection Regulation
This audit reviewed the arrangements in place to ensure compliance with the General Data Protection Regulation (GDPR) introduced in May 2018. Controls to ensure compliance with the GDPR were found to be of a good standard, however, a number of recommendations were made to further enhance this process and maintain compliance.
- 3.13 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 with two minor recommendations for improvement.

4 OTHER CONSIDERATIONS

- 4.1 Internal audit is an integral part of our risk management and financial control systems.

5 FINANCIAL & RESOURCE APPRAISAL

- 5.1 There are no other financial implications from this report. Operations reported in this report are key to our financial controls, asset safeguards and value for money.

6 RISK MANAGEMENT AND GOVERNANCE ISSUES

- 6.1 Internal audit is a key element of financial risk management and governance tools and provides evidence of key controls in operation during the financial year.

7 LEGAL APPRAISAL

7.1 There are legal implications for this report.

8 OTHER IMPLICATIONS

None

9 RECOMMENDATION

- That this reviewed and report is noted.

10 APPENDICES

None