

Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 13 September 2022.

N

Subject:

West Yorkshire Pension Fund (WYPF) latest annual internal audit plan 2022/23 and five-year plan 2022/23 to 2026/27.

Summary statement:

This report presents the latest five-year internal audit plan for WYPF. The plan is reviewed annually between WYPF and CBMDC internal audit by carrying out a detailed assessment of WYPF business activities, pensions and investment regulatory compliance environments, service developments and risk management.

The latest plan has been reworked to take account of the impact of Covid-19, the Russian war on Ukraine, cost of living and extreme weather conditions on services and operations. There is also increased wider demand on internal audit resources and resources may be moved at short notice to support high risk areas across the Council. In order to manage audit work plan, address emerging risks and maintain sector intelligence there is a regular monthly meeting between CBMDC Internal Audit Assistant Manager and WYPF Head of Finance; and a quarterly meeting with the Director WYPF.

EQUALITY & DIVERSITY:

No new policy or service is being proposed by this report.

Rodney Barton
Director WYPF

Portfolio:

Report Contact: Ola Ajala
Financial Controller WYPF
Phone: (01274) 434 534
E-mail: ola.ajala@wypf.org.uk

Overview & Scrutiny Area:

1 SUMMARY

1.1 This report presents the latest annual internal audit plan 2022/23 and five-year 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, against the background of current and emerging risks – Covid-19, the Russian war on Ukraine, cost of service, extreme weather, general service continuity and disaster recovery.

1.2 To ensure adequate assurance for expanding and changing operational activities we have added six new audit reviews and removed one audit review:

Added -

- Pension admin – Exit payments to employers
- Fire services – Normal and early retirements
- Fire services – Ill health and death benefits
- Fire services – Deferred benefits
- Investment – Private equity infrastructure
- Investment – Listed Alternatives

Removed - Investment – Fund of hedge funds

1.3 We review internal audit resources annually, and the latest review concluded that we have adequate resources to deliver our audit plans. 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 common issues. and we also hold more frequent business review meetings with internal auditors to improve business knowledge and intelligence, resulting in improved internal audit service quality and best practice for WYPF.

1.4 All internal audit recommendations in 2021/22 were delivered within agreed timescales. In addition, we also meet with Internal Audit to agree a detailed resource plan for each audit during the financial year allowing CBMDC internal audit and WYPF service managers to deliver internal audit reviews planned for the year. To conclude each year's internal audit work we review internal audit recommendations, this provides key governance information on risk management and controls.

1.5 One review planned for 2021/22 “Shared service admission”, was delivered one week late on 07/04/2023, the delay was caused by managers failing to respond in time to recommendations. All audit work was carried out during 2021/22. Review of the 2022/23 plan indicates that we are on target to deliver all planned audit reviews for the year.

1.6 Key information provided in this report are:

- a) Annual internal audit plan 2022/23 and Five-year plan 2022/23 to 2026/27
- b) List of internal audits completed during 2021/22

2 WYPF Annual Internal audit plan 2022/23 and five-year plan 2022/23 to 2026/27

2.1 This year we planned to carry out 12 separate audits, we delivered 14 in 2021/22. Occasionally the number or audit reviews are increased to address emerging risks, in 2021/22 a total of 14 reviews were carried out, compared to 10 planned audits. 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.

2.2 There is adequate resource 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.

2.3 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 redesign and implement improved controls.

2.4 In light of expanding services and continued impact of Covid-19 and cost pressures on our services we have added:

Pension admin – Exit payments to employers
 Fire services – Normal and early retirements
 Fire services – Ill health and death benefits
 Fire services – Deferred benefits
 Investment – Private equity infrastructure
 Investment – Listed Alternatives

2.5 Due to a significantly reduced holding of financial asset for “Fund of hedge funds”, we have removed this review, however it will be covered within general private equity reviews.

2.6 Detailed internal audit plan.

West Yorkshire Pension Fund Five Year Audit Plan 2022 - 2027	Last Audit	Recommendations	Days	22/23	23/24	24/25	25/26	26/27	
Annual Accounts Verification	20/09/21	1	10	Yes	Yes	Yes	Yes	Yes	
Audits Per Year				1	1	1	1	1	5
Local Government Scheme Contributions	1/11/21	2	20		Yes			Yes	
New Pensions and Lump Sums - WYPF									
- Normal and Early Retirements	09/10/19	1	25			Yes			
- Death in Service, Post Retirement Widow and Dependent Benefits	08/10/21	0	25					Yes	
- Ill Health Pensions	15/02/19	1	25		Yes				
- Flexible Retirements	30/11/20	2	25				Yes		

West Yorkshire Pension Fund Five Year Audit Plan 2022 - 2027	Last Audit	Recommendations	Days	22/23	23/24	24/25	25/26	26/27	
- Deferred Pensions	13/03/18	0	25	Yes					
Transfers Out	07/10/20	0	20				Yes		
Transfers In	17/05/21	0	20			Yes		Yes	
Reimbursement of Agency Payments	22/03/18	2	20	Yes					
Life Existence / Certificates	11/08/21	3	20				Yes		
AVC Arrangements	08/09/17	0	20	Yes					
Admission of New Bodies	07/02/20	0	20			Yes			
Pensioners Payroll	17/11/20	0	25		Yes		Yes		
Purchase of Additional Pension	29/03/22	0	20					Yes	
Annual Benefits Statements	31/03/20	0	20	Yes		Yes			
Fire Service New Pensions and Lump Sums	17/12/20	1	20						
- Normal and Early Retirements			20	Yes			Yes		
- Ill Health and Death Benefits			20		Yes			Yes	
- Deferred Pensions			20			Yes			
Audits Per Year				5	4	5	5	5	24
UK and Overseas Equities	22/03/22	2	15	Yes	Yes	Yes	Yes	Yes	
UK Fixed and Index Linked Public and Corporate Bonds	06/09/19	0	15	Yes		Yes			
UK and Overseas Unit Trusts (Property and Other)	03/03/20	1	15	Yes		Yes			
UK and Overseas Private Equities	31/03/22	0	15			Yes		Yes	
Global Bonds	11/12/18	0	15		Yes				
Treasury Management (Short Term Cash Lending)	18/01/22	0	15	Yes	Yes	Yes	Yes	Yes	
Stock Lending	24/11/21	0	15					Yes	
Compliance with IAP Investment Decisions and Policies	22/02/21	1	15		Yes		Yes		
Verification of Assets	01/03/21	2	15				Yes		
Infrastructure			15		Yes				
Listed Alternatives			15				Yes		
Audits Per Year				4	5	5	4	4	21
Transfer of Data to New Pensions System	02/07/12	0							
Monthly Contribution Data Usage	20/08/15	6							
Information Governance Including GDPR	01/05/19	7							
Transfer of Data From Outside Bodies	10/06/19	6							
Pooling Arrangements	20/03/19	1							
Custodial Transfer Arrangements	01/07/20	0							
Accuracy of Contributions Recorded on Member Records	10/02/20	7							
GLIL	30/07/20	1							
Accuracy of Contributions Recorded on Member Records - Follow Up (i)	05/11/21	2							
NLGPS Collaborative Work - Common Custodian Arrangements	30/04/21	1		Yes					
Business Continuity	17/01/22	5							
Shared Service Admission	07/04/22	6		Yes					
NLGPS Collaborative Work - NPEP	29/06/22	3							
Accuracy of Contributions Recorded on Member Records - Follow Up (ii)	2022/23								
Exit Payments	2022/23								
Audits Per Year				2					2
			Total	12	10	11	11	10	52
			Days	175	175	190	195	175	910

3 Internal Audits completed during 2021/22

Listed below is a summary of reviews that were carried out during the financial year 2021/22.

3.1 Life Existence/Certificates

A completed Life Certificate is requested from pension beneficiaries to provide confirmation that they are still alive and therefore still meet entitlement to such benefits. This process is complemented by the use of mortality screening and the use of National Fraud Initiative data in confirming continuing existence. The audit found the standard

of control around this process to be good with a small number of recommendations for improvement.

3.2 Northern LGPS Collaborative Work – Common Custodian Arrangements

As part of the formation of the Northern LGPS, a procurement exercise was carried out to appoint a common custodial service provider, which resulted in the appointment of the Northern Trust Bank as common custodian provider to the Northern LGPS. This audit was a high level review of the arrangements which surrounded the use of the Northern Trust Bank as common custodian provider and was undertaken in collaboration with Internal Audit colleagues at Tameside Council (Greater Manchester Pension Fund) and Wirral Council (Merseyside Pension Fund). The arrangements were found to be of a good standard with one recommendation for improvement being made.

3.3 Accuracy of Contributions Recorded on Member Records – Follow Up

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 was undertaken as a follow up of the original audit carried out in 2019/20 to assess progress of the remedial action required. Whilst progress had been made, recommendations were made to further assist in this process.

3.4 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 an excellent standard with no recommendations required.

3.5 Review of the West Yorkshire Pension Fund 2020/21 Accounts

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

3.6 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.

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 generally well controlled with two recommendations for improvement being made.

3.8 New Pensions and Lump Sums – Death Benefits

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

3.9 Purchase of Additional Pension

Active members of the West Yorkshire Pension Fund are able to choose to increase their future pension benefits by purchasing additional pension to a maximum of £7,316 over a flexible number of years. The standard of control in this process was found to be excellent with no recommendations for improvement required.

3.10 Stock Lending

Stock lending of UK and Overseas equities is undertaken by the Northern Trust Bank as part of the custodial arrangements for the West Yorkshire Pension Fund. Controls were examined to ensure that the risks in this process were appropriately managed, these were found to be excellent with no recommendations required.

3.11 Business Continuity

Business continuity arrangements were examined to ensure that they are adequate to ensure continuance of critical services such as Pensioners Payroll. The shared services provided to other LGPS' and Fire and Rescue Services places and increased reliance on Business Continuity arrangements. The review found the arrangements to be of a good standard with a number of recommendations made to further enhance the process.

3.12 Mitigation of Pension Scams

The Pensions Regulator issues guidance with regards to the avoidance of Pension Scams, providing information to enable Trustees, Administrators and Scheme Providers to play an important role in educating and protecting members in order to help savers to keep their retirement savings safe from scammers. This review examined how well the guidance had been embedded within the West Yorkshire Pension Fund. The review provided assurance that the systems and processes align well with the guidance issued.

3.13 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.

3.14 UK and Overseas Private Equities

This audit covered investment in UK and Overseas Private Equities, not included in those investments made through NPEP. Control of this asset class was found to be of an excellent standard, therefore no recommendations for improvement were required.

4 OTHER CONSIDERATIONS

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

5 FINANCIAL & RESOURCE APPRAISAL

WYPF internal audit is provided by the Council and recharged to WYPF account. 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

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

There are legal implications for this report.

7.1 SUSTAINABILITY IMPLICATIONS

The services covered in this report are committed to mitigating climate change by using energy efficient supplies and services, avoid waste and where not possible minimise waste. Reuse materials and where facilities are available, recycle office waste.

7.2 GREENHOUSE GAS EMISSIONS IMPACTS

WYPF operates from a modern "Aldermanbury House", the building was bought in 2014 and we have invested significant sums to improve the energy efficiency of the building, however there is still more to do. We are working with our property managers to further improve the energy efficiency of the building for staff, visitors and our commercial tenants. Electricity supplied to the building is sourced from renewable suppliers and there is programme to review water boilers and other equipment in the building.

In terms of our operations a significant number of our staff have always been able to work from home before the Covid-19 pandemic and since the start of the pandemic all staff that want to work from home have been able to work from home. This has reduced our staff daily journeys into work and also reduced our operational greenhouse gas emission significantly. When on business travel our staff are encouraged to use public transport, unless lower greenhouse gas emission alternatives are available.

In order to maintain a balance service, we have moved to a hybrid operation on a standard two days office working and three days home working each week. This approach is supported by the majority of staff.

7.3 COMMUNITY SAFETY IMPLICATIONS

None.

7.4 HUMAN RIGHTS ACT

None.

7.5 TRADE UNION

The services covered by this report will provide additional employment and apprenticeship opportunities within the local area.

7.6 WARD IMPLICATIONS

None.

7.7 IMPLICATIONS FOR CORPORATE PARENTING

None.

7.8 ISSUES ARISING FROM PRIVACY IMPACT ASSESSMENT

None.

8 NOT FOR PUBLICATION DOCUMENTS

No

9 OPTIONS

The Local Pension Board should note the internal audit plan 2022/23, note the five-year plan for 2022/23 to 2026/27, or may make recommendations to management on any part of this report.

10 RECOMMENDATION

That the internal audit plan is noted.

11 APPENDICES

None

12 BACKGROUND DOCUMENTS

None