

# **Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Local Pension Board to be held on 13 September 2023.**

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## **Subject:**

West Yorkshire Pension Fund (WYPF) latest annual internal audit plan 2023/24 and five-year plan 2023/24 to 2027/28.

## **Summary statement:**

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

The latest plan has been updated to take account of current service risks and regulatory environment. The demand on internal audit resources is very high 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 service intelligence there is a regular monthly meeting between CBMDC Internal Audit Assistant Manager and WYPF Head of Finance; and a quarterly meeting with both the Managing Director and Chief Investment Officer of WYPF.

## **EQUALITY & DIVERSITY:**

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

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Euan Miller - Managing  
Director WYPF

## **Portfolio:**

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## **Overview & Scrutiny Area:**

## **1 SUMMARY**

- 1.1** This report presents the latest annual internal audit plan 2023/24 and five-year plan 2023/24 to 2027/28. 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 – hybrid working, increased mobile working, cost of service, extreme weather, general service continuity, disaster recovery and the Russian war in Ukraine.
- 1.2** To ensure adequate assurance for expanding and changing operational activities we have increased audit activities with our Northern LGPS Pool partners and we are also looking at adding a review for employers exiting the scheme.
- 1.3** We review internal audit resources annually, and the latest review concluded that we have adequate resources to deliver our audit plans. In recent years we have 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. 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. We meet with Internal Audit before the start of each audit review to agree a detailed resource plan for each audit 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 plan we review internal audit recommendations, this provides key governance information on risk management and controls.
- 1.5** Key information provided in this report are:
  - a) Five-year internal audit plan 2023/24 to 2027/28
  - b) List of internal audits completed during 2022/23

## **2 Five-year internal audit plan 2022/23 to 2026/27**

- 2.1** This financial year 2023/24 we planned to carry out 12 separate audits, we delivered 14 in 2021/22. Occasionally the number of audit reviews are increased to address emerging risks, in 2022/23 a total of 10 reviews were carried out. High risk service areas such as UK and Overseas Equities are reviewed 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** We have built in adequate resource to deliver one-off internal audit review of services. Every month we have a risk management review meeting. At the meeting we review service activities and consider the need to refocus audit plan to cover emerging service risks. This approach has improved internal audit engagements, ensuring service improvements and improved risk management for WYPF.

**2.3** Our service target is to improve on internal control and manage service risks by improving audit opinions and recommendations. We work 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 work 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** Detailed internal audit plan.

West Yorkshire Pension Fund Five Year Audit Plan 2022 - 2027	Frq	Last Audit	Rcmnd	Days	23/24	24/25	25/26	26/27	27/28
Annual Accounts Verification	1	20/09/21	1	50	✓	✓	✓	✓	✓
<b>Audits Per Year</b>					<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
Local Government Scheme Contributions	2	01/11/21	2	50					
New Pensions and Lump Sums - WYPF									
- Normal and Early Retirements	5	09/10/19	1	25	✓			✓	
- Death in Service, Post Retirement Widdow and Dependent Benefits	5	08/10/21	0	25		✓			
- Ill Health Pensions	5	11/07/23	0	25				✓	
- Flexible Retirements	5	30/11/20	2	25	✓				
- Deferred Pensions	5	28/06/22	0	25			✓		
Transfers Out	5	07/10/20	0	20					✓
Transfers In	5	17/05/21	0	20			✓		
Reimbursement of Agency Payments	5	10/03/23	0	20		✓		✓	
Life Existence / Certificates	5	11/08/21	3	20					✓
AVC Arrangements	5	21/12/22	0	20			✓		
Admission of New Bodies	5	07/02/20	0	20					✓
Pensioners Payroll	2.5	17/11/20	0	50		✓			
Purchase of Additional Pension	5	29/03/22	0	20	✓		✓		
Annual Benefits Statements	2.5	30/09/22	0	40				✓	
Fire Service New Pensions and Lump Sums			1						
- Normal and Early Retirements	3	17/12/20	0	33.3		✓			✓
- Ill Health and Death Benefits	3	23/06/22	0	33.3			✓		✓
- Deferred Pensions	3		0	33.3	✓			✓	
<b>Audits Per Year</b>					<b>4</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>
UK and Overseas Equities	1	01/02/23	0	75	✓	✓	✓	✓	✓
UK Fixed and Index Linked Public and Corporate Bonds	3	18/08/22	0	25		✓			✓
UK and Overseas Unit Trusts (Property and Other)	3	06/02/23	1	25		✓			✓
Fund of Hedge Funds	5	09/06/16	1	15			✓		
UK and Overseas Private Equities	3	31/03/22	3	25		✓		✓	
Global Bonds	5	11/12/18	0	15	✓				
Treasury Management (Short Term Cash Lending)	1	18/12/22	0	75	✓	✓	✓	✓	✓
Stock Lending	5	24/11/21	1	15				✓	
Compliance with IAP Investment Decisions and Policies	5	22/02/21	0	15	✓		✓		
Verification of Assets	5	01/03/21	0	15			✓		
Verification of Assets	5	01/03/21		15	✓				
Listed Alternatives	5	00/01/00		15			✓		
<b>Audits Per Year</b>					<b>5</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>4</b>
<b>Additional work outside plan</b>									
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						

West Yorkshire Pension Fund Five Year Audit Plan 2022 - 2027	Frq	Last Audit	Rcmnd	Days	23/24	24/25	25/26	26/27	27/28
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						
Business Continuity		17/01/22	5						
Shared Service Admission		07/04/22	6						
NLGPS Collaborative Work - NPEP		29/06/22	3						
NLGPS Collaborative Work - GLIL Infrastructure		18/04/23			1				1
Exiting Employers		25/04/23			1				1
<b>No of audits</b>					<b>12</b>	<b>11</b>	<b>11</b>	<b>10</b>	<b>12</b>
<b>Audit days over five years</b>				<b>885</b>	<b>177</b>	<b>177</b>	<b>177</b>	<b>177</b>	<b>177</b>
<b>Resourced days</b>				<b>1,225</b>	<b>245</b>	<b>245</b>	<b>245</b>	<b>245</b>	<b>245</b>
<b>Headroom</b>				<b>340</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>68</b>

## 2.5 Internal audit reviews completed during 2022/23

Listed below is a summary of reviews that were carried out during the financial year 2022/23. Twelve reviews were carried out, five of these were found to be good standard, six excellent and the review of annual account is found to be consistent with audit results.

## 2.6 Shared Service Admission

At the time of this audit review, in addition to the local government pensions paid each month, West Yorkshire Pension Fund also provides pension administration services to 3 LGPS funds and 23 Fire and Rescue authorities on a shared service and cost basis. The audit reviewed the processes and procedures used by West Yorkshire Pension Fund to grow and deliver its shared service provision. The control environment was found to be of a **good standard** with a number of recommendations made to enhance the process.

## 2.7 Northern LGPS Collaborative Work – NPEP

As part of the formation of the Northern LGPS, the Northern Private Equity Pool (NPEP) was established as a joint venture structured as an English partnership. The partnership operates as a single legal entity through which the three Northern LGPS Funds can invest collectively and collaboratively in private equity investments. This audit reviewed the systems and controls which exist within the NPEP investment operations 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 three recommendations for improvement made.

## 2.8 New Pensions and Lump Sums – Deferred Benefits

This audit examined the calculation of the deferred pension benefits for those members who have left the employment of a scheme employer. The control environment for this process was found to be of a **good standard** with one recommendation for improvement being made.

## **2.9 Reimbursement of Agency Payments**

This audit examined the reimbursement of payments made in respect of the administration service provided by the WYPF for its shared service clients i.e. other LGPS Funds and Fire and Rescue Authorities. The control environment around this process was found to be **excellent** with no recommendations for improvement being required.

## **2.10 Review of the West Yorkshire Pension Fund 2021/22 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. The account was found to be consistent with internal audit reviews carried out.

## **2.11 AVC Arrangements**

Members of the Local Government Pension Scheme have the opportunity of paying extra contributions into the West Yorkshire Pension Fund AVC Plan, which can be arranged with three providers, Scottish Widows, Prudential or Utmost. The standard of control around these arrangements was found to be of **good standard**. A number of recommendations were made to enhance the control of this process.

## **2.12 Equities**

Since November 2019, all quoted investments are now held under the custody of the Northern Trust Bank (previously HSBC) and represents 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 and **excellent** with no recommendations for improvement being made.

## **2.13 Fire Service New Pensions and Lump Sums – Normal and Early Retirements**

At the time of the audit West Yorkshire Pension Fund provided pension administration service. WYPF makes payment to 21 fire and rescue authority pensioner members. This audit examined the calculation of the annual pension and the lump sum following a Fire Pension member's decision to retire. The control environment was largely as required resulting in a rating of **good standard** and one recommendation for improvement.

## **2.14 Annual Benefit Statements**

All active and deferred members of Local Government Pension Scheme and Fire Service Schemes, receive an Annual Benefit Statement. This statement provides detailed information on the value of their current pension benefits calculated from information provided by the member's employer on their monthly returns. No issues were identified during the course of this audit and this process was rated **excellent**.

## **2.15 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.

## **2.16 UK and Overseas Unit Trusts (Property and Other)**

Approximately 4% 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 and were found to be **excellent**.

## **2.17 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 OTHER CONSIDERATIONS**

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

## **4 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.

## **5 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.

## **6 LEGAL APPRAISAL**

There are no legal implications for this report.

## **7 OTHER IMPLICATIONS**

### **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 TACKLING THE CLIMATE EMERGENCY IMPLICATIONS**

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 AREA COMMITTEE LOCALITY PLAN IMPLICATIONS**

None.

### **7.8 IMPLICATIONS FOR CHILDREN AND YOUNG PEOPLE**

None.

### **7.9 ISSUES ARISING FROM PRIVACY IMPACT ASSESSMENT**

None.

### **8 NOT FOR PUBLICATION DOCUMENTS**

No

### **9 OPTIONS**

The Local Pension Board should note the internal five-year plan for 2023/24 to 2027/28, 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