

Report of the Director, West Yorkshire Pension Fund, to the meeting of the Pension Board to be held on 19 November 2015.

Subject: Review of internal and external audit reports 2014/15

Summary statement:

This report is a summary of work carried out by our Internal Audit Team and external auditor Mazars LLP, with a list of all key recommendations by the Internal Audit Team. The external auditor completed the final audit of our accounts and operations within the planned audit visits - interim audit in Jan 2015 and final audit - Jul to Sep 2015. There are no internal or external audit failures to report, the final audit was completed ahead of audit deadline, resulting in an unqualified audit opinion. The internal and external audit teams work together and all internal audit reports were reviewed by the external auditor.

In 2014/15 financial year internal audit carried out a planned audit review of 10 key operational and investment activities, in summary:

- a.) 2 areas were satisfactory
- b.) 4 areas were good
- c.) 4 areas were excellent

There were 6 recommendations and 8 suggested improvements, all were accepted and being implemented by managers. There are no recommendation for improvement from the external auditor.

Recommendations

The internal and external audit report be considered by the Pension Board

Rodney Barton
Director

Portfolio:
Leader of Council & Strategic Regeneration

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Overview & Scrutiny Area: N/A



1. **BACKGROUND**

- 1.1 Every year we work with both internal and external audit team to deliver a risk base audit plan to ensure areas of significant business risks are reviewed annually and those with lower operational risk areas are reviewed within a two to three years cycle. The audit plans are reviewed every year, external audit plan in November and internal audit plan in February. In the financial year 2014/15 all audit work was delivered to plan and no audit failure was identified by auditors.

2. **EXTERNAL AUDIT**

- 2.1 During 2014/15 our external auditor Mazars LLP, attended all WYPF Investment Panel and Joint Advisor Group meetings and the auditor was able to witness and report on meetings and proceedings. The outcome of the external audit work during the year is the audit opinion and the audit completion report on the WYPF report and accounts for the financial year 2014/15. Audit work conducted during the year reported no area of major concern, and as such we worked with the external auditor to improve the quality of our financial statements for 2014/15.

AUDIT OPINION

- 2.2 Unqualified audit on the final account, this was reported to CBMDC – Governance and Audit Committee on 25 September 2015. The Audit Partner presenting the audit completion report described the audit work with WYPF as first class. The full account and audit opinion is included in a report being presented to this meeting of the Board.

AUDIT COMPLETION REPORT

- 2.3 The audit completion report, which is a summary report on the final account audit, allows the external auditor to formally report to the Governance Audit Committee on all aspect of the audit work. The audit completion report is attached to the report, in summary:
- a.) Audit conclusion on page 7 of the audit completion report – the auditor reported that there were no significant findings to report to Governance and Audit Committee.
 - b.) Internal control recommendations on page 8 of the audit completion report – the auditor reported that there were no matters to report. If they had performed more extensive procedures on internal control, they might have identified deficiencies to be reported. And their comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that



could be made. This is where the work of our Internal Audit Team, complements the external audit work. Internal audit completed a comprehensive review plan and identified no critical recommendation, 6 high priority recommendations and suggested a number of operational improvement actions.

c.) 2014/15 Fund account misstatements on page 8 of the audit completion report – two misstatements were reported by auditors.

1. Unadjusted misstatements increase in fund value of £22.36m

This item appears every year, WYPF uses the latest valuation information provided by investment funds in April and May each year value unquoted investments. Later in the year auditors use the latest information in July and August to estimate the same value. For the 2014/15 financial year this resulted in an increase in value of unquoted investments of £22.36m. WYPF follows a prudent policy of not adjusting for estimated increase in value of unquoted investments after the year end, therefore an adjustment was not made for this item. However, if significant reduction in value was reported by auditors this would be adjusted.

2. Adjusted misstatements of £84.69m, impact on fund value nil

This item relates to classification adjustments, we created a new category of “Quoted Alternatives”, this new category is outside the scope of Cipfa (Chartered Institute of Public Finance and Accountancy) classifications for investments, to ensure comparability with other LGPS pension funds we changed the classification back to Cipfa classification.

d.) 2014/15 Disclosure amendments on page 9 and 10 of the audit completion report - five adjusted misstatements were reported by auditors. All these items were corrected as part of the audit work.

LETTER OF REPRESENTATION

2.4 A letter of representation was authorised by Governance and Audit Committee to be provided to the external auditor Mazars LLP. A copy of the letter is included in the audit completion report on page 11.



3. INTERNAL AUDIT

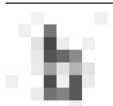
3.1 Due to the value of investments and general inherent risks in investment operations, pension investment activities are reviewed annually, whilst pensions administration services are reviewed annually, every two or three years depending on assessed risk. Internal audit opinion is given based on a matrix using an assessment of the effectiveness of the control environment in mitigating the risks for the area under review and the number of high priority control weaknesses. The table below shows the weighting for High Priority concerns. Finding of any Critical concerns results in a no assurance audit opinion as by definition, there is a strong material risk to the Fund.

Audit Opinion	Controls Satisfied	High Priority Concerns
Excellent	100%	0
Good	80-99%	≤ 10%
Satisfactory	60-79%	≤ 20%
Limited Assurance	40-59%	≤ 40%
No Assurance	0-39%	> 40%

Key audit concerns are raised to address identified risks and implementation of recommendations will ensure identified risks are minimised or reduced to zero.

3.2 The table below lists all the internal audit reports for 2014/15, full copies of these reports were provided to the external auditor Mazars LLP. No critical concerns were raised by internal audit and as such there are no audit failure to report.

Internal Audit programmed work 2014/15	Opinion	Key Concerns	Requiring Attention	Implemented
Local Government Scheme Contributions	Good	1	1	Yes
Transfers Out	Good	none	1	Yes
Admission of New Bodies	Excellent	none	none	N/A
Purchase of Additional Pension	Satisfactory	2	none	Yes
Access to Data	Satisfactory	3	4	Yes
New Pensions & Lump Sum Payments - Normal & Early Retirements	Excellent	none	none	N/A
Foreign Equities	Good	none	1	Yes
UK Equities	Good	none	1	Yes



Verification of Assets	Excellent	none	none	N/A
Stock Lending	Excellent	none	none	N/A
Treasury Management 2014/15	Excellent	none	none	N/A

In summary excellent opinion was delivered on four area of work, good opinion on four areas and satisfactory opinion on two area of work. Attached to this report are the final internal audit reports for the two area of work with satisfactory internal audit opinion:

- a. Purchase of Additional Benefit
- b. Access to Data (Pensions and Investment Data)

4. **OTHER CONSIDERATIONS**

This is a report requested by the Pension Board and it is linked to "Report and Accounts 2014/15", being presented to the Board on 19 November 2015.

5. **NOT FOR PUBLICATION DOCUMENTS**

Appendices 2 and 3 to this report are **NOT FOR PUBLICATION** as the information they contain is exempt information within paragraph 3 (Financial or Business Affairs) of Schedule 12A of the Local Government Act 1972. It is also considered that it is in the public interest to exclude public access to this item.

6. **RECOMMENDATION:**

The internal and external audit report be considered by the Pension Board.

7. **APPENDICES**

Appendix 1

WEST YORKSHIRE PENSION FUND – AUDIT COMPLETION REPORT 2014/15

Appendix 2 – NOT FOR PUBLICATION

80042 PURCHASE OF ADDITIONAL PENSION

Appendix 3 – NOT FOR PUBLICATION

80052 ACCESS TO DATA

