

**CAMBRIDGESHIRE
PENSION FUND**



Pension Fund Board

Date: 24 March 2016

Report by: THE HEAD OF AUDIT & RISK MANAGEMENT

Subject:	Internal Audit Update and Plan 2016-17
Purpose of the Report	To brief members on 2015-16 audit progress and Internal Audit work planned for 2016-17.
Recommendations	That members note the audit work undertaken and approve the plan of Internal Audit work 2016-17, as outlined in sections 3 and 4 of this report.
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1. Summary of Report

- 1.1 The report describes the internal audit work undertaken and in progress, covering process convergence and the adequacy of design and implementation of controls for the administration of the Pensions Services of Cambridgeshire and Northamptonshire.
- 1.2 It proposes a further review and compliance testing in 2016-17 to provide on-going assurance and support the opinion work of the external auditors.

2. Background

- 2.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.2 The work of Internal Audit complements and supports the work of external auditors in forming their opinion on the financial accounts. Internal audit work is coordinated with the external auditors and they place reliance on the work of internal audit to reduce the level of testing they undertake themselves. This reduces overall costs by avoiding

unnecessary duplication of effort and supports delivery of an efficient and effective service.

- 2.3 As the processes of the LGSS Pension Service at Cambridgeshire and Northamptonshire have converged, the work of Internal Audit has been adapted to take account of the opportunity for a more efficient audit.

3. Audit Work Undertaken

- 3.1 We completed and reported to management our review of the design and operation of controls in the converged processes being shared by Cambridgeshire and Northamptonshire for 2014-15. The final report was issued and the results were shared with the external auditors to support their work on the financial statements and reported to this committee in June 2015. Whilst the testing did identify some cases of non-compliance, we were satisfied overall with the design and application of controls. Based upon this we gave a substantial assurance opinion and agreed an action plan to strengthen further the controls and improve compliance. The results in each process area are summarised in the following table:

Process Area	CPS 2014-15
New members	Moderate
New pensioners	Substantial
Deferred pensioners	Substantial
Transfers in	Substantial
Transfers out	Substantial
Contributions	Moderate
Reconciliations	Moderate
Systems and User Access	Substantial
Overall Level of Assurance	Substantial

- 3.2 The implementation of the agreed actions arising from our 2014-15 report has been monitored during the year and we have received confirmation that all actions have been implemented. Effective implementation will be verified as part of the 2015-16 audit.
- 3.3 The 2015-16 audit is currently being undertaken. This will assess the design and operation of controls covering the administration of both the Cambridgeshire and Northamptonshire Pension Schemes. Testing is designed to provide management with reasonable assurance that there are appropriate controls in place to effectively mitigate the following risk areas:
- Risk 1 – Pension payments are not made in accordance with the LGPS and council policy (including rates, annual uplift, lump sums, pensions, deferred pensions, early retirements, annual pension statements);
 - Risk 2 – Pension payments are not recorded properly and not accounted for correctly;

- Risk 3 – New members are not set up on a timely basis and do not receive appropriate information;
- Risk 4 – Contributions and accompanying schedules are not received on time or are not correct; (includes employee and employer contributions and additional contributions from all scheme employers);
- Risk 5 – Transfers in and out of the scheme are not subject to appropriate checks and authorisation;
- Risk 6 – Reconciliations are not completed i.e. between Altair and Oracle and also for the Pensions bank account;
- Risk 7 – Performance of the service provided is not monitored and reviewed;
- Risk 8 – User access is not reviewed and so staff may have inappropriate access to the pensions system.

3.4 Fieldwork should be completed by late March. This work includes a follow up of the agreed actions from the above report to ensure that adequate action has been undertaken. The finalised results of this audit will be reported to the June meeting of this Board and will also be shared with external auditors to support their work.

Timetable of Internal Audit testing and reporting



4. Audit Plan 2016-17

- 4.1 An annual audit of the administration of the LGSS Pension Service will be undertaken during 2015-16. This will provide an independent opinion on the management of risks relating to the operation of the LGSS Pension Service. The audit will take advantage of the converged approach to the administration of pensions for Cambridgeshire and Northamptonshire and undertake both audits together. This creates some time efficiencies for the audit and the budget for the combined audit is 35 days.
- 4.2 The testing will be designed to satisfy the requirements of Cambridgeshire external auditors (BDO) and Northamptonshire external auditors (KPMG). It will cover the following:

- 1) Follow-up of prior year items from internal audit report
- 2) Annual Pensions uplift
- 3) Joiners to scheme
- 4) New Pension Payments (mix of ill-health, early and normal retirements).
- 5) Transfers In
- 6) Transfers Out
- 7) Death Benefits
- 8) Scheduled / Admitted bodies –contributions
- 9) Pensions Data

- 4.3 Testing will be undertaken in the final quarter of the financial year to give assurance on the operation of controls across the whole period.
- 4.4 The external auditors undertake detailed reviews of the Pension Investment function each year. It is not therefore proposed to undertake an internal audit of this function in 2016-17.

Altair Payroll System

- 4.5 In addition to the above annual audit, there is additional risk this year relating to the move from Oracle to the Altair payroll system. This is due to be implemented by August 2016. We will undertake an additional audit of this project to provide assurance that the risks in the project are effectively managed and that the design of controls for the new system is adequate. Testing of the application of the new controls will then form part of the annual audit.

5. Relevant Pension Fund Objectives

- 5.1 The audit work undertaken will be designed to support the Pension Service in achieving its objectives through the effective management of risk. The work therefore supports all of the outcomes of the Pension Service.

Perspective	Outcome
Funding and Investment	<ul style="list-style-type: none"> • To ensure that the Fund is able to meet its liabilities for pensions and other benefits with the minimum, stable level of employer contributions. • To ensure that sufficient resources are available to meet all liabilities as they fall due. • To maximise the returns from its investments within reasonable risk parameters.

Perspective	Outcome
Communications	<ul style="list-style-type: none"> • Promote the Scheme as a valuable benefit. • Deliver a clear and consistent message; that is simple, relevant and impactful, uses plain English throughout and engages all levels of stakeholders understanding. • Provide clear information about the Scheme, including changes to the Scheme, and educate and engage with members so that they can make informed decisions about their benefits. • Seek and review regular feedback from all stakeholders about communication and shape future communications appropriately. • Look for efficiencies in delivering communications including through greater use of technology.
Administration	<ul style="list-style-type: none"> • Provide a high quality, friendly and informative administration service to the Funds' stakeholders. • Administer the Funds in a cost effective and efficient manner utilising technology. • Ensure the Funds and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Funds. • Put in place standards for the Fund and its employers and ensure these standards are monitored and developed as necessary. • Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount. • Maintain accurate records and ensure data is protected and has authorised use only. • Understand the issues affecting scheme employers and the LGPS in the local and national context and adapt strategy and practice in response to this.
Governance	<ul style="list-style-type: none"> • To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies. • Ensure the Fund and its stakeholders have the appropriate skills and receive training to ensure those skills are maintained in a changing environment.

6. Finance & Resources Implications

6.1 Provision has been made within the LGSS Audit Plan to undertake the work planned in 2016-17.

7. Risk Implications

a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
The audit work may identify significant weaknesses with potential for reputational damage to the Pension Service.	A process is in place for timely and effective response to the findings of internal and external auditors.	Green

b) Risk(s) associated with not undertaking the proposal

Risk	Risk Rating
Unmitigated risks to the objectives of the Pension Service are not identified and addressed. The legal obligation to ensure internal audit is undertaken would not be met.	Red

8. Communication Implications

Website	The work of auditors will be transparent and will be reported to the Pension Fund Board and published on the internet.
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9. Legal Implications

9.1 The requirement for an Internal Audit function derives from section 151 of the Local Government Act 1972. All principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015 in England Part Two (5) should make provision for Internal Audit taking into account public sector internal auditing standards.

10. Consultation with Key Advisors

10.1 We will confirm with BDO and KPMG their requirements for internal audit.

11. Alternative Options Considered

- 11.1 Continue with separate audits as was the case prior of the convergence process. This would be a failure to capitalise on the opportunity to deliver a more efficient and effective service.

12. Background Papers

- 12.1 Previous reports 23 March 2015 and 26 June 2015.

13. Appendices

- 13.1 None

Checklist of Key Approvals	
Is this decision included in the Business Plan?	NO
Will further decisions be required? If so, please outline the timetable here	NO
Is this report proposing an amendment to the budget and/or policy framework?	NO
Has this report been cleared by The Head of Pensions?	Mark Whitby – 22/2/2016
Has this report been cleared by the Chief Finance Officer/ Section 151 Officer?	Sarah Heywood – 2/2/2016
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Hickford – 2/2/2016
Has this report been cleared by Legal Services?	Sent to Quentin Baker – 7/3/2016