



South Tyneside Council

Local Pension Board

Date: 5th July 2023

Internal Audit Annual Report 2022/23 (for information and discussion)

Report of the Director of Business and Resources

1. This report provides a summary of audit work completed by Internal Audit throughout 2022/23 and provides an overall assurance on the Tyne and Wear Pension Fund's ('the Fund') internal control environment. It also sets out the Internal Audit Plan for 2023/24.
2. The report also assists the Council in its statutory responsibility to ensure the proper administration of its financial affairs.

Contact Officer: Ian Pattison, Assurance and Risk Manager

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Legislative Background

3. Section 151 of the Local Government Act 1972 requires that authorities 'make arrangements for the proper administration of their financial affairs' which includes internal audit.
4. The Accounts and Audit Regulations 2015 require that each organisation "must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."
5. The Public Sector Internal Audit Standards (PSIAS) and associated Local Government Application Note are the mandatory standards with which every Internal Audit provider delivering services in local government is required to comply.
6. PSIAS requires that the chief audit executive (Assurance and Risk Manager) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
7. This annual report provides information to support that assessment for Tyne and Wear Pension Fund.

Aims and Objectives

8. 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.
9. The Internal Audit team achieve this in the following ways:
 - Providing independent and objective assurance to key stakeholders including Pensions Committee, the Local Pension Board and the Head of Pensions on the Fund's system of internal control
 - Objective examination, evaluation and reporting on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources
 - Providing advice and guidance to support management to understand its exposure to risks and advise on risk management principles / methods and appropriate controls / contingencies to manage risks

- Facilitating the administration of the National Fraud Initiative (NFI) where it utilises the Fund's data and support implementation of the Council's counter fraud strategy
- Liaising with and providing assurance to external auditors to support the auditing of the Fund's accounts.

Risk Assessed Internal Audit Plan

10. The 2022/23 Internal Audit Plan was agreed through discussions with management and Deloitte, the Council's specialist partner to deliver internal audits on technical pension and investment audits, and review of key risks facing the Fund.
11. The audit plans also include regular reviews of governance and strategy and pensions administration in line with the Society of County Treasurers report 'Good practice guidance: gaining assurance over the governance and administration of pension funds, and pension fund investment management – a guide for the internal auditor'.

Overall Opinion

12. During 2022/23 we experienced resource issues as a result of sickness absence and delays in filling vacancies which has resulted in less audit coverage than planned in the current year. However, the work completed remains sufficient to inform our opinion and work not completed has been carried forward into 2023/24.
13. To provide an opinion on the adequacy and effectiveness of the Fund's control environment for 2022/23 the following has been considered:
 - Audit activity undertaken by Internal Audit during 2022/23. See Appendix 1
 - Audit activity undertaken over the previous 2 years, i.e. 2020/21 and 2021/22 to reflect work undertaken across a 3-year strategic audit plan period. See Appendix 1.

The Opinion

14. Based upon the work undertaken the overall adequacy and effectiveness of the governance, risk and control framework during 2022/23 has been assessed as:

Substantial Assurance - on the whole there is a sound system of control in place across Tyne and Wear Pension Fund although there are some areas where controls are not consistently applied or fully effective and / or do not deliver value for money.

15. This conclusion will feed into the Council's overall assessment of its governance arrangements through the Annual Governance Statement, to be published within the Council's Statement of Accounts.
16. There have been no significant issues or concerns identified during the course of our work which would impact on the overall control environment. However, a number of recommendations have been made to further improve the control environment.

Caveat on opinion

17. Internal Audit have taken assurances from previous work and there is no indication that the control environment has significantly changed since that work was undertaken. However, until areas are audited again it is not possible to confirm there have been no significant changes.

Review / Quality Assurance Process

18. A robust quality assurance process is in place to ensure the draft report and supporting working papers are rigorously checked before being issued whilst the Director and key contact are able to challenge the findings and content of the draft report before it is finalised.

2023/24 Internal Audit Plan

19. The Internal Audit Plan has been established through discussions with management and Deloitte, the Council's specialist partner to deliver internal audits on technical pension and investment audits, and review of key risks facing the Fund. The full plan, including the scope of work for each audit, is attached at Appendix 3.

Legal Implications

20. All legal implications are outlined in the report.

Financial and Value for Money Implications

21. There are no financial or value for money implications arising from the recommendations set out in this report.

Risk and Opportunity Implications

22. Risk implications have been considered as part of the audit planning process.

Equality and Diversity Implications

23. There are no equality and diversity implications arising directly from this report.

Environmental and Sustainability Implications

24. There are no environmental and sustainability implications arising directly from this report.

Options to be considered

25. No other options are submitted for consideration.

Recommendations

26. The Board is requested to note the contents of the annual report for 2022/23 and are given the opportunity to comment on the 2023/24 audit plan.

Reasons for Recommendation

27. The recommendation is made so that the Board can be satisfied there is a sound system of internal control in place.

Internal Audit 3 Year Pension Fund Coverage

Assignment	2020/21 Opinion ⁽¹⁾	2021/22 Opinion ⁽¹⁾	2022/23 Opinion ⁽¹⁾
Governance Review (Deloitte)	Substantial	Substantial	Substantial
Funding Strategy Review (Deloitte)	Substantial	-	-
Admitted Bodies	Full	-	-
Contributions	Full	-	-
Benefit Awards – Deaths Benefit Entitlements	Full	-	-
Risk Management	Substantial	-	-
Payment Processes	Substantial	-	-
Employer Covenant (Deloitte)	-	Substantial	-
Annual Allowance and Lifetime Allowance (Deloitte)	-	Adequate	-
Business Continuity	-	Substantial	-
Benefit Awards – Ill Health / Deferred Ill Health Retirements	-	Full	-
Cyber Security	-	Substantial	-
Property Portfolio	-	Substantial	-
Investment Monitoring Review (Deloitte)	-	-	Substantial
Verification Processes	-	-	Moderate
IT Change Management	-	-	Substantial
Benefit Awards (normal retirement / deferred retirement) & Transfers Out	-	-	Full
Performance Management	-	-	TBC – not yet completed

⁽¹⁾ See Appendix 2 for definitions and descriptions of assurance levels

Assurance definitions

The tables below provide a narrative description for the assurances provided at Appendix 1.

South Tyneside Council – Assurance definitions	
Definition	Description
Full Assurance	There is a highly effective system of internal control which ensures objectives are achieved. No control weaknesses have been identified during the audit.
Substantial Assurance	There is an effective system of internal control which is designed to achieve objectives. Minor control weaknesses have been identified which prevent objectives being fully achieved and improvements are required.
Moderate Assurance	There is a sound system of control. Control weaknesses have been identified which put achievement of some objectives at risk and management action is required to address these.
Limited Assurance	The system of control is not effective with control weaknesses identified which put achievement of objectives at risk. Prompt management action is required to address these.
No Assurance	There is no system of control in place which result in objectives being rarely or never achieved. Immediate management action is therefore required.

Deloitte – Assurance definitions	
Definition	Description
Substantial	Mitigations and monitoring activities accord with accepted good practice and are operating to a high standard.
Adequate	The majority of mitigations and monitoring activities accord with accepted good practice and are operating, although some deficiencies exist which could result in financial and / or reputational loss.
Limited	Mitigations and monitoring activities in place offer scope for considerable improvement and result in a high risk of financial and / or reputational loss.
Inadequate	Mitigations and monitoring activities, where in place, require substantial improvement, and result in an unacceptably high risk of financial and / or reputational loss.

Deloitte.



South Tyneside Council





Introduction

This document sets out our proposed internal audit plan for the Tyne and Wear Pension Fund (TWPF) for 2023/24 and an indicative 3-Year Strategic Internal Audit Plan for the consideration and approval of the Pension Fund.

This plan has been informed by review of the TWPF Risk Register and discussions between South Tyneside Council's Internal Audit team, Deloitte, as appointed pension specialists to support internal audit activity and management within TWPF.

The total resources available is 69 days with 21 days provided by Deloitte, at a cost of £29,050 and 45 days delivered by South Tyneside Council, at a cost of £31,410.

Proposed Internal Audit Plan 2023/24

Audit title	Outline scope of work	Indicative timing	Responsibility	Number of days
Governance	<p>We will undertake a high level review of the Governance structure in place at the Fund, focusing in particular on the continued effectiveness of the Local Pension Board, and its interactions with the Pension Committee.</p> <p>The overall objective of the assessment is to provide an independent view of the internal controls and processes with regards to the Pensions Committee's adherence to the six Governance Principles which have been adopted in place of the original ten principles that came out of the Myners' Review.</p> <p>In addition, we will review the Scheme's Advisory Board's ("SAB") review of good governance regarding local government pension schemes ("LGPS"), and in particular compare the current governance arrangements to the key benchmarks to assess each Fund, as outlined in the SAB's report. Therefore, a key focus of the engagement is to review how the Fund compares against these recommendations in the Good Governance review.</p> <p>Our review will include attendance at the Pensions Committee meeting in Q3.</p>	Q4	Kevin Humpherson & Iain Woolley	6
Funding and Investment Strategy	<p>We will consider the approach adopted for the 2022 funding valuation and evaluate against good practice. This review will build on the reviews performed in relation to the 2013, 2016 and 2019 funding valuations.</p> <p>We will also undertake a review of the Fund's Investment Strategy Statement, evaluate references to investment strategy against industry good practice and comment on the reasonableness and transparency within the assumptions made in the Fund's investment strategy.</p>	Q3	Glen Cross (Funding) / Kevin Humpherson & Iain Woolley (Investment)	12

Proposed Internal Audit Plan 2023/24

Deloitte management	Allocation of time for the pension specialists input to audit planning, contract management and reporting to Pensions Committee and the Local Pension Board.	Q1-4	Deloitte	3
Sub Total (days provided by Deloitte)				21

Audit title	Outline scope of work	Indicative timing	Responsibility	Number of days
Pensions Payroll	To review arrangements in place for processing pensions payroll following activity being taken 'in house' by TWPF.	June / July 2023	Internal Audit	c/f from 22/23
Data Quality	To review implementation of standard approach to data scoring.	July / Aug 2023	Internal Audit	6
Risk Management	To review arrangements for maintaining the risk register and sample testing to confirm identified controls are operating as expected.	Sept / Oct 2023	Internal Audit	10
Benefit Awards – Child Pensions	To review the Child Pension Policy and assess the award and review of Child Pensions.	Oct / Nov 2023	Internal Audit	6
Cashflow Management	To review arrangements for managing cashflow, and investment / borrowing decisions to support this, and ensure this complies with the Treasury Management strategy.	Nov / Dec 2023	Internal Audit	7
Contributions	To review processes and controls in place to ensure contributions and supporting data are remitted accurately, completely and on a timely basis whilst refunds are appropriately controlled.	Jan / Feb 2024	Internal Audit	6

Proposed Internal Audit Plan 2023/24

Unallocated resource	Resource retained to review areas where there is expected development in year but precise timing, scope and nature of work is uncertain, e.g. consideration of environmental, social and governance (ESG) factors in investment decision-making, verification processes etc. Specific review to be agreed with Head of Pensions in early 2024 to reflect key risks.	Feb / Mar 2024	Internal Audit	7
Audit management	Allocation of time for Internal Audit input to audit planning, contract management and reporting to Pensions Committee and the Local Pension Board.	Q1-4	Internal Audit	3
Sub Total (days provided by South Tyneside Council Internal Audit team)				45
Total audit days				69

Proposed 3-Year Strategic Internal Audit Plan 2022/23 – 2024/25

Audit title	Outline scope	Proposed timing		
		2023/24	2024/25	2025/26
Deloitte				
Governance	Annual review to provide assurances in respect of governance arrangements.	✓	✓	✓
Funding and Investment Strategy	Consider the approach adopted for the 2022 funding valuation and evaluate against good practice and also undertake a review of the Fund's Investment Strategy Statement, evaluate references to investment strategy against industry good practice and comment on the reasonableness and transparency within the assumptions made.	✓	-	-
Environmental, social and governance (ESG) review	High-level review of the implementation of ESG policies adopted by the Fund, consider the Fund's progress made on compliance with the recent TCFD regulations and consider interactions with Border to Coast on ESG given it has become an important pooling partner through which a significant proportion of the Fund's investments are invested.	-	✓	✓
Investment Monitoring Review	To review the approach to monitoring the Fund's investment managers and pooled investments, as well as reviewing the mechanisms by which drawdown call and distributions are managed.	-	✓	-
Risk Management	Biannual risk management workshop involving members.	-	-	✓
Audit Management	Allocation of time for the pension specialists' input to audit planning, contract management and reporting to Pensions Committee and the Local Pension Board.	✓	✓	✓
Total Days - Deloitte		24	20	20

Internal Audit 3 year Pension Fund Coverage

Audit title	Outline scope	Proposed timing		
		2023/24	2024/25	2025/26
South Tyneside Council				
Benefit Awards	To review a distinct group of benefit awards on an annual basis as agreed with management, e.g. retirement / deferred retirement, death benefits, ill health / deferred ill health retirements / child pensions etc.	✓	✓	✓
Pensions Payroll	To review arrangements in place for processing pensions payroll following activity being taken 'in house' by TWPF.	✓	-	✓
Data Quality	To review implementation of standard approach to data scoring in 2023/24 and implementation of dashboard in 2024/25.	✓	✓	-
Risk Management	To review arrangements for maintaining the risk register and sample testing to confirm identified controls are operating as expected.	✓	-	-
Cashflow Management	To review arrangements for managing cashflow, and investment / borrowing decisions to support this, and ensure this complies with the Treasury Management strategy.	✓	-	-
Contributions	To review processes and controls in place to ensure contributions and supporting data are remitted accurately, completely and on a timely basis whilst refunds are appropriately controlled.	✓	-	-
Verification Processes	To review arrangements in place for verifying data / information supplied to the Fund.	-	✓	-
Cyber Resilience	To review arrangements in place to protect against and mitigate the impacts of a cyber-attack.	-	✓	-

Internal Audit 3 year Pension Fund Coverage

Performance Management	To review compilation and reporting of performance information.	-	-	✓
Investment Managers	To review and assess the adequacy of arrangements to monitor the performance of investment managers including Private Market Managers.	-	-	✓
Admitted Bodies	To review the procedures in place for processing Admission Bodies to and leaving the Fund.	-	-	✓
Audit Management	Allocation of time for the pension specialists input to audit planning, contract management and reporting to Pensions Committee and the Local Pension Board.	✓	✓	✓
Total Days – South Tyneside Council		45	45	45
Total Days – Combined		66	65	65

Internal Audit Annual Report 2022/23

The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:

Background Paper	File Ref:	File Location
TWPF Internal Audit Plan		Internal Audit
Internal Audit reports		Internal Audit