



South Tyneside Council

Local Pension Board

Date: 4th July 2024

Internal Audit Annual Report 2023/24 (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 2023/24 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 2024/25.
2. The report also assists the Council in its statutory responsibility to ensure the proper administration of its financial affairs.

Contact Officer: John Gettins, Assurance and Risk Manager

audit audit audit audit audit audit audit audit audit

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 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 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 & 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;

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- Facilitating the administration of the National Fraud Initiative (NFI) where it utilises the Fund's data and supports 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 2023/24 Internal Audit Plan was agreed through discussions with management and Isio, 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. To provide an opinion on the adequacy and effectiveness of the Fund's control environment for 2023/24 the following has been considered:
 - Audit activity undertaken by Internal Audit during 2023/24. See Appendix 1.
 - Audit activity undertaken over the previous 2 years, i.e. 2021/22 and 2022/23 to reflect work undertaken across a 3-year strategic audit plan period. See Appendix 1.

The Opinion

13. Based upon the work undertaken the overall adequacy and effectiveness of the governance, risk and control framework during 2023/24 has been assessed as:

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.

14. 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.

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15. 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

16. 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

17. 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.

2024/25 Internal Audit Plan

18. The Internal Audit Plan has been established through discussions with management and Isio, 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

19. All legal implications are outlined in the report.

Financial and Value for Money Implications

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

Risk and Opportunity Implications

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

Equality and Diversity Implications

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

Environmental and Sustainability Implications

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

Options to be considered

24. No other options are submitted for consideration.

Recommendations

25. The Board is requested to note the contents of the annual report for 2023/24 and are given the opportunity to comment on the 2024/25 audit plan.

Reasons for Recommendation

26. 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	2021/22 Opinion ⁽¹⁾	2022/23 Opinion ⁽¹⁾	2023/24 Opinion ⁽¹⁾
Governance Review (Deloitte/Isio)	Substantial	Substantial	Substantial
Funding and Investment Strategy (Isio)	-	-	Substantial
Admitted Bodies	-	-	-
Benefit Awards – Deaths Benefit Entitlements	-	-	-
Payment Processes	-	-	-
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	-

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

Internal Audit 3 Year Pension Fund Coverage

Assignment	2021/22 Opinion ⁽¹⁾	2022/23 Opinion ⁽¹⁾	2023/24 Opinion ⁽¹⁾
Benefit Awards (Child Pensions)	-	-	Moderate
Cashflow Management	-	-	Full
Contributions	-	-	Substantial
Data Quality	-	-	Substantial
Payroll Processing	-	-	Substantial
Performance Management	-	-	Moderate (Draft)
Risk Management	-	-	Full

⁽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.

Isio – 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.





South Tyneside Council

Introduction

This document sets out our proposed internal audit plan for the Tyne and Wear Pension Fund (TWPF) for 2024/25 and an indicative 2 Year Strategic Internal Audit Plan for the consideration and approval of the Local Pensions Board.

In compiling this plan, South Tyneside Council's Internal Audit function have held discussions with ISIO Pension specialist, Iain Woolley. We have also discussed the plan with Paul McCann, Heather Chambers, Andrew Lister, Elizabeth Vollans and Heather Wake of Tyne and Wear Pension Fund in a meeting on 15th March 2024.

The total resources available is 57.5 days with 12.5 days provided by Isio.

Proposed Internal Audit Plan 2024/25

Audit title	Outline scope of work	Indicative timing	Responsibility	Number of days
Governance	To 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.	Q4	Isio	2.5 (tbc)
Investment Monitoring	To review the investment manager monitoring processes for the investment portfolio. As part of this, we will consider the role of B2C given the increasing proportion of pooling assets and how investment monitoring is carried out in this context.	Tbc by TWPF	Isio	4 (tbc)
ESG Review	To perform a high-level review of ESG policies adopted by the Fund, and industry/LGPS comparison. As part of this, we will consider the Fund's progress & compliance with TCFD regulations and ESG interactions with B2C.	Tbc by TWPF	Isio	4 (tbc)
Planning and engagement	Allocation of time for audit planning, contract management and reporting to Pensions Committee.	Q1-4	Isio	2
Sub Total (days provided by Isio)				12.5

Proposed Internal Audit Plan 2024/25

Audit title	Outline scope of work	Indicative timing	Responsibility	Number of days
Benefit Awards Normal Retirement	To review the processes and perform substantive testing of the calculation of normal retirement benefits to ensure they are calculated in line with guidance and are accurately calculated in line with member records. This includes all retirements, including early, at normal retirement date and late, excluding redundancy and ill health cases.	Q4	Internal Audit	8
Annual Pension Increase	To review processes and controls in place to ensure the bulk process annual update of pensions is accurate and completed on a timely basis. To include process and outcomes for the PI added in 2024.	Q3	Internal Audit	7
Appointeeship Process	To review arrangements and controls in place to protect vulnerable people where an appointee is in receipt of the pension.	Q2	Internal Audit	7
Pension Admissions	To review arrangements and to ensure there are appropriate systems in place to admit new bodies and to remove employers who wish to leave the TWPF.	Q2	Internal Audit	7
Employer Covenant	To review arrangements in place for the assessment of employer covenants, and the determination of subsequent funding discount rate assumptions and recovery periods, for employers participating in the Fund.	Q3	Internal Audit	7

Proposed Internal Audit Plan 2024/25

Contingency	Resources to be allocated at a later date.	TBC	Internal Audit	6
Audit management	Allocation of time for Internal Audit input to audit planning, contract management and reporting to Pensions Committee.	Q1-4	Internal Audit	3
Sub Total (days provided by Council)				45
Total days (ISIO + Council)				57.5

Proposed 2-Year Strategic Internal Audit Plan 2024/25 – 2025/26

Audit title	Outline scope	2024/25	2025/26
ISIO management	Allocation of time for audit planning, contract management and reporting to Pensions Committee.	✓	
Governance	As per 2024/25 ISIO audit plan.	✓	
Funding and Investment Strategy	As per 2024/25 ISIO audit plan.	✓	
ESG Review	As per 2024/25 ISIO audit plan.	✓	
Benefit Awards	Yr 1 – Normal Retirement Yr 2 – Death Grants	✓	✓
Annual Pension Increase	As per 2024/25 internal audit plan.	✓	
Cyber Security	To ensure arrangements in place help to protect IT assets against cyber-threats are operating efficiently and effectively.		✓
Appointee-ship Process	As per 2024/25 internal audit plan.	✓	

Internal Audit 3 year Pension Fund Coverage

Audit title	Outline scope		
		2024/25	2025/26
Pension Admissions	As per 2024/25 internal audit plan.	✓	
Employer Covenant	As per 2024/25 internal audit plan.	✓	
General Code of Practice (TPR)	Review compliance with the Pension Regulators new code of practice.		✓
Scheme Advisory Board	Review compliance with the Scheme Advisory Board guidance.		✓
Audit management	Allocation of time for Internal Audit input to audit planning, contract management and reporting to Pensions Committee.	✓	✓
Total audit days		57.5	59

Internal Audit Annual Report 2023/24

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