

**Local Pensions Partnership  
Administration Limited  
(LPPA)**

**ANNUAL INTERNAL CONTROL  
ASSURANCE REPORT**

**August 2020**

**INTERNAL CONTROL ASSURANCE REPORT**

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## INTERNAL CONTROL ASSURANCE REPORT

### INTRODUCTION

LPPA, part of the LPP Group, provides pension administration services to over 600,000 members across 1,900 employers for its 17 LGPS and blue light clients.

We deliver high-quality pensions administration services to Local Government, Police and Firefighters Pension Schemes.

LPPA has three sites; the majority of our c.220 employees are based in Preston, and we have satellite offices in Havering and Hertford. We administer pensions for 17 public sector clients. We look after more than 600,000 members across over 1,900 employers.

This is the first Internal Control Assurance Report published by LPPA which outlines the specific control objectives that we have designed to support our business objectives. It underpins the work LPPA has undertaken and demonstrates the strength of our control environment which supports our organisation as we move forward into the future.

We use our scale and expertise to simplify pensions administration, providing value for money pension services that help our clients overcome the challenges of pension complexity.

We provide first-class end-to-end pensions administration services including payroll, and member and employer engagement. Our service consistently exceeds Service Level Agreements and we take a proactive approach to improving administration services across the sector, striving to become a pensions administration Centre of Excellence.

We place a strong emphasis on building effective and collaborative working relationships with our clients. Our approach is based on all participants sharing constructive dialogue and timely feedback to enable us to drive continuous improvement in the services we offer.

Key components of our approach include:

- ✓ A clear understanding of clients' requirements and expectations translated into well-defined Service Level Agreements (SLAs) and Key Performance Indicators (KPIs).
- ✓ Timely, transparent and comprehensive client reporting.
- ✓ Strong governance processes to ensure services are compliant with Code of Practice 14 and public sector pensions legislation.

3 Offices	17 Clients	1,900 Employers	600,000 Members
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## INTERNAL CONTROL ASSURANCE REPORT

### REPORT BY THE HEAD OF RISK & COMPLIANCE

This Report relates to the pensions administration services provided by Local Pensions Partnership Administration Limited (LPPA).

As Head of Risk & Compliance for LPPA, I joined the Company in April 2020, tasked with the identification of control objectives relating to the provision of pensions administration services by LPPA and the design, implementation and operation of controls to provide reasonable assurance that the control objectives are achieved.

In taking on those responsibilities I have taken account of, not only the interests of the members, but also the clients and those of the stakeholders as well as the wider LPP Group to drive the general effectiveness and efficiency of the administration services for all concerned.

In future years, this report will be prepared for clients who have used the pensions administration services to provide assurance that those services are being delivered by LPPA in compliance with Code of Practice 14 and public sector pensions legislation.

The criteria used in making this assertion will be that:

- (i) the risks that threaten achievement of the Control Objectives stated in this report have been identified;
- (ii) the identified controls would, if operated as described, provide reasonable assurance that those risks did not prevent the stated Control Objectives from being achieved; and
- (iii) the controls were consistently applied as designed, including manual controls which were applied by individuals who have the appropriate competence and authority.

This year, given that I have only been in post for 4 months, I cannot provide the assurance at this time as I am still getting to know the business and identifying and assessing the controls in place. This first report therefore provides an overview of the Internal Audit activity undertaken during 2019/20 and sets out the assurance framework I have recently implemented in LPPA to provide the assurances that our clients require going forward.

This report will not omit or distort information relevant to the scope of the services being described in the Control Objectives, whilst acknowledging that it has been prepared to meet the common needs of a broad range of clients and may not therefore include every aspect of the services that each individual client may consider important in its own particular environment.

**Janet Morville-Smith**  
**Head of Risk & Compliance LPPA**

## INTERNAL CONTROL ASSURANCE REPORT

### OVERVIEW OF INTERNAL AUDIT ACTIVITY 2019/20

This section contains details of the audit activity for the financial year ended 31 March 2020 in regard to pension administration processes

**Note:** Prior to June 2020, pensions administration services were provided by LPP Limited. On 1st June 2020 all pensions administration staff were TUPE transferred to LPPA Limited. Thus, audits performed in FY2019/20 were performed on, and delivered to, LPP.

#### Audits Conducted by Deloitte:

Several distinct internal audits took place across the LPP Group. Three of those audits related to our investment business, LPPI; two were specific to benefits administration, and other audit areas span the LPP Group (e.g. Cyber security).

Of the audits that are relevant to the pension administration service:

Date Report Issued	Title	Scope	Rating
June 2019	Benefit Administration	Focus on the calculation and payment process for Transfer Values and Retirement Benefits	<b>Ineffective</b>
January 2020	Contingency – Further Review following the Benefit Administration findings	Focus on the administration and financial processes and controls specifically in relation to any process where a payment is made to a member	<b>Effective with Scope for Improvement</b>

The benefits administration audit was conducted in March 2019 and looked at a small sample of benefit calculations across our Police and Fire client schemes and transfers from our Local Government client scheme. No errors were identified in the benefit calculations. Two issues were identified in the transfer calculations.

The cases sampled were cases dating back to the period shortly after the implementation of the transformation project in April 2018 that resulted in large backlogs and poor service levels.

Since this audit, some exceptional work has been undertaken over the course of 2019/20 in readiness for the new LPPA structure. The operational teams have developed, and the structure and management of pension administration has improved immensely under the direction of Jo Darbyshire the new LPPA MD. It was recognised that Compliance and Risk within LPPA was not as robust as it should be and therefore steps were

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taken to address this with the commencement of the recruitment process to appoint an administration focused Head of Risk and Compliance. Janet Morville-Smith took up the position in April 2020.

In January 2020, Deloitte were asked to re-assess the benefit administration processes, which showed a marked improvement being demonstrated in the second audit.

Of the wider LPP Group audits:

- GDPR was rated effective with room for improvement
- Cyber security was rated ineffective; and
- Core financial controls was rated ineffective

The cyber security and core financial controls audits covered general operations of the LPP Group and are indirectly relevant to the services LPP provides to clients. In the case of both audits, LPP management had self-identified and put in place management actions to address the main findings before the audit reports were concluded and plans are in progress and on track to address all outstanding findings.

Since those audits took place, LPPA has established a focused and dedicated Risk and Compliance function to strengthen controls within pension administration.

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### CONTROL ASSURANCE FRAMEWORK

This section contains details of the assurance framework that LPPA will follow for 2020/21, commencing 1<sup>st</sup> June 2020 regarding pension administration processes

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#### Organisational Structure

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LPPA is a subsidiary of Local Pensions Partnership Limited, and operates over 3 sites in Preston, Havering and Hertford.

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#### LPPA

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LPPA provides pension administration services for Local Government Pension Schemes and other public sector pension funds. We look after the needs of over 600,000 pension scheme members across a variety of schemes and industries.

As a leading third party pensions administrator, we are responsible for the pension administration services, including calculation and payment of pension benefits, data quality and member and employer engagement.

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#### Internal Controls

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The system of internal controls is based upon an ongoing process designed to identify the risks to the achievement of policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

A key element of this structure includes formally agreed, clear definitions of the responsibilities and authority delegated to individual managers across all major activities, supported by LPPA Senior Leadership Team and the LPPA Board.

The LPPA Risk Management Framework includes the Risk Register, which maps and monitors the risks that threaten achievement of the Control Objectives and regularly reviews and tests the Controls to ensure they remain effective in managing those risks.

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#### Governance Structure

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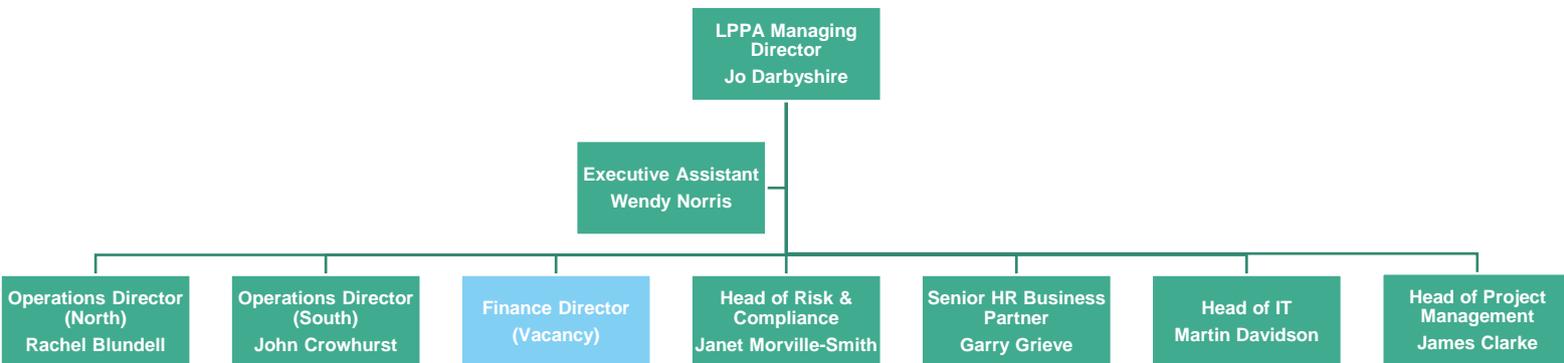
The LPPA Board is chaired by Sir Peter Rogers and includes 4 Non-Executive Directors.

The LPPA Senior Leadership Team is led by Jo Darbyshire, LPPA Managing Director, and includes Senior Managers with the appropriate skills, knowledge and expertise to achieve the strategic objectives of LPPA.

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**ORGANISATION OVERVIEW**

**LPPA Senior Leadership Team**



**INTERNAL CONTROL ASSURANCE REPORT**

**CONTROL OBJECTIVES**

<p><b>CODE OF PRACTICE 14</b></p> <p><b>1. Accepting clients</b></p> <ul style="list-style-type: none"> <li>■ Accounts are set up and administered in accordance with client agreements and applicable regulations.</li> <li>■ Complete and authorised client agreements are operative prior to initiating administration activity.</li> <li>■ Pension schemes taken on are properly established in the system in accordance with the scheme rules and individual elections.</li> </ul> <p><b>2. Authorising and processing transactions</b></p> <ul style="list-style-type: none"> <li>■ Benefits payable and transfer values are calculated in accordance with scheme rules and relevant legislation and are paid on a timely basis.</li> </ul> <p><b>3. Maintaining financial and other records</b></p> <ul style="list-style-type: none"> <li>■ Member records consist of up-to-date and accurate information and are updated and reconciled regularly.</li> <li>■ Contributions and benefit payments are completely and accurately recorded in the proper period.</li> <li>■ Scheme documents (deeds, policies, contracts, booklets) are complete, up to date and securely held.</li> </ul> <p><b>4. Monitoring compliance</b></p> <ul style="list-style-type: none"> <li>■ Services provided to pension schemes are in line with service level agreements.</li> <li>■ Transaction errors are rectified promptly and Members treated fairly.</li> </ul>	<p><b>5. Reporting to clients</b></p> <ul style="list-style-type: none"> <li>■ Periodic reports to participants and scheme sponsors are accurate and complete and provided within required timescales.</li> <li>■ Annual reports and accounts are prepared in accordance with applicable law and regulations.</li> <li>■ Regulatory reports are made if necessary.</li> </ul> <p><b>INFORMATION TECHNOLOGY</b></p> <p><b>6. Restricting access to systems and data</b></p> <ul style="list-style-type: none"> <li>■ Physical access to computer networks, equipment, storage media and program documentation is restricted to authorised individuals.</li> <li>■ Logical access to computer systems, programs, master data, transaction data and parameters, including access by administrators to applications, databases, systems and networks, is restricted to authorised individuals via information security tools and techniques.</li> <li>■ Segregation of duties is defined, implemented and enforced by logical security controls in accordance with job roles.</li> </ul> <p><b>DATA PROTECTION / GDPR</b></p> <p><b>7. Data Security</b></p> <ul style="list-style-type: none"> <li>■ Processing, storing and transmission of personal data is defined, implemented and enforced by security controls in accordance with job roles.</li> </ul>
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### METHOD OF ASSURANCE

This section details how LPPA will achieve the control objectives to provide the future assurances that pension administration processes comply with CoP14

Historically, Internal Audit for LPP has been provided by Deloitte LLP. Deloitte were engaged to focus on assessing the design adequacy, implementation and operating effectiveness of key controls mitigating certain risks. Part of the engagement with LPP was to review certain aspects of the operational pension administration business.

The main focus of the Audits of operational pension administration have been around the calculations and payments to members, in particular, Transfer Values and Retirement Benefits. Deloitte's reviewed the administration processes and controls for the processes that result in payments being made.

The contract with Deloitte LLP ends in March 2021 and LPPA will take a decision at that point whether to continue to engage with a third party for their Internal Audit requirements.

With effect from 1st June 2020, LPPA has established its own Governance which utilises the Three Lines of Defence model, in addition to the engagement with Deloitte. Key components of this Governance include:

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#### Risk & Compliance

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In April 2020 LPPA established a dedicated Risk & Compliance function within the pension administration business. This function remains independent of operational management, with the Head of Risk & Compliance reporting directly to the LPPA MD with a dotted line into the LPPA Board.

The Risk & Compliance Team has been established to ensure LPPA, its policies and procedures fulfil the requirements for Local Government and Public Service Pension Schemes, adhering to the relevant legislation and the Code of Practice as laid down by the Pensions Regulator. Risk & Compliance have a wide remit across LPP and has unrestricted access to any and all records, physical properties and personnel relevant to the administration of the pension schemes.

The LPPA Risk Management Framework has been established to manage all risks associated with the LPPA business, including strategic, operational, financial and reputational risks.

The Risk & Compliance Team has been set up to incorporate the various assurance functions, as well as other functions which it is deemed should be independent of the operational business functions.

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#### Risk & Compliance - Quality Assurance & Compliance Monitoring

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LPPA has established a Quality Assurance and Compliance Monitoring Team within the Risk & Compliance function and a compliance monitoring plan has been prepared which is designed to deliver a series of audit engagements based on an appropriate risk assessment and priorities that are consistent with the objectives of LPPA and its clients.

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This involved:

- ✓ identification of the 'monitoring universe' – a comprehensive list of potential administration areas by service, function and / or major systems that could be monitored;
- ✓ understanding the strategy and business objectives of LPPA and its clients;
- ✓ identifying key risks and controls associated with each administration area; and
- ✓ taking account of the results of previous audit work, discussions with key employees and consideration of current risks identified through the risk management framework.

The compliance monitoring activities are in addition to the Internal Audit work carried out by Deloitte.

A monthly process of 'Check the Checker' has been implemented to strengthen the quality of administration activities to help to drive a 'right first time' culture.

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### Risk & Compliance – Technical

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LPPA has established a Technical Team within the Risk & Compliance function with appropriate subject matter expertise to ensure all administration activities comply with Code of Practice 14 and public sector pensions legislation. This team also comprise of the subject matter experts for taxation and all other legislative and regulatory requirements impacting pension administration.

The Technical Team will support the operational business functions, providing guidance and resolving complex queries. They are also tasked with driving awareness and education within the operational business areas where requirements change or where knowledge gaps are identified.

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### Risk & Compliance – Complaints

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LPPA has established a dedicated Complaint Handling Team within the Risk & Compliance function to ensure that any complaints and the Internal Dispute Resolution Process (IDRP) are managed independently of the operational functions.

Effective complaint management will drive business improvements and embed a 'Treating Customers Fairly' culture.

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### INTERNAL CONTROL 2020/21

Moving forward into the next Financial Year LPPA Risk & Compliance will be producing more reporting for Clients and Stakeholders to provide ongoing assurance that the pension administration services provided by LPPA are robust and compliant with all relevant Rules, Regulation, Legislation, and Industry Codes of Practice that apply to a pension administration business.

Reporting has already commenced from June 2020 on the following aspects for each Client individually:

- ✓ Complaints
- ✓ IDRPs
- ✓ Breaches – Data Breaches; CoP14 Breaches and LPPA Process Breaches
- ✓ Incidents
- ✓ Risks & Issues

Internal Audit continues to be provided by Deloitte as per their current audit plan and the following reviews have been scheduled for LPPA in 2020:

Review Title	Commencement Date	Rating
Data Quality	April 2020	Effective
Benefit Administration	April 2020	On-going
Benefit Administration	September 2020	N/A

In addition, LPPA Risk & Compliance will undertake a program of compliance monitoring throughout the year.

### Accreditations

LPPA will continue to maintain the following accreditations in support of its control assurance framework.

Title	Expiry
ISO 27001	LPPA re-certification due in December 2020
Cyber Essentials	Re-certification underway in July 2020

This Internal Control Assurance Report will be issued annually covering the previous financial year.