

Powys County Council INTERNAL AUDIT REPORT



Pension Fund Investment

Report Date 6 April 2016

Report Status Final



RESTRICTED CLASSIFICATION

1. INTRODUCTION

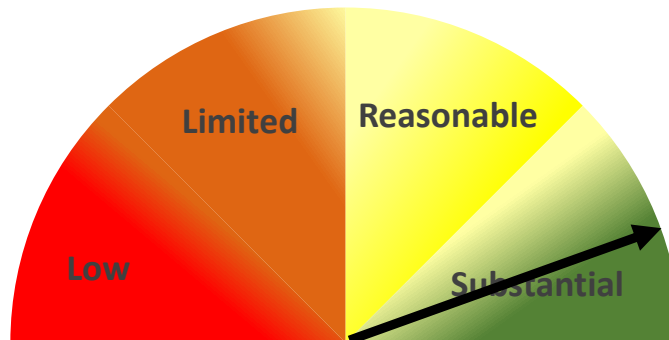
- 1.1 Powys County Council is the administrative Authority for the Local Government Pension Scheme. Its members are Powys County Council, Resolution Bodies, and admission bodies. The Pension Fund is regulated by the Local Government Pension Scheme. It has £500m of Investments that are managed by the Pension Fund Manager and Finance staff.
- 1.2 There is a Pension and Investment Committee who are the decision making body (upon advice from Investment Consultants etc) and a Local Pension Board who provides oversight.
- 1.3 The Pension Fund employs an Investment Consultant and Investment Managers who have delegated authority to manage the funds.

2. EXECUTIVE SUMMARY

- 2.1 It is noted that the management and investment of the Pension Fund is regulated by the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 [as amended]. These regulations are scheduled to be replaced in 2016 to include pooling between LGPS Funds.
- 2.2 The framework and process over the Pension Fund was found to be adequate. However, it was noted that the fund administration relies on external regulation and policy, and has no internal procedures. It was also noted that the Local Pension Board members have received some training to date, although this has been limited, and more training is planned.
- 2.3 There is adequate corporate governance arrangements that are in compliance with the Regulations.
- 2.4 It is recognised that the Pension Fund complies with statutory requirements
- 2.5 There is a recognition that employer members of the fund are liable as it is statutory in nature. However, it is noted there are safeguards in place to mitigate this risk.
- 2.6 The financial control over the LGPS was found to be adequate.
- 2.7 There is effective independent assurance systems over the management of the Pension Fund.


3. AUDIT OPINION


3.1 The assessment on the level of assurance in the internal control environment for your area is:



Internal controls were in place and operating effectively. Any weaknesses identified relate only to issues of good practice which could improve the efficiency and effectiveness of the system or process. Risks against the achievement of objectives are well managed.

4. CONTROL ASSESSMENT & AGREED ACTIONS

4.1	<p>Control Area: Framework and Process</p> <p>There is an adequate framework and process to manage pension investments:</p> <p>Policies and Procedures Risk Management Training and Understanding Internal Control arrangements</p>	<p>High Risk</p>
<p>Key Findings:</p> <p>There are high level Policies as required by the Local Government Pension Scheme Regulations such as the Funding Strategy Statement and the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 that define statutory limits. However, there are no internal procedures.</p> <p>The Pension Fund Manager has identified the risks relating to pension investment. It is noted the Risk Register is adequate and has been subject to approval and review by the Pension and Investment Committee and the Local Pension Board.</p> <p>The Pensions Fund Manager is a Chartered Member of Pensions Management with 30 years' experience, and subject to CPD.</p> <p>There is evidence that members of the Pensions and Investment Committee receive training.</p> <p>There is a training framework and an assessment of training for the Local Pension Board, and this is being implemented. It is noted the Board has been established since July 2015 and training has only just been planned. The February 2016 meeting of the Pension and Investment Committee decided to undertake joint training.</p> <p>The Authority employs Investment Consultants to advise on investment decisions that are approved by the Pensions and Investment Committee, or if out of Committee by consultation with Chair and Vice Chair and Strategic Director of Resources. If approved the funds are transferred through Finance, using the delegation of authority. The Investment Managers will action any appropriate decisions.</p>		<p>Moderate Control</p>
4.1A	<p>Weakness:</p> <p>There are no internal procedures that summaries and cross reference to Regulatory requirements and detail Council procedures.</p>	
<p>Agreed Action:</p>		<p><u>When & by Whom</u></p>

	Will be reviewed by Pension Fund Manager	Pensions Fund Manager 30.09.16
4.1B	<p>Weakness:</p> <p>The training for the Local Pension Board, that was established in July 2015 has not been provided to date, but is planned. It is noted joint planning will take place for Local Pension Board and Pension and Investment Committee.</p>	
	<p>Agreed Action:</p> <p>Complete and implement training plans for members of both Pensions & Investment Committee and the Pension Board</p>	<p><u>When & by Whom</u></p> <p>Pension Fund Manager 30.06.16</p>

4.2	<p>Control Area: Corporate Governance</p> <p>There is adequate Corporate Governance arrangements.</p>	<p>High Risk</p>
<p>Key Findings:</p> <p>The Pension and Investment Committee are charged with the responsibility of making pension investment decisions, monitoring investments etc. The Committee meets quarterly. If decisions are needed out of Committee, the Chair and Vice Chair on advice from the Strategic Director of Resources make the decision. This is reported to the Pension & Investment Committee.</p> <p>The Local Pension Board has been established in compliance with the Regulations in July 2015 to oversee the Scheme. Minutes indicate that they provide effective review.</p>		<p>Effective Control</p>

4.3	<p>Control Area: Statutory Requirements</p> <p>The pension fund investment complies with statutory requirements and Council Policy.</p>	<p>High Risk</p>
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<p>Key Findings:</p> <p>The Fund was established and maintains all the requirements of the Regulator. These being:</p> <p>Statement of Investment Principles- July 2014 Funding Strategy Statement 2015</p> <p>These are due to be revised after the 2016 Triennial Review.</p>	<p>Effective Control</p>
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<p>4.4</p>	<p>Control Area: Financial Obligations</p> <p>The Pension Fund is able to meet its financial obligations and its assets are safeguarded from loss.</p>	<p>High Risk</p>
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<p>Key Findings:</p> <p>It is noted that as the Local Government Pension Scheme is a Statutory Scheme and Powys County Council is the administering authority it has a legal obligation to pay pensioners as they fall due. The scheme has three types of members:</p> <ul style="list-style-type: none"> • Powys County Council • Resolution Bodies- admitted by resolution of the Pension and Investment Committee (e.g. Town and Community Councils) • Admission Bodies- Staff whose jobs were outsourced (e.g. Freedom Leisure). <p>The deficits liability is shared between the members. Ultimately the Authority tax payers will bear the cost.</p> <p>The assets are safeguarded by the:</p> <ul style="list-style-type: none"> • Prudent allocation of Investments in the market to spread the risk in compliance with Regulation. • Effective monitoring against benchmarks and targets that may result in changes to Investments, Advisers etc. • Effective corporate governance and scrutiny. 	<p>Effective Control</p>
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4.5	<p>Control Area: Transfer of Funds</p> <p>The transfer of funds to the Pension Fund Managers is conducted in a prudent and controlled manner.</p>	<p>High Risk</p>
<p>Key Findings:</p> <p>There is no transfers to the Investment Fund as the contributions received are used for pension payments and administrative expenses.</p> <p>Pension contributions are paid by Fund Employers on the basis of the Triennial Review 2013. There is a spreadsheet that records payments received from a statement sent from the Fund Employer. If there are minor errors these are resolved at year end.</p> <p>Fund Employers provide a statement of contributions that include pensionable pay. It is noted that the pensionable pay for the month is not independently verified, and reliance is placed on the Fund Employer to provide accurate figures. As a consequence if contributions are not accurate the deficit may increase.</p> <p>It is also noted that employee’s contribution cannot be easily verified due to the banding structure of the payments.</p> <p>The Pensions Fund Manager stated that it is a responsibility of the employer to ensure that they identify pensionable pay and deduct the correct contributions. However, on receipt of end-of-year data the Pensions Admin Team tests the voracity of contributions deducted for each member against broad parameters including previous year.</p>		<p>Effective Control</p>

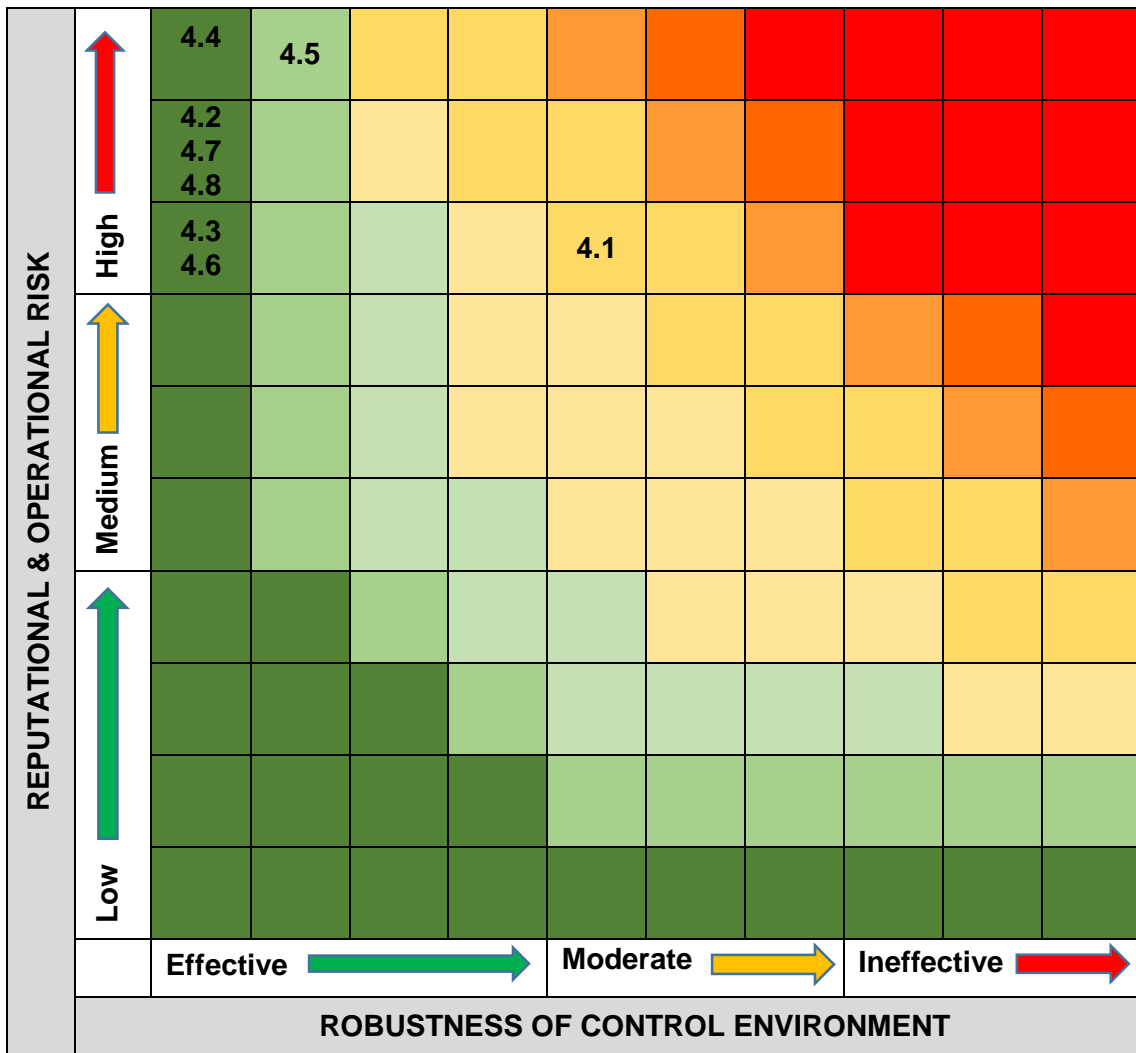
4.6	<p>Control Area: Management Information & Monitoring</p> <p>Appropriate management information, comparables, and performance measures are in place that are subject to adequate monitoring and reporting.</p>	<p>High Risk</p>
<p>Key Findings:</p> <p>The Local Pensions Board is a body required by Regulation to provide oversight over the Pension Fund and make recommendations to the Pensions and Investment Committee who are the decision making body. Both bodies receive management information that includes quarterly reports on investment from the Investment Consultant. It was found to be adequate.</p>		<p>Effective Control</p>

4.7	<p>Control Area: Financial Ledger</p> <p>The Pension Fund’s activity is accurately recorded in the Financial Ledger.</p>	High Risk
<p>Key Findings:</p> <p>The LGPS has a cost centre within E- Fin. There is a bank reconciliation conducted monthly. The reconciliation for January 2016 was reviewed in detail, and verification was carried out that 2015-16 reconciliations had been conducted.</p> <p>The reconciliation is signed by the Assistant Finance Business Partner/Technical Accountancy Assistant who prepares the reconciliation and this is reviewed and signed by the Financial Reporting & Policy Accountant.</p>		Effective Control

4.8	<p>Control Area: Independent Assurance</p> <p>There is adequate independent assurance from third parties.</p>	High Risk
<p>Key Findings:</p> <p>The following assurances are provided:</p> <ul style="list-style-type: none"> • Actuarial Review The triennial review is due in 2016 that provides the Pension Management with an opinion of the value of the fund and surplus/deficit etc. • Welsh Audit Office An annual opinion is given on the accounts of the pension fund. There were no adverse comments. • Investment Consultant The Pension Investment Management appoint Consultants to advice on Investments. They report quarterly or when deemed necessary. • There is an independent chair of the Pension Board. 		Effective Control

5. HEAT MAP

5.1 The heat map below gives a graphical representation of the control environment for your service in relation to the associated risk. Each control assessment is plotted against a RAG (red, amber, green) framework to give an understanding of importance.



6. ADDITIONAL SUPPORTING INFORMATION

6.1– Testing Data/tables if required

7. DISTRIBUTION LIST

7.1 The report has been distributed to the following clients:

Dan Paley	Financial Reporting & Policy Accountant
Joe Rollin	Pension Investment Manager
Jane Thomas	Professional Lead Finance (Resources) -
Jason Lewis	Head of Service- Professional Services
David Powell	Strategic Director - Resources (Resources)

RESTRICTED CLASSIFICATION

8. KEY DATES

Fieldwork Completed	22 March 2016
Draft Report	29 March 2016
Receipt of formal response	31 March 2016
Final Report	6 April 2016

9. REPORT STATUS

9.1 This report has been prepared for the internal use of the Powys County Council and its contents are restricted. The work involved in the production of this audit report complies with the principles outlined in Public Sector Internal Audit Standards in the United Kingdom.

10. CONTACTS

10.1 The following audit staff have been involved throughout the various stages of this review. Please do not hesitate to contact them if you have any queries relating to the contents of the report.

Stages	Name	Designation	Telephone & Email
Fieldwork and Reporting	John Owens	Senior Auditor (Contractor)	
Scope and Quality Review	Julie Rees	Principal Auditor	01597 82 6889 julie.rees@powys.gov.uk
Management	Ian Halstead	Internal Audit Manager	01597 82 6821 ian.halstead@powys.gov.uk

11. OTHER USEFUL INFORMATION

Audit Report - Overall Assurance Opinions

The table below is a defined set of assurance ratings that demonstrate a clear link between the number and priority of the agreed actions and the overall opinion issued.

Opinion	Basis Guide	Definition
SUBSTANTIAL ASSURANCE	No or a few low priority actions.	Internal controls were in place and operating effectively. Any weaknesses identified relate only to issues of good practice which could improve the efficiency and effectiveness of the system or process. Risks against the achievement of objectives are well managed.
REASONABLE ASSURANCE	One or more medium priority recommendations.	Generally risks were well managed, but some systems require the introduction or improvement of internal controls to ensure effective service delivery. However, if not addressed the weaknesses could increase the likelihood of strategic / service risks occurring.
LIMITED ASSURANCE	One or more high priority recommendations, or a high number of medium priority recommendations that taken cumulatively suggest a weak control environment.	Some key risks were not well managed and systems require the introduction or improvement of internal controls to ensure effective service delivery. There are weaknesses identified that have a significant impact preventing the achievement of strategic aims and/or objectives, or result in a significant exposure to reputational or other risk areas.
LOW ASSURANCE	One or more high priority recommendations and fundamental design or operational weaknesses in more than one part of the area under review.	The areas reviewed were found to be inadequately controlled. Risks were not well managed and systems require the introduction or improvement of internal controls. The weaknesses identified have a fundamental and immediate impact in preventing achievement of strategic aims and/or objectives, or result in an unacceptable exposure to reputational or other risks.

Explanation of Control Assessment Ratings

A risk-based approach is used to assess the control environment. Firstly, the auditor must make a judgement on the risk level that is inherent with each part of the operation. A guide to the risk levels are below.

HIGH RISK - Area is critical or essential to the operation of the service.

MEDIUM RISK - Area is important, but not essential to the operation of the service.

LOW RISK- Area does not affect the ability to delivery services, but may be desirable to aid the management of the Service

Secondly, the auditor will carry out audit fieldwork to identify the prescribed control, the actual control and undertake audit testing to evaluate whether the control is operating effectively. Finally, the auditor will offer an assessment of that control area based on the evidence collected. The potential outcomes are:

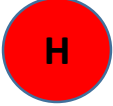


INEFFECTIVE CONTROL - Fundamental failure of key controls that represent a chance of seriously impacting the ability to deliver objectives or result in significant financial loss, fraud or reputational damage

MODERATE CONTROL – Some key controls exist, but there may be some important omissions or inconsistent application. Failure may affect the ability to deliver efficient and effective services, but not critically. Some risk of financial loss, fraud and reputational damage.

EFFECTIVE CONTROL - Key controls exist that are consistently and effectively applied to aid the delivery of business objectives.

Agreed Actions – Priority Ratings

The table below is a defined set of priority ratings that demonstrates the significance of the weaknesses identified and the impact that risk may have if it is not addressed.

Priority	Definition
	<p>High priority - A significant weakness in the system or process which is putting the Council at serious risk of not achieving its strategic aims and objectives. In particular: significant adverse impact on reputation; non-compliance with key statutory requirements; or substantially raising the likelihood that a strategic risks will occur. Recommendations in this category require immediate attention.</p>
	<p>Medium priority - A potentially significant or moderate level weakness in the system or process which could put the Council at risk of not achieving its strategic aims and objectives. The issue could potentially have an adverse impact on the Council’s reputation or increase the likelihood of strategic risks occurring, if not addressed.</p>
	<p>Low priority - Recommendations which could improve the efficiency and/or effectiveness of the system or process but which are not vital to achieving the Council’s strategic aims and objectives. These are generally issues of good practice that we consider would achieve better outcomes.</p>

Statement of Responsibility

The matters raised were only those which came to our attention during the course of our internal audit work and were not necessarily a comprehensive statement of all weaknesses that exist. The responsibility for a sound system of internal control and the prevention and detection of fraud rest with Management. Effective and timely implementation of the agreed actions is important for the maintenance of reliable control systems.