

**Open Report on behalf of Andrew Crookham,
Executive Director - Resources**

Report to:	Pensions Committee
Date:	18 July 2019
Subject:	Internal Audit Report

Summary:

This report presents the latest internal audit report undertaken on the Pension Fund.

Recommendation(s):

That the Committee;

- 1) note the report; and
- 2) consider the recommendation on mandatory training made in the Audit report.

Background

- 1 The Council's internal audit service undertook an audit of the key controls and effectiveness of the management of the Pension Fund in April 2019.

The scope of the audit was to provide assurance that:

- Key controls are in place within the pension system;
- Pension system controls are consistently operated;
- Pension transactions examined are complete and accurate;
- Management of the Pension fund is effective and assets are maximised through investment to cover liabilities;
- The fund complies with legislation and investment policy;
- Fund managers investment performance is monitored;
- Adequate security arrangements are in place for the IT systems; and
- LCC Pension staff have adequate knowledge, guidance and training.

- 2 The outcome of the report is shown in the Executive Summary below, and the complete final audit report is attached at appendix A.

High Assurance

Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.

The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.

Risk	Rating (R-A-G)	Recommendations	
		Low	Medium
Pension fund investments do not exist or are valued incorrectly	Low	0	0
There are insufficient assets within the pension fund to cover the liabilities	Medium	0	0
Investments do not comply with legislation	Low	0	0
Poor investment performance by Investment Fund managers	Medium	0	0
LCC pensions staff do not have the knowledge, training or skill to perform their duties effectively	Low	0	1
TOTAL		0	1

- 3 As can be seen, there are two residual amber risk ratings even though a high assurance audit rating was given overall. This was due to the following:

Risk - There are insufficient assets within the pension fund to cover the liabilities.

The last triennial valuation as at 31 March 2016 found that assets were less than liabilities with a deficit valuation of £529 million. The 2019 annual report detailing the results for the 31st March 2019 triennial valuation has not yet been published but assets may still not cover the liabilities and therefore the risk is included as amber.

Risk - Poor investment performance by Investment fund managers.

The investment manager report for the quarter to 31/3/19 detailed that "Over the 12 month period, only four managers have achieved their benchmark: Morgan Stanley Global Brands, Legal and General, Blackrock (Fixed Income) and Blackrock Interim". Poor investment performance by managers does occur and therefore the risk is shown as amber.

- 4 High assurance was given despite these two amber risks, as explained below:

These risks are outside the control of the Pension team and have therefore not impacted on the overall High assurance rating given, which was based on the Governance and system processes in place within the Pension team.

- 5 As can be seen from the table above, one recommendation was given regarding the risk of LCC pensions staff not having the knowledge, training or skill to perform their duties effectively. The full detail given in the action

plan is shown on page 7 of the Audit report, however the recommendation is shown below:

Recommendation

The Pension team need to:

- *Monitor and update the training log on a regular basis;*
- *Ensure that all members undertake all the training required in the Pension training plan and policy and other training needed following changes to policy or statutory requirements; and*
- *Consider whether a mandatory minimum level of training should be required for all members of the Pensions Committee.*

- 6 A training log is maintained by officers, and Committee members are informed regularly of training events and requirements. As mentioned in paper six on this agenda, the Good Governance Project is likely to put forward a proposal to the Scheme Advisory Board that the training requirement for Pension Committees should be at least equal to that of Pension Boards, who are required to meet mandatory levels of knowledge on an individual basis, therefore the recommendation for consideration is very timely.
- 7 The Committee are asked to consider whether a mandatory minimum level of training should be required for all members of the Pensions Committee, and if so, the timescales in which this training should be undertaken. Following this consideration, any amendments required to the Training Policy will be made and it will be circulated to all Committee members.

Conclusion

- 8 The Pension Fund was given High assurance at its most recent internal audit. This reflected the strong governance and process systems in place within the Pensions Team. One recommendation was made concerning Committee member training, and the Committee are asked to consider this.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Internal Audit Report

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.