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Internal Audit Report

Pension Fund

Date: April 2019

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Background and Scope

Background and Context

Lincolnshire County Council Pension fund currently manages the pension fund investment of over £2.2bn on behalf of over 74,000 scheme members.

The Pensions Committee are updated on a regular basis with reports monitoring performance regarding investments, administration and governance of the fund. The Committee review annually the governance policies and principles of investment to ensure that the pension fund assets are invested appropriately.

The Audit will focus on the reviewing the Key controls and the effectiveness of the Management of the Pension fund to:

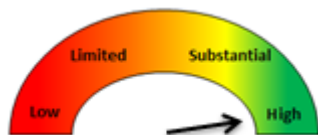
- enable the Head of Internal Audit to form an opinion on the Council's financial control environment
- inform External Audit's control evaluation

Scope

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
- LCC Pension staff have adequate knowledge, guidance and training.

Executive Summary



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	
		High	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

Executive Summary

Key Messages



Our testing confirmed that the management and governance of investment activities are good and that the Pension fund is effectively controlled.

We found evidence of good practice throughout the investment process which provides a high level of assurance in this area, in particular:

- performance of investments are regularly monitored and reported to the Pensions Committee with any exceptions highlighted and appropriately dealt with.
- key policies have been agreed and adopted by the Pensions Committee to ensure sound governance over the pension fund and compliance with the Local Government Pension Scheme regulations.
- There is a Stewardship Code Statement outlining how the Authority will adhere to the 7 principles for local authority pensions, set out by the National Association of Pension Funds.
- there is a clear separation of duties between officers reconciling and reviewing the performance of managed funds.
- Officers involved in managing investments on behalf of the Council are well qualified and experienced.
- there is a staff and members pensions training plan and training policy in place. We did find 3 members of the Pensions Committee who had not undertaken the basic training agreed within

Executive Summary

Key Messages



the Committee's training policy

- the Pensions Committee's appetite for risk is factored into the Asset Liability
- Guidance from the fund's investment consultant and the overall acceptable level of risk for the Fund is used to allocate funds between different asset classes.
- Our regular testing of key controls in this area including examination of reconciliations of investments to custodian, investment manager and internal records confirmed that key controls are in place, that these controls are consistently operated and that transactions examined are complete and accurate.

There are 2 residual amber risk ratings even though a high assurance audit rating has been given overall. This is due to the following:

- Risk "There are insufficient asset 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.

Executive Summary

Key Messages



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.

We would like to take this opportunity to thank the staff for their help and assistance throughout the audit.

Management Response

Management Response



We are pleased with the continued high assurance, and welcome the recommendation on mandatory training for all Committee members.

We'd like to thank the audit team for their approach throughout the audit.

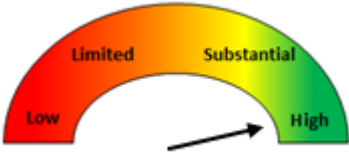

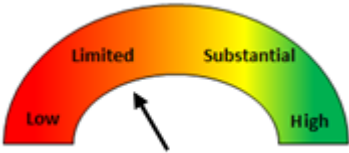

Action Plan

1.	Risk Description	Current Rating	Target Rating
	LCC pensions staff do not have the knowledge, training or skill to perform their duties effectively	Low	Low
Findings			
James Grant and Cllr Peter Coupland (members of Pensions Committee) have attended some in house training events and had their induction training but neither have attended the Fundamentals (as required by the Training policy and plan) or Border to Coast Pension Partnership Training days. In addition, James Grant and Cllr Paul Key have not yet completed the Pension Regulator's toolkit.			
Implications			
Members may not <ul style="list-style-type: none"> have an adequate understanding of pension statutory requirements to make informed strategic pension / investment decisions comply with the CIPFA Knowledge and skills Framework and Code of Practice. 			
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 Consider whether a mandatory minimum level of training should be required for all members of the Pensions Committee			Medium

Action Plan

Agreed Action	Responsibility	Implementation date
The Pensions team will continue to report lack of compliance with the training policy to the Committee and Local Pension Board, and will raise the consideration of a mandatory minimum level with the S151 Officer and the Committee.	Jo Ray	18 th July 2019 (next quarterly Pensions Committee)

Appendix 1 - Assurance Definitions

High	Substantial
<p>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.</p>  <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p>  <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
Limited	Low
<p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p>  <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p>  <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore, the risk of the activity not achieving its objectives is high.</p>

Appendix 1 - Assurance Definitions

Action Priority	
High	Immediate management attention is required - an internal control or risk issue where there is a high certainty of: substantial loss / non-compliance with corporate strategies, policies or values / serious reputational damage / adverse regulatory impact and / or material fines (action taken usually within 3 months).
Medium	Timely management action is warranted - an internal control or risk issue that could lead to financial loss / reputational damage / adverse regulatory impact, public sanction and / or immaterial fines (action taken usually within 6 to 12 months).



Appendix 2 – Distribution List

Distribution List



Jo Ray – Pension Fund Manager

Disclaimer

The matters raised in this report are only those which came to our attention during our internal audit work. Our quality assurance processes ensure that our work is conducted in conformance with the UK Public Sector Internal Audit Standards and that the information contained in this report is as accurate as possible – we do not provide absolute assurance that material errors, fraud or loss do not exist.

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