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**FINAL INTERNAL AUDIT REPORT**  
**CHIEF EXECUTIVE'S DEPARTMENT**

**PENSION FUND GOVERNANCE 2020-21**

**Issued to:** Thi Bang Hoang, Pensions Manager  
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**Reviewed by:** Head of Audit and Assurance

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## **INTRODUCTION**

1. This report sets out the results of our internal audit of Pension Fund Governance. The audit was carried out as part of the work specified in the 2020-2021 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee. The controls we expect to see in place are designed to minimise the Council's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be addressed by management.
2. The audit looked to review the governance arrangements in place for oversight and control over pension fund activity which impact on the reliability of records, integrity of information and compliance with relevant regulations.
3. The Council's Pensions Manager is responsible for the oversight and management of pension fund related processes. The Principal Accountant is responsible for the investment related aspects involving liaising with the Fund's advisors, Company 'A', preparing quarterly updates for the Pensions Investment Sub-Committee and reviewing the monthly asset reconciliations. The Fund's custodian is Company 'B' and actuarial services are provided by Company 'C'.
4. We would like to thank all staff contacted during this review for their help and co-operation.

## **AUDIT SCOPE**

5. The scope of the audit was outlined in the Terms of Reference issued in February 2020.
6. The controls in place to mitigate the impact of the key risk areas were examined. Controls relating to corporate and departmental risks were also examined where applicable. The audit included a review of relevant documentation, interviews with key officers and testing of related procedures and processes.
7. The following were considered to be the key risks inherent to the Pension Fund Governance process:
  - If the role of the core governance groups (Local Pension Board; General Purposes and Licensing Committee; and Pensions Investment Sub-Committee) are not clear in the governance structure, then there could be conflicts and/or duplication of responsibilities, which could impact negatively on the efficient discharge of its responsibilities. If members of these groups lack appropriate training, this could make their activities / roles ineffective.

- Without developing an appropriate investment strategy to support the pensions business planning, in line with the legislative requirements as an Administering Authority, the Council could be in danger of not fulfilling its duty of care to fund stakeholders.
  - If fund manager performance is not reviewed and subject to scrutiny then this could ultimately lead to financial and/or reputational implications for the Council.
  - Payments of fees and charges to the fund managers may not be checked and monitored to the agreed rates.
8. The fieldwork for this audit was completed whilst government measures were in place in response to the coronavirus pandemic (Covid-19). The fieldwork for this audit has been completed and the agreed scope fully covered. Whilst we had to complete this audit remotely, we have been able to obtain all relevant documentation and/or review evidence via screen sharing functionality to enable us to complete the work. Fieldwork was consciously deferred from the 2019-20 Internal Audit Plan on account of Covid-19 impact.

**AUDIT OPINION**

9. Our overall audit opinion, number and rating of recommendations are as follows.

AUDIT OPINION	
Reasonable Assurance	(Definitions of the audit assurance level and recommendation ratings can be found in Appendix B)

Number of recommendations by risk rating		
Priority 1	Priority 2	Priority 3
0	2	1

**SUMMARY OF FINDINGS**

10. Controls noted to be in place and working effectively, based on the audit testing conducted, included:

- The Council’s Constitution establishes and includes both the General Purposes & Licensing Committee and the Pensions Investment Sub-Committee amongst others not in the scope of this audit.
- A Council wide Governance Policy and Compliance Statement for 2018-19 (stating specific pension disclosures) was included in the Annual Report and Accounts which was presented to the Pensions Investment Sub-Committee on 24<sup>th</sup> July 2019. The Governance Policy and Compliance Statement for 2019-20 was on the agenda for the meeting held on 28<sup>th</sup> July 2020, which was to be reviewed along with the Annual Report and Accounts (minutes not yet available at the time of reporting).

- The Local Pension Board received an annual performance report from the Pensions Manager on 22<sup>nd</sup> January 2020, which verified that the Pension Fund was complying with the Pension Regulator's Code of Practice on Governance and Administration of public services pension scheme.
- The 'CIPFA Prudential Code for Capital Finance in Local Authorities' and 'Statutory Guidance on Local Government Investments' are available to the Pensions Team via a shared drive.
- Terms of Reference for the Pensions Investment Sub-Committee confirm its overall responsibility for managing investments of the Pension Fund, including the appointment of investment managers. Review of the minutes for the Pensions Investment Sub-Committee meetings over the past 12 months found there to be an advisor routinely present from Company 'A', the Council's appointed Pension Fund Advisors.
- Company 'A' were appointed as the Council's Pension Fund Investment Advisors in 2012 and their appointment has been extended since then, most recently for one year, to 31<sup>st</sup> October 2021 (due to Covid-19). Formalisation of the extended contract arrangement was underway at the time of audit fieldwork.
- Company 'B' were appointed as the custodian on 26<sup>th</sup> November 1999 and the contract remains live until 30<sup>th</sup> June 2022. Review of the agreement confirmed Company 'B' is to be the custodian of cash and securities deposited for safe custody with Company 'B' or any sub-custodian appointed by Company 'B'. LB Bromley Superannuation Fund may deposit for safe custody cash and cash equivalents, and securities including stocks, shares, bonds, notes, coupons, certificates of deposit or commercial paper, whether in certified, uncertified, registered or bearer form.
- The Council's appointed actuary is Company 'C'. They were originally appointed on 1<sup>st</sup> January 2013 and the contract was renewed in December 2018, for a six year period. Review of the contract confirmed the Authority sought proposals for the provision of Actuarial Services by means of a public tender exercise. The Supplier was selected through a competitive process to provide the services and has agreed to provide the services outlined in the agreement. The triennial valuation is completed by Company 'C' as part of this agreement, the most recent one being as of 31<sup>st</sup> March 2019. The valuation report was presented to the Pensions Investment Sub-Committee on 30<sup>th</sup> January 2020.
- Master custodian, Company 'B', provides monthly reports on fund manager performance to the Council's Treasury and Pensions Team that includes details on all four fund managers – Fund Manager 'A', Fund Manager 'B', Fund Manager 'C' and Fund Manager 'D'. March, April, May and June 2020 reports were provided as supporting evidence of ongoing and regular receipt.

- For the last four quarters, Quarter 2 2019-20 to Quarter 1 2020-21, we confirmed the quarterly update on Pension Fund was prepared by the Principal Accountant and presented to the Pensions Investment Sub-Committee.
- Market overview reports are provided on a quarterly basis by Company 'A', the Council's investment advisors. These are presented to the Pensions Investment Sub-Committee along with the quarterly updates prepared by the Principal Accountant and go as an appendix to the report.

11. We would however like to bring to management attention the following issues:

- Minutes of the Pensions Investment Sub-Committee on 13<sup>th</sup> February 2020 were not available at the time of the audit. Confirmation of the minutes of the meeting was on the agenda for the Committee meeting held on 28<sup>th</sup> July 2020.
- Local Government Pension Scheme (LPGS) administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. However, review of the Investment Strategy Statement confirmed it does not state compliance with the Myners Principles (these being principles for investment decision making and disclosure in the local government pension scheme in the United Kingdom).
- Review of the Fund Manager Asset Reconciliation found the latest version to be dated only to the period ending on 31<sup>st</sup> March 2020. Further, we found the reconciliations for the year 2019-20 have neither been signed off nor dated by the officers preparing and reviewing the document.

#### **DETAILED FINDINGS / MANAGEMENT ACTION PLAN**

12. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are prioritised in line with the criteria set within Appendix B.

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**DETAILED FINDINGS AND ACTION PLAN**

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**APPENDIX A**

<b>1. <u>Minutes of the Pensions Investment Sub-Committee</u></b>	
<p><b><u>Finding</u></b></p> <p>Review of the agenda for the Pensions Investment Sub-Committee meeting held on 28<sup>th</sup> July 2020 confirmed item 4 on the agenda to be confirmation of minutes of the meeting held on 13<sup>th</sup> February 2020.</p> <p>However, at the time of the audit, the minutes of the meeting held on 13<sup>th</sup> February 2020 had not been produced.</p> <p><b><u>Risk</u></b></p> <p>When minutes of the Committee meetings are either not taken or not available in a timely manner, there is an increased risk that decisions taken by Members with regard to pensions may be late, and hence the management of the fund could be adversely affected.</p>	
<p><b><u>Recommendation</u></b></p> <p>Pensions Team Management should ensure minutes of the relevant Committee meetings are taken and made available on the website promptly after they have been finalised.</p>	<p><b><u>Rating</u></b></p> <p><b>Priority 3</b></p>
<p><b><u>Management response</u></b></p> <p>The Democratic Services Manager confirmed that the recommendation fairly reflects the status at the time of audit, but noted that that the finding is certainly not the Council's normal or recommended practice.</p> <p>Responsibility lies with the Democratic Services Manager rather than the Pensions Team Management.</p>	<p><b><u>Agreed timescale</u></b></p> <p>Immediate.</p>

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<p>The meeting in question was an addition to the Democratic Service Manager’s workload, as a colleague could not attend the meeting. With the ongoing high workload exacerbated by managing virtual meetings through the Covid-19 lockdown, there had not been capacity to fully complete these minutes.</p> <p><b><u>Accountable manager</u></b></p> <p>Democratic Services Manager</p>	
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**2. Compliance with Myners Principles**

<p><b><u>Finding</u></b></p> <p>Principles for investment decision making and disclosure in the local government pension scheme in the United Kingdom (CIPFA, 2012) outlines the following -</p> <p>‘Local Government Pension Scheme (LPGS) administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.’</p> <p><a href="https://www.icaew.com/technical/corporate-governance/codes-and-reports/myners-report">https://www.icaew.com/technical/corporate-governance/codes-and-reports/myners-report</a></p> <p>Review of the Investment Strategy Statement confirmed it does not explicitly state compliance with the Myners Principles.</p> <p>In discussions with the Principal Accountant, we further confirmed our finding as the officer was not aware of this requirement.</p> <p><b><u>Risk</u></b></p> <p>In the event that officers and Members are unaware of legislative developments, changes may not be made and consequently, pension fund investments may no longer be legally compliant.</p>
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<p><b><u>Recommendation</u></b></p> <p>Pensions Team Management should ensure compliance with the Myners Principles is assessed in the Investment Strategy Statement.</p>	<p><b><u>Rating</u></b></p> <p style="text-align: center;"><b>Priority 2</b></p>
<p><b><u>Management response</u></b></p> <p>Agreed – we will make the necessary amendments when the Investment Strategy Statement is next updated.</p> <p><b><u>Accountable manager</u></b></p> <p>Principal Accountant (Technical &amp; Control)</p>	<p><b><u>Agreed timescale</u></b></p> <p>31 March 2021</p>

**3. Fund Manager Asset Reconciliation – Preparation, Review, and Sign-Off**

<p><b><u>Finding</u></b></p> <p>Reconciliations between the Fund Managers’ report and master custodian report is undertaken to identify variances which are investigated and explained. The reconciliations are prepared by the Principal Finance Officer and reviewed by the Principal Accountant.</p> <p>Review of the reconciliations at the time of audit found the most recent version was only to the period ending on 31<sup>st</sup> March 2020. Further, we found the reconciliations had neither been signed off nor dated by the officers preparing and reviewing the same.</p> <p><b><u>Risk</u></b></p> <p>When reconciliations are not prepared, there is an increased risk that assets held are subject to loss and misappropriation.</p>
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<p>Also, there is a risk of overstatement of the pension fund by the Managers. It is likely to result in a favourable and incorrect view of the Fund Manager, and retention. It is possible that there may be a shortfall on the pension fund, which may mean it is unable to meet its liabilities. In the absence of review, there is a risk that errors are not identified in a timely manner.</p>	
<p><b><u>Recommendation</u></b></p> <p>Management should ensure reconciliations are prepared in a timely manner, by an agreed day of each following month. Management should ensure the fund manager asset reconciliations are signed off and dated by the officers preparing and reviewing the file.</p>	<p><b><u>Rating</u></b></p> <p style="text-align: center;"><b>Priority 2</b></p>
<p><b><u>Management response</u></b></p> <p>Agreed, the Principal Accountant will timetable in this activity and ensure that the officer signs and dates the reconciliation.</p> <p><b><u>Accountable manager</u></b></p> <p>Principal Accountant (Technical &amp; Control)</p>	<p><b><u>Agreed timescale</u></b></p> <p>Immediate</p>

**Assurance Level**

Assurance Level	Definition
<b>Substantial Assurance</b>	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
<b>Reasonable Assurance</b>	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
<b>Limited Assurance</b>	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
<b>No Assurance</b>	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

**Recommendation ratings**

Risk rating	Definition
<b>Priority 1</b>	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
<b>Priority 2</b>	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
<b>Priority 3</b>	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.