

NOTICE
OF
MEETING

BERKSHIRE PENSION BOARD

will meet on

THURSDAY, 4TH MARCH, 2021

At 11.00 am

VIRTUAL MEETING - ONLINE ACCESS

TO: MEMBERS OF THE BERKSHIRE PENSION BOARD

NIKKI CRAIG, ALAN CROSS (CHAIRMAN), JEFF FORD, ARTHUR PARKER (VICE
CHAIRMAN) AND TONY PETTITT

Karen Shepherd – Service Lead - Governance - Issued: Wednesday 24th February 2021

Members of the Press and Public are welcome to attend Part I of this meeting. The agenda is available on the Council's web site at www.rbwm.gov.uk or contact the Panel Administrator **Andy Carswell** andy.carswell@rbwm.gov.uk

Recording of Meetings – In line with the council's commitment to transparency the Part I (public) section of the virtual meeting will be streamed live and recorded via Zoom. By participating in the meeting by audio and/or video, you are giving consent to being recorded and acknowledge that the recording will be in the public domain. If you have any questions regarding the council's policy, please speak to Democratic Services or Legal representative at the meeting.

AGENDA

PART I

STANDING ITEMS

| <u>ITEM</u> | <u>SUBJECT</u> | <u>PAGE NO</u> |
|-------------|---|--------------------|
| 1. | <u>INTRODUCTION AND APOLOGIES</u> To receive any apologies for absence. | - |
| 2. | <u>DECLARATION OF INTEREST</u> To receive any declarations of interest. | 5 - 6 |
| 3. | <u>MINUTES</u> To approve the minutes of the meeting held on November 20 th 2020. | 7 - 12 |
| 4. | <u>ACTION TRACKER</u> To note and review the contents of the Action Tracker. | 13 - 14 |
| 5. | <u>SCHEME AND REGULATORY UPDATE</u> To receive a verbal update. | - |
| 6. | <u>DRAFT ADMINISTRATION REPORT</u> To consider and note the contents of the report. | 15 - 24 |

NON STANDING ITEMS

| <u>ITEM</u> | <u>SUBJECT</u> | <u>PAGE NO</u> |
|-------------|--|--------------------|
| 7. | <u>OPERATIONAL MATTERS RELATED TO GOVERNANCE REVIEW</u> To consider the contents of the report. | 25 - 30 |
| 8. | <u>EXTERNAL AUDIT REPORT</u> To consider and note the contents of the report. | 31 - 50 |

PENSION COMMITTEE PAPERS

| <u>ITEM</u> | <u>SUBJECT</u> | <u>PAGE NO</u> |
|-------------|---|--------------------|
| 9. | <u>PENSION COMMITTEE PAPERS FOR MARCH 22 2021</u> For members to review and comment on various draft papers ahead of final versions being presented to the Pension Committee on March 22 nd 2021. | - |

WORK PROGRAMME

| <u>ITEM</u> | <u>SUBJECT</u> | <u>PAGE NO</u> |
|-------------|--|--------------------|
| 10. | <u>PENSION COMMITTEE WORKPLAN</u> To discuss and review the workplan. | 51 - 52 |

EMERGING ISSUES

| <u>ITEM</u> | <u>SUBJECT</u> | <u>PAGE NO</u> |
|-------------|--|--------------------|
| 11. | <u>ANY OTHER BUSINESS</u> To discuss any other items of business. | - |

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MEMBERS' GUIDANCE NOTE

DECLARING INTERESTS IN MEETINGS

DISCLOSABLE PECUNIARY INTERESTS (DPIs)

DPIs include:

- Any employment, office, trade, profession or vocation carried on for profit or gain.
- Any payment or provision of any other financial benefit made in respect of any expenses occurred in carrying out member duties or election expenses.
- Any contract under which goods and services are to be provided/works to be executed which has not been fully discharged.
- Any beneficial interest in land within the area of the relevant authority.
- Any license to occupy land in the area of the relevant authority for a month or longer.
- Any tenancy where the landlord is the relevant authority, and the tenant is a body in which the relevant person has a beneficial interest.
- Any beneficial interest in securities of a body where
 - a) that body has a piece of business or land in the area of the relevant authority, and
 - b) either (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body **or** (ii) the total nominal value of the shares of any one class belonging to the relevant person exceeds one hundredth of the total issued share capital of that class.

PREJUDICIAL INTERESTS

This is an interest which a reasonable fair minded and informed member of the public would reasonably believe is so significant that it harms or impairs your ability to judge the public interest. That is, your decision making is influenced by your interest that you are not able to impartially consider only relevant issues.

DECLARING INTERESTS

If you have not disclosed your interest in the register, you **must make** the declaration of interest at the beginning of the meeting, or as soon as you are aware that you have a DPI or Prejudicial Interest. If you have already disclosed the interest in your Register of Interests you are still required to disclose this in the meeting if it relates to the matter being discussed. A member with a DPI or Prejudicial Interest **may make representations at the start of the item but must not take part in discussion or vote at a meeting.** The term 'discussion' has been taken to mean a discussion by the members of the committee or other body determining the issue. You should notify Democratic Services before the meeting of your intention to speak. In order to avoid any accusations of taking part in the discussion or vote, you must move to the public area, having made your representations.

If you have any queries then you should obtain advice from the Legal or Democratic Services Officer before participating in the meeting.

If the interest declared has not been entered on to your Register of Interests, you must notify the Monitoring Officer in writing within the next 28 days following the meeting.

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Public Document Pack Agenda Item 3

BERKSHIRE PENSION BOARD

FRIDAY, 20 NOVEMBER 2020

PRESENT: Nikki Craig, Alan Cross (Chairman), Jeff Ford, Arthur Parker (Vice-Chairman) and Tony Pettitt

Officers: Andy Carswell, Ian Coleman and Kevin Taylor

INTRODUCTION AND APOLOGIES

There were no apologies for absence.

DECLARATION OF INTEREST

There were no declarations of interest.

MINUTES AND APPOINTMENT OF VICE CHAIRMAN

RESOLVED UNANIMOUSLY: That the minutes of the meeting held on September 9th 2020 be approved as an accurate record.

Arising from the minutes, Nikki Craig confirmed that the cyber security policy had been agreed at CLT and implemented, with officer training having begun. However further work relating to the overall cyber strategy was needed. The audit of the Borough's systems from a cyber security perspective, in order to complement the audit of the external system used, remained to be done. It was also noted that the recruitment process for new Board members was still outstanding.

Alan Cross nominated Arthur Parker for the role of Vice Chairman. This was seconded by Tony Pettitt and unanimously agreed by members.

RESOLVED UNANIMOUSLY: That Arthur Parker be appointed Vice Chairman of the Board.

ACTION TRACKER

Alan Cross and Arthur Parker both stated they had attended some CIPFA conference sessions since the last Board meeting.

Members noted the contents of the Action Tracker.

SCHEME AND REGULATORY UPDATE

Kevin Taylor introduced the item and reminded members of the exit reforms and the £95k exit cap. The new regulations, which included the exit cap, came into effect from November 4. This meant that most employers in the Local Government Pension Scheme could not pay out exit payments in excess of £95,000 where the reason for leaving service was because of early retirement due to efficiency reasons or redundancy. At the same time, the current LGPS regulations state that any scheme member aged 55 or over who is made redundant or retired early for business efficiency reasons must receive immediately all accrued benefits to date without any early release reductions being applied. Therefore in these circumstances where the £95,000 cap was breached it was not currently possible to adhere to both the Exit Cap Regulations and the LGPS Regulations as they were in direct conflict with each other.

The Board was told that new compensation regulations were also due to come into effect, which would come with an £80,000 pay cap for calculating redundancy payments. Kevin Taylor said it was his understanding that employees who were made redundant and impacted by the change would normally have a choice in the way they took their exit payments, although they would no longer be entitled to take both the statutory redundancy payment and fully unreduced pensions benefits. Where the £95,000 is breached, scheme members would be given the opportunity to avoid a reduction to their pension benefits by self-funding any excess pension strain cost from their own resources. Alternatively they could choose to defer payment of their benefits. Employees voluntarily taking pension payments at 55 have a full actuarial value taken from them. Kevin Taylor stated his belief that all local government pension funds had been placed into an impossible position regarding making a decision on early pension payments if a case arose due to the conflicting legislation. The Local Government Association had issued guidance, but their advice was considered to be the 'least worst' option open to funds. The Board were reminded that employees with lengthy service on quite modest salaries could easily be impacted by the change.

Alan Cross stated that it did not appear that the government had coordinated the impact caused to pension funds by the introduction of the new cap. He also pointed out that the cap had been brought in before the consultation on all aspects of the proposals had closed. Kevin Taylor advised that multiple messages had been sent to affected scheme employers outlining the circumstances of the cap and seeking details of any redundancy cases currently in progress. To date only two issues had been raised, but these both fell below the £95,000 cap so there was no impact. However it was anticipated that further referrals would arise. The Board was told that admissions bodies that were members of the pension fund would not be affected by the changes. Overall it was anticipated that a lot of work would be required to implement the changes.

Nikki Craig asked if there was a policy over how the proposed changes were to be communicated. Kevin Taylor said he would raise this with the Head of Finance and Section 151 Officer. It was agreed that the issue should go to the Pension Fund Committee for consideration. Kevin Taylor said he was working on a paper that would go to the Pension Fund Committee in December.

Alan Cross said it would be sensible for the available options to be clearly written down in order to make the potential outcome of each clear to those impacted. He said it would be helpful if the matter could be resolved ahead of the end of March, as this was traditionally when management changes, which may cause redundancies, were implemented. Kevin Taylor said the guidance from the LGA that had been circulated to employers had been useful as it set out some of the options. He said he felt the LGA's preferred option was to give individuals the option of deferring benefits, or paying out a full, reduced, pension. There was also a separate issue for employers in having to make cash payments to certain employees where the pension strain costs was less than their redundancy pay.

ADMINISTRATION REPORT

The Board was told that there had not been time to consider the report on the Key Performance Indicators for quarter one at the last Pension Committee meeting, so this paper looked at the period covering the first two quarters of the year. There had been a drop in performance in some KPIs during the first quarter because of Covid19 and the need to implement new ways of working; however these had now picked up again once officers had acclimatised to working from home. There remained one anomaly however, in that the number of website hits was far below what was expected. A suggestion that this was due to RBWM migrating over to a different server had been discounted by IT.

Kevin Taylor said a three-year long data quality exercise had been taking place to improve quality of data. This was now at an accuracy rate of 99.8 per cent for scheme common data, and for scheme specific data it was 98.02 per cent accurate. Many of the items that had not passed the data quality checks related to addresses or National Insurance numbers, and for

scheme specific data this mainly related to addresses of deferred memberships. The service was migrating to being online and the first page of the portal contained an individual's personal details. There was no trigger point reminding members to update their details and it was suggested a way of putting checks in place could be introduced. A pensions dashboard that had been mooted by central government was still in the development stage and a significant amount of work was required.

It was noted that the number of active records was decreasing and the number of retirees was increasing. This was identified as a concern as it could push up employer pension contributions, but this would be taken into consideration by the actuary as part of future triennial valuations.

Nikki Craig queried the low figure given for RBWM in respect of table 1.4, which showed submissions within specification. She said it was usually around 97 per cent, instead of the 67 per cent recorded in the report. Alan Cross said the data had now been properly received, but due to Covid19 was late for two months from RBWM and for four months from Reading. However the Board was reassured that this had had minimal impact on payroll. The Board noted that not all users were using iConnect, although it was the smallest employers that were not using the system and the roll-out had not been able to be completed in part due to Covid19.

Members noted the contents of the report.

PENSION FUND GOVERNANCE

Kevin Taylor introduced the item and explained that one of the outcomes of the 2019 external audit was to request a full governance review. The report included in the agenda was the outcome of this review, which gave a list of recommendations of how governance of the Pension Fund could be improved. Among these were changes to the RBWM Constitution, which included changing the Panel to a Pension Fund Committee; this would continue to have five elected RBWM Members on it. The Investment Working Group had been disbanded, principally because its role had diminished following the transfer of assets to the LPPI. It was noted that the recommendations in the report related to the investment side of operations, and the administration of the Fund had not been a cause for any concern and there were no recommended changes.

Board members stated they were not aware of the extent of the problems that the report had identified. Although some issues had been discussed at previous meetings, some members said that the final report had come as a surprise to them. Ian Coleman said the issues raised in the report were primarily a matter for the Committee to resolve. Jeff Ford said he was concerned that the LPPI were not managing assets, as he had been led to believe; however he stated he was pleased at the recommendations and actions taken so far. Ian Coleman said the intention was for a permanent Head of Pension Fund to be responsible for the overall management of the Pension Fund. The Fund is contracted to remain invested in some of the assets on a long-term basis, in some cases for up to 20 years. LPPI would transfer these assets as potential opportunities arose. Ian Coleman that relatively high management costs would be incurred for some of these smaller funds.

Arthur Parker noted there had been a delay in the audit figures for 2019/20 and asked if this was due to any resourcing issues with the auditors. Ian Coleman explained this was due mainly to the impact of Covid19. Ordinarily there would be little difference in investment valuation between the end of December and the following March, but the impact of Covid19 had meant significant changes in those values and thereby impacted on the audit process. Covid19 had also affected the auditor's ability to carry out the work, leading to extended timescales.

The report raised the issue of lack of minutes of Investment Working Group meetings. Kevin Taylor said RBWM would not commit to having a member of Democratic Services take minutes and it was left to staff to take them. Following the TUPE transfer to LPPI, there was nobody left with the knowledge or ability to take minutes for the Investment Working Group. It was noted, contrary to the impression given in the consultant's report, that no papers from the Investment Working Group had ever subsequently been taken to the Board.

Kevin Taylor stated that it had been suggested the Pension Board was a more suitable forum for staff and some smaller scheme employers to be represented than the Advisory Panel, although not all places had recently been taken up.

It was noted that a review of the strategy asset management allocation was required, and that this would come to the Board first, followed by the Committee.

The Board noted there was an expectation any issues to be reported to the Pensions Regulator would be made by the Section 151 Officer, or the Monitoring Officer if the Section 151 Officer was not available or implicated.

PENSION BOARD GOVERNANCE

Alan Cross said a paper on Board membership should be brought to a future meeting. There were issues such as the requirement to have equal representation of employer and scheme members, and it was felt this process should be done outside of the main meeting. It was also noted that previous attempts at recruitment of new Board members had not always been fruitful.

RISK ASSESSMENT

The Board was informed that there had not been time to discuss this paper at the scheduled Committee meeting, so was returning to the Board with only some very minor changes prior to going back to December's Committee meeting. Some other points that needed to be amended or updated were highlighted by Board members.

Jeff Ford asked about the funding level referenced in PEN 017 and asked how this compared to other local authorities. Ian Coleman said this level had been determined by the 2019 valuation and would not be formally revised until the 2022 valuation. Alan Cross stated it had been fortunate the valuation had taken place in 2019, as it was likely the impact of Covid19 would have depressed the value of the assets at March 31st 2020. The Board was told that the assets were managed by the LPPI, but the extent of the management was variable. As stated earlier in the meeting, the Fund was tied into some assets for many years and so LPPI could do very little with them. These assets were high in number compared with many pension funds but low in value. Jeff Ford stated that this needed to be made clearer as it was not obvious to people outside of RBWM how much the assets were worth and what they were. Ian Coleman highlighted that the 2019 audit had identified two assets that had previously been incorrectly valued, and their true values had been included in the report.

LOCAL PENSION BOARD WORKPLAN

There were no items for updating on the workplan.

ANY OTHER BUSINESS

There were no additional items of business for discussion. Regarding the date of the next Board meeting, it was suggested that this could take place in late February but a date would be confirmed offline.

LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF THE PUBLIC

RESOLVED UNANIMOUSLY: That the motion to exclude the public from the remainder of the meeting be approved.

The meeting, which began at 1.00 pm, finished at 3.21 pm

CHAIRMAN.....

DATE.....

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Pension Board Meetings - Action Tracking Schedule

| Action No. | Date of meeting | Minute Item | Action Item Description | Comments | Assigned To | Status | Date |
|-------------------|------------------------|--------------------|--------------------------------|--|--------------------|---------------|-------------|
| 12 | | | b) Adoption of Training Plan. | Board members to inform the PSM of any training completed. | Board Members | Ongoing. | |

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THE ROYAL COUNTY OF
BERKSHIRE
PENSION FUND

ADMINISTRATION REPORT

QUARTER 4 – 2020/21

1 October 2020 to 31 December 2020

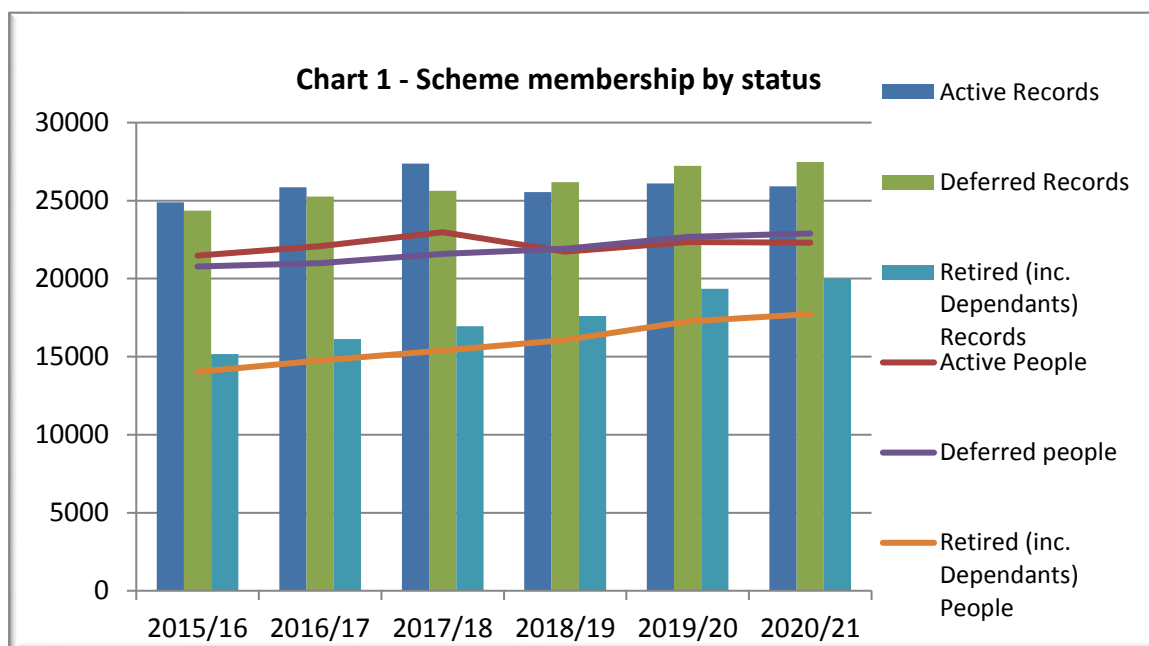
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- 2 SPECIAL PROJECTS..... 9
 - 2.1. McCloud Judgement **Error! Bookmark not defined.**1

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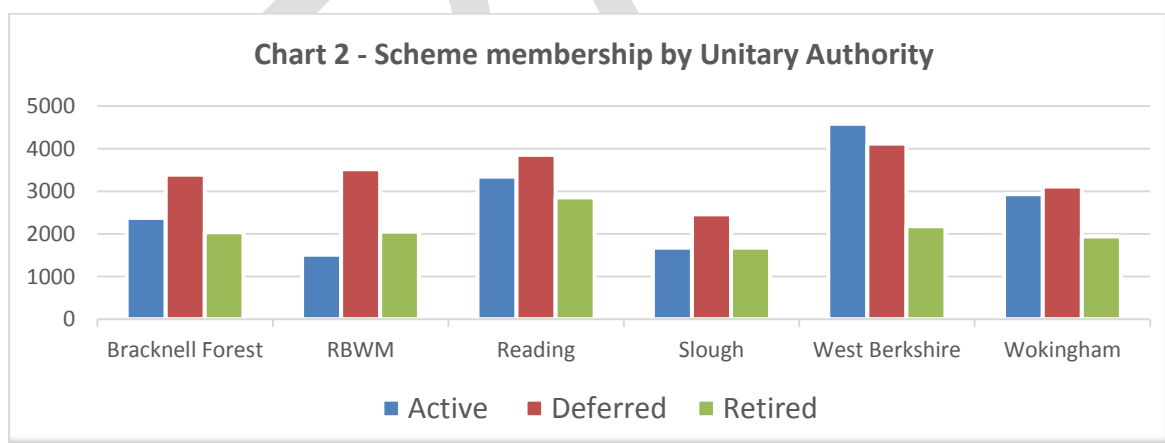
1. ADMINISTRATION

1.1 Scheme Membership



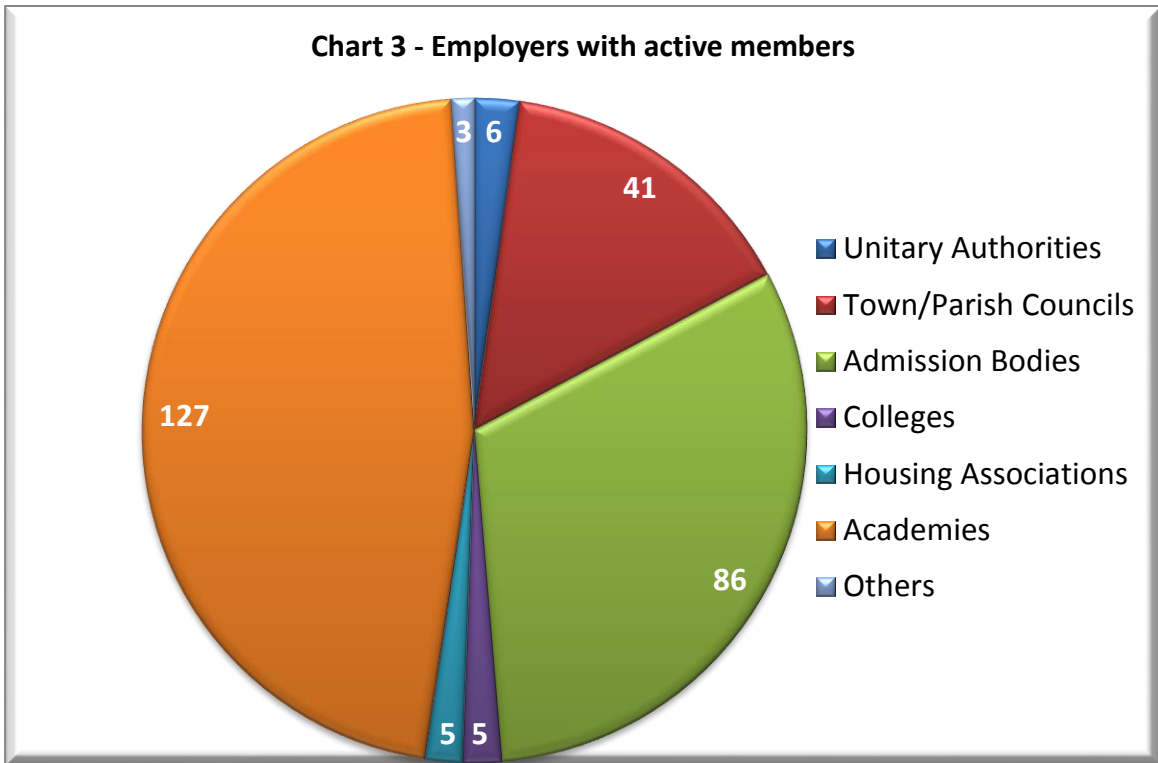
| TOTAL MEMBERSHIP | | | |
|------------------|---------------|-----------------|---------------|
| Active Records | 25,918 | Active People | 22,314 |
| Deferred Records | 27,477 | Deferred People | 22,898 |
| Retired Records | 20,014 | Retired People | 17,728 |
| TOTAL | 73,419 | TOTAL | 62,940 |

1.2 Membership by Employer



| Membership movements in this Quarter (and previous Quarter) | | | | | | |
|---|-------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
| | Bracknell | RBWM | Reading | Slough | W Berks | Wokingham |
| Active | -39 -51 | +3 -77 | -1 -120 | -22 -42 | +221 -37 | -31 -14 |
| Deferred | -27 -8 | -32 +3 | -35 +6 | -49 -5 | -1 +2 | -3 +8 |
| Retired | +80 +24 | +53 +12 | +101 +31 | +46 +14 | +96 +19 | +72 +16 |

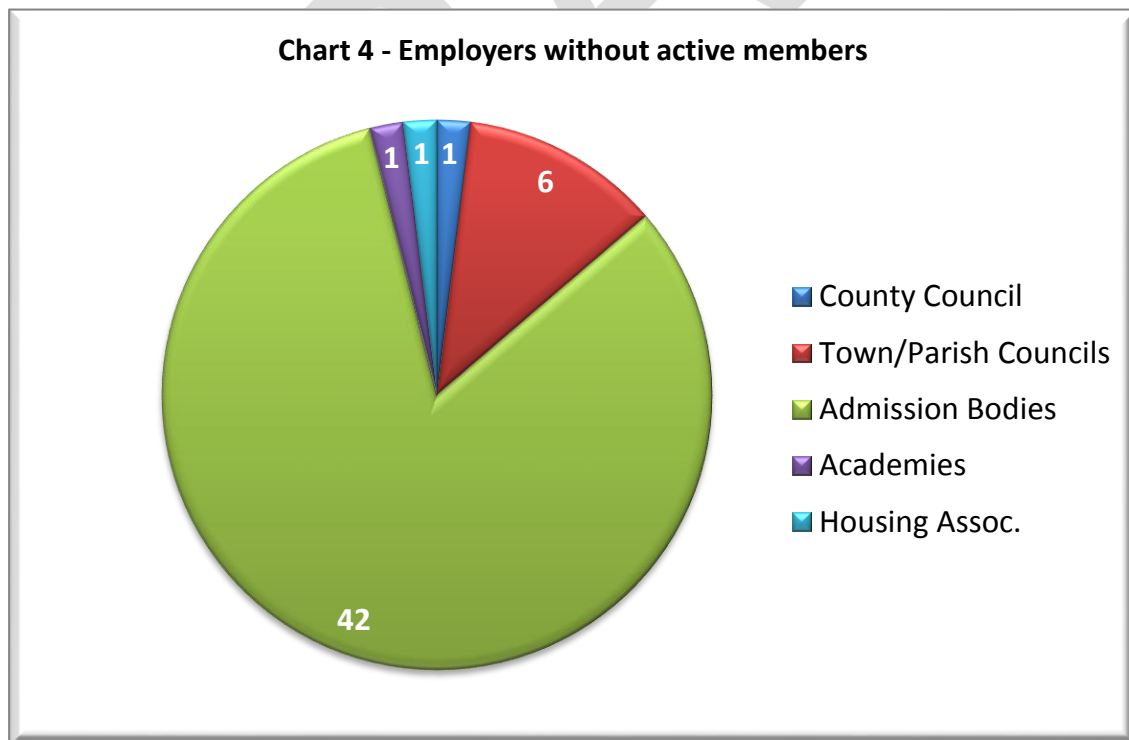
1.3 Scheme Employers



New employers since last report:

Admission Bodies: Hayward Services Limited (SASH Education Trust)

Academies: Reach2 Academy Trust (Green Park Village School)



Exiting employers: None

1.4 Scheme Employer Key Performance Indicators

| Table 1A – i-Connect users Quarter 4 (1 October 2020 to 31 December 2020) | | | | | |
|---|--------------|--------------|--------------|--------------|--|
| Employer | Starters | Leavers | Changes | Total | Submission Received Within Specification |
| Bracknell Forest Cncl | 157 | 126 | 254 | 537 | 100% |
| RBWM | 142 | 105 | 154 | 401 | 66.6% |
| Reading BC | 208 | 137 | 347 | 692 | 66.6% |
| Slough BC | 124 | 155 | 144 | 423 | 100% |
| West Berks Council | 490 | 142 | 575 | 1,207 | 100% |
| Wokingham BC | 103 | 42 | 201 | 346 | 100% |
| Academy/ School | 322 | 182 | 1599 | 2,103 | 72.3% |
| Others | 277 | 181 | 1150 | 1,608 | 85.71% |
| Totals | 1,823 | 1,070 | 4,424 | 7,317 | |

NOTES: Table 1A above shows all transactions through i-Connect for the third quarter of 2020/2021. Changes include hours/weeks updates, address amendments and basic details updates.

The benefits of i-Connect are:

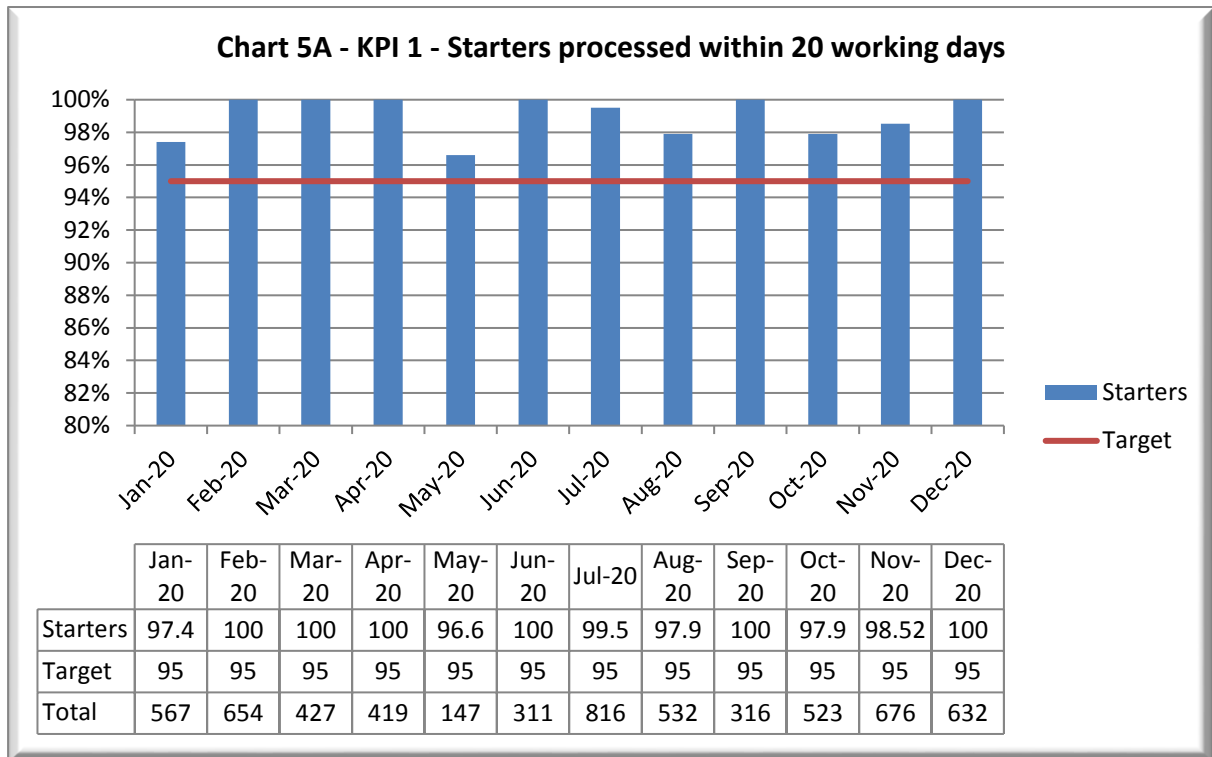
- Pension records are maintained in ‘real-time’;
- Scheme members are presented with the most up to date and accurate information through *mypension* ONLINE (Member self-service);
- Pension administration data matches employer payroll data;
- Discrepancies are dealt with as they arise each month;
- Employers are not required to complete year end returns;
- Manual completion of forms and input of data onto systems is eradicated removing the risk of human error.

178 scheme employers are yet to on board i-Connect.

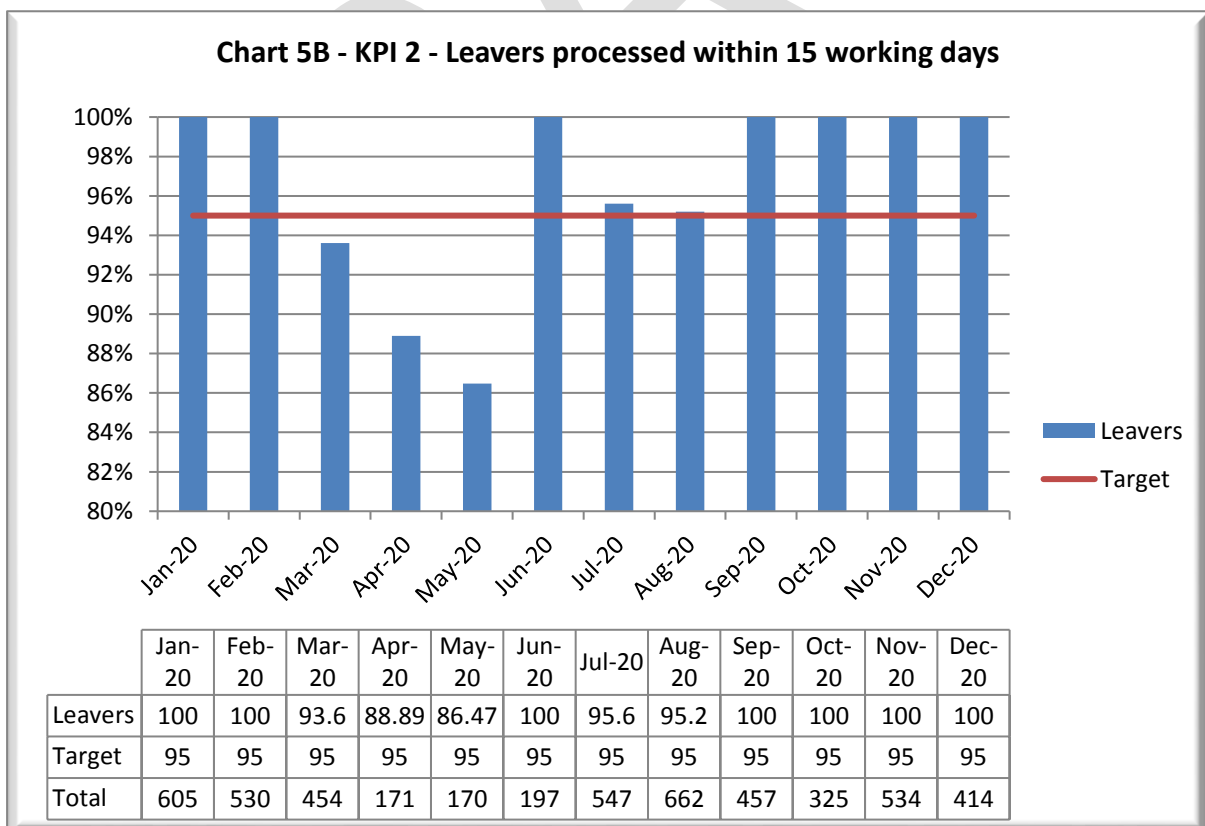
The Pension Fund is committed to having the vast majority of scheme employers with 10 or more scheme members uploaded to i-Connect by 31 March 2021. Scheme employers with fewer than 10 scheme members will also be given the option of using an on-line portal version of i-Connect by that date.

Officers are pleased to confirm since the last meeting of the Pension Fund Committee Windsor College Forest Group have on boarded i-connect with Kennet School Academies Trust, Maiden Erlegh Schools Trust and St Bartholomew’s School due to on board before 1 April 2021. These on boards will cover circa 800 scheme member records.

1.5 Key Performance Indicators

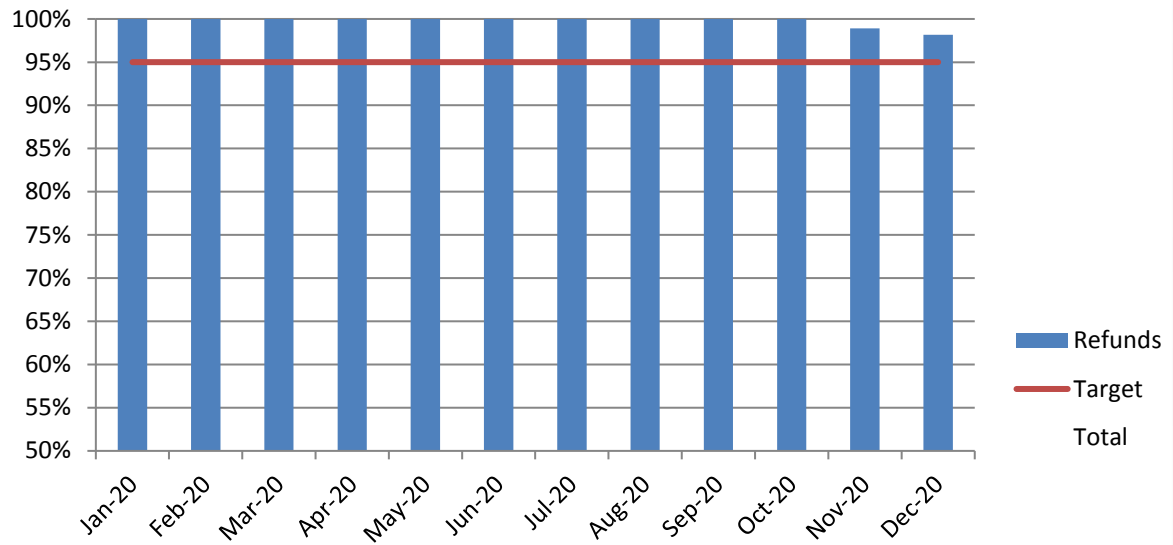


CIPFA Benchmark: Two months from date of joining the scheme or if earlier within one month of receiving jobholder information.



CIPFA Benchmark: As soon as practicable and no more than two months from date of notification from scheme employer.

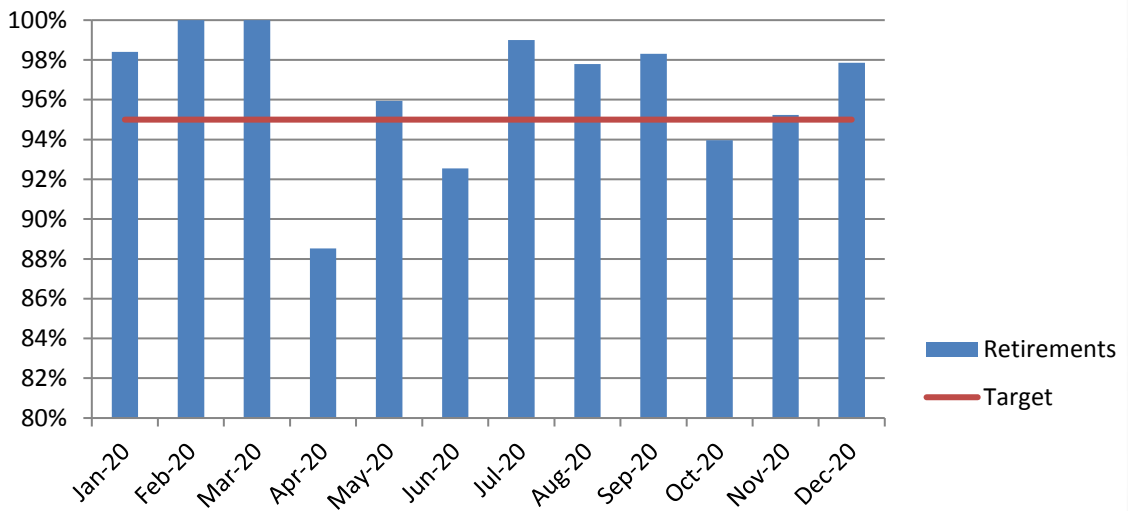
Chart 5C - KPI 3 - Refunds processed within 10 working days



| | Jan-20 | Feb-20 | Mar-20 | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 | Oct-20 | Nov-20 | Dec-20 |
|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Refunds | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 98.92 | 98.18 |
| Target | 95 | 95 | 95 | 95 | 95 | 95 | 95 | 95 | 95 | 95 | 95 | 95 |
| Total | 78 | 66 | 172 | 21 | 12 | 17 | 74 | 64 | 48 | 48 | 93 | 55 |

CIPFA Benchmark: To be confirmed.

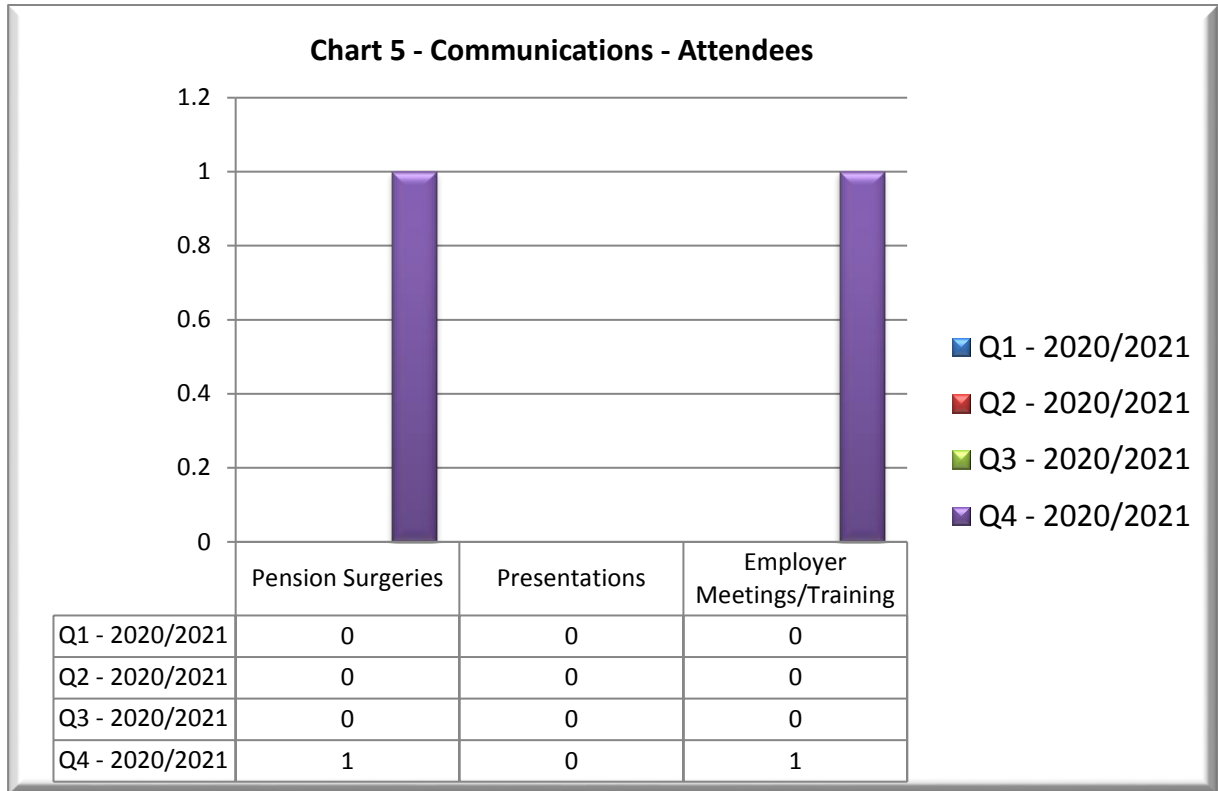
Chart 5D - KPI 4 - Retirements processed within 5 working days



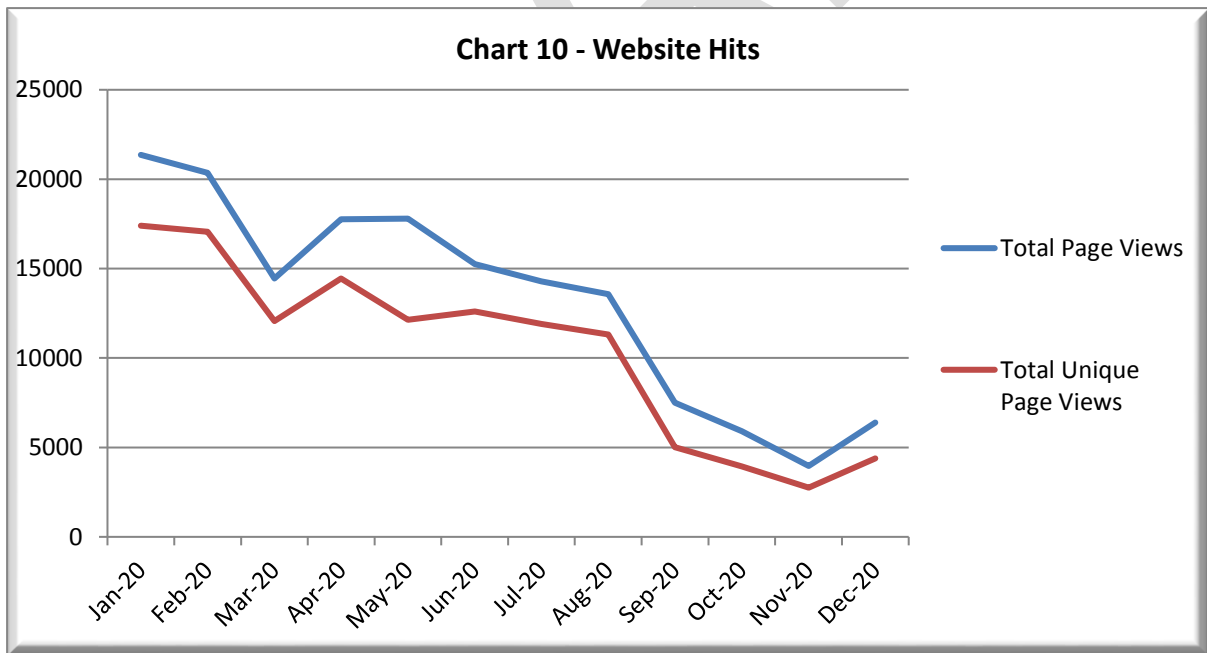
| | Jan-20 | Feb-20 | Mar-20 | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 | Oct-20 | Nov-20 | Dec-20 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Retirements | 98.4 | 100 | 100 | 88.52 | 95.95 | 92.54 | 99 | 97.8 | 98.3 | 93.96 | 95.24 | 97.85 |
| Target | 95 | 95 | 95 | 95 | 95 | 95 | 95 | 95 | 95 | 95 | 95 | 95 |
| Total | 121 | 85 | 67 | 61 | 74 | 67 | 107 | 91 | 120 | 149 | 126 | 93 |

CIPFA Benchmark: One month from date of retirement if on or after normal pension age or two months from date of retirement if before normal pension age.

1.6 Communications



1.7 Website Page Views



1.8 Stakeholder Feedback

As part of the Pension Fund’s aim to achieve Pension Administration Standards Association (PASA) accreditation it is a requirement to report to Members the comments and complaints received from scheme employers and their scheme members on a periodic basis.

There is no feedback to report.

2 SPECIAL PROJECTS

2.1. *McCloud Judgement*

In 2014 the Government introduced reforms to public service pensions, meaning most public sector workers were moved into new pension schemes in 2014 and 2015.

In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judges' and firefighters' pension schemes, as part of the reforms, gave rise to unlawful discrimination.

On 15 July 2019 the Chief Secretary to the Treasury made a written ministerial statement confirming that, as 'transitional protection' was offered to members of all the main public service pension schemes, the difference in treatment will need to be removed across all those schemes for members with relevant service.

The changes to the LGPS include transitional protection for members who were within 10 years of their Final salary Scheme normal pension age on 1 April 2012, ensuring that they would receive a pension that was at least as high as they would have received had the scheme not been reformed to a Career Average Revalued Earnings scheme from 1 April 2014.

Like all LGPS Pension Funds we are currently analysing the membership whilst working closely with both our actuary, Barnett Waddingham, and pension software provider, heywood Limited, to identify those members impacted by this judgement leading to a recalculation of deferred and in payment scheme member benefits.

DRAFT

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Report Title: Pension Board: Operational Matters related to Governance Review

Report author: Alan Cross, Pension Board Chairman

Date of Meeting: 4 March 2021

1. REPORT SUMMARY

- 1.1. This report considers the implications for the operation of the Pension Board following the recent Governance Review and resultant changes made to membership of the Pension Fund Advisory Panel (that previously included an education employer representative, and had places for trades union representatives but now these have been removed).
- 1.2 No immediate change is recommended other than creating the facility for both education employer representatives and TU representatives to be easily added once such persons are both identified.
- 1.3 The report suggests a review process for all board members every 3 years with the presumption that members step down after at most ten years.
- 1.4 In the light of the Governance Report the report refers back to the Pension Fund Committee the question of what role the Board has (if any) in relation to holding LPP to account.

2. CHAIRMAN'S RECOMMENDATION:

- 2.1 That the Pension Board notes the report and agrees Options 1.1, 1.2 & 1.3 above only.

3. REASONS FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

- 3.1 Following an adverse ISA260 report by RBWM's External Auditor, the Council commissioned a Governance Review. The review reported in the spring of 2020 and during 2020 a response was developed with the report being brought publicly to the November meetings of the Pension Fund Panel (now called Pension Fund Committee and the Pension Board. The report suggested that the operation of the Board needed to be reviewed following the changes made in particular to membership the Pension Fund Advisory Panel i.e. to restrict its membership to the 5 Elected Members from the other 5 Unitary Authorities only.
- 3.2 In relation to the Pension Fund Board, the Governance Report stated:

"There is a final body involved in oversight of the RBPF and that is the local pension board , these are a requirement of the 2013 Public Services Pensions Act and consists of a mix of employee and employer members meeting four times a year reviewing the work of the Pensions Panel, Advisory Panel and IWG".
- 3.3 Whilst generally correct, the statement was not accurate in respect of the IWG (Investment Working Group); as the Board has never been made aware of the content of the meetings (which were not public).

- 3.4 The operation of the IWG was significantly criticised in the Governance Report and it was recognised that the meeting should have been structured differently following the introduction of pooling. The report recommended a 2-year role for a revised IWG consisting only of at least 4 of the RBWM councillors on the Committee “in holding LPP to account”. As a consequence all 5 RBWM councillors have become part of the revised (confidential) meeting.
- 3.5 An outstanding question in view of the comment in the report that the Board reviewed the work of the IWG is therefore whether or not holding LPP to account is part of the administration of the fund and therefore within the ambit of the Pension Fund Board. One way of doing this would be to report the key elements of discussion/decision to the Board after each meeting (accepting that would be a Part 2 report). Potentially issues could also be brought to the Board ahead of the IWG as is the approach with the Committee.
- 3.6 As Chair of the Board, I would suggest that in view of the Governance Reviewer’s belief that the Board reviewed the work of the former IWG, at the very least we should ask the Committee to consider what role the Board should have, if any in relation to holding LPP to account.
- 3.7 The Review went on to comment on the operation of the Pension Advisory Panel (which in practice met simultaneously with the Pension Panel). The review stated:
- “The structure of the advisory panel pre dates the establishment of the Pension Board and in reality it could be a quite cumbersome meeting if everyone attended this could be reduced by eliminating the member reps, Trade union reps and the three non-Council employer reps and instead reviewing the membership of the Pensions Board so that the Advisory Panel becomes a purely Councillor Panel. By shifting the balance between the two bodies and by ordering business so that the Pensions Board normally has sight of the Pensions Panel / Advisory Panel work in advance of that meeting would assist scrutiny as the Board’s comments would be known in advance of the Panel needing to make a decision.”*
- 3.8 Members of the Board will know we had already adopted the latter approach over the last year and indeed the report commented that *“that the most recent agenda for the Pensions Board (as at February 2020) follows that pattern on most issues.”*
- 3.9 That leaves outstanding for the Board to consider at this meeting member representatives, trade union representatives and non-Councillor employer representatives. Clearly members of the Pension Scheme and Scheme Employers are already represented on the Pension Board, as the 3 Employer Representative members of the Board represent all employers (not just their own employer) and Member representatives represent all scheme members (not simply the type of member; active, deferred or retired that the individuals on the Board happen to be although the present 3 member representatives happen to cover each of those categories, but that has not always been the case). However, the Advisory Panel Membership also included Trades Unions representatives (although rarely present at meetings) and a representative of colleges.

- 3.10 In considering how to respond, we need to recognise a couple of wider issues;
- (i) The Board must contain equal numbers of Scheme Employer and Scheme Member Representatives and all Board members need to meet certain training requirements, ideally before, and certainly within a short period of taking up their role;
 - (ii) Currently Board Members are appointed for an indefinite period (although there are provisions that we have never needed to use for the Board to remove members who have not attended);
 - (iii) There are quorum requirements linked to the size of the overall membership of the Board which also require at least one Scheme Member and one Scheme Employer Representative plus either the chair or vice chair to be present.
- 3.11 We should also recognise that at present the Board has a vacancy for a Scheme Employer Representative and also has the option of filling substitute member vacancies. In principle, each member may nominate a substitute, but the substitute is also obliged to complete the training requirements. In general terms we have said that in principle a (formal and trained) substitute member would be the ideal candidate to be a full member on the arising of a vacancy, and informally at least that has been our “succession plan” for keeping the Board up to full complement.
- 3.12 In this context there are various options for us to consider:

Table 1: Options arising from this report

| Option | Comments |
|--|---|
| Option 1 – Replace the present open term with a 3 year (renewable up to 3 times, with the possibility of an additional 1 year extension to the third term if helpful to the effective operation of the Board). | It is recognised as good practice on a Board such as the Pension Board to periodically review each individual membership. Ideally the Board should avoid having too many new members in a short time, so moving to a 3 yearly review with a maximum total term of 10 years would be acceptable. |
| Option 2 – Seek to fill the current Scheme Employer Representative vacancy preferably with a representative coming from an education sector employer. | Since the inception of the Board the Scheme Employer Representatives have always come from the Unitary Authorities. However, non-UA staff, especially Academy schools represent a large part of the Fund and it would add to the Board’s experience to have someone working in that sector. |
| Option 3 – Create flexibility for the Board to be 6 or 8 members (but do not use that flexibility at present). | As we have a Board vacancy, and in recent times TUs and colleges have not attended the former Advisory Panel, whilst in view of the governance review we need to create the possibility of them joining at some point – as meetings are (mainly) in public, prospective |

| Option | Comments |
|--|--|
| | representatives could easily attend initially as observers if they wished before deciding whether to apply to be members or substitute members. Were a scenario to arise that we had both Scheme Member and Scheme Employer substitute member roles filled by suitable people attending, at that stage we would increase the Board size to 8 (with the option of returning to 6 later if circumstances changed). |
| Option 4 - Increase the Board size to 8 and seek to recruit TU and college representatives to replace the roles removed from the Advisory Panel. | Implications as indicated in option 3 arise, but also has implications for the quorum of a meeting, which may increase the risk of an inquorate meeting arising. |

3.13 The chair suggests that Option 1-3 are agreed and Option 4 is not agreed. Members of the Board were consulted informally in the development of this report and some broadly agreed this pragmatic approach.

3.14 As a consequence some amendments will be needed to our terms of reference.

4. KEY IMPLICATIONS

4.1 As indicated above this approach has been proposed to ensure the continued effective operation of the Board. During the period of development of this report an employers' newsletter has been prepared and it includes an article inviting prospective members of the Board, particularly from the Education sector to contact the Pension Services Manager.

4.2 Practically, there should be no significant changes arising, but the approach creates the opportunity to easily integrate TU and Education sector representatives into the Board if/when they are identified.

5. CONSULTATION

5.1 This report has been prepared following discussions between the Pension Board Chair, Pension Services Manager and Interim Pension Fund Manager.

5.2 All current Board Members and the substitute Member were then consulted on the key proposals being brought forward and have in most cases indicated their agreement with them.

5.3 The work of the Board will be highlighted in articles in Employer and Member Newsletters and comments invited.

5.4 The practical working and operation of the Board is kept under review and changes considered to make improvements

6 TIMETABLE FOR IMPLEMENTATION

- 6.1 Practically, once agreed by the Board, implementation can start immediately, although formally the amendments to the Board's terms of Reference which form part of the Council's Constitution will need to be updated at the next annual review.

7 APPENDICES & BACKGROUND DOCUMENTS

- 7.1 None

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Royal County of Berkshire Pension Fund

Audit Status Update Report to the Audit & Governance Committee
for the year ended 31 March 2020

Issued on 08 February 2021 for the meeting on the 16 February 2021

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

We have pleasure in presenting our audit status update report to the Audit & Governance Committee of Royal Borough of Windsor & Maidenhead (the "Committee") for the 2020 audit of the Royal County of Berkshire Pension Fund (the "Fund"). The scope of our audit was set out within our planning report presented to the Corporate Oversight & Scrutiny Panel in May 2020.

Status of the audit – Pension Fund

At the date of issue of this report, our audit of the pension Fund for the year ended 31 March 2020 is nearing completion. We have set out on page 4 the procedures that are in progress. Responses have been provided for all IAS 19 requests from auditors of other Fund employers, including two late requests for 2019 for Reading Borough Council and Slough Borough Council.

Significant changes have been made to the audit timetable we presented in our planning report as a result of delays experienced in receiving information from the Fund and its third party service organisations across many key areas of testing. Some of the delays were the result of the COVID-19 pandemic. Where delays were due to weaknesses in governance or controls, we have included our comments on this within the control observations and other findings section of the report.

On investigation, the alternative investment portfolio was materially overstated in the draft financial statements by £31.5m. This was due to the use of stale valuations that had not been adjusted to reflect the negative performance experienced by many funds during the first quarter of 2020 as a result of COVID-19. This is the second year we have performed the audit of the Fund and we have identified material misstatements in both years (£74.5m overstatement in the 2019). We therefore draw your attention to the high priority recommendations on pages 8 to 12.

The investment manager, Local Pensions Partnership ("LPP"), has found it difficult to obtain and provide some of the requested information for our testing of the alternative investment funds. This included audited financial statements of the funds, without which it was not possible for us to conclude on our testing. We have now received all the information we require in respect of the alternative investments.

Following the receipt of the draft financial statements for the Fund as at 31 March 2020, we revised our materiality from £14.5m to £20.3m. The initial materiality calculation had been based on an estimate that net assets would be 70% of what they were at 31 March 2019, as an estimate of the potential effect of COVID-19 on investment values. In contrast, the draft reporting for 2020 showed a much higher net asset balance than predicted. Our reporting threshold has also been updated from £0.3m to £1.02m, which is in line with our revised materiality.

Conclusions from our testing

We have set out a summary of misstatements and disclosure deficiencies identified to date in an appendix to this report (see pages 15 and 16). The main adjusted misstatement relates to the overstatement of alternative investments as noted above. The corrected disclosure misstatements relate to an undisclosed material uncertainty of property fund valuations and an undisclosed related party transaction of an overnight loan of £1.2m made by the Fund to the Royal Borough of Windsor and Maidenhead ("the Authority").

Introduction

The key messages in this report (continued)

Audit procedures outstanding

- The following audit procedures are ongoing at the time that this report was released:
- Finalise our work on the controls for investment and disinvestment of cash during the year;
 - Complete our work on the change in market value of investments;
 - Complete an assessment of the controls at the actuary regarding the longevity swap valuation;
 - Finalise our testing on lump sums, including the revised audit approach of examining lump sum controls;
 - Review the updated financial statements and provide comments on the Fund annual report;
 - Finalise the documentation on controls and substantive testing of contributions and benefits;
 - Complete concluding analytical procedures on the final draft set of financial statements;
 - Review of the accounting rationale for the key judgements and estimates in the financial statements;
 - Review the Fund’s conclusion over the extent and nature of member system super-users editing their own records and complete additional controls testing where necessary;
 - Conclude on the findings raised by the independent governance report;
 - Conclude on the permissibility under the relevant regulations of the overnight loan made by the Fund to the Authority;
 - Review the Fund’s Annual Report for consistency with the Fund’s financial statements;
 - Finalisation of our internal quality review procedures;
 - Obtain and review evidence of contributions continuing to be received and benefits being paid out in the post year end period;
 - Finalise our review of all post year end Panel and Board meeting minutes;
 - Review the final audit conclusions and consider if there are any regulatory implications;
 - Update of our subsequent events and finalise going concern procedures; and
 - Receipt of the signed representation letter.

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Management representations

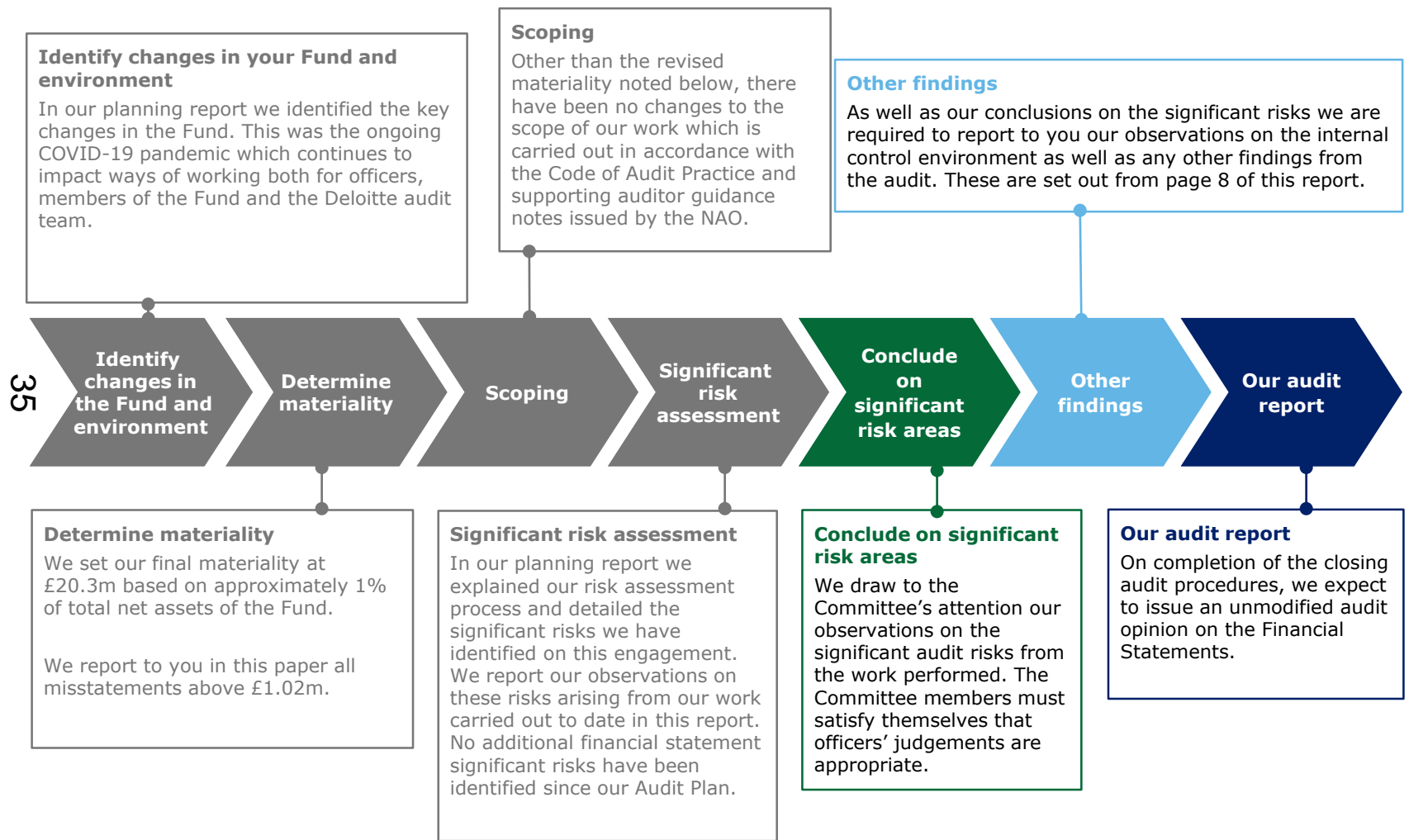
We will obtain written representations from the Chief Financial Officer on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the representation letter has been issued ahead of signing the financial statements.

Audit fee

As explained in our 2019/20 fee letter, our audit fee is based on assumptions about the scope and required time to complete our work. For the reasons set out above, our audit was not concluded by the original 31 July deadline, or the extended 30 November deadline, and it has required substantial further input. The audit has also required additional procedures in response to COVID-19. We continue to discuss the impact on the audit fee with the Authority and Public Sector Audit Appointments (“PSAA”). The final fee amount will be communicated to the Committee.

Our audit explained

We tailor our audit to your organisation



Significant risks

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override of controls is always a significant risk. This risk area includes the potential for officers to use their judgement to influence the financial statements as well as the potential to override the Fund's controls for specific transactions.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that the Fund's draft financial statements were overstated by approximately £31.5m due to the inclusion of 55 alternative investment funds at values that had not taken account of the impact of COVID-19 on performance.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

We note that the Fund made an overnight loan to the Authority on the 27 June 2019 of £1.2m. We are considering the relative permissibility of this transaction under the relevant regulations. We have not identified any other significant transactions outside the normal course of business nor any transactions where the business rationale was not clear in the current year.

Journals

We have performed design and implementation testing of the controls in place for journal approval. Our work on the controls for investment and disinvestment of cash during the year is in progress.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest. This included consideration of related party transactions.

We have tested the appropriateness of a sample of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting, including making enquiries of individuals involved in the financial reporting process.

Accounting estimates

We received an accounting paper on critical estimates and judgements on the 3 February 2021. We will perform a review of this paper.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest.

We have reviewed the draft financial statements' accounting estimates for biases that could result in material misstatements due to fraud.

We also considered the impact of COVID-19 on the level of risk associated with potential frauds and adjusted our procedures accordingly.

We have not completed our tested on accounting estimates and judgements due to the delay in receipt of the accounting paper. Our ongoing work is focused on the areas of greatest judgement and value. Our procedures include comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources. The findings from our work on the longevity swap valuation are included on page 7 of this report.

Issues identified

- We have identified control deficiencies, set out on pages 8 to 11;
- We are considering the overall impact on the audit of the issues identified to date and we will report any further impact and findings to the Committee in our final report;
- Other than the undisclosed loan noted above, we have not identified any significant bias in the key judgements made by officers based on work performed; and
- We have not identified instances of management override of controls in the current year in our work to date.

Significant risks (continued)

Valuation of the longevity hedge

Risk identified

The Fund holds a material longevity insurance policy to hedge longevity risk. A longevity hedge is designed to insure the Fund against the risk that pensioners live longer than the current mortality assumptions. Valuation of longevity hedges are sensitive to relatively small movements in the key assumptions used in the actuarial calculations. The setting of these assumptions involves judgement. The longevity hedge was valued as a liability of £103.8m in the 2018/19 Statement of Accounts and £121.8m in the 2019/20 Statement of Accounts presented for audit and is therefore quantitatively material. As a result of this we consider the valuation of the longevity hedge to be a significant risk.

Key judgements and our challenge of them Deloitte response

The Fund held a longevity hedge liability of £121.8m (PY: £103.8m) at 31 March 2020 which is required to be recorded at fair value.

The Fund's practice is to obtain a valuation from the Fund's actuary as at each year end. The actuary also reviews the assumptions relating to the overall Fund's liability on a triennial basis. The most recent triennial valuation was completed as at 31 March 2019.

During the audit the balance was revised by £2.08m (initial draft liability was £123.9m) due to the actuary issuing an updated report.

Key judgements include:

- The discount rates used in discounting the estimated cash flows associated with the instrument; and
- The mortality improvement assumptions.

We have:

- Performed an assessment of the actuarial expert in respect of their knowledge and experience in this area;
- Identified an absence of the review control that we recommended in our 2019 audit report with respect to the valuation of the longevity swap. Given the weaknesses identified, we are still considering other key controls;
- Obtained a valuation report directly from the actuary and reconciled this to the financial statements disclosure;
- Reviewed the underlying documentation for the policy, including the population covered, the assumptions and other key inputs used in the calculation, and the agreed cash flows;
- Engaged in-house actuarial specialists to challenge and assess the reasonableness of the valuation of the policy based on the underlying terms of the contract and the forecast cash flows; and
- Compared our expectation of the value with that reported by the actuary, investigating any differences identified that are outside the range of results that we consider to be reasonable.

Deloitte view

Following review by our internal specialists we conclude that the assumptions used are in line with the market and that the value included in the financial statements is within an acceptable range based on the present value of the cash flows provided.

It is recommended that the actuary:

- monitors the mortality experience of the swap and tests the ongoing appropriateness of assuming the base mortality is in line with the pension Fund assumptions.
- continues to perform an Analysis of Change which will provide an additional layer of control on the results.
- challenges the premium schedule inputs from ReAssure (counterparty) should they change unexpectedly as this will provide an additional layer of control on the results.

We have identified a **control weakness** in this area and made recommendations for management to consider when valuing the longevity hedge in future. Our recommendations have been summarised from page 8.

Control observations

During the course of our audit we have identified internal control findings which we have included below for information.

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit to date and that we have concluded are of sufficient importance to merit being reported to you. We will report to you any other significant deficiencies we identify during the conclusion of our audit work in our final audit report.

| Area | Observation |
|--|---|
| Valuation of the longevity swap | <p>In our final report on the 2019 audit, we recommended that the Authority ensures that the valuations provided by the actuary are reviewed and that the assumptions are challenged, understood, and agreed before inclusion of the valuation in the financial statements. Discussions with officers of the Fund during the 2020 audit revealed that, while the longevity swap valuation had been discussed with Barnett Waddingham, there was no formal control design documented and no recorded evidence of implementation of the control. We have been informed that the discussion with Barnett Waddingham took place after inclusion of the valuation in the financial statements.</p> |
| 38 | <p>This is a significant control weakness and we recommend that the Authority ensures that the valuations provided by the actuary are reviewed and that the assumptions are challenged, understood, and agreed before inclusion of the valuation in the financial statements. We recommend that evidence of this review and assessment is clearly documented.</p> |
| Valuation of the convertible bond | <p>In our final report on the 2019 audit, we recommended that the Authority ensures that the valuation of all bespoke investments is understood by the investment manager and that controls are implemented to ensure an appropriate challenge is made of valuations received from any service organisation. In the current year the value included in the financial statements was very close to the final value in the 31 March 2019 financial statements. The value presented in the draft financial statements was £2.3m (2019: £2.2m), but given the complexity involved in valuing this instrument, we made enquiries of the Fund to ensure that there was an evidence-based rationale for this value. On investigation it was noted that there was no formal support for the decision to leave the value unchanged in the draft financial statements and no evidenced-based rationale had been prepared. Following discussions with management, a paper was provided by the investment manager to support the valuation decision.</p> <p>We recommend that the Committee ensures that the valuation of all bespoke investments is understood by the investment manager before completion of the draft financial statements, and that controls are implemented to ensure an appropriate challenge is made of valuations received from any service organisation. We recommend that evidence of this review and assessment is clearly documented.</p> |

Control observations (continued)

| Area | Observation |
|---|--|
| Valuation of the private equity portfolio and other alternative funds O | <p>In our final report on the 2019 audit, we recommended that the Authority review the terms and conditions of its relationship with all investment service providers and seek assurance that controls are in place to ensure that the most recent audited financial statements of each fund, along with the regular capital valuation statements and any evidence of any capital transactions are received and regularly reviewed in a timely fashion. Our standard testing approach for alternative investment funds includes obtaining the most recent audited financial statements of the investment fund along with information about capital committed and any capital transactions that occurred since the date of the audited financial statements. Obtaining the specific information we require and receiving this in a timely manner has continued to be difficult during the current year audit and we have experienced delays. This has directly impacted the progress of this testing. It also continues to indicate the absence of robust controls around the management of these funds. We are aware that the Fund has taken steps to better understand the processes, controls and responsibilities of the investment service providers and that consideration is being given to how best to address this finding.</p> <p>Audit testing in the 2020 year audit revealed that the alternative funds were overstated in the draft financial statements by approximately £31.5m. This misstatement was adjusted in the final financial statements. In discovering and resolving this misstatement it was noted that there was no process or control in place to determine the valuation of lagged price funds as at the year end, or to update the financial statements if new information came to light before they were signed.</p> <p>These matters represent significant control weaknesses. We recommend that the Fund continues to review the terms and conditions of its relationship with all investment service providers and takes steps to ensure that controls are in place such that the most recent audited financial statements of each fund, along with the regular capital valuation statements and any evidence of any capital transactions are received and regularly reviewed in a timely fashion. We recommend that the Fund also ensures that controls within the financial reporting process are implemented such that the best estimate of the fair value of investments is used in the draft financial statements and that material changes to the investment balances that come to light before signing are reflected in the financial statements.</p> |
| Retrospective review of investment decision making | <p>In our final report on the 2019 audit we also recommended that the Fund perform a review of the arrangements around pension asset investment decision making, monitoring and reporting of the valuation of those investments. This was to include an historic review of the arrangements with respect to the specific assets that were adjusted significantly to identify the lessons that can be learned and to embed this learning into the new arrangements. The outcome from these reviews was to be reported to both the Corporate Oversight & Scrutiny Panel and the pension Fund Panel. We note that the scope of the work did include these considerations and that the final report was provided to the Authority in July 2020. Our consideration of the conclusions of this report is ongoing and we will present our findings to the Committee in our final audit report.</p> |

Control observations (continued)

| Area | Observation |
|---|---|
| Review of financial statements | <p>The design of the control for review of the financial statements did not include checking the draft statements to the underlying workings. We also noted that for the 2020 financial statements there was no evidence of a formal review and, at the time of testing this control, there was a lack of awareness of any review process. Furthermore, there was no evidence that the CIPFA checklist had been used in the accounts preparation process, or in any review that may have taken place. This weakness in control increases the likelihood of misstatements in the financial statements.</p> <p>We recommend that the design of the financial statement review control is amended to include checking to underlying working papers, includes completion of a full CIPFA checklist, and is communicated clearly to all those involved in the preparation and review process. The implementation of the control should be evidenced appropriately and this evidence should be retained for a sufficient period.</p> |
| Review of journals | <p>The design of the control for review of journal postings does not include a formal description of the review process. There was no clear evidence available that a review took place over journal postings for a month selected. We also noted that some of the monthly investment posting updates did not occur within a reasonable timeframe. Furthermore, during journal testing it was noted that there were multiple errors in original journal postings that had to be adjusted in subsequent journal entries. This suggests that any control implemented over journal review was deficient.</p> <p>We recommend that the design of the journal posting review control is amended to include a well defined scope, for example a checklist, is communicated clearly to all those involved in the preparation and review process, and takes place in a timely manner before journals are posted to the accounting system. The implementation of the control should be evidenced appropriately and this evidence should be retained for a sufficient period.</p> |
| Administration system editing rights | <p>From the work performed on controls around member data, we noted that the system super-users have the access rights to edit their own member records and those of each other. Whilst any editing of the system can be reviewed in a system audit report, there is no formal regular review of this editing activity and no evidence was available of any other mitigating controls. On review of the system audit report for a two year period ended 31 March 2020, it was noted that both super-users had edited either their own or the other super-user's records. We have asked the Authority to determine the effect of this editing and to provide confirmation that they were made legitimately. This report has not yet been received. Once received, we will review the Fund's conclusion over the extent and nature of super-users editing their own records, complete additional testing where necessary and conclude as to whether there is any impact on our audit opinion.</p> <p>We recommend that the IT system is updated to prevent super-users from editing their own records, that any editing of each other's records is checked by a third person, and that an annual review of the system audit report is conducted to ensure that this control is being implemented and evidenced.</p> |

Control observations (continued)

| Area | Observation |
|---|---|
| No evidence of authorisation for overnight loan prior to payment | <p>As noted on page 6, the Fund made an overnight loan to the Authority on the 27 June 2019 of £1.2m. The amount was returned to the Fund in full on the 28 June 2019. Officers of the Fund have made it clear that they were aware of and approved the transaction at the time. However, there was no evidence available to demonstrate that the Fund authorised this transaction in advance of the payment to the Authority, nor was there a formal record of the business rationale from the perspective of the Fund for such a transaction. We are considering the relative permissibility of this transaction under the relevant regulations.</p> <p>We also consider this transaction to be qualitatively material and therefore should be disclosed in the notes to the Financial Statements of the Fund. This disclosure was not present in the initial draft, but has now been added following our audit recommendation.</p> <p>We recommend that the Fund implements a control to record and review the rational for all transactions outside the normal course of business, including consideration of any relevant laws, regulations and conflicts of interest. We also recommend that sufficient appropriate evidence is retained demonstrating that the control has operated for all such transactions.</p> |
| 41 Separation of the Fund from the Authority | <p>In reconciling the journal activity for the year, it was noted that some journal postings included activity for both the Fund's financial statements and those of the Authority. On reviewing the journal population as a whole for both the Fund and the Authority we concluded that the population was complete for the year ended 31 March 2020. We also noted that some payments made to the Authority by the Fund for costs incurred on behalf of the Fund, were not formally invoiced by the Authority and that there was no evidence of formal authorisation available for these transactions.</p> <p>We recommend that the general ledgers of both entities are maintained in isolation. We also recommend that formal documentation is prepared by the Authority to request payments from the Fund, and that this is reviewed by the Fund before payments are made. Furthermore, sufficient appropriate evidence should be retained demonstrating that the control has operated for all such transactions.</p> |

Other Findings

During the course of our audit we have identified findings which we have included below for information.

The purpose of the audit was for us to express an opinion on the financial statements. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you. We will report to you any other significant findings we identify during the conclusion of our audit work in our final audit report.

| Area | Observation |
|---|--|
| Lack of continuity plans in relation to absence of key individuals | We have noted during our audit that the departure in early 2020 of the Fund accountant has led to delays in providing a number of elements of documentation. This may also have contributed to the failure of some financial statement controls as noted above. The impact of the departure may have been more significant if not for the assistance provided by the outgoing accountant, months after he had left his post. We note that accounting is not the only area of the Fund's operations that could be susceptible to changes in key personnel. Therefore we recommend that continuity plans be developed for all key roles within the Fund's operations. |
| Internal audit and monitoring of controls 42 | It was noted that there was no formal internal audit review of the controls of the Fund for the year to 31 March 2020. We understand that this was partly due to the result of the review in the previous year. A governance review was planned, but this was superseded by the independent external review commissioned by the Authority. However, given the number of control deficiencies noted above, we recommend that the internal audit function of the Authority is engaged annually to assess the operation of controls at the Fund. We are still considering the overall governance structure in our review of the independent governance report and we will report any additional conclusions regarding the control environment to the Committee in our final report. |
| Compliance with LGPS regulations and the regulator | Within the administration strategy document, it is noted that there should be clear procedures laid out in relation to confirming compliance with LGPS regulations and the regulator. The Fund staff informed us that a work plan takes all items to committee meetings throughout the year, but no evidence was available to demonstrate that a formal procedure document exists. We recommend that procedures are developed in response to the requirements, and which ensure that the Fund meets its statutory obligations and regulatory requirements. |

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit & Governance Committee and the Fund discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Fund.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by officers or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit and Governance Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.



Jonathan Gooding

for and on behalf of Deloitte LLP

St Albans

08 February 2021

Appendices

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Audit adjustments

Uncorrected misstatements

There are no misstatements that have been identified up to the date of this report which have not been corrected by officers of the Fund.

Corrected misstatements

The following misstatements have been identified which have been corrected by officers. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

| | | Debit/ (credit) Fund account £m | Debit/ (credit) in Net asset statement £m | If applicable, control deficiency identified |
|---|-----|---------------------------------------|--|--|
| Misstatements identified in current year | | | | |
| Overstatement of investments from stale priced alternative funds | [1] | (31.5) | 31.5 | Yes |
| Overstatement of longevity swap liability | [2] | 2.1 | (2.1) | No |
| Total | | (29.4) | 29.4 | |
| Misstatements identified in prior years – see prior year ISA 260 for details | | | | |
| Revaluation of longevity swap | | 40.3 | (40.3) | Yes |
| Revaluation of convertible bond | | 34.2 | (34.2) | Yes |
| Total | | 74.5 | (74.5) | |

(1) 55 alternative funds had been included within the draft financial statements at stale prices, unadjusted for market movements up to the year end. Valuations received during the audit showed that these funds had decreased in value in aggregate by a material amount.

(2) During the audit, the actuary updated the longevity swap valuation.

Audit adjustments (continued)

Disclosures

Disclosure misstatements

The following disclosure misstatements have been identified which officers have corrected.

Disclosure

Material uncertainty of property fund valuations

In our planning report dated the 21 May 2020, we identified that property valuers had experienced difficulties in assessing the market value of properties as at the 31 March 2020 due to the restrictions in force as a response to COVID-19. This was an industry wide issue and, following guidance issued by the Royal Institute for Chartered Surveyors, it was expected that all valuers will report a material uncertainty over the value of property assets held at 31 March 2020 as a result of Covid-19 factors. In response to the valuation uncertainties, many property funds were gated as at 31 March 2020. The extent to which this issue affected the Fund was to be assessed.

As part of the audit we received more information about the material property funds. We consulted with our Deloitte Real Estate Specialists, including consideration of the type and nature of the properties held. On review of the evidence received it was concluded that a material uncertainty did exist over the valuation of the Fund's property funds as at 31 March 2020. Given the value of the property funds included within the Fund's financial statements (approximately £292m), the presence of a material uncertainty over these valuations should be disclosed in the financial statements. This disclosure was absent from the draft financial statements, but has now been added in response to this audit finding.

Related party transaction

As noted within our controls findings above, the Fund made an overnight loan to the Authority of £1.2m on 27 June 2019. We are considering the permissibility under the relevant regulations of the overnight loan made by the Fund to the Authority, but we consider this transaction to be qualitatively material and requiring disclosure as a related party transaction. This disclosure was absent from the draft financial statements, but has now been added in response to this audit finding.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with officers and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Fund to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Fund.

We have also asked the Fund to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified valuation of the longevity hedge and management override of controls as key audit risks for the Fund.

During course of our audit, we have had discussions with officers and those charged with governance.

In addition, we have reviewed officers' own documented procedures regarding fraud and error in the financial statements.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

| | |
|---------------------------|--|
| Independence confirmation | We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund. |
| Audit fees | <p>The scale fee for the 2019/20 audit of the Pension Fund was £19k. This is the same scale fee as the 2018/19 audit. Our audit fee is based on assumptions about the scope and required time to complete our work.</p> <p>As noted earlier in this report, our audit was not concluded by the original 31 July deadline and it has required substantial further input. We continue to discuss the impact on the audit fee with the authority and Public Sector Audit Appointments ("PSAA"). The final fee amount will be communicated to the Committee once agreed.</p> |
| Non-audit fees | There were audit related services carried out regarding the issuance of assurance letters to the auditors of participating employers. The fees for this work are being considered as part of the discussions around the main audit fee. There are no other non-audit fees. |
| Independence monitoring | We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. |
| Relationships | We have no other relationships with the Fund, its members, officers and affiliates. We have not supplied any services to other known connected parties. |
| Ethical Standard 2019 | The FRC has released the Ethical Standard 2019. The standard classes pension schemes as 'other entities of public interest' where assets are greater than £1bn and there are 10,000 members. As a result, non audit services will be limited primarily to reporting accountant work, audit related and other regulatory and assurance services. All other advisory services to these entities, their UK parents and world-wide subs will be prohibited. |

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Agenda Item 10

Pension Fund Committee Annual Work-plan

| | Reporting Period January to March | Reporting Period April to June | Reporting Period July to September | Reporting Period October to December |
|--|--------------------------------------|-----------------------------------|---------------------------------------|---|
| | Meeting Date July | Meeting Date September | Meeting Date December | Meeting Date March |
| Standing Items Part 1: | | | | |
| Apologies for absence | 1 | 1 | 1 | 1 |
| Declaration of Interest | 1 | 1 | 1 | 1 |
| Minutes of last Committee meeting & matters arising not on | 1 | 1 | 1 | 1 |
| Administration Report | 1 | 1 | 1 | 1 |
| Risk Assessment Register - Exceptions | 1 | 1 | Full report | 1 |
| | | | | |
| Standing Items Part 2: | | | | |
| LPPI Investment Performance and Asset Allocation Update | 1 | 1 | 1 | 1 |
| | | | | |
| Recurring Business Items: | | | | |
| Administration Strategy | 1 | | | |
| Funding Strategy Statement | 1 | | | |
| Governance Compliance Statement | 1 | | | |
| Investment Strategy Statement | 1 | | | |
| Abatement Policy | | 1 | | |
| Administering Authority Decisions | | 1 | | |
| SLA Between Administering Authority and Pension Fund | | 1 | | |
| Terms of Reference | | 1 | | |
| Annual Report & Accounts | | | 1 | |
| Audit Reports | | | 1 | |
| Risk Assessment Register - Full | | | 1 | |
| Risk Management Policy | | | 1 | |
| Breaches of the Law | | | | 1 |
| Business Plan | | | | 1 |
| Communication Policy | | | | 1 |
| Training Framework | | | | 1 |
| | | | | |
| Other Recurring Business Items: | | | | |
| Triennial Valuation Results | | | | 1 (once very 3 years) |

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