

Title: Internal Audit Report – Pensions Governance 2017/18
Contains Confidential or Exempt Information?: <i>NO - Part I'</i>
Member reporting: Councillor Lenton, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels
Meeting and Date: Berkshire Pension Fund and Pension Fund Advisory Panels – 18 December 2017
Responsible Officer(s): Kevin Taylor, Deputy Pension Fund Manager
Wards affected: None

REPORT SUMMARY

1. This report brings to Members' attention the results and outcomes of an annual Internal Audit Report concerning Pensions Governance.
2. Many of the issues identified have been dealt with although a few remain outstanding. A copy of the audit report can be found at Annex 1 with further minor concerns being identified in Annex 2.
3. A verbal update will be provided at the meeting.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION That Panel:

notes the Internal Audit Report on Pensions Governance.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

The Pension Panel acts as the Scheme Manager for the Berkshire Pension Fund and needs to consider and keep under review its governance and administration practices and standards to ensure that it is compliant with Scheme Regulations and the requirements of The Pensions Regulator.

Internal Audit are requested to review annually the Fund's compliance with governance and administration requirements set out in Scheme Regulations and in guidance issued by the Pensions Regulator.

It should be noted that of the 29 moderate concerns raised in the 2016-17 governance audit only 5 remain but 2 additional concerns have been raised. Officers are taking action to resolve these issues. In addition there are 5 minor

concerns that have been raised for which Officers are again taking action to resolve.

With the pending pooling arrangements with the Local Pensions Partnership (LPP) likely to come into effect from 1 April 2018, the future governance of the Berkshire Pension Fund is in question so Members should note that some of the outcomes of the audit report are dependent upon the steps still to be taken with regard to the Fund's proposed partnership with LPP.

3. KEY IMPLICATIONS

- 3.1 The Administering Authority is required to maintain the Pension Fund in accordance with Scheme Regulations and Codes of Practice issued by The Pensions Regulator. Failure to do so could damage the reputation of the Royal Borough as the Administering Authority to the Berkshire Pension Fund.

4. FINANCIAL DETAILS / VALUE FOR MONEY

None

5. LEGAL IMPLICATIONS

The Administering Authority is required to govern and administer the Pension Scheme in accordance with the Public Service Pensions Act 2013 and associated Local Government Pension Scheme Regulations. Failure to do so could lead to challenge.

6. RISK MANAGEMENT

Table 1: Risk Analysis

Risks	Uncontrolled Risk	Controls	Controlled Risk
Pension Scheme not governed in line with legislation	Medium	Internal and External Audits	Low

7. POTENTIAL IMPACTS

Failure to comply with Pension legislation could result in the Administering Authority being reported to the Pensions Regulator where failure is deemed to be of a material significance.

8. CONSULTATION

Not applicable

9. TIMETABLE FOR IMPLEMENTATION

Immediate

10. APPENDICES

Annex 1 - Internal Audit Report (9028)
Annex 2 – Minor concerns

11. BACKGROUND DOCUMENTS

None

12. CONSULTATION (MANDATORY)

Berkshire Pension Fund and Pension Fund Advisory Panels

*SHARED AUDIT AND INVESTIGATION SERVICE***INTERNAL AUDIT REPORT (9208)****Pensions Governance
2017/18****Draft Report Distribution**

Name	Title
Nick Greenwood	Pension Fund Manager
Kevin Taylor	Deputy Pension Fund Manager

Additional Circulation of Final Report

Name	Title
Alison Alexander	Managing Director
Steve Mappley	Insurance and Risk Manager
Rob Stubbs	Deputy Director and Head of Finance
External Audit	KPMG

Auditor

Madeline White, Lead Specialist Level 2

Report Approved by

Catherine Hickman, Lead Specialist – Audit and Investigation

1. INTRODUCTION

1.1 This audit has been undertaken as part of the approved Annual Internal Audit Plan 2017/18, in accordance with the:

- Audit Charter
- Audit Protocol
- Agreed Terms of Reference previously issued

1.2 The format of this report is based on the Lean Systems Thinking Methodology. Management is asked to specify and explain the countermeasure to the concerns raised, as detailed in the Management Action Plan.

2. EXECUTIVE SUMMARY & CONCLUSIONS

AUDIT OPINION

Based upon our review of the controls in place within Pension Governance, we have concluded that controls are:

**Substantially Complete and Generally Effective
2nd Highest out of 4 Audit Opinions**

- Most key Treatment Measures are in place and these operate effectively.
- The majority of residual risks have been reduced to an acceptable level.
- There are a small number of unacceptable financial implications.
- The majority of concerns are of a predominately moderate impact/likelihood.

(Risk management processes are good and controls are adequate although only partially effective).

2.1 The principal objective of this Audit was to conclude whether the risk management process is sound and that treatment measures identified for risks PEN001, PEN002, PEN003 and PEN009 as detailed in the Council's Corporate Risk Register relating to Pensions Governance are adequate and effective

2.2 The Royal Borough of Windsor and Maidenhead (RBWM) is the administering authority for the Berkshire Pension Fund. However all pension funds in England and Wales are being pooled in order to make cost savings and improvements to investments .

2.3 Whilst the Berkshire Pension Fund has not yet formally joined a pool a letter of intent has been sent to the Local Pensions Partnership (LPP) to become a full partner alongside Lancashire County Council and the London Pension Fund Authority. As a full partner investments would be pooled and pension administration amalgamated. This would be effective from 1st April 2018 if a full partnership is agreed.

- 2.4 As a result, the future governance of the fund may be affected i.e. the establishment of a single Pension Board made up of each of the 3 partners rather than individual Boards. Consequently, a number of the findings within this review have arisen due to the impending amalgamation.
- 2.5 This apart, it is pleasing to note that of the 29 moderate concerns raised in the previous audits undertaken in 2015/16 and 2016/17 only 5 have been raised again as moderate concerns within this review.
- 2.6 There are 7 concerns identified in this Audit Report which are all classified as moderate concerns. There were 5 minor concerns that were discussed at the exit meeting.

Audit Opinion

The opinion stated in the audit report provides management with a brief objective assessment of the status of current Treatment Measures which have been put in place to reduce identified risks to the operation or strategy under review. It is not a statement of fact.

In reaching the Audit Opinion for this audit, the majority of the criteria for the relevant definition apply.

AUDIT OPINION DEFINITIONS
<p>Complete and Effective</p> <ul style="list-style-type: none">• All necessary Treatment Measures are in place and are operating effectively.• Residual risks have been reduced to an acceptable level• There are no unacceptable financial implications.• Concerns reported are minor. <p>(Risk management processes are strong and controls are adequate and effective).</p>
<p>Substantially Complete and Generally Effective</p> <ul style="list-style-type: none">• Most key Treatment Measures are in place and these operate effectively.• The majority of residual risks have been reduced to an acceptable level.• There are a small number of unacceptable financial implications.• The majority of concerns are of a predominately moderate impact/likelihood. <p>(Risk management processes are good and controls are adequate although only partially effective).</p>
<p>Range of Risk Mitigation Controls is incomplete and risks are not effectively mitigated</p> <ul style="list-style-type: none">• Not all key Treatment Measures are in place and / or do not operate effectively• Residual risks have not all been reduced to an acceptable level• There are some unacceptable financial implications associated with more than one risk mitigation control or because of a lack of risk mitigation control.• There are a number of concerns that are predominantly of a major impact/likelihood. <p>(Risk management processes and controls are adequate but not effective in mitigating the identified risks).</p>
<p>There is no effective Risk Management process in place</p> <ul style="list-style-type: none">• There are no appropriate Treatment Measures in place.• Residual risks remain at an unacceptable level• Reported concerns are predominantly of a catastrophic or major impact/likelihood. <p>(Risk management processes and controls are weak).</p>

**Management Action Plan
Pensions Governance - 2017-18**

Please complete the Management Action Plan

For any one Concern, you may decide upon one or more countermeasures

PLEASE COPY AND PASTE THE TICK SHOWN INTO THE APPROPRIATE COUNTERMEASURE(S) CELL(S)

Ref.	Concern	Risk	Finding	COUNTER MEASURE				Counter Measure Action / Explanation	Responsible Officer	Target Date	Date: Transfer or Terminate
				Treat	Tolerate	Transfer	Terminate				
1	Conflict of Interest may arise which results in the judgement of other members present being influenced.	Moderate	Declaration of Interests not seen for the substitute Scheme Employer members. o/s Report 9161 TCR 2016/17 Concern 10	✓				The structure of the Pension Board has been discussed at previous meetings with particular regard to having formal substitutes, the outcomes of which have yet to be minuted. Will be raised at next meeting of the Board.	Kevin Taylor Deputy Pension Fund Manager	30/11/17	

2	Without a review of specific competencies and the technical skills required, the Pension Fund Panel and Advisory Panel may be unable to: a) fulfil all areas identified in their Terms of Reference. b) demonstrate that Members can fulfil their responsibilities .	Moderate	Training records including personal training needs analysis have not been completed for the Pension Panel and Advisory Panel o/s Reports: 2011/12 (Concern 1) 2012/13 (Concern 2) 2013/14 (Concern 2) 2014/15 (Concern 2) 2016/17 (Concern 7)	✓			Ongoing issue.	Nick Greenwood Pension Fund Manager	31/3/18	
3	The Pension Board members may not be able to fulfil all areas of their responsibilities .	Moderate	E-Learning Toolkit has not been completed by one Board member (Employer Representative , Reading BC) o/s Report 9161 TCR 2016/17 - Concern 6	✓			Board member has extensive knowledge of the LGPS as a senior officer at Reading BC. However, he does need to complete, and evidence that he has completed, the TPR toolkit. To be followed up at next Pension Board meeting.	Kevin Taylor Deputy Pension Fund Manager	30/11/17	

4	Officers may be referring to out of date guidance	Moderate	<p>The Traffic Light Framework referred to within the Reporting Breaches guidance d/d 11/15 is not:-</p> <p>a) included as an Appendix to the document</p> <p>b) detailing the date compiled and date approved by and by whom.</p> <p>c) available on the Berkshire Pension Fund website as quoted in the guidance.</p> <p>Reworded Concern17 Report 9161</p>	✓				<p>Document reviewed and updated to:</p> <p>a) Include a template traffic light register as an appendix to the document;</p> <p>b) To include date approved and reviewed in the footer of the document;</p> <p>c) to remove reference to website in the guidance.</p> <p>Updated version now available on website.</p>	Kevin Taylor Deputy Pension Fund Manager	31/10/17	
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5	There is a risk of a failure to report breaches of law to the Pension Regulator is a "civil offence" i.e. non-compliance Public Service Pension Act 2013 and Local Pension Scheme Regulations.	Moderate	Training has not been delivered to the Head of Finance (RBWM) and the Monitoring Officer (RBWM), in respect of Reporting Breaches o/s Report 9161 TCR 2016/17 - Concern 18	✓			Training given on 2 November 2017 to s151 Officer and Monitoring Officer. Awaiting email confirmation that training has been received from both officers.	Kevin Taylor Deputy Pension Fund Manager	30/11/17	
6	Legal and financial implications could be incurred by the Pension Fund	Moderate	Evidence has not been seen that the Pension Team hold signed Service Level Agreements from all the Admitted Bodies o/s Report 9161 TCR 2016/17 - Concern 20		✓		This concern is to be tolerated at present pending forthcoming discussions to be held with Local Pensions Partnership (LPP) with regard to the potential future amalgamation of administration services. It should be noted that although certain employers have not completed and signed off an SLA all scheme employers are monitored by the Fund in line with the requirements of the SLA and so where employers are identified as			

								underperforming steps are taken to resolve those issues as they arise.			
7	Members, officers and the general public are referring to out of date information. Governance is weakened if the Constitution does not contain correct information	Moderate	The Constitution does not reflect the change of membership of the Pension Panel and Advisory Panel from 16 to 17 which was agreed at the Pension Panel meeting held in June 16.	✓				Constitution document updated in September 2017.	Mary Kilner Head of Law and Governance	30/9/17	

Governance and Administration of Berkshire Pension Scheme 2017/18

Minor Concerns

Ref	Concern	Cause	DATE MANAGEMENT INFORMED
a)	Conflicts and disputes may arise which could affect the Pension Fund if the Administering Authority cannot demonstrate members have received the guidance document detailing responsibilities and requirements of the Board/Panel and member	Confirmation of receipt of handbook not seen for the following Pension Board Members:- a) Alan Cross b) Neil Wilcox c) Andy Walker d) Surjit Nagra e) Terry Baldwin f) Jeff Ford A completed members log book recording receipt of the Members handbook has not been seen O/S Report 2012/13 (Concern 17), 2013/14 (Concern 12) 2014/15 (Concern 6) 2015/16 (Concern 12)	12/10/17
b)	Officers will not be assured that they are referring to current requirements	The Investment Statement Strategy has not been dated or details date of approval	12/10/17
c)	Officers and the General Public will be referring to out of date documentation.	The Statement of Investment Principles dated 4/15 is still located on the website.	12/10/17
d)	Officers and the General Public may be referring to out of date documentation.	Compliance statement has not been reviewed/updated since 5/15 version	12/10/17
e)	Members/ Pensioners/ Employers may be referring to out of date information. Raised as minor TCR Governance report 9161 2016/17	The following policies available on the website do not appear to have been regularly reviewed:- a) Cash Management policy 4/15* b) Due Diligence 1/15* c) Governance Compliance Statement 5/15* d) Investment Philosophy 4\14 e) Investment Principles 4/15* f) Reporting Breaches	

e)		<p>11/15* g) Managing Risk 12/15* h) Employer Guide to Contribution Returns 4/14*</p> <p>In addition those policies/statement above marked * do not show the date the document was approved and by whom i.e. Panel.</p>	
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