

Tees Valley Audit & Assurance Services

Audit and Assurance Report – Final

Middlesbrough Council

Pension Fund Investments

Corporate and Commercial Services



Audit Ref:CCS023/15

Report issued by: Helen Fowler, Audit & Assurance Manager
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Date: 12 April 2016

Distributed to:

Draft

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Final

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PROTECT / IMPACT LEVEL 1

Pension Fund Investments Executive Summary

1. Overall Opinion

- 1.1 Tees Valley Audit and Assurance Services (TVAAS) considers there to be a **Strong Control** environment in relation to the areas examined. The financial performance of the fund for the year to 31 March 2015 was positive with the fund's value rising to £3.244 billion, an increase over the year of £195 million. Based on the audit work undertaken, an effective system of internal control is in operation and is being applied consistently.
- 1.2 The present system involves the custodian collecting all dividend income with the pension's team undertaking a random sample check on dividends received each month. Random sample testing is undertaken by management in order to provide assurance that the correct dividends have been received. Examination of records found there had been checks undertaken for each month of the current financial year of European dividends but there had only been checks undertaken for the first 3 months for overseas (USA/Far East) dividends. When the Administration Manager was informed of this, checks were immediately undertaken and no discrepancies were found.

2. Main Conclusions and Findings

- 2.1 Audit testing has revealed an effective level of control within the section and no areas of significant concern were highlighted during the audit. Audit testing confirmed that there are high standards of control in relation to reconciliation, adherence to the investment policy, authorisation of transactions, the reporting of investment performance, the back-up of information and contingency planning. There was only one area in need of minor improvement and this related to monthly dividend monitoring as explained at paragraph 1.2 above.

3. Detailed Findings and Management Actions

- 3.1 Where action is required to improve controls, Appendix 1 to this report details the findings of this audit together with the associated risk and the remedial action required. Management are required to respond to each management action, detailing how they will address the finding, the responsible officer and the target date by which the proposed action will be taken. Please note that progress to implement all management actions will be followed up at the appropriate time.

4. Acknowledgements

- 4.1 The assistance given by the Head of Investments, the Administration Manager and the Pension Fund Accountant is gratefully acknowledged.

Appendices

Appendix 1 Summary of Management Actions - Implementation Schedule

Appendix 2 Terms of Reference

Appendix 3 Assurance and Priority Definitions

PROTECT / IMPACT LEVEL 1

Detailed Findings and Management Actions

Appendix 1

Audit Ref: CCS023/15 **Title:** Pension Fund Investments

Priorities: 1 - Fundamental, 2 - Significant, 3 - Prudent

Priority Rating	No	Finding	Risk	Management Action	Status	Agreed	Responsibility	Target Date for Implementation
3	1	The custodian is required in the contract to collect all dividend income and checks are required to be made against the independent source to ensure the correct amount had been collected on each occasion. Testing during the audit identified that random sample testing had only been performed throughout the year in relation to European dividends and only undertaken for overseas (USA/Far East) dividends between April and June 2015. When the Administration Manager was informed of this, checks were immediately undertaken and no discrepancies were found.	The Custodian does not collect all the dividend income due to the fund.	Management should ensure that the register of investments (records dividends due and received), is regularly monitored for both European, and USA/Far East dividends.	Implemented	Yes	Paul Campbell	16/03/2016

Management Comments: This omission occurred after a re-arrangement of tasks among the team. There was a misunderstanding by the staff member who had taken on this task and thought checking overseas dividend income was for European shares only. This has now been corrected and a checking process is in place to ensure all dividend monitoring is performed monthly.

Tees Valley Audit & Assurance Service

Terms of Reference

<u>Audit Title:</u>	Pension Fund Investments
<u>Start Date:</u>	09 November 2015
<u>Auditors:</u>	<p>Andrew Ingram [Principal Compliance Officer] Andrew.Ingram@middlesbrough.gov.uk 01642 729821</p> <p>Sean Quinn [Compliance Auditor] Sean.Quinn@middlesbrough.gov.uk 01642 729821</p>
<u>Days Allocated:</u>	20 Days
<u>Key Contacts:</u>	<p>Paul Campbell, Investment Manager Paul.Campbell@middlesbrough.gov.uk 01642 729025</p> <p>Rachel Walker, Administration Manager Rachel.Walker@middlesbrough.gov.uk 01642 729188</p> <p>Jan Oliver, Pension Fund Accountant Jan.Oliver@middlesbrough.gov.uk 01642 727337</p>

Background

Middlesbrough Council's Loans and Investments Unit manage the investments of the Teesside Pension Fund on behalf of all participating bodies. The purpose of the fund is to provide retirement benefits for local authority employees in the Teesside area, and other bodies admitted by agreement.

The financial performance of the fund for the year to 31 March 2015 was positive. The fund's value rose to £3.244 billion, an increase over the year of £195 million, the rise was due to strong equity and property markets.

The previous audit of Pensions Investments resulted in a report issued in April 2015. The audit made two recommendations which were found to have been implemented.

Audit Approach

The audit will be systems based; whereby the system and controls will be identified, documented, evaluated and tested in relation to the system objective. Any findings, conclusions and recommendations will be discussed with the Investment Manager before being included in a formal report.

Scope & Objectives

The period of transactions covered by the audit will be taken from the beginning of October 2014 to the end of September 2015.

The audit has been designed to ensure that controls in place are adequate to mitigate the risks inherent in the management of high volume treasury activity.

1. The register of investments records dividends due and received, and provides for the ready monitoring of sums due and comparisons with sums received.
2. Main accounting records are regularly reconciled to the investment ledger. The register is also reconciled with broker's statements by someone independent of the investment process.
3. Purchase and sale of investments complies with the audited body's investment policy.
4. Funds transferred by automatic bank transfer are properly authorised, and the correct entry of data into the accounts is checked.
5. Investment performance is monitored and reported upon.
6. The IT system is secure and backed up at frequent intervals.
7. A satisfactory contingency plan is in place in the event of IT failure.

Reporting

A draft report will be issued for review and consultation by the appropriate levels of management. Management actions will be prioritised to identify clearly their respective risk and these will be agreed prior to the issue of the final report. Responses to draft reports are now requested to be provided within 15 working days of the issue of the draft. A final report will then be issued, in a timely manner, with the aim of prompting management to implement management actions for change, leading to improvements in performance and control. It is the responsibility of departmental management to ensure that management actions, which are agreed, do actually get implemented within the agreed timescales and this action is reported back to Internal Audit. The Council's internal audit function monitors and reports to Corporate Affairs and Audit Committee on the implementation of their management actions.

Reporting Definitions**Audit Assurance Levels**

Audit & Assurance have five categories by which to classify the level of assurance offered over the system or area we have examined, these are defined as follows:

<u>Assurance Level</u>	<u>Definition</u>
Strong Control Environment	Overall, a Strong Control Environment in relation to the areas examined. Based on the audit work undertaken, an effective system of internal control is in operation and is applied consistently.
Good Control Environment	Overall, a Good Control Environment with room for improvement in relation to the areas examined. Based on the audit work undertaken, an effective system of internal control is in operation but is not always applied consistently.
Moderate Control Environment	Overall, a Moderate Control Environment with some weaknesses in relation to the areas examined. Based on the audit work undertaken, an acceptable internal control environment is in operation, but there are a number of improvements that could increase its consistency and effectiveness.
Cause for Concern	Overall, Cause for concern in relation to the areas examined. Weak management of risk exists within a key area(s) that is/are crucial to the achievement of objectives. Major improvements need to be made to the system or area in order to ensure the control environment is effective.
Cause for Considerable Concern	Overall, Cause for Considerable Concern in relation to the areas examined. Fundamental failures exist within the control environment and the Council is exposed to unacceptable levels of risk. Key areas that are crucial to the achievement of objectives need fundamental improvements.

Priority Ratings

In order to assist management in using our reports, we categorise our management actions according to the level of priority as follows:

<u>Priority Rating</u>	<u>Definition</u>
1 - Fundamental	A fundamental risk exists to the achievement of the system/service objectives and it is of an unacceptable level. Management should initiate immediate action to address this system weakness.
2 - Significant	A significant risk exists which has the potential to adversely affect the achievement of the system/service objectives. Management should initiate timely action to address the weakness.
3 - Prudent	System objectives are not exposed to significant risk but the issue merits attention by management as it offers service improvements by complying with best practice, and strengthening the overall control environment.