

Tees Valley Audit & Assurance Services

Audit and Assurance Report

Middlesbrough Council

Pension Fund Investments

Corporate and Commercial Services



Audit Ref: CCS046/16

Report issued by: Helen Fowler, Audit & Assurance Manager
Andrew Ingram, Principal Auditor
Sean Quinn, Compliance Auditor

Date: 1 June 2017

Distributed to:

Draft

Paul Campbell, Head of Loans and Investments
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Final

As for Draft plus:

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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. Based on the audit work undertaken, an effective system of internal control is in operation and is being applied consistently.

2. Main Conclusions and Findings

- 2.1 Audit testing has revealed that the financial and associated systems in operation are adequate and an effective level of control is in place. The Compliance Auditor can confirm that there is evidence to demonstrate 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. As such, no areas of concern were highlighted during the audit.
- 2.2 Through inspection of the risk registers held on Covalent, it was identified that there was no reference to the Pension Service. Previous records show that the last time the risk register was updated was April 2015.

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 and the Administration Manager is gratefully acknowledged.

Appendices

- Appendix 1 Summary of Management Actions – Implementation Schedule
- Appendix 2 Terms of Reference
- Appendix 3 Assurance and Priority Definitions

Detailed Findings and Management Actions

Appendix 1

Audit Ref: CCS046/16 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
2	1	Testing highlighted that the Council's system (Covalent) does not currently include reference to the Pensions Service. In discussion with the Head of Investments it was identified that the risk register was last reviewed in April 2015.	If performance is not monitored , reported upon or benchmarked, variances from expected returns may not be identified and acted on appropriately	Management should ensure that the risk register for the Pensions Service is updated and recorded on the Council's system (Covalent).	Agreed	Y	Paul Campbell	30 September 2017

Management Comments:

A risk register does exist, but is maintained separately by Kier Pension Unit and not part of the Council's system – Covalent. A complete review of governance arrangements is currently taking place, with a first draft of a Risk Management Policy for the Fund being developed. Once this is in place, a comprehensive review of the risk register will be carried out in line with CIPFAs latest guidance (Managing Risk in the Local Government Pension Scheme). It is aimed to take this to the Teesside Pension Fund & Investment Panel meeting on 27 September 2017 for approval. It is proposed at this time that the updated risk register will be recorded on Covalent.

Tees Valley Audit & Assurance Service

Terms of Reference

<u>Audit Title:</u>	Pension Fund Investments
<u>Start Date:</u>	20 February 2017
<u>Audit Lead:</u>	Andrew Ingram, Principal Compliance Officer
<u>Auditors:</u>	Sean Quinn, Compliance Auditor
<u>Key Contacts:</u>	Paul Campbell, Head of Loans and Investments

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.

Audit Approach

The audit is designed to examine the financial and associated systems in operation and confirm that controls are adequate. Areas will be investigated by examination of documentation, interrogation of IT systems, and by discussion with relevant staff.

Scope & Objectives

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. Funds transferred by automatic bank transfer are properly authorised, and the correct entry of data into the accounts is checked.
3. Investment performance is monitored and reported upon.
4. The IT system is secure and backed up at frequent intervals.
5. 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. 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

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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.