

Tees Valley Audit & Assurance Services

Audit and Assurance Report – Final

Middlesbrough Council

Pension Fund Investments

Finance, Governance & Support



Audit Ref: FGS048/17

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Date: 22 May 2018

Distributed to:

Final

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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 Pension Fund's 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 As first mentioned in the previous internal audit report in 2016/17, a review of the risks to be held on Covalent was still to be completed; however, testing on this occasion has highlighted that significant progress has since been made and a spreadsheet of all the identified Investment risks has now been developed, in accordance with CIPFA guidance. The Head of Investments is to share this information with the Council's Risk Business Partner in order to ensure that all appropriate risks can be recorded into Covalent in due course.

3. Detailed Findings and Management Actions

- 3.1 There are no management actions contained in this report.

4. Acknowledgements

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

Appendices

Appendix 1 Terms of Reference

Appendix 2 Assurance and Priority Definitions

Tees Valley Audit & Assurance Service

Terms of Reference

<u>Audit Title:</u>	Pension Fund Investments
<u>Start Date:</u>	02 February 2018
<u>Audit Lead:</u>	Andrew Ingram, Principal Auditor
<u>Auditors:</u>	Matthew Deane, Trainee Audit & Assurance Officer – Health & Safety and Information
<u>Key Contacts:</u>	Paul Campbell, Head of Investments & Treasury Management Sue Smithyman, Treasury Manager Rachel Walker, Investment Administration Manager

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.

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 scope and objectives were discussed and agreed with the Investments Manager.

The period of transactions covered by the audit will be taken from the beginning of October 2016 to the end of December 2017.

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.

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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 Final 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 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.