



Pension Fund Investments
Middlesbrough Council
Internal Audit Report

Business Unit: Teesside Pension Fund
 Responsible Officer: Director of Finance
 Service Manager: Head of Pensions Governance and Investments
 Date Issued: 22 December 2022
 Status: Final
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	P1	P2	P3
Actions	0	0	0
Overall Audit Opinion	Substantial Assurance		



Summary and Overall Conclusions

Introduction

The Local Government Pension Scheme (LGPS) is one of the largest public sector pension schemes in the UK. In this scheme investment yield and capital growth, alongside member contributions, are used to fund pension payments. The LGPS is administered on a local level, with 87 LGPS funds existing in England and Wales. Teesside Pension Fund (TPF) is one of these local funds, administered through Middlesbrough Council.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 included a requirement for all LGPS Funds to pool their assets. A pool company must be appointed to implement investment strategies and as a result 8 asset pools were set up. TPF is a partner shareholder of the Border to Coast Pension Partnership, and delegates investment management responsibilities to this pool. As a pool member, the TPF are responsible for effective governance and holding the Border to Coast Pension Partnership to account.

In line with statutory guidance, TPF must produce an investment strategy statement, which should be kept under review and revised at least every 3 years. Investment or pensions committees are the most common decision-making bodies in LGPS schemes. The committee responsibilities include approving TPF's investment strategy statement and setting investment targets ensuring that they are aligned with TPF's risk appetite; monitoring the performance of the Border to Coast; and selecting, dismissing, and monitoring TPF's advisors – including investment consultants. TPF's risk register highlights various risks, including those relating to investments underperformance, and inability to gather robust, quality or timely data from Border to Coast.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that:

- Relevant, consistent performance information is produced by Border to Coast Pensions Partnership and sent to TPF on a regular basis;
- Relevant, consistent performance information is made available to the TPF Committee in a timely manner;
- Information is used as a tool to review the Border to Coast's performance against the Pension Fund's Investment Strategy;
- Mechanisms are in place to challenge the Border to Coast's performance and management of the Pension Fund's investments.

Key Findings

Our work confirmed that Teesside Pension Fund (TPF) is in receipt of relevant, consistent information from the Border to Coast Pensions Partnership regarding investment performance, and that this performance information is provided to TPF on a regular basis. TPF receives quarterly update reports regarding its own investments within Border to Coast sub-funds. A review of these reports from Q1 2021 to Q3

2022 found that the information is relevant in terms of being applicable to the quarter in question and provides detail on developments within the quarter which may positively or negatively impact on the investment performance. Our review of the quarterly updates also found that the information was consistent, with performance data corresponding with the previous report, allowing for comparisons to be made between the information contained in the quarterly reports. We looked at the TPF Committee minutes and confirmed that these reports are presented in a timely manner.

We saw that information is being used to measure performance of investments against the TPF Investment Strategy. Benchmarks set out in the Investment Strategy to measure performance are different to those used by Border to Coast. As an example, Border to Coast use 'FTSE Emerging Markets' as its performance benchmark for its Emerging Market sub-fund, whereas in the Investment Strategy from April 2021 the benchmark listed was 'MSCI AC World Index'. However, we did not see any evidence that this has caused issues regarding performance monitoring as TPF use a company called Portfolio Evolution Limited to produce quarterly reports which analyse the information presented in the Border to Coast updates.

TPF's Investment Strategy states that as a responsible investor, TPF aims to incorporate Environmental, Social and Corporate Governance (ESG) factors into investment decisions. To address this, Border to Coast have produced quarterly ESG performance information for the sub-funds that TPF have invested in. These reports provide a MSCI¹ rating with 'AAA' being the highest and 'CCC' being the lowest ratings. The reports also include commentary and a list of the best and worst MSCI scoring holdings within each sub-fund. The reports have demonstrated that ratings have improved between 2021 and Q1 2022, suggesting that the quality of investment, in terms of ESG factors has improved.

Although our review of committee minutes did not find evidence of documented challenge by Committee members, we confirmed that there are a range of mechanisms in place for TPF to challenge and discuss the performance and management of investments. A review of the Committee minutes found that the presentation of the quarterly investment updates and ESG reports was a standing item. The quarterly investment updates are presented to the Committee within the following quarter. Discussions with a member of staff who attends the Committee confirmed that questions are asked, which are more strategic in nature and focus on future rather than current performance. However, there are appropriate processes in place to identify and challenge any change in Border to Coast's performance. TPF is also represented at the Officer Operations Group (OOG), which take place each quarter. We reviewed the OOG meeting minutes and confirmed that TPF officers have attended and engaged in these meetings.

Overall Conclusions

A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

¹ MSCI is an investment company that produces an ESG rating system which aim to measure a company's management of financially relevant ESG risks and opportunities

Audit Opinions and Priorities for Actions

Audit Opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Our overall audit opinion is based on 4 grades of opinion, as set out below.

Opinion Assessment of internal control

Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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