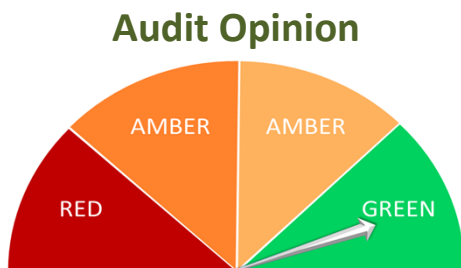


Flintshire Internal Audit

Audit Report

Title: Pensions Investment Management
Portfolio: People and Resources
Issued Dated: May 2015
Report No: 10-2014/15
Report Status: Final



Internal Audit engagements are conducted in conformance with the Public Sector Internal Audit Standards.

1. Executive Summary:

Introduction and Scope:

An audit of Pensions Investment Management was undertaken as part of the approved internal audit periodic plan for 2014/15.

The Clwyd Pension Fund as at February 2015 was £1.2bn. The funding level as at 31st December 2014 was estimated by the Actuary at 66% with a deficit at approximately £700m. At March 2014 the funding level was estimated at 70%. Total membership is currently about 33,000 with approximately 15,000 contributors from 25 contributing employers and about 18,000 retired members, widows and deferred members.

The current year has witnessed a number of challenges and changes.

In May 2014 there was a review of the Fund's governance arrangements and the Council established a formal Pension Fund Committee, supported by a Pensions Advisory Panel. The Corporate Finance Manager, as the Section 151 Officer, has a statutory responsibility for the proper financial affairs of Flintshire County Council which include Clwyd Pension Fund matters. The governance structure will be expanded further as a result of the requirement by the Public Service Pensions Act 2013 to introduce a local pension board to assist in compliance of pension fund matters. Under the regulations this must have met by 1st August 2015. The Board will be made up of four members, two scheme member representatives and two employer representatives. Invitations to apply for these positions have been placed on the Clwyd Pension Fund website and interviews will take place in June 2015.

A new Liability Driven Investment (LDI) Strategy was introduced at the beginning of the year which resulted in a revised Statement of Investment Principles (SIP) to reflect the change in asset allocation. A fundamental review of the Clwyd Pension Fund's Investment Strategy was undertaken by the Investment Consultant to the Fund, JLT. This was discussed and agreed at the Pensions Advisory Panel Meeting on 3rd September 2014. This in turn has led to a further revision of the SIP.

The purpose of this review is to give assurance that the key controls are working effectively and that there is appropriate compliance with regulations and procedures.

Audit Opinion:

In each report we provide management with an overall assurance opinion on how effectively risks are being managed within the area reviewed. Appendix A of the report details our assurance levels:

Assurance:	Explanation
Green / Substantial	<p>Strong controls in place (all or most of the following)</p> <ul style="list-style-type: none"> ▪ Key controls exist and are applied consistently and effectively ▪ Objectives achieved in a pragmatic and cost effective manner ▪ Compliance with relevant regulations and procedures ▪ Assets safeguarded ▪ Information reliable <p>Impact: key controls have been adequately designed and are operating effectively to deliver the key objectives of the system, process, function or service.</p>

The table below highlights the number and priority of agreed actions to be implemented.

Priority	High	Medium	Low	Total
No.	0	0	2	2

The scope of the review includes:

- Scheme of delegation
- Fund strategy changes
- Outcome of the strategic fund review
- New fund manager appointments
- Oversight of liability driven investment strategy
- Mercer's independent assurance of transactions.

2. Summary Findings:

Areas Managed Well	Areas for Further Improvement
<ul style="list-style-type: none"> • The reallocation of funds following the Strategic Fund Review has been approved by Committee. • The LDI has been approved by Committee and has resulted in a revised SIP which has also been approved. The Investment Management Agreement has been signed by all parties. • As part of the Flight-path Strategy, a number of triggers have been set, including interest rate, inflation rate and funding triggers. Regular monitoring of these has been in place. • Formalised arrangements are in place for the provision of advice with regard to the implementation of the Flight Path project. • A Training Policy has been approved and a Training Plan devised which complies with the CIPFA Knowledge and Skills Framework. Work is in hand to produce a Training Needs Analysis. • Performance of the Fund is monitored and reported on at each Committee Meeting. • A risk management policy and risk register has been established and populated. 	<ul style="list-style-type: none"> • CPRs should be followed for all procurement processes. • The risk owners should be identified in the Risk Register.

3. Action Plan:

Priority	Description
High	Action is imperative to ensure that the objectives of the area under review are met.
Medium	Requires action to avoid exposure to significant risks in achieving the objectives of the area.
Low	Action encouraged to enhance control or improve operational efficiency.

No.	Findings and Implications	Agreed Action	Who	When
1	The procurement process for the extension of the contract for the External Advisor to support the management of the 'In House' Investments for at least 12 months was not in full compliance with the Authority's Contract Procedure Rules. A formal contract exemption was not sought at the time of the extension of the contract for the external advisor.	Management will ensure full compliance with the CPRs for all procurement processes to provide a full audit trail in the event of any decisions being challenged.	Phil Latham	6/5/2015
2	<p>A Risk Register and risk management strategy has been developed in conjunction with the Independent Advisor. This includes the risk identification, analysis, control and monitoring process. Risk management is to be reported to the Clwyd Pension Fund Committee on a quarterly basis and the Independent Governance Advisor has been commissioned to provide an annual report on the governance of the fund each year-a key part will focus on the delivery of the requirements of the policy.</p> <p>The Register follows the format of the example register included within CIPFAs 'Managing Risk in the Local Government Pension Scheme' document. It includes specific funding and investment risks linked to the strategic objective. The risks relating to markets falling below actuarial assumptions and liabilities increasing are due for consideration and detailed quantification as part of the 2015 funding review. We noted that the register does not state ownership for each risk identified.</p>	Management will be considering the inclusion of the risk ownership within the Risk Register to clearly distinguish the lines of responsibility. This will be discussed at the next meeting of the Advisory Panel.	Phil Latham	31/5/2015

4. Distribution List:

Name	Title	
Colin Everett	Chief Executive	
Helen Stapleton	Chief Officer – People and Resources	
Gary Ferguson	Corporate Finance Officer	
Phil Latham	Clwyd Pensions Fund Manager	
Debbie Fielder	Pensions Finance Manager	
Alwyn Hughes	Pensions Finance Manager	

Appendix A – Audit Opinion:

The audit opinion is the level of assurance that Internal Audit can give to management and all other stakeholders on the adequacy and effectiveness of controls within the area audited. It is assessed following the completion of the audit and is based on the findings from the audit. Progress on the implementation of agreed actions will be monitored. Findings from **Some** or **Limited** assurance audits will be reported to the Audit Committee.

Assurance	Explanation
Green - Substantial	<p>Strong controls in place (all or most of the following)</p> <ul style="list-style-type: none"> ▪ Key controls exist and are applied consistently and effectively ▪ Objectives achieved in a pragmatic and cost effective manner ▪ Compliance with relevant regulations and procedures ▪ Assets safeguarded ▪ Information reliable <p>Impact: key controls have been adequately designed and are operating effectively to deliver the key objectives of the system, process, function or service.</p>
Amber Green – Reasonable	<p>Key Controls in place but some fine tuning required (one or more of the following)</p> <ul style="list-style-type: none"> ▪ Key controls exist but there are weaknesses and / or inconsistencies in application though no evidence of any significant impact ▪ Some refinement or addition of controls would enhance the control environment ▪ Key objectives could be better achieved with some relatively minor adjustments <p>Impact: key controls generally operating effectively but there remains a potential risk of loss, fraud, impropriety or damage to reputation and / or failure to deliver organisational objectives.</p>
Amber Red – Some	<p>Significant improvement in control environment required (one or more of the following)</p> <ul style="list-style-type: none"> ▪ Key controls exist but fail to address all risks identified and / or are not applied consistently and effectively ▪ Evidence of (or the potential for) financial / other loss ▪ Key management information exists but is unreliable ▪ System / process objectives are not being met, or are being met at an unnecessary cost or use of resources. <p>Impact: key controls are generally inadequate or ineffective and there is an increased probability of loss, fraud, impropriety, waste, damage to reputation and / or failure to deliver organisational objectives.</p>
Red – Limited	<p>Urgent system revision required (one or more of the following)</p> <ul style="list-style-type: none"> ▪ Key controls are absent or rarely applied ▪ Evidence of (or the potential for) significant financial / other losses ▪ Key management information does not exist ▪ System / process objectives are not being met, or are being met at a significant and unnecessary cost or use of resources. <p>Impact: a lack of adequate or effective controls leading to a high probability of loss, fraud, impropriety, waste, damage to reputation and / or failure to deliver organisational objectives.</p>