

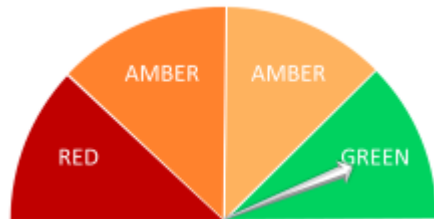
# Flintshire Internal Audit

## Audit Report

**Title:** 20/21 Pensions Investment, Management & Accounting  
**Portfolio:** External  
**Issued Dated:** March 2021  
**Report No:** 33-2020/21  
**Report Status:** Final

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

### Audit Opinion



# 1 Executive Summary:

## Introduction and Scope:

An audit of Pensions Investment Management and Accounting was undertaken as part of the approved Internal Audit Annual Plan for 2020/21. The review focused on the governance and management of strategic and operational risks associated with Pensions' Funding and Investments.

The Clwyd Pension Fund is a £2.1bn Local Government Pension Fund which provides death and retirement benefits for local government employees (excluding teachers, police and fire-fighters) in North East Wales and employees of other qualifying bodies which provide similar services. The Fund has circa 49,600 members of which circa 17,429 are active contributors across 49 contributing employers and about 32,137 are retired members, widows and deferred members.

The key decision making and management of the Fund has been delegated by Flintshire County Council as the administering authority to a formal Pension Fund Committee. The Pension Fund Committee is supported by a Pensions Advisory Panel. The Fund takes advice from a regulated investment consultant, Mercer, prior to making any strategic investment decisions. Mercer also support the Fund in providing risk management advice.

The Clwyd Pension Fund Risk Policy has been devised to provide guidance on the risk management strategy for the Fund, including philosophy and risk appetite, risk management responsibilities as well as procedures to be followed as part of the risk management process. A policy review must take place at least every 3 years or if regulatory changes are required. The Policy was recently reviewed and approved in October 2020 in line with agreed review dates.

The Independent Governance Adviser, AON, provides an annual report on the governance of the Fund. A number of key areas of focus were

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

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

Priority	High (Red)	Medium (Amber)	Low (Green)	Total
No.	0	1	0	1

highlighted in the most recent independent report which included the following:

- The delivery of the McCloud Remedy Programme;
- Implementation of the Fund's Investment Strategy statement with the agreed Responsible Investment Priorities;
- Transition of assets to the Wales Pension Partnership (WPP) and development of governance policies and processes; and
- Consideration of risks and controls in place to provide adequate assurance in relation to Cybercrime.

Significant action has been taken to address the risks associated with the areas identified. Specific reports have been drafted and presented at Committee to provide a background into required changes and obtain agreement on the actions to be taken to address the required changes.

Risk assessments are carried out quarterly to identify and manage the main risks associated with the achievement of the scheme objectives, functions and activities. Risk registers and the Business Plan are reviewed and updated by the Advisory Panel and areas for concern are presented at Committee. Changes in risk appetite are highlighted in the individual Committee Reports for the respective risk area. The review has demonstrated that risks are being adequately assessed and accurately presented for decision by the Committee where required. In addition, emerging risks (ie. COVID) have been considered and assessed and the respective risk registers and risk profile updated accordingly.

Due to changes in legislation, amendments have been made to the Investment Strategy Statement (ISS) to include the newly formulated Responsible Investment Policy. The revision was presented at Committee and new ISS approved in February 2020.

A number of key actions have been identified in order to achieve the agreed funding and investment objectives and these have been included in the Fund's Business Plan. These actions are aligned with the key aims and objectives of the investment strategy statement. Regular fund reviews

are undertaken quarterly. Quarterly reports are presented at Committee on fund performance. The information contained within the Committee packs is comprehensive, with the appropriate level of information to assist Committee members in fulfilling their roles and responsibilities.

Lastly, the Clwyd Pension Fund accounts and Annual Report were completed within statutory timescales. Audit Wales did not have any review recommendations and no new risks have been identified for consideration as part of this internal audit review.

The review has identified that key controls have been adequately designed and are operating effectively to oversee and mitigate operational and strategic risks associated with CPF funding and investments. A finding has been raised relating to enhancements to be made to the Investment and Funding Risk register as well as the McCloud Remedy Programme risk register. Due to the strong control environment, a Substantial assurance rating has been awarded.

## 2 Summary Findings:

Areas Managed Well	Areas for Further Improvement
<ul style="list-style-type: none"> <li>• The Clwyd Pension Fund Risk Policy was reviewed and approved in October 2020.</li> <li>• An Independent Governance Adviser is commissioned yearly to provide an annual report on the governance of the Fund. Action has been taken to address all key areas of focus highlighted by the independent governance advisor in the most recent annual report relating to the delivery of the McCloud Remedy Programme, implementation of the Fund's Investment Strategy statement with the agreed Responsible Investment Priorities, transition of assets to the WPP and development of governance policies and processes, and consideration of risks and controls in place to provide adequate assurance in relation to Cybercrime.</li> <li>• Risk assessments are carried out regularly to identify and manage the main risk associated with the achievement of the schemes objectives, functions and activities. Risk registers are updated accordingly and presented at the Clwyd Pension Fund Committee.</li> <li>• The Investment Strategy Statement has been revised and approved to incorporate legislative changes which came into effect in 2020.</li> <li>• Regular fund reviews are undertaken quarterly by Mercer. Outcome of the reviews are updated at Clwyd Pension Fund Committee.</li> <li>• The information packs presented at Committee are comprehensive, with the appropriate level of information to assist Committee members in their awareness and decision making responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>• The mitigating actions captured as part of the McCloud Remedy Programme risk register are not specific to be able to assess whether the risk will be mitigated. Risk owners and timescales for delivery should also be added to the Programme risk register. Additionally, enhancements should be made to the Funding and Investment Risk register to clearly identify what action is being taken and how the specific action will mitigate the identified risk.</li> </ul>

### 3 Action Plan:

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

No.	Findings and Implications	Agreed Action	Who	When
1 (A)	<p>Future service changes made to Public Service pension schemes (including the LGPS) in 2014 and 2015 were found to be discriminatory against younger members by the Court of Appeal. As such, the Government has committed to making changes to all Public Service pension schemes to remove discrimination.</p> <p>In order to implement the required regulatory changes to remove the discrimination against younger members of the LGPS for the Clwyd Pension Fund, the McCloud Programme has been established. Additional resources and budget have been approved by the Committee to support this. A review of the programme risks has identified that currently eight of the nine programme risks are red. Although this may be expected for a project in its infancy, it is unclear how some of the control actions within the programme risk register will bring the risk back into the desired state as some of the actions are not specific or time sensitive. Control action dates should be added to the risk register to ensure members know what actions can be expected by what date. Control action owners should also be added to the register. This will follow the same format as the FCC approach to risk and all other risk registers used in the function.</p> <p>Failure to deliver on the control actions by the agreed timescales may impact programme delivery and the Fund may not meet its regulatory requirements.</p>	<p>The McCloud Programme risk register to be revised to include specific actions taken to address the identified risks, action delivery dates and action owners. URN 03091</p> <p>The Funding and Investment Risk register to be reviewed and enhancements to be made to the internal control wording to clearly identify what action is being taken and how this action will mitigate the identified risk. This will follow the FCC risk management approach and be consistent with all other risk registers presented at Committee.  URN 03097</p>	<p>Karen Williams</p> <p>Debbie Fielder</p>	<p>30 April 2021</p> <p>30 April 2021</p>

No.	Findings and Implications	Agreed Action	Who	When
	<p>Additionally, enhancements should be made to some of the internal controls listed in the Funding and Investment Risk Register to make it clear how the internal control action will mitigate the identified risk.</p>			

## 4 Distribution List:

Name	Title
Phil Latham	Accountable Officer Responsible for the Implementation of Agreed Actions
Colin Everett	Chief Executive
Phil Latham	Head of Clwyd Pension Fund
Debbie Fielder	Deputy Head of Clwyd Pension Fund
Paul Vaughan	Pension Fund Accountant
Karen Williams	Pensions Administration 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
<b>Green - Substantial</b>	<p><b>Strong controls in place (all or most of the following)</b></p> <ul style="list-style-type: none"> <li>• Key controls exist and are applied consistently and effectively</li> <li>• Objectives achieved in a pragmatic and cost effective manner</li> <li>• Compliance with relevant regulations and procedures</li> <li>• Assets safeguarded</li> <li>• Information reliable</li> </ul> <p>Conclusion: key controls have been adequately designed and are operating effectively to deliver the key objectives of the system, process, function or service.</p>
<b>Amber Green – Reasonable</b>	<p><b>Key Controls in place but some fine tuning required (one or more of the following)</b></p> <ul style="list-style-type: none"> <li>• Key controls exist but there are weaknesses and / or inconsistencies in application though no evidence of any significant impact</li> <li>• Some refinement or addition of controls would enhance the control environment</li> <li>• Key objectives could be better achieved with some relatively minor adjustments</li> </ul> <p>Conclusion: key controls generally operating effectively.</p>
<b>Amber Red – Some</b>	<p><b>Significant improvement in control environment required (one or more of the following)</b></p> <ul style="list-style-type: none"> <li>• Key controls exist but fail to address all risks identified and / or are not applied consistently and effectively</li> <li>• Evidence of (or the potential for) financial / other loss</li> <li>• Key management information exists but is unreliable</li> <li>• System / process objectives are not being met, or are being met at an unnecessary cost or use of resources.</li> </ul> <p>Conclusion: key controls are generally inadequate or ineffective.</p>
<b>Red – Limited</b>	<p><b>Urgent system revision required (one or more of the following)</b></p> <ul style="list-style-type: none"> <li>• Key controls are absent or rarely applied</li> <li>• Evidence of (or the potential for) significant financial / other losses</li> <li>• Key management information does not exist</li> <li>• System / process objectives are not being met, or are being met at a significant and unnecessary cost or use of resources.</li> </ul> <p>Conclusion: a lack of adequate or effective controls.</p>