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**Audit West**

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# **Internal Audit Report**

**Confidential**

# **Brunel Transition**

**April 2018**

## Executive Summary

### Audit Opinion:

| Assurance Rating | Opinion  |
|------------------|--|
| Level 5          | The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary   |
| Level 4          | The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary   |
| Level 3          | The systems of internal control are satisfactory and reasonable assurance can be provided. However there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan                        |
| Level 2          | The systems of internal controls are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure                                    |
| Level 1          | The systems of internal controls are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee |

### Assurance Summary:

| Assessment | Key Control Objectives  |
|------------|---|
| Excellent  | There is a robust, up to date project plan in place which has been properly approved and effectively communicated |
| Excellent  | Where there is slippage, appropriate remedial action is taken   |
| Excellent  | There are robust risk management arrangements in place  |
| Excellent  | New governance and other arrangements are comprehensive, clear and have been agreed by all relevant parties       |
| Excellent  | Risks relating to new arrangements have been included in the risk register  |
| Excellent  | Senior managers and members are kept properly informed  |
| Excellent  | Adequate training has been provided to all relevant parties   |

## Detailed Report

### Opinion:

Internal Audit has undertaken a review of the risks and controls related to Avon Pension Fund's preparation for the transfer of assets to the Brunel Pension Partnership (BPP). The framework of internal control has been assessed at Level 5 'Excellent'. 1 audit recommendation is detailed in the Action Plan; however this is simply an opportunity suggestion, rather than in response to a weakness identified.

### Scope and Objectives:

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above.

### Background

In 2015, the Government announced their intention for the 89 Local Government Pension Scheme funds to pool their investments. In response to the government agenda, Project Brunel was set up to explore the options for pooling investment assets across ten funds. The founding funds include the Environment Agency Pension Fund, and the Local Government funds of Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire.

The Brunel Pension Partnership Ltd was formed in July 2017 and will oversee in the region of £28 billion of investments, including Avon Pension Fund (APF) investments. The objective of pooling assets is to achieve savings over the longer term from both lower investment management costs and more effective management of the investment assets. The pool will look to deliver the savings based upon the collective buying power the collaboration initiative will produce. Local accountability will be maintained as each individual fund will remain responsible for strategic decisions including asset allocation.

The project stages are:-

- Government call for proposals November 2015
- Stage 1: Develop initial proposal November 2015 - February 2016
- Stage 2: Develop detailed proposal February 2016 - July 2016
- Stage 3: Planning and set up for asset pooling July 2016 - April 2018
- Stage 4: Asset Pooling implementation starting no later than April 2018

This audit focusses on stage 3 of the project.

### Context and Audit Comment

The current audit has been conducted as part of the 2017/18 Audit Plan, and has sought to confirm that preparations for the transfer of assets into the pool have been undertaken in an effective and timely manner.

In order to arrive at our conclusions, we have met with the Avon Pension Fund Investment Manager to discuss processes, and have reviewed a selection of supporting evidence for the processes concerned.

Our overall view is that the Avon Pension Fund has made timely preparations effectively reducing the risks associated with transferring assets into the BPP pool. We have not identified any current slippage, however the transition plan has only recently commenced, so there is little planned progress as yet.

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Good practice was apparent in a number of areas and there are no issues identified within this report. We have made one low risk recommendation; however this is simply an opportunity suggestion, rather than in response to a weakness identified.

### **We identified the following strengths:**

There are a number of related project plans in place, including an overall BPP Project Plan, Custodian plans relating to APF and the Fund's Transition of Assets Plan for the coming transition process. All seem comprehensive and have been properly approved and effectively communicated.

Related risk management arrangements are robust, and relevant risks have been identified, assessed and recorded with the Fund's risk register, with mitigating actions clearly set out. There is a separate risk register specific to the Avon pension fund transition plan.

Governance and other arrangements relating to BPP transition are in place and have been agreed by all relevant parties (B&NES s151 Officer and Monitoring Officer and their equivalents at the 9 other funds). These include the required Shareholder Agreement, and the Services Agreement, which, following FCA approval of the BPP, has now been signed.

Senior managers and members have been kept properly informed throughout the process.

### **Audit & Risk Personnel:**

Lead Auditor: Vince Langdon

### **Acknowledgements:**

Sincere thanks to Liz Woodyard, Avon Pension Fund Investment Manager, for her help and assistance provided throughout the Audit review.

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**ACTION PLAN**

| LOW RISK EXPOSURE |   |  |  |  |
|-------------------|---|--|--|--|
|                   | Weakness Found  | Implication or Potential Risk  | Recommendation(s)  | Responsible Officer<br>Management Comments<br>Implementation Date  |
| <b>L1</b>         | <p><b><u>Risk Mitigation</u></b></p> <p>A review of the Fund’s risk register identified one risk deemed to be ‘potentially off-target’. This relates to the Fund being unable to recruit appropriately skilled technical or investment staff given transfer of key offers to BPP and the short supply of such staff regionally in the market.</p> <p>Although a number of proposed actions have been recorded, including identifying additional training and professional qualification needs of remaining officers, buying in resource from advisors or BPP as appropriate, continuously risk assessing the current work programme to ensure only priority work will be undertaken in the short term, and exploring options for developing apprentice and graduate level staff; the risk has yet to be satisfactorily mitigated.</p> | <p>As per the risk register, this could restrict the Fund’s ability to develop and implement the service plan.</p> | <p>Management should consider approaching other Pension Funds within the BPP to establish whether there are additional steps that could be taken that have not yet been considered. This could include the opportunity for sharing resource in the short term.</p> | <p>The Committee approved extra resource for the Investment Team in March 2018. Recruitment expected to be 3Q18.</p> <p>Discussions with other funds about sharing resources are ongoing but options limited as other funds in pool face similar issue regarding their level of investment resource.</p> |