

The logo for Audit West features the company name in a bold, orange, sans-serif font. The text is centered between two horizontal grey lines. A small grey diamond shape is positioned at the top center, between the two lines, pointing downwards towards the text.

Audit West

Internal Audit Report
Confidential

**Avon Pension Fund – Risk
Management**

November 2020

Executive Summary

Audit Opinion:

Assurance Rating	Opinion
Level 5 - Full Assurance	The systems of internal control are excellent with a number of strengths, no weaknesses have been identified and full assurance can be provided over all the areas detailed in the Assurance Summary.
Level 4 - Substantial Assurance	The systems of internal control are good with a number of strengths evident and substantial assurance can be provided as detailed within the Assurance Summary.
Level 3 - Reasonable Assurance	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 - Limited Assurance	The systems of internal control are weak and only limited assurance can be provided over the areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.
Level 1 - No Assurance	The systems of internal control are poor, no assurance can be provided 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.

Assurance Summary:

Assessment	Key Control Objectives
Good	1. Ensure compliance with the Pension Regulator rules and guidance related to the management of risk.
Good	2. Ensure that risks and internal control measures related to the management of the Pension Fund and safeguarding of its assets are being identified, assessed, documented and scrutinised.
Good	3. Ensure that Avon Pension Fund decisions are fully informed based on risk/opportunity assessments and subjected to scrutiny/ challenge

Detailed Report

Opinion

Internal Audit has undertaken a review of the controls over the Avon Pension Fund (APF) Risk Management process. The framework of internal controls has been assessed and given an assurance rating of “**Substantial Assurance**”. A total of 3 audit recommendations are detailed in the Action Plan.

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.

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Context & Audit Comment

The pension fund has circa 38,064 active members and pensions for eligible staff are administered by 443 employers which include councils, government agencies and schools.

B&NES Council has delegated responsibility for administering the pension fund to the Avon Pension Fund (APF) Committee which is the formal decision-making body for the fund. The Committee's role is strategic in nature, setting policy framework and monitoring implementation and compliance within that framework.

The APF Committee and administering authority are scrutinised by the Pension Board ensuring that the governance surrounding the scheme remains robust and fit for purpose.

The scheme is regulated and overseen by the Pensions Regulator. Other bodies and agencies undertake key roles, particularly the Local Government Pension Scheme Advisory Board (SAB), the Ministry for Housing Communities and Local Government, and CIPFA, which sets the accounting standards.

The APF Committee is responsible for ensuring that there is an adequate risk management framework in place to ensure compliance with the regulations and to address the risks faced by the Fund. The risk management process is supported by the Senior Management Team and the APF Committee. An audit of the APF Risk Management process was part of the agreed Audit Plan for 2020-21.

The risk management process, used by APF, is based on the CIPFA 'Managing Risk in the Local Government Pension Scheme' guidance. However, the BANES risk register template and the risk scoring system has been adopted and the risk register template is linked to the Council's Corporate guidance.

Overall, the control framework in place and operating for the management of risk was found to be effective. Good practice was apparent in a number of areas reviewed and these are detailed in the section below.

We identified the following strengths

- The APF created a new position in April 2019, the Governance & Risk Advisor. The purpose of this post was to have knowledge, oversight and overall management of the risks that could impact on the pension fund.
- A new risk management process was developed and implemented circa March 2020 which required the attendance of risk owners at quarterly risk management meetings. These meetings have had a good rate of attendance and they have taken place regularly, despite the Covid-19 pandemic.
- There is a process in place to identify, evaluate and implement controls to mitigate risks and record them on the risk register. Risks are delegated to APF Service Managers (total of eight people), based on the risk area. As part of this process, a risk evaluation form has been introduced which specifies a unique risk identifier number, the risk area, the risk score, the mitigations, the review date and the risk owner. The Risk Register is reviewed regularly by the management team and it is reported quarterly to the Avon Pension Fund (APF) Committee.
- The Governance & Risk Advisor actively chases the risk owners for any actions that are due prior to the quarterly Risk Management meetings.
- The Risk Register is reviewed quarterly by the APF management team so that any amendments to the risk profiles coincide with the dates for the quarterly APF Committee meetings. This ensures that strategic decisions are made based on current risk information.
- There is a recently approved (June 2020) detailed Terms of Reference (ToR) document in place that describes the purpose, scope and authority of the APF committee. The ToR also states the frequency of the committee meetings, membership and there is a focus on risk management.

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- The APF Committee has had sight of the three APF Strategies and they have given formal approval for each strategy, after consideration of the risks. The Administration and Funding strategies were last reviewed circa June 2019, while the Investment Strategy is more recent, having been approved in September 2020.
- Appropriate senior officers from the Avon Pension Fund (APF) actively attend the APF Committee where discussions around risk and its management featured in all of the minutes reviewed.
- Investment and Funding risks are managed by specialist teams, within the APF, who are supported by external Investment & Actuarial Advisors. These advisors (Mercers) attend the APF committee meeting to provide Investment updates, funding position updates, or if they are reporting on the results from the full / interim valuation. The Investment Advisors present an annual report on the Risk Management Strategies for Investments and the most recent report was presented in September 2020.
- A review of the APF Committee minutes confirmed that risk management informs proposals put forward such as fossil fuel divestments and the recent impact of the Covid-19 pandemic.
- The APF demonstrates good practice by having a risk management section within the “Avon Pension Fund Annual Report” which also has a summary of the risk register and the actions taken to manage the risks.

We identified the following weaknesses

- The Administration, Funding and Investment strategies have been updated in the last fifteen months but there was limited analyse of risks related to each strategy.
- A formal process to record the outcomes from the Risk Management meetings is not in place.
- The APF Risk Management Life Cycle process document does not provide enough information, such as links to relevant forms.

Audit & Risk Personnel

Audit Manager, IT and Finance: Tariq Rahman.
Head of Audit: Andy Cox.

Acknowledgements:

Sincere thanks to Geoff Cleak, Liz Woodyard and Carolyn Morgan for all their help and assistance throughout the Audit Review.

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Action Plan

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication of Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M1	<p>There are three strategies (Investment, Funding, and Administration) that provide strategic direction and key objectives for managing the Pension Fund. It was not possible to easily understand the specific risks and mitigating actions required related to each individual strategy document.</p> <p>Furthermore, there is no specific section within the Administration Strategy related to risk and associated counter measures.</p>	<p>Non-compliance with the Code of Practice 14 which requires the main risks associated with objectives, functions and activities to be identified.</p> <p>Those tasked with approving APF Strategy documents (decision makers) are not being provided with all the necessary information to verify that risks directly linked to the adoption of a Strategy have been identified and managed.</p>	<p>A risk assessment for the Administration Strategy should be carried out to identify specific risks and countermeasures.</p> <p>The risks on the strategy documents and the risk register should be reviewed to ensure that there is a direct correlation between the risks and mitigations in the two documents.</p>	<p>Agreed</p> <p>Responsible Officers: Governance & Risk Advisor, Carolyn Morgan.</p> <p>Implementation Date: 31st March 2021.</p> <p>A risk assessment for the Administration Strategy will be carried out by the due date.</p> <p>An extra column will be included within the Risk Register to cross reference to the relevant strategy.</p> <p>Additionally, the risk register will be reviewed to ensure that wording corresponds to the strategy documents.</p>
M2	<p>A formal Terms of Reference for APF Risk Management Group has not been agreed / adopted. Linked to this the auditor noted that meeting minutes or outcomes are not maintained for monitoring purposes.</p>	<p>Outcomes from the meetings cannot be easily followed-up.</p> <p>Lack of continuation with the risk management life cycle in the event that the Governance & Risk Advisor left.</p>	<p>The Governance & Risk Advisor should write and table a 'Terms of Reference' for the Risk Management Group to adopt.</p> <p>The 'Terms of Reference' should specify the operation of the group including the need to maintain minutes or a record of outcomes for actioning which can then be monitored for implementation.</p>	<p>Agreed</p> <p>Responsible Officers: Governance & Risk Advisor, Carolyn Morgan.</p> <p>Implementation Date: 31st March 2021.</p>

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LOW RISK EXPOSURE				
	Weakness Found	Implication of Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
L1	A Risk Management process document was seen that outlined the process for the APF risk management lifecycle. However, this document does not provide sufficient detail such as assignment/role of the responsible officer for each risk, importance of implementation dates or hyperlinks to relevant forms.	Staff may not be fully aware of the APF Risk Management Lifecycle.	<p>The Risk Management process document should be updated to ensure that sufficient detail is provided for key stages of the Risk Management Lifecycle as outlined in the Council's Risk Management Toolkit.</p> <p>This document should be version controlled and have an assigned author.</p>	<p>Agreed</p> <p>Responsible Officer: Governance & Risk Advisor, Carolyn Morgan.</p> <p>Implementation Date: 31st March 2021.</p>