

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 (APF)
Pensions Governance - Code of
Practice 14

July 2021

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	Ensure that Pension Board members are conversant with Pension legislation and Scheme rules & policy (links to 'Resolving Issues' section of COP e.g. reporting breaches of law).
Good	Ensure that the Scheme Manager is satisfied that new/ existing Board Members do not have a conflict of interest.
Good	Ensure compliance with scheme regulations on representation and the principles of proportionality, fairness, transparency and skills.
Good	Ensure that Information about the Pension Board is accessible and up to date.

Detailed Report

Opinion

Internal Audit has undertaken a review of the controls over the Avon Pension Fund (APF) Code of Practice 14. The framework of internal controls has been assessed and given an assurance rating of “**Substantial Assurance**”. A total of three audit recommendations, and one opportunity, 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.

Context & Audit Comment

B&NES Council administers the Avon Pension Fund on behalf of approximately 464 employing bodies mostly situated in the former Avon County Council area. The four unitary councils account for circa. 50% of the contributing members. The total number of scheme members as at 31 March 2021 was 125,322, of whom 31% were contributors, 28% were pensioners, 34% deferred pensioners & 7% undecided leavers.

There are 89 Councils which administer the Local Government Pension Scheme (LGPS) in the United Kingdom and the Avon Pension Fund is one of the larger funds, with circa £4.5bn value.

The Local Government Pension Scheme (LGPS) is a statutory scheme, with all benefits guaranteed. The LGPS provides pensions based on final salary for service until 31 March 2014 and on Career Average Revalued Earnings (CARE) for service accruing from 1 April 2014.

The scheme is regulated and overseen by the Pensions Regulator who has a number of regulatory tools, including issuing “**Codes of Practice**”, to enable it to meet its statutory objectives. 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.

Codes of Practice provide practical guidance in relation to the exercise of functions under relevant pensions legislation and set out the standards of conduct and practice expected from those who exercise those functions. Code of Practice 14 (COP 14) is particularly directed at scheme managers and the members of pension boards of public service pension schemes and connected schemes. Scheme managers must comply with various legal requirements relating to the governance, management and administration of public service pension schemes. Pension boards must also comply with certain legal requirements, including assisting scheme managers in relation to securing compliance with scheme regulations and other legislation, or requirements, relating to the governance and administration of the scheme.

COP 14 requirements have been subject to Internal Audit review for several years, and for the financial year 2020/ 21, the focus of the audit scope was:

- Appointment of new Pension Board members
- Board Members are conversant with Pension Scheme legislation and standards
- Board Members do not have a conflict of Interest
- The Board has equal representation from employers and employees
- Information about the Pension Board is accessible and up to date.

Attendance at non-mandatory training events was found to be 67% for the financial year 2020/ 21. Pension Fund Management should consider methods for increasing the uptake at these events because they provide an opportunity for Board members to review reports in detail and to understand/ comment on the future direction of the fund.

Overall, the control framework in place and operating for the management of the COP 14 elements reviewed was found to be effective. Good practice was apparent in several areas reviewed and these are detailed in the section below.

We identified the following strengths

- The Council’s constitution contains the Terms of Reference for the Pension Board and it clearly states that the Board is a scrutiny function only – i.e. the Board does not have decision-making powers.
- When new members to the Board are appointed, they are sent a detailed communication informing them of the required reading material that would be necessary for them to carry out their scrutiny function adequately. This is further re-enforced at a formal induction training session.

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- For the financial year 2020/21 to date, there is a 100% attendance rate for mandatory induction training for new members.
- The current induction training session is comprehensive and covers key topics such as: the pensions legislative framework, governance arrangements and roles and responsibilities, including that of the Scheme Advisory Board and the Pension Regulator.
- The Governance & Risk Advisor maintains an up to date “Training and Attendance” log. The document is used for recording attendance at meetings and training events. It also records when a member was appointed, and the seminars/ training attended.
- Pension Members’ Work Plan and Training Plan is a standing Pension Board agenda item.
- The Pension Board Terms of Reference document is provided to members as part of the recruitment process and is also presented annually in Board meeting papers. The last time it was reported to the Board was in November 2020.
- In compliance with COP 14 requirements, Pension Board members are asked to declare any conflicts of interest at the start of each meeting. This requirement is recorded in the minutes of the meeting.
- The general principles of conduct identified by the Committee on Standards in Public Life (Nolan Principles), are brought to members attention as part of the induction process and members are required to sign the Code of Conduct.
- There are a number of methods used to inform and educate Board Members of changes in pension legislation, these includes:
 - a monthly bulletin that explains any regulatory updates and changes to the scheme produced by the Local Government Employers (LGE).
 - LGPS regulatory updates is a standard agenda item for Pension Board meetings (which occur four times per year).
 - Member training - attendance at LGPS seminars and workshops.
- The membership of the Avon Pension Fund Pension Board complies with the requirements of the Local Government Pension Scheme regulations.
- Online information about the Pension Board is accessible through the Avon Pension Fund website and this was reviewed and found to be up to date.

We identified the following weaknesses

- Internal Audit was informed that all members have completed the Pension Regulator’s Toolkit, but this was not evidenced for all members.
- One out of three new Board Members had not completed a Register of Interest Form and/ or evidence was not held to record that they had signed a declaration agreeing to abide by the Member Code of Conduct.
- Evidence is not held to verify that an Independent Officer has reviewed declarations and made a judgement or provided guidance on action to be taken based on the declaration submitted.

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We identified the following opportunity

- A checklist should be developed that could be used by Pension Fund management to monitor the Pension Board's governance arrangements, including the compliance with the requirements of COP 14.

Audit & Risk Personnel

Audit Manager, IT and Finance: Tariq Rahman.

Head of Audit: Andy Cox.

Acknowledgements:

Sincere thanks to Geoff Cleak, Carolyn Morgan and Mark Durnford 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>Declaration of Interest/ Code of Conduct One out of three new Board Members had not completed a Register of Interest Form and/ or evidence was not held to record that they had signed a declaration agreeing to abide by the Member Code of Conduct.</p>	<p>Conflicts of Interest could result in unintentional bias in the scrutiny function that members carry out.</p> <p>Members may not be aware of the standards expected of them when they discharge their duties.</p>	<p>The Democratic Services Officer in liaison with Scheme Manager / Pension Board Lead Officer should write to all Pension Board Members requesting that they:</p> <ol style="list-style-type: none"> 1) complete and submit the Register of Interests form before attending the next meeting of the Board. 2) sign the Code of Conduct declaration. 	<p>Agreed</p> <p>Responsible Officers: Democratic Services Officer, Mark Durnford.</p> <p>Implementation Date: 1st October 2021</p>
M2	<p>Pension Regulator’s Toolkit Internal Audit was informed that all members have completed the Pension Regulator’s Toolkit, but this was not evidenced for all Board Members.</p>	<p>Non-compliance with COP 14 requirements.</p> <p>Poor/ incorrect opinions and advice could be given if members do not have the necessary knowledge or understanding.</p>	<p>The Governance & Risk Advisor should confirm with Pension Board Members that they have completed the Pension Regulator’s Toolkit.</p> <p>The individual training records, for each member, should be updated accordingly.</p>	<p>Agreed</p> <p>Responsible Officers: Governance & Risk Advisor, Carolyn Morgan.</p> <p>Implementation date: Immediate</p> <p>The Governance & Risk Advisor has now contacted outstanding members to request for evidence.</p>

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LOW RISK EXPOSURE				
	Weakness Found	Implication of Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
L1	<p>Independent Review of ‘Declarations of Interest’ submitted</p> <p>Evidence is not held to verify that an Independent Officer has reviewed declarations and made a judgement or provided guidance on action to be taken based on the declaration submitted.</p>	<p>Conflicts of Interest could result in unintentional bias in the scrutiny function that members carry out.</p>	<p>The Democratic Services Officer should liaise with the Governance & Risk Advisor on an annual basis to confirm that they have reviewed the Register of Interest for all members, considered any risks and, if necessary, notified the Scheme Manager.</p> <p>Records of these checks should be maintained.</p>	<p>Agreed</p> <p>Responsible Officers: Democratic Services Officer, Mark Durnford.</p> <p>Implementation Date: 1st January 2022</p>

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OPPORTUNITY				
	Weakness Found	Implication of Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
01	<p>Annual Governance/ COP 14 requirements review Apart from Internal Audit activity, formal review of the governance arrangements related to COP 14 requirements is not carried out.</p>	<p>Potential non-compliance with governance, and COP 14 requirements, may not be identified and corrected in a timely manner.</p>	<p>A checklist should be developed that could be used by Pension Fund management to monitor the Pension Board’s governance arrangements, including the compliance with the requirements of COP 14.</p> <p>Examples of areas that could be included are:</p> <ul style="list-style-type: none"> • Annual review of the Terms of Reference. • A review of the Conflicts of Interest and ensuring that these are recorded within a Register of Interest. • A review of attendance at meetings & training sessions. • Completion of relevant documentation by new members. • Online Pension Board information is accessible, relevant, and current. <p>The level of compliance to this checklist should be reported to the Pension Board.</p>	<p>Agreed</p> <p>Responsible Officers: Governance & Risk Advisor, Carolyn Morgan.</p> <p>Implementation Date: 1st October 2021</p>