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| <b>Date:</b>              | <b>18 January 2016</b>  |
| <b>Classification:</b>    | <b>General Release</b>  |
| <b>Title:</b>             | <b>Audit Arrangements</b>   |
| <b>Report of:</b>         | <b>Steven Mair<br/><i>City Treasurer</i></b>                        |
| <b>Wards Involved:</b>    | <b>All</b>  |
| <b>Policy Context:</b>    | <b>Effective Control over Council Activities</b>                    |
| <b>Financial Summary:</b> | <b>There are no financial implications arising from this report</b> |

## **1. Executive Summary**

- 1.1 This report explains the audit arrangements around the City of Westminster Pension Fund.

## **2. Key Matters for the Board**

- 2.1 The Board note the contents of this paper.

## **3. Background**

- 3.1 The Terms of Reference for the Board state that a key element of their role is to ensure effective and efficient governance and administration of the scheme. A key source of assurance for the Pension Fund is the work of internal and external audit. Where third party organisations are involved, the Fund also receives Internal Controls Assurance reports which are produced by their external auditors and are relied upon by our Auditors.

## **4. Internal Audit**

- 4.1 The work of Internal Audit is determined on a risk based assessment of the organisation's activities and is agreed with the Audit Committee on an annual basis.

- 4.2 Internal Audit reviews the processes and governance arrangements in place to ensure risk is effectively managed and controls are in place to mitigate significant risks.
- 4.3 A review of the Internal Audit reports covering pension issues has been undertaken and the recommendations and actions are summarised in Appendix 1. The most recent report looked at the Tri-Borough Pensions Team and the arrangements were found to be satisfactory.
- 4.4 The Pension Administration contract has been transferred to Surrey County Council for all the tri-borough Funds over the past year which has led to a large amount of work to ensure data is transferred accurately. Given this is a significant area of risk, this contract will be reviewed as part of the 2016/17 Audit Plan.

## **5. External Audit**

- 5.1 The role of External Audit is different to Internal Audit for a number of reasons. External Audit has a specific role to give an opinion on the financial accounts of the organisation which provides credibility to those looking at the organisation from the outside.
- 5.2 The focus is on determining whether the accounts present 'a true and fair view' and is carried out annually. In forming this view the External Auditor will often take the work of the Internal Auditor into consideration particularly around internal controls.
- 5.3 The 2014/15 Pension Fund Accounts were approved by the External Auditors (KPMG) with no areas of concern. This is part of the wider review of the Council's financial statements and whilst it is a separate audit exercise there is no individual pension fund audit report.

**If you have any queries about this Report or wish to inspect any of the Background Papers please contact:**

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**BACKGROUND PAPERS:** None

## APPENDIX 1

### Review of Pension Fund Internal Audit Reports

Over the last year and a half there were three separate internal audit investigations carried out plus a follow up review on one of the reports. It should be noted that there were no significant risks identified and all of the actions have been implemented or are in progress.

There were two separate audits of the Pensions Administration functions at the Royal Borough of Kensington and Chelsea (RBKC) and the London Borough of Hammersmith & Fulham (LBHF). The audit reports reflected the period covered by the Capita contract which has subsequently been terminated and transferred to Surrey County Council (who also administers for the Westminster Pension Fund).

There was also an internal audit and follow up review of the Tri-Borough pension investments service, the key recommendations and resulting actions of which are summarised in the table below.

#### Pensions Investment Team – October 2014

| <b>Medium Priority Recommendations</b>   | <b>Agreed Actions</b>   |
|--|---|
| The Tri-borough Director of Pensions and Treasury should ensure that actions continue to further develop the Tri-borough Pensions Risk Register so that it is in-line with the Tri-borough Risk Management guidance. Where necessary further support should be sought from the Bi-borough Risk Manager.<br>Once the actions are complete the Risk Register should be presented to the Committee with responsibility for Pension Investments for each Council for their review. The Committees should be presented with the relevant risk register on at least an annual basis, or where there has been a significant change. | Papers will be going to the relevant Committees in the next cycle or the one after. Subject to discussion with the Tri-Borough risk team. |
| The Tri-borough Director of Pensions and Treasury should ensure that the appropriate contractual agreements are in place, and signed by both parties, for the exceptions identified.   | Such arrangements are now in place.   |

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| <p>The Tri-borough Director of Pensions and Treasury should ensure that as part of his review of the terms of reference for the WCC Superannuation Committee and the RBKC Investment Committee the quorum arrangements should be explicitly recorded.</p> <p>Actions already being taken to address the performance of the Capita Contracts for both RBKC and LBHF should continue with evidence maintained to demonstrate this. Once the new pension administration service for WCC has been properly embedded a review of the provider's performance should take place. LBHF and RBKC are currently considering their options for pension service provision over the long term and it is expected that a decision will be made on this shortly.</p> | <p>The quorums for each committee are already detailed in the Standing Orders.</p> |
| <p>In order to ensure that there is sufficient oversight in place, the reconciliations undertaken by the LBHF Pension Fund Officer should be reviewed by another officer with evidence maintained to support this.</p>  | <p>Accepted.</p>   |

### Conclusion

From this review of the control framework, **satisfactory assurance** can be given that robust arrangements are in place for the management of each Council's pension fund. One significant (medium) recommendation has been made in the following area to address the control weakness identified:

- Actions need to continue to address the performance issues identified with the pension fund scheme administrators for RBKC and LBHF.

Whilst it is appreciated that this issue relates to the bi-borough pension administration arrangement, and is not strictly an investment issue, the matter was brought to the attention of the auditor whilst reviewing the information provided to the Committees on the administration costs associated with each fund, and has therefore been included in this report. This should not detract from the fact the arrangements in place for pension investments in all 3 boroughs were being robustly managed.

## Pensions Investment Team Follow Up Report – June 2015

| <b>Medium Priority Recommendations</b>  | <b>Agreed Actions</b>   |
|---|---|
| <p>The Tri-borough Director of Pensions and Treasury should ensure that actions continue to further develop the Tri-borough Pensions Risk Register so that it is in-line with the Tri-borough Risk Management guidance. Where necessary further support should be sought from the Bi-borough Risk Manager.</p> <p>Once the actions are complete the Risk Register should be presented to the Committee with responsibility for Pension Investments for each Council for their review. The Committees should be presented with the relevant risk register on at least an annual basis, or where there has been a significant change.</p> | <p><b>In Progress</b></p> <p>The Tri-borough Director of Treasury and Pensions stated that the Shared Services Pension Fund Risk Register had been agreed and presented to the Committee with responsibility for Pension Investments for each Council and that the risk register is to now be presented to these Committees on a regular basis.</p> <p>The format of the Pension Fund Risk Register for WCC differed to that of the risk register for RBKC and LBHF. The risks identified themselves were consistent amongst all three Councils, with RBKC and LBHF having one additional risk recorded in relation to the switch from Capita to Surrey County Council (as pension scheme administrator) resulting in a disruption to the service or a loss of data leading to poor performance and complaints.</p> |

### Conclusion

The follow up report identified that the 4 of the 5 initial recommendations had been fully addressed and the final point was in progress.

### Internal Audit Plan 2016/17

The pension administration arrangements with Surrey County Council will be reviewed as part of the 2016/17 Audit Plan which will be agreed with each Tri-Borough Authority.