

Report To: LOCAL PENSIONS BOARD

Date: 14 December 2017

Reporting Officers: Kathy Roe – Director of Finance
Wendy Poole – Head of Risk Management and Audit Services

Subject: RISK MANAGEMENT AND AUDIT SERVICES 2017/18

Report Summary: To summarise the work of the Risk Management and Audit Service for the period to November 2017.

Recommendations: Members to note the report.

Links to Community Strategy: No direct link but supports the individual operations within the Community Strategy.

Policy Implications: Effective Risk Management and Audit supports the achievement of Pension Fund objectives and demonstrates a commitment to high standards of corporate governance.

**Financial Implications:
(Authorised by the Section 151 Officer)** Effective Risk Management and Audit assists in safeguarding assets, ensuring best use of resources and the effective delivery of services.

Legal Implications:(Authorised by the Solicitor to the Fund) Demonstrates compliance with the Accounts and Audit Regulations 2015.

Risk Management: Assists in providing the necessary levels of assurance that the significant risks relating to the Pension Fund's operations are being effectively managed.

Access to Information

CONFIDENTIAL

This report contains exempt information relating to paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended). On balance, under paragraph 10 Part 2 of Schedule 12A, it would not be in the public interests to disclose this information to the public because disclosure would nor would be likely to, prejudice the commercial interests of the Fund and/ or its agents which, in turn, could impact upon the interests of the local tax payer and/or the beneficiaries of the Fund.

Background Papers:

The background papers can be obtained from the author of the report, Christine Weston, Principal Auditor by contacting:

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1 INTRODUCTION

- 1.1 This progress report covers the work carried out for the period April to November 2017.
- 1.2 The progress report for the 2017/18 Plan is attached at **Appendix A**. The details of the work carried out are explained further in the sections below.

2 REPORTS ISSUED IN THE PERIOD

- 2.1 The reports issued during the current period are detailed in Table 1 below.

Table 1 – Reports Issued

Report Title	Level of Assurance
Final Reports Issued	
Review of Fund Manager – Investec	HIGH
Advance Contributions Scheme	N/A - Advice
Visits to Contributing Bodies – National Probation Service (NPS)	MEDIUM
Private Equity	HIGH
Draft Reports issued	
GM Property Venture Fund – Review of First Street Development	
VAT	

3 FINAL REPORTS ISSUED

Review of Fund Manager – Investec

- 3.1 The Greater Manchester Pension Fund entered into an Investment Management Agreement (IMA) with IAM in February 2015, and initially placed £650m with IAM, a further £240m was also placed under their management in December 2016. The value of the assets managed for the Greater Manchester Pension Fund as at 31 March 2017 was £1,086m, which represented 5.1% of the Pension Fund's assets.
- 3.2 A visit to the London offices of Investec Asset Management was carried out in June 2017, where senior managers provided assurance and evidence of internal controls in place. Also, assurance has been taken from the IAM Report on Internal Controls which has been written in accordance with the Institute of Chartered Accountants in England and Wales Technical Release (AAF01/06) for the year to 31 March 2016, prepared by the Directors of the company and reviewed by their external auditors, KPMG, who tested that the internal controls were suitably designed and operating effectively, and gave an unqualified opinion on the report.

The risks examined in the review were as follows:

- The Investment Fund Manager may not have the most appropriate organisational structure or control framework to ensure that services are delivered to clients in the most effective or ethical manner;
- Negligence or fraud by the Investment Fund Manager may result in losses to the Pension Fund;
- All risks to the integrity of data and appropriate disaster recovery may not have been identified, evaluated and managed;
- Investment decisions and portfolio management may not maximise client returns or be performed in accordance with agreements, guidelines and policies set by the client;
- All investment transactions may not be properly authorised, executed and allocated in a timely, cost effective and accurate manner; and

- Pension Fund investments may not be accurately valued.

- 3.3 Investec is authorised and regulated in a global environment by different regulatory authorities depending on the country, for example the Financial Conduct Authority (FCA) in the UK, and the US Securities and Exchange Commission in the US, who require the organisation to comply with regulations, rules and guidance. The organisation, as a result, has a very tight control framework in place, and compliance monitoring is undertaken by their Compliance Team. All of the expected controls for each of the six risks examined in this review were found to be in place, and operating effectively.
- 3.4 Due to the good control environment in place, and those controls operating effectively, no recommendations were made.
- 3.5 The overall audit opinion was a **High** level of assurance.

Advance Contributions Scheme

- 3.6 A scheme was introduced from 1 April 2017 whereby Local Authority employers are able to pay their employer contributions in advance, which can potentially benefit both the Pension Fund and the employers concerned. The Pension Fund is expected to generate additional investment returns as a result of early receipt of the contributions, which is reflected via a reduced contribution rate for the employer making the advance payment. The aim of the scheme is to provide the employers with the option of paying some or all of their employer contributions that will fall due over the period 1 April 2017 – 31 March 2020 before they would ordinarily fall due.
- 3.7 At the time of the review, five Local Authorities had made a decision to sign up to the Advance Contributions Scheme. Four Local Authorities have opted to pay three years contributions in advance (Oldham, Stockport, Tameside and Trafford), with Salford opting to pay one year's contributions in advance. This resulted in advance contribution payments totalling £189,178,000 being received in April 2017.
- 3.8 The overall objective of the review was to examine the proposed procedures for introducing and monitoring the scheme to ensure that adequate systems and controls are/were in place to ensure that the risks are controlled are minimised.
- 3.9 This piece of work was undertaken as advice, although there were several recommendations made, which were included in an action plan, and have been responded to by management. The scheme will be reviewed as part of the Contribution Income audit which will be carried out in the final quarter of 2017/18.

Visits to Contributing Bodies – National Probation Service (NPS)

- 3.10 The Greater Manchester Pension Fund became responsible for the administration of the Local Government Pension Scheme for the National Probation Service with effect from 1 June 2014; as such this is the first time that they have been audited. During the financial year 2016/17 the National Probation Service paid employee and employer contributions totalling approximately £90,611,265 to the Pension Fund, and there were 9,497 members contributing to the Fund.
- 3.11 The Payroll and HR services for the National Probation Service are outsourced to Shared Services Connected Limited (SSCL), who have provided the data and information to us to enable us to carry out this audit.
- 3.12 The risks covered in the review were as follows:
- Failure to correctly apply Auto Enrolment procedures;
 - Failure to administer starters, leavers and changes to hours correctly;
 - Incorrect Employee and Employer contributions are paid to the Pension Fund;

- Failure to give accurate information to the Pension Fund in respect of leavers and retirees;
- Failure to provide a correct and timely year end return, and
- Failure to comply with the new Pension Fund Regulations.

3.13 This audit was carried out as a desk top review, and the recommendations made have been incorporated into an action plan which both NPS and SSCL have responded positively to.

3.14 The audit was given a **Medium** Level of Assurance due to a number of issues being highlighted that need addressing, to improve control around the pension processes.

Private Equity

3.15 The Greater Manchester Pension Fund's (GMPF) first investment in Private Equity was made in 1981. Since then GMPF has invested in numerous private equities through pooled vehicles raised by specialised management teams. Since 1 July 2014, the target allocation for Private Equity has been 5% of the Main Fund.

3.16 As at 31 March 2017, GMPF has commitments totalling £1,366m across 101 "live" funds. The portfolio of 101 funds is varied in terms of the stage of investment (from early stage investments to very large buyout investments) and also geographic locations across the UK, Europe, the US and Asia. The current net asset value as at 31 March 2017 was £589m.

3.17 The overall objective of the audit was to ensure that adequate financial controls are in place in relation to the Private Equity investments in order to ensure that the following risks are controlled and minimised:

- Appropriate due diligence not having been undertaken prior to selecting the investment;
- Appropriate governance not being in place;
- Failure to minimise the risk of fraud to the Fund;
- Incorrect or incomplete accounting for the investments;
- Inadequate monitoring of performance of the investments;
- Investments are incorrectly valued;
- All risks to the integrity of data and appropriate disaster recovery may not have been identified, evaluated and managed.

3.18 There are good systems and controls in place for the acquiring and monitoring of the Private Equity Funds. The sample reviewed as part of the audit consisted of a range of old and new investments. It was apparent that over the years, further internal controls have been introduced to ensure that the investments are acquired and monitored appropriately.

3.19 The most recent change to the process is that a more formal report analysis is now produced for the approval of each new investment; this is provided to the Director of Governance and Pensions for authorisation at the Investments Committee.

3.20 The overall audit opinion was a **High** level of assurance.

4 DRAFT REPORTS ISSUED

4.1 Draft reports have been issued for the following audits:

- GM Property Venture Fund – Review of First Street Development
- VAT

The detail of these audits will be reported to the next meeting of the Local Board.

5 POST AUDIT REVIEWS ISSUED

5.1 The following Post Audit Reviews have been completed in the period:

- Visit to contributing Bodies – Manchester Airport
- Visit to contributing Bodies – Stockport College

5.2 All agreed actions have either been implemented, are in the process of being implemented, or there is a valid reason for them not having been implemented as previously agreed. No follow up Post Audit Reviews are required.

6 OTHER WORK CARRIED OUT

6.1 Advice and support continues to be given, on request, to officers of the Fund. The following are the main subjects of advice in this period:

Transfer of First Bus to Greater Manchester Pension Fund

6.2 Internal Audit worked closely with staff within the Systems Team in respect of the First Bus Transfer to ensure the smooth transmission of the transfer and to ensure that the risks to the Pension Fund were minimised. This transfer was particularly complex due to the ceding funds using the UPM system, which does not easily transfer into Altair. The Pension Fund involved Internal Audit at every key stage, particularly in respect of ensuring that the User Acceptance testing was robust and fit for purpose. We also were able to assist with confirming that no changes had been made to the existing Pension Fund data by using our Internal Audit data analysis software IDEA. The timescales in respect of this project were very tight; however, the transfer has been undertaken successfully. There are still some data quality issues that exist as a result of this transfer and Internal Audit will continue to work with the Pension Fund to ensure that all issues are appropriately resolved.

7 WORK IN PROGRESS

7.1 The following audits/work are currently in progress:

- **Transfer of Assets to Stone Harbor (New Credit Manager)**
- **National Fraud Initiative (NFI)** – Matches identified from the National Fraud Initiative (NFI) 2016 Exercise were received in January/February 2017 and some of the key matches identified and comments are shown below in Table 2:

Table 2 - NFI Data Matches

NFI Data Set	Total Number of Matches	Number of Rec'd Matches	Comments		
			Processed	In Progress	No. of Error/Frauds and Value
Pensions to DWP Deceased Persons	849	483	845	4	1 (F) £16,641
Pensions to Payroll	2,123	614	1,233	890	-
Deferred Pensions to DWP Deceased	87	76	87	-	1 (E)

The expectation from the Cabinet Office in relation to the above matches is that all "Recommended Matches" are investigated.

8 LOCAL AUDIT AND ACCOUNTABILITY ACT 2014

- 8.1 A report was taken to Council on 10 October 2017 providing an update on the appointment of the External Auditors. The Council agreed that it is satisfied with the proposed appointment of Mazars LLP to audit the accounts of Tameside Metropolitan Borough Council for five years from 2018/19, following the procurement process undertaken by Public Sector Audit Appointments Limited (PSAA).
- 8.2 Official notification will be received in December confirming the appointment of Mazars.
- 8.3 Mazars is a large global audit and accounting firm with over 18,000 professionals in 79 countries worldwide. In the UK the firm ranks in the top ten with 1,700 employees and 140 partners working out of 19 offices, and UK fee income in 2016 of £160m. The firm's dedicated public sector audit team has significant experience in providing external audit to public sector bodies. It comprises individuals with experience of auditing councils, combined authorities, police bodies, fire and rescue authorities, local government pension funds and other public bodies. In addition to its audit contract with Public Sector Audit Appointments Limited, the firm also has a substantial portfolio of NHS audits and is one of the National Audit Office's framework suppliers for central government audit.
- 8.4 Once officially appointed officers within the Council will work with both Grant Thornton and Mazars to ensure a smooth transition takes place.
- 8.5 PSAA has well-established arrangements for handover of audits between firms, currently set out in Appendix 12 of the Terms of Appointment. It is recognised that rotating the appointment of an auditor can present difficulties for the audited body and both the outgoing and incoming auditors if not properly managed. In order to minimise disruption to all parties, and maximise the transfer of the outgoing auditor's knowledge of the audited body, in summary Public Sector Audit Appointments Limited expects the following:
- Co-operation between the outgoing and incoming auditor to ensure that the incoming auditor is fully briefed on the specific audit issues facing the audited body;
 - Co-operation between the outgoing and incoming auditors to determine responsibility for undertaking specific pieces of audit work in the lead up to, or period immediately following, handover and advise the audited body accordingly;
 - Where appropriate, co-operation between the outgoing and incoming auditor to ensure that the incoming auditor is fully briefed on the wider issues facing the audited body; and
 - Timely communication by the incoming auditor to the audited body, as soon as possible after formal appointment, of the contact details of the audit team and future audit arrangements, requirements and expectations.

9 REVIEW OF INTERNAL AUDIT PLAN 2017/18

- 9.1 Discussions have taken place with managers in relation to the audits remaining in the Audit Plan, whether the timing is still appropriate for this year's plan and whether there are any new emerging risks, and hence audits that need to be added.

As a result of the discussions, the following adjustments have been made to the Plan:

- 10 days allocated for Pooling of Investments are to be carried forward into next year's plan;
- 10 days have been added to this year's plan to review the Agresso upgrade in quarter 4, which will also be carried out on the Tameside Audit Plan as well;
- 3 days have been added to the allocation already in this year's plan for the Altair Payroll System upgrade to Java;
- 10 days allocated to a review of Benchmarking/KPI's is to be carried forward into next year's plan;

- An allocation of 5 days has been added to this year's plan for the Altair Administration to Payroll upgrade;
- 10 days have been allocated to this year's plan to carry out a review of ICT Device Management. This audit will be carried out by Salford Computer Audit Services;
- 5 days have been allocated to this year's plan to review the asset transfers in relation to First Bus; and
- An additional 5 days have been allocated to the Risk Management allocation in this year's plan, and it will be a review of the compliance with the Pensions Regulator Code of Practice 14 – specifically the Risk Management and Administration sections of the Code.

9.2 The status report at **Appendix A** details the days spent against the 2017/18 Internal Audit Plan up to 17 November 2017, and the above adjustments to the Plan.

10 RECOMMENDATION

10.1 As set out on the front of the report.