



Pension Fund Investments

North Yorkshire County Council

Internal Audit Report 2021/22

Business Unit: Strategic Resources
Responsible Officer: Corporate Director of Strategic Resources
Service Manager: Head of Investments
Date Issued: 12 July 2022
Status: Final
Reference: 32210/014.bf

	P1	P2	P3
Actions	0	0	1
Overall Audit Opinion	Substantial Assurance		

Summary and Overall Conclusions

Introduction

The Border to Coast Pensions Partnership (BCPP) was established in 2017 following Central Government changes to the management of Local Government Pension Schemes. The objective of the pools was to ensure they achieved economies of scale, strong governance and decision making, reduce costs whilst attaining excellent value for money, and had an improved capacity to invest in infrastructure. The North Yorkshire Pension Fund (NYPF) is part of the Border to Coast Pensions Partnership consisting of 11 funds in total. The Pool is responsible for investment manager selection and the intention of NYPF is to transition all suitable funds to the Pool.

The NYPF has included two key risks on their most recent risk register in relation to pooling:

- failure to transition effectively to new pooling arrangements resulting in poorer value for money; lower investment returns; and inability to effectively execute investment strategy
- failure of a pension fund investment manager to meet adequate performance levels resulting in reduced financial returns, re-tendering exercise.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that:

- performance information is produced by Border to Coast Pensions Partnership and sent to the Pension Fund on a regular basis;
- performance information is made available to the Pension Fund Committee and Pension Fund members in a timely manner;
- information is used as a tool to review the Pool's performance against the Pension Fund's Investment Strategy;
- mechanisms are in place to challenge the Pool's performance and management of the Pension Fund's investments.

Key Findings

Border to Coast Pension Partnership (BCPP) sets out the information, documentation, and activities it will provide and facilitate to shareholders (Partner Funds), including NYPF, in its Governance Charter. The charter is updated annually by BCPP and reviewed by shareholder representatives on the BCPP Joint Committee who approve any material alterations to it. On the whole, the documentation and meetings detailed on the BCPP Governance Charter 2021 were provided or held on a regular basis, including quarterly investment performance reports. During the audit, officers confirmed that performance information follow up meetings are held with BCPP and recorded, although evidence was not available on the host council's website to review.

Quarterly reports by the Fund's independent investment consultant, Aon, are made available to NYPF members and the Pension Committee in a timely manner and published on the members website and NYCC website. Investment manager performance information,

including BCPP, is included in the reports. A 'quarterly snapshot' of manager investment performance is ranked in order of the best performing. A table of longer-term performance is also included comparing manager performance over a one year and three-year period, as well as since their inception with NYPF. There is a clear visual representation of the comparative performance levels between managers. It was not possible to review the content and quality of performance information between BCPP and other fund managers due to the BCPP detailed reports being too large to transfer electronically. However, BCPP quarterly performance presentation slides were provided for quarter four. The content was broadly comparable to the other fund manager reports for the same period. Officers confirmed that the performance information reports are accessed directly from the BCPP data portal. Officers also confirmed that the BCPP reports had improved over time since NYPF had been investing with them, and that they are satisfied the content of the reports provides the required information. BCPP do not formally report on performance measures for their own internal operations, and recordings of the BCPP operational review meetings were not available via the host council's website.

The Joint Committee, made up of Partner Fund members, oversees the governance of the Pool including investment performance. Joint Committee meetings are held on a regular basis, performance information is provided and discussed, and minutes recorded and published. NYPF's Councillor representative and officer support regularly attended the Joint Committee meetings in the period covered by the audit. Quarterly calls to discuss fund performance are held between BCPP and the Officer Operations Group and advisors and are regularly attended. We found that supplementary calls to manage BCPPs performance take place but are not formally documented. Officers confirmed that issues have been raised by NYPF's independent investment consultant, Aon, and NYPF's independent advisor, but are also not documented.

Formal frameworks are in place to govern and manage NYPF and BCPP, with BCPP being regulated by the Financial Conduct Authority (FCA). The Investment Strategy Statement sets out the ways in which the NYPF will manage BCPP and hold them to account. This includes representatives on the Shareholder Board and the Joint Committee and officer support to these representatives. Officers confirmed that elected representatives from NYPF sit on both the Shareholder Board and Joint Committee and are supported by council officers, with both attending the shareholder meetings. Whilst Shareholder Board meetings are informal with no minutes being recorded, the Joint Committee meetings are minuted. Shareholders also attend the BCPP Annual General Meeting where minutes are formally recorded and made available. In addition, officers and elected representatives attend the quarterly Officer Operations Group meetings with minutes recorded.

The Pension Fund Committee (PFC) forms part of the NYPF governance framework and is a committee of the Council. The PFC has delegated powers in respect of the NYPF, meets on a regular basis and minutes are documented and published. Items in relation to investment performance and investment managers can be raised at the PFC meetings. An issue was raised in the March 2021 PFC meeting for escalation to BCPP Joint Committee which was resolved at the Shareholders Board.

Overall Conclusions

A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

1 Records of performance management issues

Issue/Control Weakness

Performance management of issues raised with BCPP are not recorded leading to a lack of supporting evidence for escalation.

Risk

Investment performance falls below expected levels resulting in a loss of income to NYPF

Findings

Records of supplementary performance calls by NYPF with BCPP are not documented or retained. Whilst officers confirmed that issues requiring attention by BCPP are documented in emails and have been responded to appropriately, no evidence could be provided to demonstrate this. Officers confirmed that issues have been raised by NYPF's independent investment consultant, Aon, and NYPF's independent advisor which have been fed back to BCPP but not documented.

Agreed Action 1.1

Officers will ensure that meetings and discussions with BCPP held outside of the formal meetings are appropriately documented and filed.

Priority

3

Responsible Officer

Head of Investments

Timescale

31st July 2022

Audit Opinions and Priorities for Actions

Audit Opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Our overall audit opinion is based on 4 grades of opinion, as set out below.

Opinion

Assessment of internal control

Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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