



# NY Pension Fund Investments

## North Yorkshire Council

### Internal Audit Report 2022/23

Business Unit: North Yorkshire Pension Fund (NYPF)  
Responsible Officer: Treasurer, NYPF  
Service Manager: Head of Investments  
Date Issued: 16 August 2023  
Status: Final  
Reference: C1020/001

	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.

Investment activity is set and monitored by the Pension Fund Committee and supported by Investment Consultants and an independent financial advisor. Performance of the Fund's investment returns are monitored and managed with rebalancing taking place when required.

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

- Failure of the investment strategy to achieve sufficient returns from investments whilst responding to cash flows needs and maintaining assurances that investments are made in an environmentally and socially responsible manner.
- Internal and/or external fraud as a result of inappropriate pension administration, investment activity and cash reconciliation results in financial loss, loss of reputation

## 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:

- There is an approved, up to date Investment Strategy Statement that outlines the approach to asset rebalancing
- Asset rebalancing threshold ranges are set, monitored, and managed in a timely manner
- Independent advice is sought prior to asset rebalancing activity taking place
- Rebalancing transactions are authorised correctly.

## Key Findings

The Investment Strategy Statement (ISS) is the key governance document outlining the Fund's long-term strategic asset allocation for the NYPF investments. The current, approved version of the ISS (v3.0 July 2021) is published on the North Yorkshire Pension Fund website. The approach to asset rebalancing is outlined in the ISS with rebalancing occurring as a result of tactical reviews of the performance of funds against their strategic benchmark allocations. The ISS acknowledges that threshold ranges for rebalancing above and below the benchmark allocations are under consideration, but no thresholds are published in the document. Instead, threshold ranges are published by Aon, the investment consultants, in their quarterly reports which are made available on the NYPF website and as part of the PFC agenda reports pack. Only the global equities asset class has a rebalancing threshold range published in the Aon reports. Officers provided an updated version of the ISS due for approval at the PFC on 30 June 2023. Whilst the updated version stated a

rebalancing range of 3% for global equities, it no longer stated that other asset classes would be considered for rebalancing threshold ranges. However, it did state that rebalancing will be carried out as required. Officers confirmed that some asset classes are unsuitable for threshold ranges, for example, private credit. Officers also confirmed that all asset class allocations will continue to be subject to tactical reviews each month and discussed at Pension Fund Committee, which may result in rebalancing activity.

The Investment consultant, Aon, provides Fund monitoring reports on a quarterly basis. The reports identify performance against, and breaches of, threshold ranges. They also indicate where potential rebalancing action could be taken as well as reporting on rebalancing activity that has taken place in the quarter. For global equities, rebalancing occurred in the financial year 22/23. It was done in a timely manner and after returns had fallen outside the rebalancing threshold range. Whilst the majority of asset classes did not have any rebalancing threshold ranges specified, rebalancing had taken place. This occurred where returns exceeded their long-term strategy allocation. Records of rebalancing activity are reported to PFC and recorded in the minutes of the meeting. Where no record could be found in the minutes, they were located in the quarterly Aon investment consultant reports attached to the PFC Agenda Reports Packs.

Independent advice is provided by both Aon and the independent financial advisor in relation to asset rebalancing. There is evidence of advice given in PFC meetings but there is not always evidence of advice taken prior to asset rebalancing. Officers confirmed that advice is taken, but records of the calls and advice are not always made.

We found that rebalancing transactions were authorised correctly. All disinvestment and reinvestment instructions were authorised appropriately and contract notes had been issued correctly for reinvestments, investment switches and cash redemptions. All money transfer forms (CHAPS form) were properly authorised.

## **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 independent advice

### Issue/Control Weakness

Evidence of independent advice is not recorded or retained.

### Risk

Rebalancing is undertaken without appropriate advice.

### Findings

Where advice is given by the independent financial advisor in PFC meetings it is recorded in the minutes. If there is an issue with an investment decision, independent advice is sought from both Aon and the independent advisor and evidence was provided for this. However, no other records of independent advice taken in calls could be provided. Officers confirmed that records of calls are not always made or retained.

### Agreed Action 1.1

Officers will ensure that advice calls and meetings with Aon and the independent advisor are appropriately documented to support subsequent decisions made to change the Fund's investments in any way.

**Priority**

3

**Responsible Officer**

Head of Investments

**Timescale**

31 August 2023

## 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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