



LGPS Asset Pooling

Assurance Framework

Internal Audit Approach

June 2019



Our Mission

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Internal Audit Working Group Members

| Partner Fund Authority | Internal Audit Representatives |
|--|---|
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1 Executive Summary

1.1 Scope and Background

1.1.1 During 2014, the government explored several options for improving the efficiency and sustainability of the LGPS and undertook extensive consultation on the potential to deliver savings through greater investment management collaboration. Following this exercise, in the summer of 2015, the government announced its intention to introduce a new regulatory framework which would facilitate collective investing and issued guidance and criteria to help administering authorities to develop proposals for pooling aimed at reducing costs and improving efficiency. Initial proposals were required by February 2016, followed by more detailed business case submissions in July 2016, with a target implementation date of 1st April 2018.

1.1.2 Informal links with several Midlands based LGPS Funds became the starting point for wider discussions in the context of the formal requirement for pooling. This resulted in a joint proposal from Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire to create 'LGPS Central', with combined assets of £35 billion. The Minister, Marcus Jones MP provided written confirmation, in November 2016, that LGPS Central had been formally accepted as a Local Authority Pension Fund Pool.

1.1.3 Since this time, the Partner Fund Authorities have entered into both a Shareholders Agreement and an Inter-Authority Agreement to establish a joint asset pool (LGPS Central), and investment management company (LGPS Central Ltd) and Joint Committee.

1.1.4 Following on from the above, the governance structure and arrangements for the LGPS Central pool have been established along with an Internal Audit Working Group (IAWG). The IAWG's main aim is to develop a co-ordinated and collaborative Internal Audit response to the new arrangements operating within the asset pool which has involved consultation with all Partner Funds Internal Audit functions, External Audit Partners, the Practitioners Advisory Forum and LGPS Central Ltd.

1.1.5 A collaborative approach has been favoured in developing assurance over the new asset pooling arrangements operating within LGPS Central to:

- ensure a consistent approach to all Partner Funds when providing assurance to their own organisation in relation to Pension Pooling;
- prevent duplication so that LGPS Central and LGPS Central Ltd are not having to deal with audit queries from all Partner Funds Internal and External Auditors;
- effectively share information between Internal Audit Partners and also between Internal Audit Partners and LGPS Central and LGPS Central Ltd; and

- identify risks and mitigating controls at an earlier stage.

1.1.6 As part of this collaborative approach, the IAWG has developed an assurance framework for the LGPS asset pooling arrangements, applying the three lines of defence model, focusing on the management controls, oversight governance arrangements and independent assurance required to provide assurance to Partner Funds that potential risks regarding asset pooling have been considered and are mitigated. The LGPS asset pooling assurance framework was finalised and approved by the IAWG in March 2019. It will be kept under review by the IAWG in-year.

2 Internal Audit Approach

This document outlines how the LGPS Asset Pooling Assurance Framework should be applied by the collective and individual Partner Fund Internal Audit (IA) Functions

2.1 Structure – What are We Doing?

2.1.1 The LGPS Asset Pooling Assurance Framework is structured using LGPS Central's (the Pool) own Risk Register.

2.1.2 Assurance is required annually across each of the categories of risk. Elements of this assurance will be obtained as a collective of Partner Fund IA services whilst other elements will be obtained individually by Partner Fund IA services.

2.1.3 For those risks where assurance is to be obtained as a collective, there is a need to 'share the workload' with no-one Partner Fund IA service covering all risks in any one year.

2.1.4 This approach sets out for each of the risk categories, what the approach will be i.e. Individual Partner Funds IA Services, Collective Partner Fund IA Services or a mixture (see sections 2.2.1 to 2.2.5 below):

2.2 Risk Categories

2.2.1 Governance Risks

| 1] Governance Risks | |
|--|--|
| Areas to be covered by the collective Partner Fund IA Services | Areas to be covered by Individual Partner Fund IA Services |
| <p>LGPS Central arrangements (the Asset Pooling governance arrangements) to be reviewed as a collective.</p> <p>Work to cover scope detailed in the 3rd lines of defence within the Asset Pooling Assurance Framework e.g.</p> <ul style="list-style-type: none"> • ToR for LGPS central governance structure; • Scheme of delegation for the Pool; • Links between Company, the Pool and Partner Funds; • Pool's arrangements for having adequate oversight of company operations including finances (<i>see company risk (2) and Financial & Operational risks (3) below for links</i> | <p>Individually, Partner Fund IA services will obtain assurance over the interactions between the Pool and the Administering Authority e.g.</p> <ul style="list-style-type: none"> • Reporting and communications to the Individual Partner Fund's Pensions Committee and Audit Committee. • Policies and procedures of the Administering Authority include the operations of the pensions pool including Scheme of Delegation for the administering authority, register of interests, codes of conduct, constitution etc. |

| 1] Governance Risks | |
|--|--|
| Areas to be covered by the collective Partner Fund IA Services | Areas to be covered by Individual Partner Fund IA Services |
| <p><i>to this area);</i></p> <ul style="list-style-type: none"> • Appropriate legal arrangements in place for the Pool; • Appropriate decision making in accordance with Pool's governance structure*; • Regular meetings of governance groups with appropriately detailed and timely agendas and minutes; • Pool's oversight of financial and performance management information. • Pool's oversight of progress against the four key government criteria for pooling arrangements (<i>See wider pooling risk 5</i>). • Pool's oversight of changes/developments in pooling arrangements (<i>See wider pooling risk 5</i>) <p><i>n.b This review of governance incorporates Teckal Compliance</i></p> | <ul style="list-style-type: none"> • Partner Fund Member representatives are adequately trained as well as Pensions Committee Members as a whole (training logs and training needs analysis). • Reporting to the Pensions Committee on assurance over the Company's systems and controls (<i>see company risk (2)</i>). • Financial and performance reporting to the Administering Authority including the cost/savings model (<i>See Financial & Operational Risks (3)</i>); • Individual Partner Fund's Pensions Committees receive/review reports regarding progress/achievement of the four key government criteria for pooling arrangements (<i>See wider pooling risk (5)</i>). • Individual Partner Fund's Pensions Committees receive updates on changes/developments in pooling arrangements. (<i>see wider pooling risk (5)</i>). |

2.2.2 Company Risks

| 2] Company Risks | |
|---|---|
| Areas to be covered by the collective Partner Fund IA Services | Areas to be covered by Individual Partner Fund IA Services |
| Partner Fund IA Services to meet annually as a collective to review the | Through the individual Partner Fund IA governance audit, ensure |

| 2] Company Risks | |
|---|---|
| Areas to be covered by the collective Partner Fund IA Services | Areas to be covered by Individual Partner Fund IA Services |
| <p>findings of the AAF/0106 Controls Report and actions to be taken in light of findings.</p> <p>Feedback to Practitioners Advisory Forum.</p> <p>Through the collective LGPS Asset Pooling governance audit ensure that the Pool has received assurance throughout the year on areas including:</p> <ul style="list-style-type: none"> • AAF/0106 Control report findings and actions; • Internal Control Report/Compliance monitoring; • Company IA and EA reports; • Depository SOC report; • Access to Company policies; and • Recommendation tracking relating to actions taken in light of AAF/0106 report and other company IA/EA reports. | <p>that the Partner Fund Pensions Committee and/or Audit Committee have received assurance that the Company's systems and controls are sufficient. Assess whether the level of information being received is sufficient to obtain assurance over company controls (<i>see Governance risk 1 above</i>).</p> |

2.2.3 Financial & Operational Risks

| 3] Financial & Operational Risks | |
|--|---|
| Areas to be covered by the collective Partner Fund IA Services | Areas to be covered by Individual Partner Fund IA Services |
| <p>Through the collective LGPS asset pooling governance audit ensure that the pool has received assurance throughout the year on areas including:</p> <ul style="list-style-type: none"> • The company's annual budget setting; • Approval of the budget; • Financial and performance management information reports including cost/savings model; • Progress against objectives/milestones in strategic business plan; and • Annual audit report and audited | <p>Through the individual Partner Fund IA governance audit, ensure that the Partner Fund Pensions Committee and/or Audit Committee have received financial reports including the cost/savings model and performance reports throughout the year. (<i>see Governance risk 1 above</i>)</p> |

| | |
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| accounts. | |
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2.2.4 Investment Risks

| 4] Investment Risks | |
|---|--|
| Areas to be covered by the collective Partner Fund IA Services | Areas to be covered by Individual Partner Fund IA Services |
| <p>As a collective, the Partner Funds IA Services will obtain assurance over the following areas:</p> <ul style="list-style-type: none"> • Product delivery plan is in place by the company and adherence to this plan, is monitored via the Pool's governance arrangements; • Collaborative procurement of Transition Manager (where appropriate); • Transitions and costing information is reported to the Joint Committee (part of the pool); • There is a good level of communication between LGPS Central, LGPS Central Ltd and the Custodian during and after the transition process. • Company has in place responsible investment framework; • Company had in place appropriate and up to date policies governing investment activities; • Company strategy is in place to ensure that Partner Funds have the right products/services to deliver individual strategic asset allocation requirements; • Delivery against shared objectives of the pool; • Investment reporting for pooled assets to the joint committee (manager reports/independent investment performance reports); • Monitoring and reporting on costs relating to investments and mechanisms to challenge costs as | <p>Individually, Partner Fund IA services will obtain assurance that:</p> <ul style="list-style-type: none"> • Transition arrangements are being reported to the Partner Fund Pensions Committee in terms of procurement of Transition Manager, costings associated with transitions relating to the administering authority and completed transitions; • Transitions are approved appropriately by the Partner Fund; • Pre and post transition reconciliations are carried out; • There is a good level of communication between LGPS Central, LGPS Central Ltd and the Custodian during and after the transition process. • Investments relating to the Partner Fund are reported to the Pensions Committee; • Pensions Committee/Pensions Board regularly receive monitoring information on products available; delivery of strategic asset allocation as well as meeting shared objectives of the Pool; • Investment and costs reporting is submitted to the Pensions Committee/Pensions Board including benchmarking of costs; |

| 4] Investment Risks | |
|---|---|
| Areas to be covered by the collective Partner Fund IA Services | Areas to be covered by Individual Partner Fund IA Services |
| <p>well as comparisons to cost/savings model and benchmarking arrangements;</p> <ul style="list-style-type: none"> • The pool receives monitoring information on investments compared to the product delivery plan to ensure that investments are being made by Partner Funds in accordance with the agreed plan; • Arrangements within the Pool for reviewing cost sharing agreements and cost charging mechanisms for the pool. | <ul style="list-style-type: none"> • Investments are being made in accordance with Partner Fund's investment plan; • Cost sharing arrangements and charging for the Pool is kept under review by the Pensions Committee/Pensions Board. |

2.2.5 Wider Pooling Risks

| 5] Wider Pooling Risks | |
|--|--|
| Areas to be covered by the collective Partner Fund IA Services | Areas to be covered by Individual Partner Fund IA Services |
| <p>Through the collective Pensions Pool governance audit ensure that the Pool has:</p> <ul style="list-style-type: none"> • Arrangements in place to monitor and report progress against the 4 key government criteria for pensions pools; • Arrangements in place to identify changes to or developments in government policy in relation to pensions pooling arrangements. | <p>Through the individual Partner Fund IA governance audit, ensure that the Partner Fund Pensions Committee and/or Audit Committee have received assurance regarding the achievement/compliance with the four key government criteria for pensions pools and that they are kept up to date on government policy with regards to pensions pooling arrangements.</p> <p><i>(see Governance risk 1 above)</i></p> |

2.3 How are We Going to Do it?

2.3.1 For each collective Internal audit review, a standardised set of working papers has been produced. The library of standardised working papers will be held on the LGPS Central's SharePoint site (the Pool's SharePoint facility).

2.3.2 All completed collective internal audit work will also be stored on LGPS Central's SharePoint with access granted to all Partner Fund Internal Audit Functions.

2.4 When Are we Going to Do it?

- 2.4.1 It is proposed that the collective Internal Audit work is carried out every year, with each Partner Fund Internal Audit Function taking it in turns to undertake the assurance work in that area. A report and completed working papers will be produced as part of the collective work. The final report will be ready no later than 31st March each year for all Partner Fund Internal Audit Functions to use as part of their assurance to their own individual Audit Committee / Pensions Committee.
- 2.4.2 A four-year cyclical programme covering the period 2019/20 to 2022/23 has been developed and agreed by the Partner Funds Internal Audit functions. This is to ensure fairness and to ensure that the cost of auditing the LGPS Asset Pooling arrangements is spread equally across the Pension Funds over a four-year period (**Appendix 1** refers).
- 2.4.3 As detailed in the tables above at 2.2.1 to 2.2.5, the collective audit work will be supplemented with individual partner fund internal audit work relating to your own administering authority.

| <u>Proposed Cyclical Programme of Collective Internal Audit Work</u> | Staffordshire County Council | West Midlands | Shropshire County Council | Leicestershire County Council | Worcestershire County Council | Nottingham County Council | Cheshire West & Chester | Derbyshire County Council |
|---|------------------------------|---------------|---------------------------|-------------------------------|-------------------------------|---------------------------|-------------------------|---------------------------|
| Partner Pension Fund IA Function/Collective IA Review | | | | | | | | |
| 2019/20 | | | | | | | | |
| Governance/Company & Financial & Operational Risks | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ |
| Company Risks – Review of AAF/0106 Control Report and Feedback | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Investment Risks | ✗ | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ |
| 2020/21 | | | | | | | | |
| Governance/Company & Financial & Operational Risks | ✗ | ✗ | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ |
| Company Risks – Review of AAF/0106 Control Report and Feedback | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Investment Risks | ✗ | ✗ | ✗ | ✓ | ✗ | ✗ | ✗ | ✗ |
| 2021/22 | | | | | | | | |
| Governance/Company & Financial & Operational Risks | ✗ | ✗ | ✗ | ✗ | ✓ | ✗ | ✗ | ✗ |
| Company Risks – Review of AAF/0106 Control Report and Feedback | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Investment Risks | ✗ | ✗ | ✗ | ✗ | ✗ | ✓ | ✗ | ✗ |

| <u>Proposed Cyclical Programme of Collective Internal Audit Work</u> | Staffordshire County Council | West Midlands | Shropshire County Council | Leicestershire County Council | Worcestershire County Council | Nottingham County Council | Cheshire West & Chester | Derbyshire County Council |
|---|------------------------------|---------------|---------------------------|-------------------------------|-------------------------------|---------------------------|-------------------------|---------------------------|
| Partner Pension Fund IA Function/Collective IA Review | | | | | | | | |
| 2022/23 | | | | | | | | |
| Governance/Company & Financial & Operational Risks | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✓ | ✗ |
| Company Risks – Review of AAF/0106 Control Report and Feedback | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Investment Risks | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✓ |

