

London Borough of Hammersmith  
and Fulham

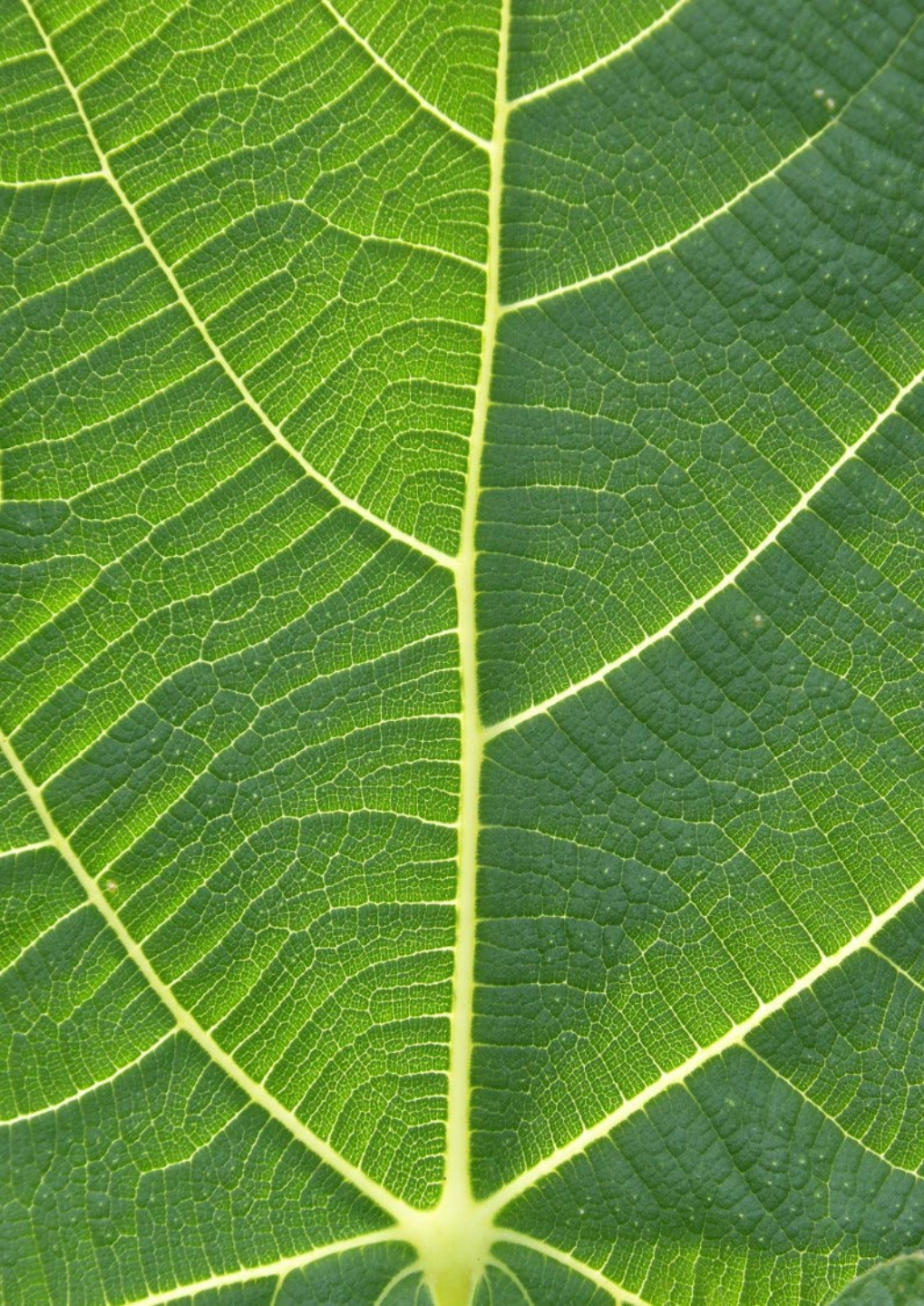
Final Internal Audit Report

Pension Investments

February 2023







## Contents

1. [Executive Summary](#)
2. [Observations and Recommendations](#)

## Appendices

- A1 [Audit Scope](#)
- A2 [Audit Stakeholders and Timetable](#)
- A3 [Definition of Assurance and Recommendations](#)

This report is prepared solely for the use of Audit Committee and senior management of the London Borough of Hammersmith and Fulham. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

Please see the final page of this report for our statement of responsibility or follow this [link](#).

# 1. Executive Summary

As part of the internal audit plan for 2022/23, agreed by the Audit Committee, we have undertaken an internal audit of Pension Investments, within the London Borough of Hammersmith and Fulham (LBHF).

## Background

The Superannuation Act 1972 (and the Public Service Pensions Act 2013) provide the statutory underpinning for the local government pension scheme (LGPS). The 1972 Act specifies lead authorities to administer and manage pension funds operating in their geographic area depending on the local government structure. For example, in county areas, the county council is the lead authority responsible for running the pension fund on behalf of the county and all local government bodies within the county. In London, each London borough is responsible for running its own pension fund. Membership of the LGPS is open to employees of the pension fund administering authority, scheduled bodies (organisations specified in schedules to primary and secondary legislation) and admitted bodies (i.e. organisations which may be admitted to the Fund under an admission agreement). The Fund's objective is to provide a pool of assets sufficient to meet the long-term pension (as prescribed by the Local Government Pension Scheme Regulations) for its members.

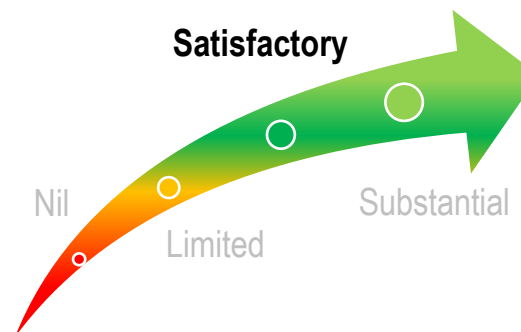
The London Borough of Hammersmith and Fulham Pension Fund (the Fund) is part of the national Local Government Pension Scheme (LGPS) and is administered locally by Hammersmith and Fulham Council.

The Pensions Sub-Committee is responsible for overseeing the management of the London Borough of Hammersmith and Fulham Pension Fund, including investment management and pension administration issues.

A Treasury and Pensions review of Tri-Borough arrangements was commissioned in 2019 and a report published in November 2020. The review concluded that the Tri-Borough arrangement for Treasury and Pensions should continue, and a further recommendation determined that officers should commission an independent governance review of the LBHF Pension Fund. The report made 32 recommendations, which have been recorded in a progress log to demonstrate the various stages of completion of the recommendations.

## Overall Conclusion

In Internal Audit's opinion, **Satisfactory Assurance** can be given to Members, the Chief Executive and other officers that the controls relied upon at the time of the audit were suitably designed, consistently applied and effective in their application.



The table below summarises the results of the review:

Area	Rating	Number of Recommendations		
		High	Medium	Low
Governance Arrangements	Limited	-	2	2
Investments and Accounting for Assets	Substantial	-	-	-
Valuation of Pension Fund	Substantial	-	-	-
Performance and Financial Reporting	Substantial	-	-	-
Total		-	2	2



# 1. Executive Summary

## Issues identified

This review identified two 'Medium' priority matters. Details of these and two 'Low' priority matters can be found in Section 2 of this report..

The 'Medium' priority matters are:

- The Council had a rolling arrangement with the custodian where the cost of the service was agreed on an annual basis. The Investment Manger shared that the value of the contract is minimal and that the decision to roll forward with the contract was not documented within the key decisions by the Pension Board or Pension Committee. Furthermore, the service had not tested the market to confirm that value for money is being achieved.
- The Signatory List contained the former Director of Finance, Head of Strategic Planning and Monitoring, and the Strategic Investment Managers.

## Examples of good practice

During our review, we identified the following areas of good practice:

- An Investment Strategy statement which details the Councils Pension Fund policy was in place and published on the Council website. The Statement includes:
  - A requirement to invest fund money in a wide range of instruments;
  - The authority's assessment of the suitability of particular investments and types of investment;
  - The authority's approach to risk, including the ways in which risks are to be measured and managed;
  - The authority's approach to pooling investments, including the use of collective investment vehicles;
  - The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments, and
  - The authority's policy on the exercise of rights (including voting rights) attaching to investments.

- As per the local guidance, 'Manager Vs Custodian', On a quarterly basis, the Fund Manager and Custodian market values of the portfolios held within the pension funds were reconciled to ensure the valuations match. Review of quarter one (as at March 2022) and two (as at June 2022) reconciliations confirmed that a reconciliation between custodian journals and the Fund Managers took place and where a variance was found this was investigated. An email trail documented who completed and checked the reconciliation. Furthermore, the source data was checked to confirm that in both quarter the data within the reconciliations was accurately recorded.
- A reconciliation of income was also completed on a quarterly basis. Review of the income reconciliations for quarter one and two confirmed that these took place. For both quarters we checked that all Fund Managers listed within the custodians contract was included within the income reconciliation. Our check found that four Fund Managers (LHF 16,17,21, and 23) were not included. The Pension Fund Manager informed audit that LHF 16 and 17 were not included as the performance is reinvested within the fund and LHF 21 ad 23 were not included as income was paid direct to the Council's bank account rather than the custodian.
- Purchase or sale of fund assets were subject to Pension Fund Committee approval. Testing of a sample of one sale and nine purchases from April 2021 to March 2022 confirmed that each was approved by the Committee and this was documented within meeting minutes.
- A valuation of the Pension Fund was last completed in January 2020 for the fund as at March 2019. The triennial valuation was also presented to the Pension Fund Committee in February 2020. The initial outcome from the 2022 triennial valuation, for the fund as at 31 March 2022, was presented to the Pension Fund Committee in November 2022.
- The Pension Board met every three to four months with agenda and meeting minutes published on the Council's website. As part of the meetings an update on the pension administration including Key Performance Indicators was provided along with performance of the pension fund. A quarterly Pension Fund pack which included cashflow monitoring, the risk register and the outturn Pension Fund Business Plan was also presented.
- The Pension Committee Terms of Reference was detailed within the Investment Strategy. The Committee met on a quarterly basis with agenda and meeting minutes published on the Council's website. The items discussed and presented at the Board also discussed within Committee.

## 2. Observations & Recommendations

Governance Arrangements	Observation	Recommendation	Management Comments and Timeline
	<p><b>1. Skills and Training</b></p> <p>Two training sessions were held for the Pension Board in 2021-22, as at the time of the audit (November 2022). Review of training records identified that four out of seven members had not attended either of the sessions and one member only attended one of the sessions offered.</p> <p>Two sessions were offered to the Pensions Fund Committee. Review of the training record found that one of the sessions was attended by five out of the eight members and the other sessions was attended by seven out of eight members.</p> <p>We were informed by the Pension Fund Manager that officers attended conferences and attend external training from the LGPS. Training records for the Manager and officers were not retained to substantiate this.</p> <p><b>Risk:</b></p> <p>Where the Councils' officers and members are not provided with regular training, there is a risk that they are not up to date with current legislation and practices on pensions fund management. This may result in the management of the fund not being effective.</p>	<p>While we recognise that it is not a legislative requirement for members of Board and Committee to attend training, the Pension Fund Manager should review training record across previous years and identify members who have not attended training for over a year. Where these cases have been identified, the Manager should encourage the member to attend the training offered.</p> <p>All training and conferences attended by Managers and officers should be documented within a central training record.</p>	<p><b>Management Response:</b> Pension Fund Committee and Board members undertake training, with at least three half day Tri-Borough training sessions during the year and members complete a training/skills form when they join the Committee. These training sessions are recorded and shared with all members and recorded within the training log. It is not mandated in legislation that Pension Fund Committee members should undertake regular training, although it is considered good governance practice to provide it in any case. Fund officers cannot compel members to attend training. All Pension Fund officers are qualified accountants, with Pension Fund Managers CCAB/CIPFA qualified. Therefore they are not required to undertake continual professional development (CPD) as Westminster is an accredited organisation. However, officers regularly attend numerous training sessions, many of them alongside members, and attend various conferences and other training events throughout the year. It is agreed that this should be documented, and a section for Officer training has been added to the member training log.</p> <p><b>Action Owner:</b> Phil Triggs (Tri-Borough Director of Treasury and Pensions)</p> <p><b>Implementation Date:</b> December 2022</p>
		<div>Priority Rating</div> <div>Low</div>	

## 2. Observations & Recommendations

Governance Arrangements	Observation	Recommendation	Management Comments and Timeline
	<p><b>2. Custodian Contract</b></p> <p>The Fund appointed Northern Trust as its custodian. The custodian is responsible for the safekeeping of all of the Fund's investments. Northern Trust were also responsible for the settlement of all investment transactions and the collection of income.</p> <p>We were informed by the service that the Council have a rolling arrangement with the custodian where the cost of the service was agreed on an annual basis. The Investment Manger shared that the value of the contract is minimal and that the decision to roll forward with the contract was not documented within the key decisions by the Pension Board or Pension Committee. As per the Pension Fund Annual Report custodian fees totalled to £51,000 in 2021-22.</p> <p>Furthermore, the service had not tested the market to confirm that value for money was being achieved. The Investment Manager shared that the cost of competitive tendering could be regarded as excessive in comparison with the total annual cost.</p> <p><b>Risk:</b></p> <p>Where rolling contracts are not periodically reviewed with comparative quotations sought, there is an increased risk that value for money may not be achieved from the existing supplier.</p> <p>Where the service does not hold a signed contract there is a risk that the service is unable to effectively determine and monitor the services that should be provided and may be unaware of any contract breaches.</p>	<p>As the service is operating on a rolling contract basis with the custodian, the service should test the market to confirm that value for money is being achieved. The review of the market should be documented and presented to both Board and Committee and approval should be sought from the delegated committee prior to continuing the rolling contract.</p> <p>Furthermore, consideration should be taken in formally extending the contract.</p>	<p><b>Management Response:</b> Officers have looked into a formal extension of the custody contract. However LBHF will not currently approve any new contract without a commitment to local social value. This poses a problem for a global custodian as, under FCA rules, it is against Regulations to treat one client favourably over another. Procurement officers are currently unwilling to move on this point. Officers are still looking for a solution in the near future.</p> <p><b>Action Owner:</b> Phil Triggs (Tri-Borough Director of Treasury and Pensions)</p> <p><b>Implementation Date:</b> September 2023</p>
		Priority Rating	Medium

## 2. Observations & Recommendations

Governance and Arrangements	Observation	Recommendation	Management Comments and Timeline
	<p><b>3. Signatory list</b></p> <p>A Signatory List, dated January 2022, for the Pension Fund was in place. Review of the list against existing staff structures found that the former Director of Finance, Head of Strategic Planning and Monitoring, and the Strategic Investment Managers were listed.</p> <p><b>Risk:</b></p> <p>Where an up to date Signatory List is not in place, there is a risk of delays in Pension Fund instructions and also signatory fraud .</p>	<p>The Signatory List should be reviewed and updated to reflect the current individuals within the identified roles.</p> <p><b>Priority Rating</b> <b>Medium</b></p>	<p><b>Management Response:</b> An addendum to this list dated 1 February 2023 was added due to a new addition to the Hammersmith and Fulham Pensions team.</p> <p><b>Action Owner:</b> Phil Triggs (Tri-Borough Director of Treasury and Pensions)</p> <p><b>Implementation Date:</b> February 2023</p>

## 2. Observations & Recommendations

Governance and Arrangements	Observation	Recommendation	Management Comments and Timeline
	<p><b>4. Externally commissioned review</b></p> <p>A Treasury and Pensions review of Tri-Borough arrangements was commissioned in 2019 and the report completed in November 2020 and presented to the Committee in March 2021. The review concluded that the Tri-Borough arrangement for Treasury and Pensions should continue, and a further recommendation determined that officers should commission an independent governance review of the LBHF Pension Fund. The report made 32 recommendations, that were recorded in a progress log to demonstrate the various stages of completion of the recommendations.</p> <p>Review of the Governance Log of Recommendations presented to the Pension Fund Committee in November 2022 found that 27 of the 32 recommendations had been recorded as implemented.</p> <p>The Pensions Fund Manager informed audit that the due to a lack of administrative capacity the outstanding recommendations had not been implemented.</p> <p><b>Risk:</b></p> <p>Where the Council do not implement the recommendations in a timely manner the Council is further exposed the risks and issues observed at the time of the review.</p>	<p>The service should review the outstanding recommendations and determine the time/resources required to implement them. The identified time/resources should be planned into upcoming months/schedules to ensure recommendations are implemented prior to the financial year end.</p>	<p><b>Management Response:</b> Of the 32 recommendations made there are 27 that have been actioned. The remaining five recommendations are all administration based and are reliant on the LBHF pensions admin team to complete. Tri-Borough officers are very anxious at the delays incurred in full implementation of this important governance report, which is now approaching two years. A six-month implementation period is standard.</p> <p><b>Action Owner:</b> Eleanor Dennis (Head of Pensions)</p> <p><b>Implementation Date:</b> June 2023</p>
		<div>Priority Rating</div> <div>Low</div>	



## Appendices

A1. Audit Scope

A2. Stakeholders Interviewed

A3. Definition of Recommendations



Final Internal

## A1. Audit Scope

Ref	Audit Area	Coverage
01	Governance Arrangements	<ul style="list-style-type: none"> <li>• Policies and procedures are in place that clearly outline the governance arrangements for the administration and investment of the Pension Fund, and for the governance and approval of pooling investments.</li> <li>• Policies and procedures are readily available to relevant staff members, and staff are appropriately trained to undertake management of pension investments.</li> <li>• The Council have in place an approved Pension Fund Investment Strategy which encompasses the Council's Pension Fund policy.</li> <li>• The Strategy has been developed following the identification of market risks, and taking into account the risk appetite of the organisation.</li> <li>• Recommendations from the 2019 externally commissioned review of governance arrangement have been implemented.</li> </ul>
02	Investments and Accounting for Assets.	<ul style="list-style-type: none"> <li>• All asset are accounted for, held securely and all dividends/ interest is received.</li> <li>• The Fund is subject to regular reconciliations to ensure that dividends and interests are received in a timely manner. Reconciliations obtain appropriate oversight, in line with the Scheme of Delegation.</li> <li>• Purchase or sale of fund assets are appropriately approved and documented in line with the Scheme of Delegation.</li> <li>• All Pension Fund income is received in full, on time and is accurately recorded.</li> </ul>
03	Valuation of Pension Fund	<ul style="list-style-type: none"> <li>• A valuation of the Pension Fund is completed on a triennial basis to confirm there are sufficient assets in the fund to pay al members of the LGPS in that fund the benefits they become entitles to.</li> </ul>
04	Performance and Financial Reporting	<ul style="list-style-type: none"> <li>• The Pension Fund is assessed against the targets of the Pension Fund Investment Strategy, with any variances in performance recorded, and actioned in a timely manner.</li> <li>• Performance data relating to the Penson Fund is reported to senior management and/ or committee's for oversight and scrutiny.</li> </ul>

### Limitations to Scope

The following limitations to the scope of the audit were agreed when planning the audit:

- The work will be undertaken using a risk-based approach and testing will be on a sample basis to verify compliance;
- The work will review the internal controls and processes relating to overall Pensions Investments. It will not be undertaken by an pensions and investments advisory/ specialists and does not provide investment advice;
- This work does not cover the administration of pension benefits and pension membership;
- This is not a substantive audit of the accuracy and integrity of the figures included within the financial records of the Council;
- The records maintained by third parties to the Council will not be reviewed and are outside of the scope of this audit; and
- The audit review does not provide absolute assurance that material error, loss or fraud does not exist.

## A2. Audit Stakeholders and Timetable

Audit Team	
Mark Chalkley	Engagement Manager
Nav Sidhu	Assistant Manager
Fego Aligboro	Assistant Manager
Emilia Cook	Risk Consultant

Stakeholders	
Patrick Rowe	Senior Finance Manager (Treasury and Pensions)
Mathew Dawson	Strategic Investment Manager
Alastair Paton	Senior Pensions Reconciliation Officer

Organisation Sponsor	
Phil Triggs	Tri-Borough Director of Treasury and Pensions

Timetable	
End of Fieldwork	13 <sup>th</sup> December 2022
Draft Report Issued	14 <sup>th</sup> February 2023
Responses Received	14 <sup>th</sup> February 2023
Final Report issued	14 <sup>th</sup> February 2023



## A3. Definitions Of Assurance and Recommendations

As part of the review we use the following definitions for the level of assurance and priority of recommendations included in Section 2

Assurance Level	Description
<b>Substantial Assurance:</b>	There is a sound system of internal control designed to achieve your objectives. The control processes tested are being consistently applied.
<b>Satisfactory Assurance:</b>	While there is generally a sound system of internal control, there are weaknesses which put some of your objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of your objectives at risk.
<b>Limited Assurance:</b>	Weaknesses in your system of internal control are such as to put your objectives at risk. The level of non-compliance puts your objectives at risk.
<b>Nil Assurance:</b>	Control processes are generally weak, leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes/systems open to error or abuse.

Definitions of Recommendations	
Priority	Description
<b>High (Fundamental)</b>	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.
<b>Medium (Significant)</b>	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.
<b>Low (Housekeeping)</b>	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

# Contact Information

David Hughes

Director of Audit, Fraud, Risk and Insurance

Email: [david.hughes@rbkc.gov.uk](mailto:david.hughes@rbkc.gov.uk)

For more information on the Internal Audit Service visit our SharePoint site:

<https://officesharedservice.sharepoint.com/sites/intranet/internalauditfraudriskmanagementandinsurance/Pages/Internal-Audit.aspx>

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Any recommendations for improvements should be assessed by management for their full impact before they are implemented.

The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity.

Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.