

Isle of Wight Council
Internal Audit Report 2015/16

Pensions Governance

April 2016

FINAL

Contents

1. Executive summary	2
2. Detailed current year findings	5
Appendix A: Basis of our classifications	12
Appendix B: Terms of Reference	15
Appendix C: Limitations and responsibilities	18


Distribution List

For action	Jo Thistlewood, Technical Finance Manager Jennifer Beresford, Democratic Service Officer
For information	Audit Committee

The report has been prepared solely for the Isle of Wight Council, this report should not be disclosed to any third party, quoted or referred to without prior approval from internal audit.

N

1. Executive summary

Report classification	Trend	Total number of findings					
		Critical	High	Medium	Low	Advisory	
 Medium risk (7 Points)	<i>N/A – This area has not previously been reviewed.</i>						
		Control design	0	0	2	0	0
		Operating effectiveness	0	0	0	1	2
		Total	0	0	2	1	2

Summary of findings:

The Council is a pension scheme administering authority, and, as such, has varying oversight responsibilities over a number of different pension schemes. The Council acts as administering authority and scheme manager for the Isle of Wight Council Pension Fund, part of the Local Government Pension Scheme (LGPS). As at the 31st March 2015, there was a scheme deficit of £202,617,000, with Council employees totalling 88.9% of the scheme's total membership and 79.4% of active membership.

The Council also acts as scheme manager for the unfunded Fire Fighters Pension Schemes, which recognised the council's share of the national scheme deficit of £79,200,000 as at the 31st March 2015.

The Council also has employees who are members of the unfunded NHS Pension Scheme and the Teacher's Pension Scheme, with responsibilities limited to collecting and paying contributions over to the applicable scheme. As the Council's responsibilities are limited for the NHS and Teachers Pension Schemes, governance arrangements are not specifically required for these schemes and hence we have not considered these further as part of this review.

In accordance with the Terms of Reference (**Appendix B**), we have undertaken a review of controls relating to Pensions Governance at the Council. Our key findings have been set out below.

Governance structure

There is a robust governance structure covering both of the Council managed pension schemes. A key part of these arrangements is the Pension Fund Committee, which is currently comprised of seven elected members and two non-voting representative members. In respect of the LGPS, this committee is responsible for determining the strategic investment policy, as well performing various other duties such as monitoring the performance of fund managers, investment advisors and actuaries. From November 2015 onwards, the remit of this committee was extended to also consider the Fire Fighters Pension Scheme.

In addition, the Public Services Pensions Act 2013 placed a responsibility on the Council, as an administering authority, to establish pension boards no later than the 1st April 2015, to provide oversight over compliance with these regulations. As such, terms of reference were constituted by the Full Council for the Local Government Pension Board and the Fire Fighters Pension Board during the January 2015 and February 2015 sessions respectively. The Pension Fund Committee also have an approved terms of reference in place which forms part of the Council's constitution.

A review has been performed by the Technical Finance Manager to ensure that board/committee terms of reference are in line with the duties and responsibilities required by the Council, as specified by relevant pension scheme regulations. Going forward, given the consequences of LGPS fund pooling investments, as identified within the Chancellors Summer Budget 2015, the Council will need to reconsider the responsibilities of each board/committee.

Membership and voting rights

The current structure and membership of both the LGPS Pension Board and the Pension Fund Committee was in line with their terms of reference and good practice guidance. The LGPS Pension Board is equal in respect of the number of employee and employer members in line with guidance, comprising of four members in total: a participating employer representative, an admitted body representative, a pensioner member and an active member. Membership of the Pension Fund Committee is detailed on the Council's website, however only the seven elected members are shown, not the non-voting employee and admitted body representative. This oversight is raised as an **advisory** finding.

Although the terms of reference have been constituted for the Fire Fighters Pension Board, at the time of this review membership of the board had not been finalised nor had the board met. The remit of the Pension Fund Committee was extended during November 2015 to also cover the Fire Fighters Pension Schemes in respect of the duties and responsibilities outlined in the Governance Structure section above, before this time being overseen by the Full Council. This has been raised as a **medium risk** finding.

Through inspecting the terms of reference for the LGPS Pension Board and the Fire Fighters Pension Board, we found that the policy on voting rights was clear and transparent, with rights given to each member. However, although voting rights for Council committees are explained elsewhere within the Council's constitution, within the Pension Fund Committee's terms of reference it does not clearly justify the reason for not extending voting rights to the non-elected committee members. This is raised as a **low risk** finding.

Board and committee operation

Both the LGPS Pension Board and the Pension Fund Committee meet quarterly, with the dates of meetings synchronised so that the LGPS Pension Board sits the month after the Pension Fund Committee. From our review of the minutes we concluded that the performance of the LGPS investment fund is robustly analysed by the Pension Fund Committee. As raised above, the Fire Fighters Pension Board did not meet during the year as membership has yet to be finalised. However this scheme is unfunded meaning there are no investment funds that require scrutiny.

Through a review of papers and minutes and a series of interviews with key personnel, we considered whether reports presented to the LGPS Pension Board and the Pension Fund Committee were appropriate and meet member requirements. It was highlighted to us that reports were useful, allowing members to discharge their responsibilities fully. It was noted that on a national level the Council are seeking clarification who pension boards are reportable to, for example to Full Council themselves, or perhaps to a local government or pensions regulator. At present, officers are involved in supporting the operation of the committee, for example by preparing papers. However going forward, once the relationship has been clarified, the Council should consider the independence implications of the outcome in relation to the operation of both the LGPS Pension Board and the Fire Fighters Pension Board.

Policies and training

For elected members, policies on training, facility time and the reimbursement of expenses are covered as part of the Council's constitution. However, there are no such policies in place which cover the other representatives who may sit on the Pension Fund Committee, LGPS Pension Board and the Fire Fighters Pension Board. As a consequence, the LGPS Pension Board is currently operating with no budget, however per Section 106 of the Local Government Pension Scheme Regulations, the expenses of a local pension board should be regarded as part of the costs of administration of the fund held by the administering authority.

Both the Pension Fund Committee and the LGPS Pension Board have put an annual work programme in place to ensure members receive training, holding sessions either before or during scheduled meetings. In respect of the Pension Fund Committee, we found that the training needs analysis had not been formally updated since July 2013.

A training needs analysis has not yet been undertaken for the LGPS or Fire Fighters Pension Boards. As new bodies, this is important to ascertain where development is needed. We have incorporated this issue and the issue directly above into a **medium risk** finding.

Publishing of governance arrangements

The Pension Fund Committee have a dedicated section on the Council's website, where minutes, agendas, member information and details of forthcoming meetings are available for stakeholders. In addition to this there is a comprehensive pension's service section providing information to current, past and pensioner members as well as various forms and leaflets. Fund reports are also published, including the LGPS pension fund annual report, triennial valuation reports and pension strategies and policies. However, it was noted that this section of the Council's website is not directly linked to the Pension Fund Committee section. Furthermore, the Council's website does not clearly explain how stakeholders can express an interest in wanting to be part of governance arrangements, although sufficient information is provided in general in respect of the Isle of Wight Council Pension Scheme.

In addition to these points, the pensions services section of the Council's website focuses on the Local Government Pension Scheme, however does not provide any information in relation to the Fire Fighters Pension Scheme. Although the fund report is included within the Council's annual accounts, this is not signposted to stakeholders and therefore sufficient information is not made available to stakeholders. On the pension's services section, we noted several documents links as part of the 'Fund Reports' page to be out of date/superseded. We have incorporated these issues into a **low risk** finding.

We would like to thank Jo Thistlewood, Councillor Ivor Warlow, Paul Wilkinson and Jennifer Beresford for their involvement in this review.

2. Detailed current year findings

1. Operation of the Fire Fighters Pension Board – control design

Finding

As required by the Local Government Pension Scheme Regulations, terms of reference were constituted for the Fire Fighters Pension Board during February 2015 by the Full Council. At the time the fieldwork for this review was performed, however, membership of the board had not been finalised, nor had the board met.

As at 31st March 2015, membership of the Fire Fighters Pension Scheme was as follows:

1992 Fire Fighters Pension Scheme: 47 actives, 0 deferred, 93 pensioners

2006 Fire Fighters Pension Scheme: 68 actives, 16 deferred, 2 pensioners

On the 1st April 2015, two new Fire Fighters Pension Schemes were introduced; the 2015 CARE Scheme and the Modified Scheme. It was noted that all new members will join the 2015 scheme, with some of the existing 1992 and 2006 active members transitioning to this scheme during 2015-16. As at the 31st March 2015, the present value of scheme liabilities attributable to the Isle of Wight Fire & Rescue Authority was £79,200,000, with a deficit recognised for that year for the same amount, however it is recognised that there is no expectation that this will be funded by the Council, instead being funded from central government. The scheme itself is unfunded, meaning the Council hold no investment assets held to offset the liability. As such, the level of scrutiny required for the scheme is reduced compared to one where investment strategies and decisions are required, hence the medium rather than high risk rating for this finding.

As per the Fire Fighters Pension Scheme Regulations, each administering authority should, no later than 1st April 2015, establish a pension board. Therefore, as the board had not been operational, and due to the time lag between the requirement date and the when the fieldwork was performed, the Council may not have been fully compliant with Fire Fighters Pensions Scheme Regulations.


The remit of Pension Fund Committee was extended to cover the Fire Fighters Pension Board during November 2015. Before this time, the Full Council, as a Fire and Rescue Authority oversaw governance and administration of the Fire Fighters Pension Scheme until this point in time.

Risks


The Fire Fighters Pension Scheme may not have been subject to effective and efficient governance and administration.

The Council may be challenged over their governance arrangements for the fund, although it is recognised that in-year deficits (i.e. the difference between employees' and employers' contributions and the amounts paid out as pensions) on the Fire Fighters' pension fund are reimbursed by Government grant.

Compliance may not have been secured with the Fire Fighters Pension Scheme Regulations, or other legislation relating to the governance and administration of the scheme. Expectations from the Pensions Regulator may not be fulfilled.

Finding rating	Agreed actions	Responsible person / title
 Medium Risk	Membership will be finalised for the Fire Fighters Pension Board as soon as possible. Meetings will be undertaken at least twice yearly.	Jo Thistlewood – Technical Finance Manager
		Target Date
		May 2016
		Report reference:
IOW-18-01		

2. Policies and training – control design

Finding		
<p>For elected members, policies on training, facility time and the reimbursement of expenses are covered as part of the Council’s constitution. However, we noted that there are no such policies in place which cover other representatives, who may sit on the Pension Fund Committee, LGPS Pension Board and the Fire Fighters Pension Board.</p> <p>At present, the LGPS Pension Board is operating with no budget. Current members of the LGPS Pension Board are claiming expenses from the bodies who they are appointed to represent, for example Unison and Spectrum Housing. However, per Section 106 of the Local Government Pension Scheme Regulations, the expenses of a local pension board should be regarded as part of the costs of administration of the fund held by the administering authority.</p> <p>In respect of training, the Pension Fund Committee training needs analysis had not been formally updated since July 2013. However, we do recognise that the membership of the committee has been relatively stable since this date, so the underlying level of understanding of members should remain relatively unchanged.</p> <p>A training needs analysis has not yet been undertaken for the LGPS Pension Board. Following conversations with key personnel, we noted that members of this board may lack detailed pension expertise, therefore it is important that skills gaps are ascertained and addressed on an individual level, with training tailored to particular requirements. A similar exercise will also be required for the Fire Fighters Pension Board members. As noted above, the board currently has no budget, and therefore access to external training expertise training may be limited. Again, this may be recharged as administration expenses, increasing the opportunity for training.</p>		
Risks		
<p>Without a policy in place, processes are more likely to be inconsistently and incorrectly applied. Members may not be able to access Council resources, reclaim expenses, or commission technical training, particularly if board budgets have not been confirmed.</p> <p>Members who lack appropriate expertise may not be able to effectively contribute to the operation of their respective board/committee. Members may not have the appropriate knowledge to provide effective challenge and scrutiny.</p>		
Finding rating	Agreed actions	Responsible person / title
 Medium Risk	A policy will be created that defines the Council’s approach to training, facility time and the reimbursement of expenses for non-elected members.	Jo Thistlewood – Technical Finance Manager
	The training needs analysis for the Pension Fund Committee will be reviewed.	Target Date
	A training needs analysis will be completed for the LGPS Pension Board, and the Fire Fighters Pension Board once membership is finalised.	July 2016
		Report reference:
		IOW-18-02

3. Publishing of governance arrangements – operating effectiveness

Finding

Governance arrangements are explained in principle as part of the Pension Fund Governance Policy, however the Council's website does not clearly explain how stakeholders can express an interest in being part of governance arrangements, although sufficient information is provided in general in respect of the Isle of Wight Council Pension Scheme. It was also noted that pension services section of the Council's website does not clearly or directly link to the Pension Fund Committee section of the website.

The pension's services section of the Council's website focuses on the Local Government Pension Scheme. We could not identify any information on the website in relation to the Fire Fighters Pension Scheme, which the Council also manages. Although the fund report is included within the Council's annual accounts, this is not signposted to stakeholders, and therefore we cannot conclude that in this respect sufficient information is made available to stakeholders.

On the 'Fund Reports' page of the pension services section of the Council's website, there are links to several out of date/superseded documents.

Pension Fund Communication Policy – This document is dated the 15 May 2013, and therefore does not reflect the recent changes to pensions governance at the Council such as the introduction of the LGPS Pension Board or the Fire Fighters Pension Board.

Pension Fund Governance Compliance Statement at 31.03.2014 – This document has been superseded by the 31.03.2015 Governance Compliance Statement, which is published at the back of the 2014-15 Pension Fund Annual Report, however is not available directly under the strategies and policies section.

Pension Fund Governance Policy – This document is dated the 13 May 2013 and therefore does not reflect the recent changes to pensions governance at the Council such as the introduction of the LGPS Pension Board or the Fire Fighters Pension Board. Furthermore, the Pension Fund Committee's terms of reference have been modified since this date, meaning this policy is not in alignment.


Pension Fund Statement of Investment Principles 2014 - This document is dated the 16 May 2014. Since this date, there have been various updates to relevant legislation, such as the Local Government Pension Scheme Regulations. It was noted that this document is scheduled to be reviewed as part of the next triennial valuation due to take place in 2016.

Pension Fund Strategy Statement 2014 - This document is dated May 2014. As per the document, there should have been an annual review in May 2015, however there is no evidence that this review had taken place. This document is scheduled to be reviewed as part of the next triennial valuation due to take place in 2016.


Risks

Relevant, appropriate information is not made available to stakeholders, meaning that the Council may not be achieving their obligation to publish details of their governance arrangements.


Out of date strategies and policies may contain information which is no longer valid or relevant, meaning that its effectiveness is diminished.

Finding rating	Agreed actions	Responsible person / title
 L o w R i s k	<ul style="list-style-type: none"> The pension's service section of the Council's website will be updated to explain how stakeholders can express an interest in participating in pensions governance arrangements. Furthermore, a clear link will be made to the Pension Fund Committee section of the Council's website. Relevant information to the Fire Fighters Pension Scheme will be clearly signposted. Out of date pension strategies and policies, as defined above, will be reviewed. The 'Fund Reports' page of the pension services section of the Council's website will be updated to show the most recent version of pension strategies and policies. 	Jo Thistlewood – Technical Finance Manager
		Target Date
		July 2016
		Report reference:
IOW-18-03		

4. Pension Fund Committee website – operating effectiveness

Finding		
Although membership of the Pension Fund Committee is shown on the designated section of the Council’s website, this only lists the seven elected members. A non-voting employee and an admitted body representative have been appointed as members, however are not shown on the website. Although committee membership is clear per the terms of reference, membership is not accurate or transparent to stakeholders viewing the Council’s website.		
Finding rating	Agreed actions	Responsible person / title
 A d v i s o r y	The Pension Fund Committee section of the Council’s website will be updated to include all active members.	Jennifer Beresford – Democratic Services Officer
		Target Date
		April 2016
		Report reference:
		IOW-18-04

5. Pension Fund Committee voting rights – operating effectiveness

Finding		
<p>The Pension Fund Committee is currently made up of seven elected members who have voting rights, and one employee representative and one admitted body representative who do not have voting rights. In line with governance guidance the issue of whether voting rights should be conferred on scheme member representatives, for example, is a matter for individual administering authorities to consider and determine in the light of the appointing council's constitution. Through conversations with key personnel, the Council has opted to only confer voting rights on elected members. Although no issues were noted with this membership structure, in line with governance guidance it should be clearly justified why voting rights have not been extended to the non-elected committee members.</p>		
Finding rating	Agreed actions	Responsible person / title
 A d v i s o r y	The Pension Fund Committee terms of reference will be updated to clarify why voting rights have not been extended to the non-elected committee members.	Jo Thistlewood – Technical Finance Manager
		Target Date
		July 2016
		Report reference:
		IOW-18-05





Appendix A: Basis of our classifications

Finding rating	Effect on Service	Embarrassment / reputation	Personal Safety	Personal privacy infringement	Failure to provide statutory duties/meet legal obligations	Financial	Effect on Project Objectives/ Schedule Deadlines
Critical	<p>A finding that could result in a:</p> <ul style="list-style-type: none"> Major loss of service, including several important areas of service and /or protracted period. Service Disruption 5+ Days 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Adverse and persistent national media coverage Adverse central government response, involving (threat of) removal of delegated powers Officer(s) and/or Members forced to resign 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Death of an individual or several people 	<p>A finding that could result in:</p> <p>All personal details compromised/ revealed</p>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Litigation/claims/ fines from Department £250k + Corporate £500k + 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Costs over £500,000 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Complete failure of project/ extreme delay – 3 months or more
High	<p>A finding that could result in a:</p> <ul style="list-style-type: none"> Complete loss of an important service area for a short period Major effect to services in one or more areas for a period of weeks Service Disruption 3-5 Days 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Adverse publicity in professional/municipal press, affecting perception/standing in professional/local government community Adverse local publicity of a major and persistent nature 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Major injury to an individual or several people 	<p>A finding that could result in:</p> <p>Many individual personal details compromised/ revealed</p>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Litigation/claims/ fines from Department £50k to £125k Corporate £100k to £250k 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Costs between £50,000 and £500,000 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Significant impact on project or most of expected benefits fail/ major delay – 2-3 months

Finding rating	Effect on Service	Embarrassment / reputation	Personal Safety	Personal privacy infringement	Failure to provide statutory duties/meet legal obligations	Financial	Effect on Project Objectives/ Schedule Deadlines
Medium	<p>A finding that could result in a:</p> <ul style="list-style-type: none"> Major effect to an important service area for a short period Adverse effect to services in one or more areas for a period of weeks Service Disruption 2-3 Days 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Adverse local publicity /local public opinion aware Statutory prosecution of a non-serious nature 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Severe injury to an individual or several people 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Some individual personal details compromised/ revealed 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Litigation/claims/fines from Department £25k to £50k Corporate £50k to £100k 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Costs between £5,000 and £50,000 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Adverse effect on project/ significant slippage – 3 weeks–2 months
Low	<p>A finding that could result in a:</p> <ul style="list-style-type: none"> Brief disruption of important service area Significant effect to non-crucial service area Service Disruption 1 Day 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Contained within section/Unit or Directorate Complaint from individual/small group, of arguable merit 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Minor injury or discomfort to an individual or several people 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Isolated individual personal detail compromised/ revealed 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Litigation/claims/fines from Department £12k to £25k Corporate £25k to £50k 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Costs less than £5,000 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> Minimal impact to project/ slight delay less than 2 weeks
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.						

Report classifications

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	Points
 Low risk	6 points or less
 Medium risk	7– 15 points
 High risk	16– 39 points
 Critical risk	40 points and over

Appendix B: Terms of Reference

Background and Scope

The Council is a pension scheme administering authority, and, as such, has varying oversight responsibilities over a number of different pension schemes. The Council acts as a scheme manager for both the Local Government Pension Scheme (LGPS) and the Fire Pension Scheme, with dedicated boards for the governance of both of these schemes. The Council also acts as an administering authority for employees in the NHS Pension Scheme, the Teacher's Pension Scheme, with the Council's responsibilities limited to paying contributions over to the applicable scheme. These schemes are overseen by the Council's LGPS and Fire Pensions Boards, which were introduced by the Council in line with the government's draft regulations requiring local authorities who are pension scheme administering authorities to establish a pension's board from the 1st April 2015. The Pension Fund Committee are also involved in the governance process, whose terms of reference define several responsibilities such as monitoring the performance of fund managers, investment advisors and actuaries.

This audit will review the Council's pension governance arrangements, evaluating the controls in place and ensuring the current structure leads to a robust system of challenge and scrutiny. The control objectives and potential related risks included in this review are:

Sub-process	Control objective	Potential risks
1	<p>Robust governance arrangements extend to all Council pension schemes that the Council administer or manage.</p> <p>All Pension boards and committees have approved terms of reference, which are reviewed on a regular basis.</p> <p>Processes are in place to ensure that the terms of reference are in line with the duties and responsibilities required of the Council, as specified in the Local Government Pension Scheme Regulations.</p>	<p>Schemes may not be included, leading to a lack of oversight, scrutiny and challenge.</p> <p>The responsibility for the administration of benefits and strategic management of fund assets is unclear.</p> <p>The terms of reference may not reflect legislative requirements, leading to an ineffective or non-compliant function.</p>
2	<p>The structure and membership of each pensions scheme board is in line with the terms of reference, and is aligned with best practice guidance, as defined by the Local Government Pensions Association.</p> <p>The boards and committees contain representatives of participating employers, admitted bodies and scheme members including both pensioners and deferred members.</p> <p>For each pension scheme, the policy on voting rights is clear and transparent, including, where appropriate, the justification for not extending voting rights to each body or group represented.</p>	<p>If the structure and membership of the body is unsuitable inappropriate decisions could be made.</p> <p>Underrepresentation of key stakeholders could cause dissatisfaction in respect of the pension's governance process. Valuable input could be lost.</p> <p>Lay members are not treated equally in terms of access to papers, meetings and training, and are not given full opportunity to contribute to the decision making process.</p>
3	<p>The Pension Fund Committee meet at least quarterly. Both the LGPS and Fire Pensions Boards meet at least twice a year and is synchronised with the dates when the Pension Fund Committee sits.</p>	<p>Issues are not actioned on a timely basis, leading to a less effective response.</p>

Sub-process	Control objective	Potential risks
	<p>The performance of the investment funds is analysed and reported regularly by the Pension Fund Committee.</p> <p>Reports presents to pension boards/committees are appropriate and meet member's requirements.</p>	<p>There is not clear communication between the Pension Fund Committee and the LGPS Pension Board.</p>
4	<p>There is a policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. This policy equally applies to all members.</p> <p>Annual training plans have been established for all committee members. A log is maintained of all completed training.</p>	<p>Processes are more likely to be inconsistently and incorrectly applied.</p> <p>Body members do not have the appropriate knowledge to provide effective challenge and scrutiny.</p>
5	<p>Details of the governance arrangements have been published in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.</p> <p>Sufficient information is made available to stakeholders.</p>	<p>Underrepresentation of key stakeholders could cause dissatisfaction in respect of the pension's governance process. Valuable input could be lost.</p> <p>Stakeholders may not be able to verify whether funds are being effectively administered and whether returns are appropriate.</p>

Limitation of Scope

This audit will be restricted to pension governance arrangements at the Council for the financial year 2015/16 and will not cover pension administration processes and controls.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the pension governance policies and processes through discussions with key personnel, review of systems documentation and walkthrough tests.
- Identify the key risks to these arrangements and controls.
- Evaluate the design of the controls in place to address the key risks.
- Test the operating effectiveness of the key controls.

Internal audit team

Name	Title	Role	Contact details
Emma Butler	Director	Engagement Leader	emma.butler@uk.pwc.com
Dan Deacon	Manager	Engagement Manager	daniel.r.deacon@uk.pwc.com
Poppy Taylor-Porter	Senior Associate	Auditor	poppy.taylor-porter@uk.pwc.com
Kieran Myers	Trainee Associate	Auditor	kieran.myers@uk.pwc.com

Key contacts – Isle of Wight Council

Name	Title	Role	Contact details
Jo Thistlewood	Technical Finance Manager	Audit Sponsor	jo.thistlewood@iow.gov.uk
Councillor Ivor Warlow	Chairman of the Pension Fund Committee	Auditee	ivor.warlow@iow.gov.uk
Paul Wilkinson	Chair of the LGPS Pensions Board	Auditee	
Jennifer Beresford	Democratic Services Officer	Auditee	jennifer.beresford@iow.gov.uk

Timetable

Fieldwork start	25th January 2016
Fieldwork completed	29th January 2016
Draft report issued to Head of Internal Audit	The draft report will be issued to the Head of Internal Audit within 10 working days of the completion of fieldwork.
Head of Internal Audit response due by	The Head of Internal Audit will provide comments on draft report within 2 working days of receiving the report.
Draft report issued to Audit Sponsor	The draft report will be issued to the Audit Sponsor within 10 working days of the completion of fieldwork.
Management response due by	The Audit Sponsor will provide the Head of Internal Audit with a complete written response to the internal audit report within 10 days of receipt of the draft report. Where there is disagreement over the report or recommendations, these must be resolved within 10 working days of the problem being highlighted.
Final report issued by	Final report will be issued to the Head of Internal Audit for issue to the Audit Sponsor 5 working days of receiving the management response.
Client satisfaction survey	A client satisfaction survey will be issued following each audit. You may wish to consider this throughout the audit.

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation

Appendix C: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of the Pensions Governance process subject to the limitations outlined below.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to the Pensions Governance process is for controls effective from April 2015 to November 2015. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.