

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 |
|--------------------|--|---|
| | The performance of the investment funds is analysed and reported regularly by the Pension Fund Committee. Reports presents to pension boards/committees are appropriate and meet member's requirements. | There is not clear communication between the Pension Fund Committee and the LGPS Pension Board. |
| 4 | 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. Annual training plans have been established for all committee members. A log is maintained of all completed training. | Processes are more likely to be inconsistently and incorrectly applied. Body members do not have the appropriate knowledge to provide effective challenge and scrutiny. |
| 5 | 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. Sufficient information is made available to stakeholders. | Underrepresentation of key stakeholders could cause dissatisfaction in respect of the pension's governance process. Valuable input could be lost. Stakeholders may not be able to verify whether funds are being effectively administered and whether returns are appropriate. |

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 |
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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

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| 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