23.F03: Effectiveness of Pensions Committee

October 2023

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Internal Audit would like to formally thank all the officers contacted during this review for their co-operation and assistance.

This report is produced on an exception basis, highlighting key aspects from the Internal Audit review. Further detailed findings are available upon specific request.

Ownership of all final Internal Audit reports rests with the relevant Audit Sponsor. However, we may disclose final reports to the Audit Committee, Cabinet Members, and the Chief Executive upon their specific request.

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EFFECTIVENESS OF PENSIONS COMMITTEE AUDIT REPORT

1. INTRODUCTION

The purpose of this review is to provide assurance to the Corporate Management Team (CMT) and the Audit Committee over the following potential key risks:

Risk 1: If committee members have insufficient skills/training to support them in their role on the committee, it may impact on their confidence and capability to give effective scrutiny and oversight.	*Finding 1*
Risk 2: If committee members have insufficient time to review reports and prepare before Committee meetings it may reduce their chance to scrutinise the information, identify questions to raise at the meeting, and lead to poor decision making.	*Finding 2*
Risk 3: If robust monitoring and benchmarking mechanisms are not in place in relation to the investment performance there is a risk that the pension fund's performance is not sufficiently monitored, resulting in poor decision making and delayed remedial action from the committee.	*No Findings*
Risk 4: If robust conflict of interest governance mechanisms are not in place and functioning effectively there is a risk that the Pensions Committee will not be effective in discharging its fiducial duty, leading to reputational consequences for Hillingdon Council.	*No Findings*
Risk 5: If Committee members do not attend or engage effectively in formal Committee meetings, there is a risk of poor scrutiny over committee decision making, leading to financial and reputational consequences for Hillingdon Council	*No Findings*

2. EXECUTIVE SUMMARY

Overall, we are able to give *REASONABLE* assurance over the key risks. The key findings and IA recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan in **Appendix A.** Low findings and observations are listed in **Appendix B.** Definitions of the IA assurance levels and risk ratings are included at **Appendix C**.

The Pensions Committee plays a pivotal role as the Scheme Manager and Administering Authority for Hillingdon Council's Pension Fund. This committee, consisting of five voting members and supported by key officers and advisers, is entrusted with crucial decisions related to the fund's administration, governance, and investments.

This assurance review was carried under Internal Audit plan for 2023-24. The objective of this review was to measure and monitor the Committee's overall effectiveness and identify areas where additional support might be required.

For the four Pensions Committee meetings reviewed there was an average attendance of 90%, with all meetings being quorate. Internal Audit reviewed the Committee reports for last three quarters and confirmed that all the decisions were documented in part one and part two of the reports, and reports were shared minimum of seven days before the meeting to allow members time to prepare.

Our testing revealed that robust training plans are provided to the Committee members which cover the CIPFA eight core recommendations, and a schedule is in place for this online training.

We confirmed that the Pensions Committee is in alignment with industry-standard practices for fund performance benchmarking and monitoring. Whilst there is no formal KPI policy in place, the use of

benchmark returns is a well-established method of measuring performance and fund managers are expected to meet or exceed these benchmarks. Although fund benchmarks were not achieved in two out of the past three quarters, the Committee had a proactive approach to reviewing and questioning fund managers performance in quarterly meetings as standard agenda item.

An up to date and accessible conflicts of interest policy was in place. Internal Audit noted that the current Committee has not made any declarations of interest via the register however this is accepted as no conflicts of interest were raised within the minutes of Committee meetings.

Internal Audit provides positive assurance over Pension Committee's robust governance structure which is marked by clear delegation of roles and reporting lines which ensures effective oversight. Throughout the year, the Committee has worked collectively alongside the Pension Board to ensure the governance arrangements for the Pension Fund are robust and continue to deliver a responsible and compliant scheme.

Overall, we have identified two medium findings included in Appendix A. One relates to the training policy and training completion the second is based on feedback received from Committee members on the use of jargon within reports and disparity in engagement level among members. The detailed findings and conclusions of our testing which underpin the above IA opinion have been discussed at the exit meeting with James Lake, Director Pensions, Treasury and Statutory Accounts and are available to management upon specific request.

APPENDIX A - MANAGEMENT ACTION PLAN

No.	MEDIUM FINDING
1	**We identified the following areas of improvement in relation to training:** • The Committee has a training policy in place and available on SharePoint to outline the training requirements for members of the Committee. The policy was approved on 9 December 2015, however it has not been formally reviewed and updated in the last three years. • In order to be compliant with CIPFA skill and knowledge framework, requisite training for Committee members is provided by AON. However only four of the five members had completed 100% of the these training at the point when the last Committee meeting was held. We acknowledge this finding can be attributed to the recent appointment of a new Committee member who assumed the role in May, however this training should be completed as soon as possible to ensure the Committee's adheres to the CIPFA knowledge and skill framework. In addition to the requisite AON trainings the Committee is provided with tailored training, with 16 bespoke training sessions held between June 2022 and May 2023 and trainings sessions scheduled up till March 2024. However overall only 88% of the 2022/23 bespoke sessions were completed by Committee members (excluding the member who started in May 2023). In addition, at the time of this review routine member self-assessments were not taking place to ensure the tailored training was aligned to the needs of the Committee members, although we understand management intend to implement this provision moving forward. Risk: If the Committee members have insufficient skills/training to support them in their role on the committee, it may impact on their confidence and capability to give effective scrutiny and oversight.

Recommendation	Management Action Proposed	Risk Owner & Implementation date
Management should: 1. Update and review the training policy in place. 2. Ensure 100% compliance with requisite training requirements before members attend their first formal meeting. 3. Consider developing and distributing routine self-assessments to Committee members to further target training needs and areas of development.	1. The training policy will be reviewed and presented to Committee for approval in December 2023. 2. Officers request 100% completion, but compliance is reliant and the sole responsibility of Pension Committee members. 3. A self-assessment mechanism will be developed and distributed to Pension Committee members. It is essential however that Committee members commit to the assessment and any subsequent training.	Director of Pensions, Treasury & Statutory Accounts James Lake 31 March 2024

No.	MEDIUM FINDING
2	**Feedback received from Committee members:**

Internal Audit developed and distributed an anonymous self-assessment form to committee members, at the time of writing this report the self-assessment form has been live for five weeks with a 60% (3/5) response rate.

All three responders stated they came across technical jargon and complex language that hinders their understanding, and one reported frequent encounters with such language. Without this specialist knowledge members may find it difficult to interpret and understand the information presented and therefore unable to scrutinise and discuss the reports effectively.

Although technical jargon and complex language was consistently highlighted as hindering members' understanding, when Internal Audit reviewed Committee minutes and recordings we noted there was a variance in the number of questions asked by Committee members. For December 2022 and March 2023 a total of 17 questions were asked but only eight of these questions were asked by current members of the Committee, and 75% of those eight were asked by one Committee member.

Feedback from the member survey and interviews with other attendees suggested there is a potential gap in specialist knowledge and experience due to experienced committee members stepping down and the current Committee roster being relatively new. Whilst a short-term knowledge gap is expected with a change of committee members, the committee could consider onboarding an experienced independent member to provide additional specialist insight or to bridge the knowledge gap when there are future changes to the Committee membership.

Risk: If Committee members find difficult to interpret and understand the reports presented there is a risk that the Committee as a collective will not be effective in scrutinising and making decisions. Consequently, impacting their ability to discharge their duty. |

Recommendation	Management Action Proposed	Risk Owner & Implementation date
Management should:

1. Provide guidance to members on some of the key technical terminology they should be aware of and guidance to officers responsible for report writing in relation to tailoring the level of technical jargon in the reports.
2. Take steps to increase level of confidence among the Committee members in respect to their skills and knowledge through targeted training and routine self-assessments as identified in Finding 1.
3. Management should consider the possibility of onboarding an experienced independent member to the Pensions Committee to raise the Committee's collective knowledge and experience and also encourage the development of insights and skills for the current members. | 1. Management are not aware of the exact jargon referred to by the survey results, and would encourage committee members to approach officers if they encounter technical jargon that is unclear so it can be explained further. To aid this process officers will also prompt to ensure committee members understand report contents.
2. Officers provide general training and bespoke training sessions prior to any key decisions on technical areas. This should ensure members are fully conversant. However, to ensure training is effective, Committee members need to be engaged and identify areas of clarification. It is also essential that, if possible, Committee members attend the training provided. As noted in finding 1, a needs assessment will take place to help identify any knowledge gaps.
3. Subject to approval through Democratic Services and the Pension Committee; management support the introduction of an independent Pension Committee member. However, this process may take some time hence the June 2024 implementation date. | Director of Pensions, Treasury & Statutory Accounts

James Lake

31 June 2024 |

APPENDIX B - LOW RISK FINDINGS & OBSERVATIONS

No.	Key Finding & Risk	Observation / Suggestion
Note 1	At the time of this review the Committee did not have a formal process in place to review their own effectiveness on an ongoing basis to ensure actions are put in place to further improve the performance of the Committee. However, we recognise an annual self-assessment return had already been developed and was due to be implemented going forwards, therefore we have not raised a further management action in relation to this finding. We understand this will include identifying future training needs as highlighted in finding 1.	The Committee should implement the annual self-assessment for committee members and attendees as planned, and ensure any areas of development identified are collated into an improvement action plan. If the self-assessment identifies effective feedback the Committee should also consider sharing this with other Committees across the Council to ensure any learning is duplicated.

APPENDIX C - INTERNAL AUDIT DEFINITIONS

ASSURANCE LEVEL	DEFINITION
SUBSTANTIAL	There is a **good level of assurance** over the management of the key risks to the Council objectives. The control environment is robust with no major weaknesses in design or operation. There is **positive assurance** that objectives will be achieved.
REASONABLE	There is a **reasonable level of assurance** over the management of the key risks to the Council objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains **some risk** that objectives will not be achieved.
LIMITED	There is a **limited level of assurance** over the management of the key risks to the Council objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a **significant risk** that objectives will not be achieved.
NO	There is **no assurance** to be derived from the management of key risks to the Council objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a **high risk** that objectives will not be achieved.

FINDING RATING	DEFINITION
HIGH	The recommendation relates to **a significant threat** that impacts the Council's corporate objectives. i.e., a high number of key business risks remain unidentified and/or unmanaged as control systems do not exist and/or do not operate effectively. **The risk requires senior management attention as soon as possible** as it may result in the breakdown of part/whole of the service.
MEDIUM	The recommendation relates to **a potentially significant threat** that impacts on either corporate or operational objectives. This includes weaknesses in the control systems that are not considered serious but may have some impact on the service. **The risk requires management attention** and should be addressed within six months to ensure full compliance with expected controls.
LOW	The recommendation relates to **a minor threat** that impacts on operational objectives, this includes non-compliance with best practice or local procedures, and minimal impacts on the Service's reputation or budget. **The risk may be tolerable in the medium term** but management should take action within the next year to improve the control framework to ensure full compliance with expected controls.
OBSERVATION	This includes any items Internal Audit would like to highlight that may not directly relate to a finding. This includes notable performance and innovative controls that **should be shared with others,** potential concerns raised during the audit that are outside the scope of the review and will be considered separately, and any areas of improvement that had already been addressed by management at the time of the review.

Control Environment: The systems of governance, risk management and internal control. Key elements include establishing and monitoring the authority's objectives, facilitating policy and decision-making, ensuring compliance with established policies and procedures, financial management, and performance management.

Risk Appetite: The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.

Residual Risk: The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.