

# LGPS Asset Pooling Assurance Framework

Presentation to Pensions  
Committee  
18 December 2018

Appendix 3



# Government Criteria

1

Benefits of scale (at least £25bn in assets)

2

Strong governance and decision making

3

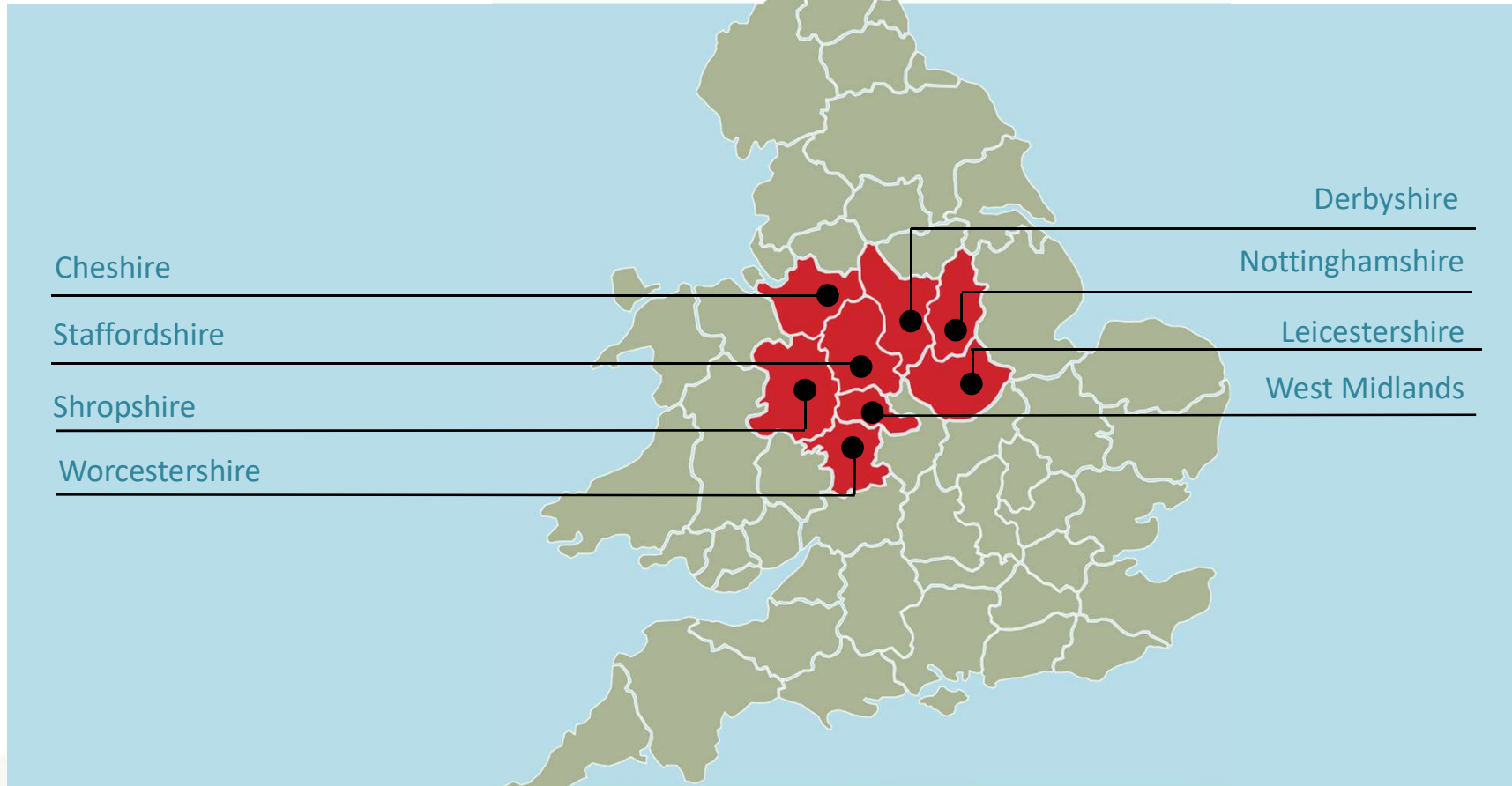
Reduced costs and excellent value for money

4

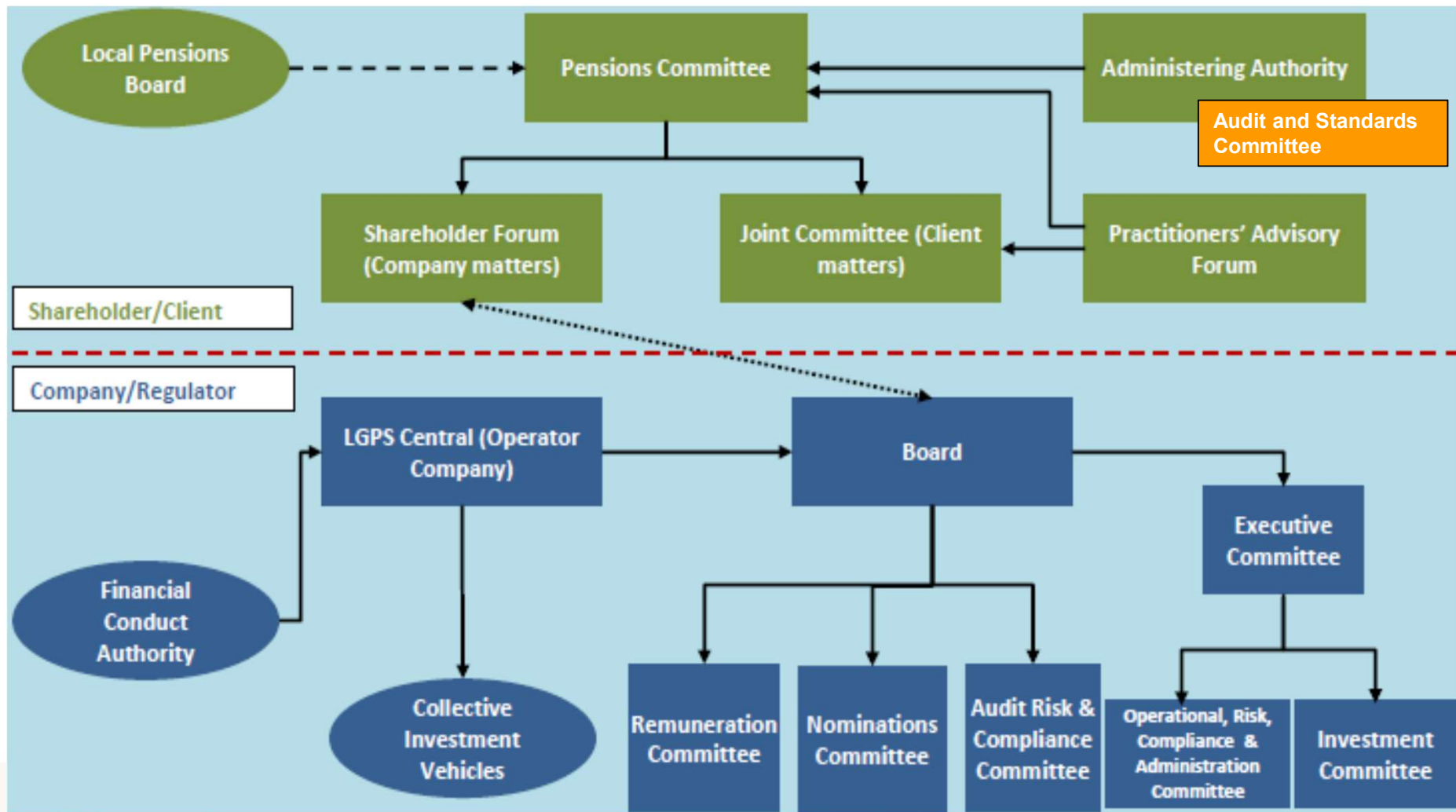
An improved capacity and capability to invest in infrastructure



# LGPS Central



# Governance of LGPS Central and LGPS Central Ltd



# Company Governance (LGPS Central Ltd)

- Governance framework ensures strict adherence to both its FCA (Financial Conduct Authority) regulatory obligations and with the Companies' Acts.
- **Company Board** supported by 5 sub committees:-
  - (1) Audit, Risk and Compliance Committee - Core purpose is to:-**
    - ensure the integrity financial statements and the financial reporting process.
    - oversight of compliance with legal and regulatory requirements, as well as performance of the internal audit function.
    - checking the effectiveness of the Company's systems of internal controls and policies and procedures for risk assessment and risk management.
  - (2) Nominations Committee**
  - (3) Remuneration Committee**
  - (4) Executive Committee (ExCo)**
  - (5) Investment Committee (IC).**



# Collaborative Approach

- Staffordshire County Council are coordinating a collaborative Internal Audit response.
- Involvement of the following stakeholders;
  - Internal Audit functions from all LGPS Partner Funds
  - External Audit
  - PAF Officers (Practitioners Advisory Forum)
  - LGPS Central Ltd.
  - Representatives from other Authorities involved in different Pooling Models via M.C.C.I.AG (Midlands County Chief Internal Auditors Group) and LACAN (Local Authority Chief Auditors Network)
- Why work collaboratively?
  - Consistency
  - Prevent duplication
  - Effective information sharing
  - Earlier identification of risk



# Collaborative Approach Cont.

## Q.4 2017/18

Research time  
Meetings with  
Stakeholders

Three lines of  
Defence

## July 2018

Meeting held  
between LGPS  
Central Ltd and  
Internal Audit  
Partners to discuss  
assurance provided  
to LGPS Central and  
individual Partner  
Funds

## August 2018

LGPS Central Ltd  
propose the following  
assurance documents  
to be made available:-

Policies and  
Procedures.

ARCC Annual Report.

Internal Control  
Review-

AAF 01/06 available in  
late 2019

## September/October 2018

SCC complete a first  
draft of Assurance  
Framework for LGPS  
Central .

Shared with;

Internal Audit Partners  
(LGPS Central)

PAF

LGPS Central Ltd

M.C.C.I.A.G and LACAN

## November 2018

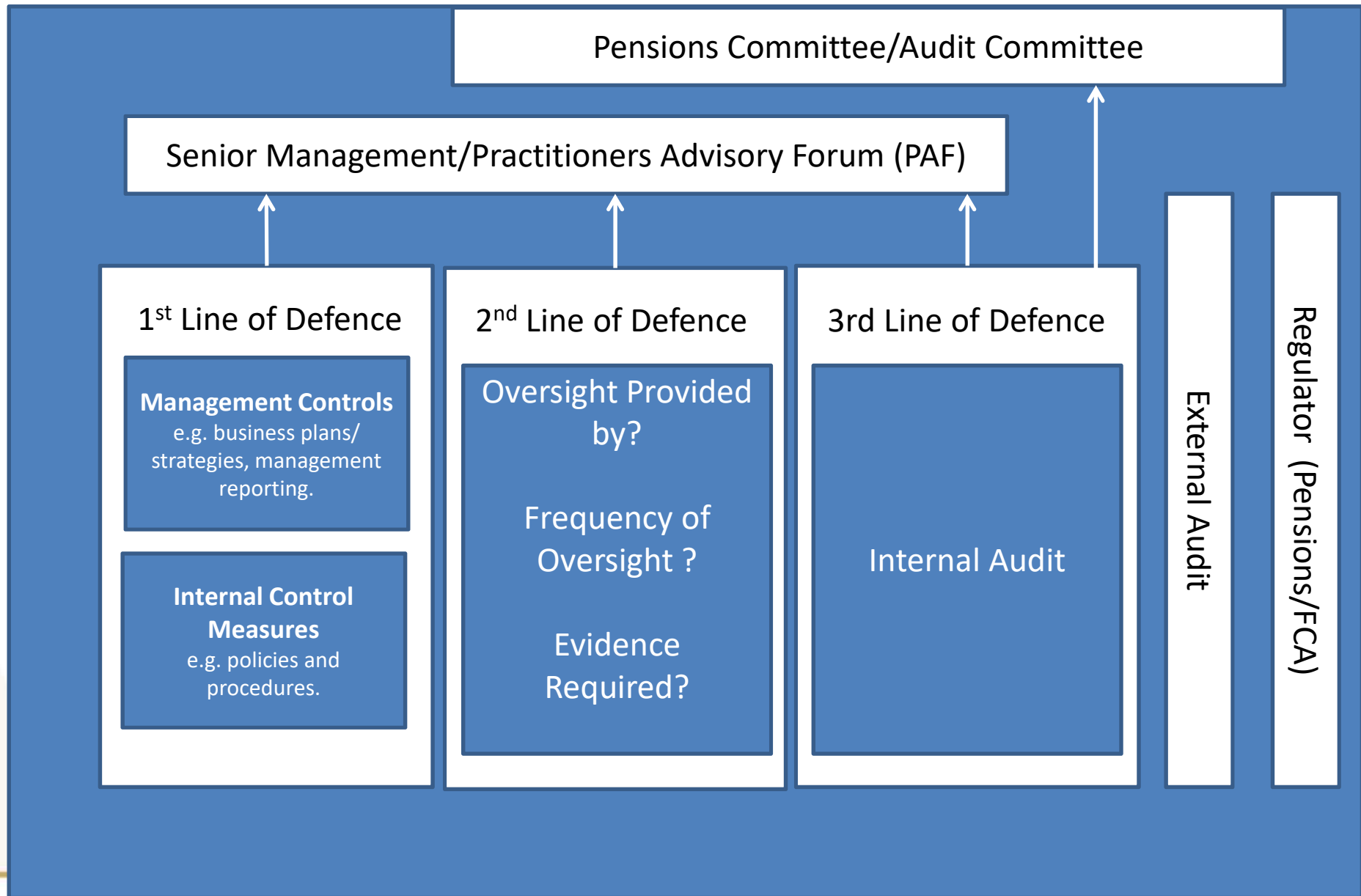
Meeting IA  
partners to review  
draft framework.

Cross reference  
company risks to  
pool risks

Seek Further  
clarification from  
LGPS Central  
Limited regarding  
evidence to be  
provided in  
respect of  
company controls



# Assurance Framework - Three Lines of Defence Model





# Pension Pooling Risks

## Investment

Transition Services are inappropriate or costs are too high/not monitored

LGPS Central Ltd does not deliver sufficient investment choice/performance

Pooled investments fail to deliver reduction in manager costs

Assets invested are lower than expected

Investment Strategy does not respond to Market Volatility

Investments do not adhere to responsible investment principles

Governance is not effective

## Governance

Absence of Policy and Procedures/ Training

Governance arrangements are not established

## Company/ Financial & Operational

Budgets are not monitored or are overspent

No assurance of Company's systems and controls

## Wider Pooling

Changes to Government Policy

Failure to meet required Government criteria



# LGPS Central Assurance Framework

LGPS Central - DRAFT ASSURANCE MAP NOVEMBER 2018											APPENDIX		
Objective	Risk Ref	Risk	1 <sup>st</sup> Line of Defence				2 <sup>nd</sup> Line of Defence			3 <sup>rd</sup> Line of Defence			
			Management Controls				Management Oversight			Independent Assurance			
			Control Ref	Control Title	Control Owner	Control Objective	Oversight Provided By	Frequency of Activity	Evidence Required	Assurance provided by:	Frequency	Scope	
<b>(1) Governance Risk</b>													
Paal-4 governance arrangements are established, clearly documented and communicated to all Members and Officers (including Scheme of Delegation)	1	Governance arrangements for the Paal are not established, unclear and not known by all partners.	C.1	Governance Arrangements	Practitioners Advisory Forum (PAF) (which includes S, IS1, Senior Officers)	There is a clear governance structure which sets out roles and responsibilities of the following partner groups: - Joint Committee - Practitioners Advisory Forum - Shareholders Forum  This governance structure has been approved and is understood and communicated to all relevant staff.	Pensioners Committee (Partner Funds)/Audit and Standards Committee	Annual	Regular review/update of: - Terms of Reference - Scheme of Delegation - Articles of Association/Shareholder Agreement/Inter Company Agreement - Constitution (of Partner Funds)  Minutes/Agenda of relevant governance groups. (Pensioners Committee, PAF, Joint Committee and Shareholders Forum)	Internal Audit (Individual Partner)	Annual	Work completed to confirm; - Appropriate governance arrangements - Governance groups are attended by Members or Officers. - Governance in line with key documents of Reference, Scheme of Delegation - Decision making is appropriate - Members and Officers aware of arrangements.  N.B: External Audit review of C	
Policies and Procedures have been communicated to relevant Members and Officers.	2	Appropriate policies and procedures are not in place to support governance arrangements.	C.2	Policies and Procedures	Practitioners Advisory Forum (PAF) (which includes S, IS1, Senior Officers) or representative of Partner Funds	Policies and procedures are in place within administering authorities to support governance arrangements. This includes: - Code of Conduct - Register of Interest - Gifts and Hospitality - Whistleblowing - Anti-Fraud, Bribery and Corruption	Individual administering authorities committee structures	Within administering authorities timetable.	Regular review/update of following policies within administering authorities: - Code of Conduct - Register of Interest/declaration of interests - Gifts and Hospitality - Whistleblowing - Anti-Fraud, Bribery and Corruption	Internal Audit (Individual Partner)	As per audit plan cycle	Work completed to confirm; - Policies and procedures are in reviewed. - Evidence of compliance with e.g. Declaration of Interest	
Training regarding governance arrangements have been received.	3	Appropriate training has not been provided to Members or Officers with regard to the governance arrangements of the Joint Committee, and Shareholders Forum.	C.3	Training	Practitioners Advisory Forum (PAF) (which includes S, IS1, Senior Officers)  LGPS Central Ltd in relation to training required regarding Company and FCA matters.	Officers and Members involved in the governance of the Pensioners Paal receive the appropriate training, knowledge and skills to effectively understand their role and perform their responsibilities.	Pensioners Committee (Partner Funds)	Annual	Training and Development Policy and Needs Analysis.	Internal Audit (Individual Partner)	Annual	Work completed to confirm; - Training Programme in place - Training logs maintained.	
The governance structure in place is effective and suitable for the needs of the Partner Funds.	4	Governance structure is not effective	C.4	Effective Governance	Practitioners Advisory Forum (PAF) (which includes S, IS1, Senior Officers)	The governance structure in place is effective and includes the following features: - Interests of partners are represented adequately. - All relevant issues (Company and FCA related) are taken into consideration	Pensioners Committee (Partner Funds)	Annual	Effective oversight evidenced through: - Company Board oversees company strategy and effectiveness of ExCo. - Shareholders are represented adequately	Internal Audit (Individual Partner)	Annual	Work completed to confirm; - Strategic and business plan - Cohesive link between objectives and Business Plan	

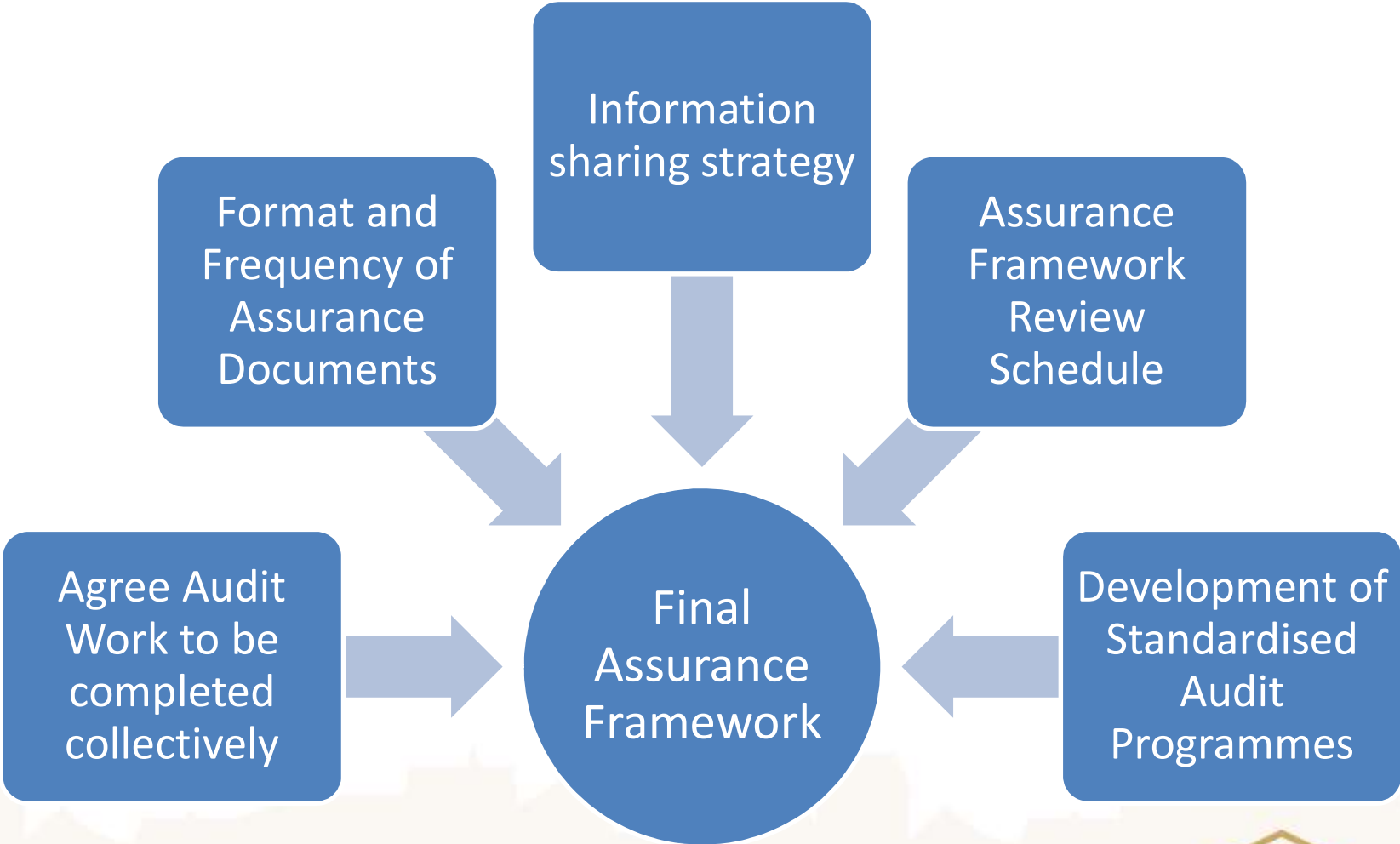


# Third Line of Defence Draft Proposal

Internal Audit (Individual Partner Funds)	Internal Audit (Collective)	External Audit (Individual Partner Funds)
Communication between LGPS Central, LGPS Central Ltd and Partner Fund Authorities.	LGPS Central Governance Monitoring Arrangements e.g. Financial Monitoring	Governance LGPS Central, and Partner Fund Authorities.
Financial Assumptions – Cost Models (within Individual Authorities)	LGPS Central Ltd Assurance Documents e.g. AAF 01/06, Policies and Procedures, ARCC	Delivery of Investment Strategy (Partner Fund Authorities) and LGPS Central Shared Objectives.
Transitions	Reporting  Investment Performance and Financial Monitoring	Transitions  Value of Investments  Investment Performance



# Next Steps.....



# Role of Audit and Standards and Pensions Committees

- Approval of Pension Fund Audit Plan
- Plan has previously included:-
  - Pensions Administration
  - Pension Fund Governance
  - Investments (Contract Monitoring)
- Plan is now also likely to include:-
  - LGPS Central Governance
  - Effectiveness of controls with LGPS Central Ltd

