

# **Cyngor Sir Gâr**

# **Carmarthenshire County Council**

## **Archwiliad Mewnol**

## **Internal Audit**

### **Corporate Services**

### **Dyfed Pension Fund Governance & Investments**

### **Final Internal Audit Report**

### **2023/24**

**25<sup>th</sup> March 2024**

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<b>CONTENTS</b>	<b>PAGE</b>
1. Introduction Background Scope and Objectives Associated Risks	<b>2</b>
2. General Opinion	<b>3</b>
3. Assurance Rating	<b>5</b>
4. Summary of Recommendations	<b>5</b>
5. Key Findings and Action Plan	<b>6</b>
 Audit Assurance Ratings and Recommendation Priorities	 <b>APPENDIX 1</b>

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Auditor(s):	Cathrin Owen, Senior Auditor

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## 1. INTRODUCTION

### Background

The Dyfed Pension Fund is administered by Carmarthenshire County Council (the administering authority) and under the Council's constitution the Dyfed Pension Fund Committee has overall strategic responsibility for managing the Fund.

The total net assets of the Dyfed Pension Fund, as at 31<sup>st</sup> March 2023, was approximately £3.14 billion.

### Scope and Objectives

The purpose of the audit was to assess the extent to which there are adequate procedures in place to provide effective control over Dyfed Pension Fund governance and investments.

The review covered the controls and procedures in operation to assess the extent to which:

- Governance arrangements are sufficiently robust to provide effective strategic direction for the Dyfed Pension Fund.
- Adequate procedures exist for the management of Dyfed Pension Fund investments.
- The Dyfed Pension Fund is able to meet its financial obligation and its assets are safeguarded.
- The blend of investments held by Investment Managers are appropriate, in line with Investment Manager Agreements and comply with relevant regulations and strategy.
- Independent reconciliations are undertaken between the Custodian investment register, Investment Manager reports and the Financial Management System.
- The performance of investments is monitored on a regular basis and reported on, as appropriate.
- Payments of balances held on the Dividend Income Statements are promptly transferred.
- The risks associated with Dyfed Pension Fund investments have been identified, are monitored and managed.

### Associated Risks

The risks that were considered in the review are as follows:

- Unauthorised or inappropriate investments are entered into by the Investment Managers.
- Actual performance does not attain expected performance.
- Instructions are not actioned, or funds are not received by/from Investment Managers.

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## 2. GENERAL OPINION

The governance structure for the Dyfed Pension Fund (DPF) is sufficiently robust to ensure effective oversight of the Fund's strategic direction. The management of pension fund investments falls under the remit of the Pensions Investments Team at Carmarthenshire County Council, the Administering Authority, whilst the decision-making authority lies with the Pensions Fund Committee. The Committee is tasked with steering the fund strategically, as outlined in the Council's constitution. The Committee operates with up-to-date Terms of Reference and convenes four times a year, with meeting agendas and minutes made publicly available on the Council's website. Whilst the Pension Board does not have a decision-making role, it plays a crucial part in supporting the Administering Authority by ensuring compliance with regulations set by the Pensions Regulator and the Department for Levelling Up, Housing & Communities (DLUHC). The Board also aids in maintaining effective and efficient governance and administration of the Fund.

The DPF Governance Policy is in place as required by the Local Government Pension Scheme (LGPS) 1997 Regulations. The Governance Policy is reviewed regularly; there have been no changes required since 2021 until this year and as such the Policy will be presented to Committee in the next meeting for approval.

To ensure all LGPS committees operate consistently, the LGPS regulations were amended in June 2007 to require administering authorities to report on the extent of compliance to a set of best practice principles published by the DLUHC. As was reported in the 2020/21 Internal Audit Report the Compliance Statement reports that the DPF is not fully compliant in two of the nine Best Practice Principles: Structure and Representation. This is due to the absence of a secondary committee and non-inclusion of all employers' representatives on the committee. Justification for this has been cited within the compliance statement, stating that the system is supported by all parties and has worked very well. Both the Governance Policy and Compliance Statement are incorporated in the Annual Report. Internal Audit has been informed that as of March 2024, the Governance Policy and Compliance Statement will be amalgamated into a single document.

The review determined that there were adequate administrative procedures in place for managing DPF investments, as outlined in the Procedure Manual. Additionally, the DPF website features an Investments & Fund Information section, offering access to strategic documents such as the DPF Business Plan, Investment Strategy Statement (ISS), Funding Strategy Statement (FSS), Annual Report, Annual Accounts and Risk Register.

It was confirmed that as required by the LGPS Regulations that actuarial valuations are carried out every three years. The Actuarial Valuation as at 31 March 2022 showed a funding position of 113% which illustrates that the fund's assets were greater than its liabilities.

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Investment Manager Agreements are in place with all Investment Managers.

The Pensions & Investments Team meticulously maintains a comprehensive database of all investments. It has been verified that the Asset Allocation is summarised and compared with the approved benchmark figures. Internal Audit conducted testing to ensure the accuracy of the figures in the database against those presented in the Annual Report and Investment Strategy Statement (ISS). Testing identified the following:

- **Infrastructure** – benchmark is 5% however no actual investment in 2022-23. Internal Audit was informed that this is a long-term strategic asset allocation and that investments are made when opportunities arise. It is noted that the following Infrastructure Investments have been made in 2023-24:  
GCM Grosvenor £23.5m  
Capital Dynamics £2.9m  
These figures are correct as at 21 March 2024.
- **Cash** – no benchmark set in the ISS or Annual Report however there was an actual of 0.90%. This relates to cash held in Northern Trust and Schroders and is reinvested as and when needed.

The Dyfed Pension Fund Committee is kept fully informed of progress with the infrastructure investment and cash that has been reinvested.

Internal Audit reviewed the arrangements for receiving and reconciling income and found them to be satisfactory, with quarterly reconciliations being undertaken. Internal Audit examined the reconciliations conducted thus far in the 2023-24 period and observed that they are typically completed within two months after the period end date. However, there were instances where this timeframe was exceeded. It is noted that reconciliations are dependent on the receipt of all information from external fund managers before being undertaken, and there can often be delays in receiving this information.

Internal Audit reperformed the most recent reconciliation for each of the Investment Managers, testing on the whole was satisfactory however one issue was identified:

- There was an error on the December 2023 Schroders reconciliation which had not been picked up during the reconciliation review process. This issue was discussed with the Pension Investment Officer and was rectified immediately with adjustments made to the reconciliation spreadsheets so that any future discrepancies will be highlighted.

The performance monitoring of investments is reported to the Committee, with the most recent Performance Management Report, dated 31 December 2023, due to be presented to Committee in March 2024. Quarterly Independent Investment Advisor Reports are also presented to Committee, with the Q3 report being presented in the November Committee meeting.

The Pension Investments Team oversees the management of the Dyfed Pension Fund Risk Register, ensuring that risks undergo regular review by both the Team and the Committee. The Team has identified suggestions for improving reporting, adjusting the format, and enhancing the review protocol of the register, which will be submitted to the Committee for consideration in March 2024.

**3. ASSURANCE RATING**

The post review assurance level for systems relating to Dyfed Pension Fund Governance & Investments is categorised as follows:

Assurance Level	Description for Assurance Level
<b>High</b>	<p>Good controls consistently applied.</p> <p>Low risk of not meeting objectives.</p> <p>Low risk of fraud, negligence, loss, damage to reputation.</p>

**4. SUMMARY OF RECOMMENDATIONS**

The audit findings and recommendations are detailed in Section 5, together with the management action plan and implementation timetable.

A summary of these recommendations by priority is outlined below:

Priority	3*	2*	1*	Total
<b>Number of recommendations</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>

## 5. FINDINGS AND ACTION PLAN

<b>Finding 1: Reconciliations</b>	
An error was identified on the December 2023 Schroders reconciliation.	
<b>Recommendation 1</b>	<b>Priority level</b>
It is imperative to ensure that the reconciliation process includes accurate data. Any discrepancies should be thoroughly reviewed and investigated.	*
<b>Management Response 1</b>	<b>Responsible Officer</b>
Agreed, reconciliation working papers have been updated to include additional controls where any such discrepancies will be clearly highlighted and resolved in future.	Treasury & Pension Investments Manager and Pension Investment Officer
	<b>Implementation Date</b>
	Immediate

**Audit Assurance Ratings**

Assurance Level	Description for Assurance Level
High	Good controls consistently applied. Low risk of not meeting objectives. Low risk of fraud, negligence, loss, damage to reputation.
Acceptable	Moderate Controls, some areas of non-compliance with agreed controls. Medium / low risk of not meeting objectives. Medium / low risk of fraud, negligence, loss, damage to reputation.
Low	Inadequate controls. High Risk of not meeting objectives. High risk of fraud, negligence, loss, damage to reputation.

**Recommendation Priorities**

**\*\*\* Priority 1 - Fundamental Weaknesses**

Control issues to be addressed as a high priority. These relate to issues that are fundamental and material to the system of internal control at a service level.

*Recommendation should be introduced as a high priority.*

**\*\* Priority 2 - Strengthen Existing Controls**

Action required to avoid exposure to significant risks. These relate to issues that procedures do exist but require strengthening.

*Implementation is strongly recommended.*

**\* Priority 3 - Minor Issues**

Action required which should result in enhanced control or better value for money. These are issues arising that would, if corrected, improve the internal control environment in general but are not vital to the overall system of internal control.

*Implementation of recommendation is desirable to comply with best practice guidance.*