

# DINAS A SIR ABERTAWE

## HYSBYSIAD O GYFARFOD

Fe'ch gwahoddir i gyfarfod

## Y BWRDD PENSIWN LLEOL

**Lleoliad:** Ystafell Bwyllgor 5, Neuadd y Ddinas, Abertawe

**Dyddiad:** Dydd Iau, 21 Gorffennaf 2016

**Amser:** 10.00 am

**Cadeirydd:** Y Cyngorydd A Lockyer

**Aelodaeth:**

**Cynrychiolwyr Cyflogwr:**

Y Cyngorydd J E C Harris (Dinas a Sir Abertawe), J Andrew (Cyfarwyddwr Cyllid Cartrefi CNPT).

**Cynrychiolwyr Aelodau'r Bwrdd Pensiwn Lleol:**

A Chaves, I Guy, A Thomas.

## AGENDA

Rhif y Dudalen.

- 1 Ymddiheuriadau am absenoldeb.
- 2 Datgeliadau o fuddiannau personol a rhagfarnol.  
<http://www.abertawe.gov.uk/DatgeliadauBuddiannau>
- 3 **Cofnodion.** 1 - 3  
Cymeradwyo a llofnodi cofnodion y cyfarfod(ydd) blaenorol fel cofnod cywir.
- 4 **Adroddiad y Prif Archwilydd Mewnol.**
  - a Adroddiad Archwiliad Mewnol Cronfa Bensiwn 2015/16. 4 - 22
- 5 **Adroddiad (au) Swyddog Is-adran 151.**
  - a Côt Ymarfer y Rheolydd Pensiynau - Llywodraethu a Gweinyddu Pensiynau Cyhoeddus - Blaengynllun Gwaith. 23 - 85
  - b Cofrestr risgiau. 86 - 92
  - c Crynodeb o'r Adroddiad ar Ddulliau Rheoli Mewnol. 93 - 121
  - d Hyfforddiant i Aelodau'r Bwrdd Pensiwn Lleol. 122 - 123
    - Gan gynnwys adborth llafar am hyfforddiant Llywodraethu'r Sefydliad Siartredig Cyllid Cyhoeddus a Chyfrifeg yr aeth y Cyngorydd Lockyer iddo ar 12 Gorffennaf 2016.
- e Adolygiad o Gofnodion Pwyllgor y Gronfa Bensiwn Mawrth/Gorffennaf 2016. 124 - 132

- |   |  |                  |
|---|--|------------------|
| 6 | <b>Gwahardd y cyhoedd.</b>   | <b>133 - 136</b> |
| 7 | <b>Cyflwyniad gan Gronfa Cymru i'r Adran Cymunedau a<br/>Llywodraeth Leol mewn ymateb i gyhoeddiad yr LGPS ym mis<br/>Tachwedd 2015: Meini Prawf ac Arweiniad Diwygio Buddsoddiad.</b> | <b>137 - 171</b> |

**Cyfarfod nesaf:** Dydd Iau, 15 Rhagfyr 2016 ar 10.00 am



**Huw Evans  
Pennaeth Gwasanaethau Democrataidd  
15 Gorffennaf 2016**

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**Cyswllt: Gwasanaethau Democrataidd: - 636923**

# Agenda Item 3

## **CITY AND COUNTY OF SWANSEA**

### **MINUTES OF THE LOCAL PENSION BOARD**

**HELD AT COMMITTEE ROOM 3, CIVIC CENTRE, SWANSEA ON  
TUESDAY, 19 JANUARY 2016 AT 9.30 AM**

**PRESENT:** Mr I Guy (Chair) Presided

#### **Employer Representatives:**

J Andrew - Director of Finance NPT Homes

#### **Local Pension Board Member Representatives:**

A Chaves

#### **Officers:**

J Dong - Chief Treasury & Technical Officer  
S Williams - Senior Lawyer  
S Woon - Democratic Services Officer

#### **9 APOLOGIES FOR ABSENCE.**

Apologies for absence were received from Councillor A Lockyer, Neath Port Talbot County Borough Council and Andrea Thomas.

#### **10 DISCLOSURES OF PERSONAL AND PREJUDICIAL INTERESTS.**

In accordance with the Code of Conduct adopted by the City and County of Swansea, the following interests were declared:

J Andrew – Personal – Agenda as a whole - Member of LGPS.

I Guy – Personal – Agenda as a whole - Member of LGPS.

A Thomas – Personal – Agenda as a whole – Member of LGPS.

The Chair referred to the declarations of interest form and enquired whether the form required amendment for the benefit for Local Pension Board Members.

**AGREED** that the Senior Lawyer examine the issue.

#### **11 MINUTES.**

**AGREED** that the Minutes of the Local Pension Board held on 21 July, 2015, be signed and approved as a correct record.

The Chief Treasury & Technical Officer updated the Board in relation to minute no. 8 (items 4, 5 and 6) and detailed the reasons why the items had not been submitted for discussion. He confirmed that the items would be considered at the next Board meeting, along with an item on the Board's Terms of Reference.

12 **PENSION FUND ANNUAL REPORT 2014/15.**

The Chief Treasury & Technical Officer presented a report which detailed the Pension Fund Annual Report 2014/15.

**AGREED** that the Pension Fund Annual Report 2014/15 be **NOTED**.

13 **INVESTMENT REGULATIONS CONSULTATION.**

The Chief Treasury & Technical Officer presented a report which detailed the Investment Reform Criteria and Guidance.

A discussion ensued regarding the financial requirements of the scheme and impact on each of the administering authorities.

The Chief Treasury & Technical Officer detailed the consultation process and deadline for the response.

**AGREED** that:

- 1) the Investment Reform Criteria and Guidance be **NOTED**;
- 2) a copy of the draft consultation response be forwarded to Local Pension Board Members prior to submission to CLG.

14 **INVESTMENT REGULATIONS REVISION CONSULTATION.**

The Chief Treasury & Technical Officer presented a report which detailed the Investment Regulations Revision Consultation.

A discussion ensued regarding the aims of the new regulations; the consultation process and the rationale for the provision of Government intervention (should it be required).

**AGREED** that:

- 1) the Investment Regulations Revision Consultation be **NOTED**;
- 2) a copy of the response to consultation be circulated to Local Pension Board prior to submission to CLG.

15 **EXCLUSION OF THE PUBLIC.**

The Committee was requested to exclude the public from the meeting during consideration of the item(s) of business identified in the recommendation(s) to the report on the grounds that it/they involve(s) the likely disclosure of exempt

information as set out in the exclusion paragraph of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007 relevant to the item(s) of business set out in the report.

The Committee considered the Public Interest Test in deciding whether to exclude the public from the meeting for the items of business where the Public Interest Test was relevant as set out in the report.

**RESOLVED** that the public be excluded for the following items of business.

**(CLOSED SESSION)**

16 **INVESTMENT STRATEGY REVIEW.**

The Chief Treasury & Technical Officer presented a report which detailed the Investment Strategy Review.

Board Members discussed the document.

**AGREED** that:

- 1) the Investment Strategy Review be **NOTED**;
- 2) Appropriate training arising from the report be arranged for the Local Pension Board.

17 **NEXT MEETING.**

The Chief Treasury & Technical Officer stated that the dates of future meetings would be determined following compilation of the Council's Municipal Diary in May 2016.

A discussion ensued regarding the work load, frequency of meetings and attendance.

**AGREED** that:

- 1) Meetings of the Local Pension Board be aligned with the Pension Fund Committee (The Senior Lawyer investigate the appropriateness of the Chair of the Local Pension Board attending and gaining access to issues considered at the Pension Fund Committee).

The meeting ended at 11.17 am

**CHAIR**

# Agenda Item 4a

## Report of the Chief Auditor

Local Pensions Board – 21 July 2016

### PENSION FUND INTERNAL AUDIT REPORTS 2015/16

<b>Purpose:</b>	This report presents the Internal Audit reports for Pension Fund activities in 2015/16 to the Board.
<b>Policy Framework:</b>	None
<b>Reason for Decision:</b>	To allow the Local Pensions Board to review and discuss the Internal Audit reports
<b>Consultation:</b>	Legal, Finance, Access to Services
<b>Recommendation:</b>	It is recommended that: the Board notes the Internal Audit reports
<b>Report Author:</b>	Paul Beynon
<b>Finance Officer:</b>	Paul Beynon
<b>Legal Officer:</b>	Debbie Smith
<b>Access to Services Officer:</b>	Sherill Hopkins

#### 1. Introduction

- 1.1 The Local Pension Board has requested details of the internal audits undertaken by the City and County of Swansea's Internal Audit Section in relation to the Pension Fund.
- 1.2 The Internal Audit Plan includes the following audits of the Pension Fund activities
  - Pensions Administration
  - Pension Fund Investments
- 1.3 The Pensions Administration audit largely covers the aspects of pensions operated by the Pensions Section under the Head of Human Resources e.g. collection of contributions, new pensioners, transfers etc.
- 1.4 The Pension Fund Investments audit covers the investment of fund assets by the Treasury and Technical Section via the various fund managers.
- 1.5 A Pension Fund Other audit is planned for the first time in 2016/17, this audit will look at any aspects not picked up in the other audits e.g. any income or expenditure included in the Pension Fund accounts not audited elsewhere.

- 1.6 Both the Pensions Administration and Pension Fund Investments audits are considered to be fundamental audits. Fundamental audits are those, which in consultation with the external auditor, are felt to be so significant that any issues with the systems are likely to have a material impact on the achievement of the Council's or Pension Fund's objectives. For this reason, fundamental audits are audited on a more frequent basis than other audits.
- 1.7 The Pensions Administration audit is completed annually and the Pension Fund Investments audit is completed every 2 years.
- 1.8 At the end of each audit, the Internal Audit Section provides a level of assurance which indicates what assurance can be provided over the system's internal controls and the achievement of the system's objectives. The level of assurance can be high, substantial, moderate or limited.
- 1.9 The level of assurance provided for the Pension Fund audits in 2015/16 was
- |                            |             |
|----------------------------|-------------|
| • Pensions Administration  | Substantial |
| • Pension Fund Investments | High        |
- 1.10 A copy of the final report for the Pensions Administration audit 2015/16 is attached in Appendix 1 and the final report for the Pension fund Investments audit is shown in Appendix 2

## **2. Equality and Engagement Implications**

- 2.1 There are no equality and engagement implications associated with this report.

## **3. Financial Implications**

- 3.1 There are no financial implications associated with this report.

## **4. Legal Implications**

- 4.1 There are no legal implications associated with this report.

**Background Papers:** None

### **Appendices:**

Appendix 1 Final Internal Audit Report – Pensions Administration 2015/16

Appendix 2 Final Internal Audit Report – Pension Fund Investments 2015/16

**CITY & COUNTY OF SWANSEA  
FINAL INTERNAL AUDIT REPORT  
HUMAN RESOURCES AND ORGANISATIONAL DEVELOPMENT:  
PENSIONS ADMINISTRATION 2015/16**

## **1. Introduction**

1.1 A review has recently been undertaken in respect of the Pension Section, within the Human Resources and Organisational Development Directorate.

1.2 The Pension Section administers the Pension scheme for the City and County of Swansea, in addition to a number of other externally admitted bodies.

1.3 The scope of the review covered the following areas:-

- Pension and Payroll system parameters
- Rates of contributions received and reconciliation procedures
- Administration of new members to the pension scheme
- AVC's
- Transfers in and out of the scheme
- Deferred pensioners
- Administration of new pensioners
- Administration of continued pensioners
- Child pensions
- ICT, administration and back up procedures
- Continued entitlement

1.3 Detailed findings are recorded below and the recommendations arising are included in the attached Management Action Plan.

## **2. Work Done / Findings**

### **2.1 Parameters**

2.1.1 From 1st April 2014, the Pension Scheme is based on a Career Average, meaning that each year in the scheme, an individual's pension will be worked out based on the pensionable pay in that year. That pension is then added to the individual's Pension account. At the end of each scheme year, the amount in the individual Pension account will be adjusted in-line with the cost of living. The bandings have changed since the 2014/15 audit, and as such the bands and deduction rates are as follows for 2015/16:

<b>Full Time Pay (2014/15)</b>	<b>Rate</b>	<b>Full Time Pay (2015/16)</b>	<b>Rate</b>
£0-£13,500	5.5%	£0-£13,600	5.5%
£13,501 - £21,000	5.8%	£13,601 - £21,200	5.8%
£21,001 - £34,000	6.5%	£21,201 - £34,400	6.5%
£34,001 - £43,000	6.8%	£34,001 - £43,500	6.8%
£43,001 - £60,000	8.5%	£43,501 - £60,700	8.5%



£60,001 - £85,000	9.9%	£60,701 - £86,000	9.9%
£85,001 - £100,000	10.5%	£86,001 - £101,200	10.5%
£100,001 - £150,000	11.4%	£101,201 - £151,800	11.4%
Over £150,000	12.5%	Over £151,800	12.5%

- 2.1.2 System parameter prints were obtained from the ISIS system and satisfactorily examined to confirm that the employee deduction bands and deduction percentages against each band had been correctly implemented on the Payroll system for 2015/16. Testing was also undertaken to confirm that all employee pension deduction parameters were being correctly implemented for all those bodies paid via CCS Payroll. Testing proved satisfactory
- 2.1.3 Employer deduction parameters were satisfactorily compared with those recorded on the ISIS system for admitted bodies using CCS Payroll system to confirm the contribution rates were correct.
- 2.1.4 It was found that both employer and employee contributions are checked as part of the monitoring of contributions received by the Treasury and Technical Section.

## **2.2 Contributions Received**

- 2.2.1 The Treasury and Technical Section are responsible for keeping records of all contributions received from the admitted bodies. They are also responsible for checking that all employee and employer contributions received have been paid at the correct rate, in accordance with the actuarial certificate and tiered contribution legislation
- 2.2.2 It was noted during the review of the records of contributions received that at the time of the audit, contributions had been received from CapGemini until 31<sup>st</sup> July 2015, as staff transferred back into employment with the Authority from 1<sup>st</sup> August 2015.
- 2.2.3 It should be noted that there is a statutory responsibility for all bodies to make correct and timely pension payments to the Pension Fund. Whilst there is no statutory responsibility on the administering body to confirm that such payments are correct, it is considered best practice to do so. This is currently being done, subject to the points noted in 2.2.4 - 2.2.11

### **Employee Contributions**

- 2.2.4 In order to provide assurance in regards to the employee contributions received, the Treasury and Technical Section undertake sample checking of contributions received from admitted bodies. A review of the sample testing undertaken by the Section confirmed that at the time of the audit in November 2015, sample testing of employee contributions had been carried out for all admitted bodies.
- 2.2.5 It was noted in the audit of 2014/15 that the Treasury and Technical Section receive payroll data from Neath Port Talbot County Borough Council (NPTCBC) to enable sample testing of contributions, but this did not include Full Time Equivalent (FTE) pay information for part time staff, however, as the calculation is now based on Annual Pensionable Pay, FTE is no longer required.

### Employer Contributions

- 2.2.6 The contributions paid by employers are calculated as a percentage of the total pensionable pay of employees. The Treasury and Technical Section undertake a global check to ensure the total employer contribution received from each admitted body agrees to the actuarial certificate.
- 2.2.7 A review of the contribution payments made into the scheme found that all external members paid by the 19<sup>th</sup> day of the following month to which the contributions relate. This is required by the Local Government Pension Scheme Regulations. It should be noted that where delays in receipt of contributions are experienced, the Treasury and Technical Section would follow this up with the admitted body as and when required as part of the contribution monitoring procedures.
- 2.2.8 A review of the information maintained by Treasury and Technical Section detailing the employee and employer contributions received from each admitted body identified a number of minor variances where the expected employer contributions received differed slightly from the actual amounts received. This was discussed with the Pensions Accountant, and as in previous years all such variances are followed up with the relevant body as they are uncovered and also at year end to ensure total contributions received in year are correct and amounts agree to the actuary valuation report.
- 2.2.9 It was noted that one admitted body had not made any deficiency contributions in 2015/16, whilst the spreadsheet provided by the Treasury and Technical Section showed an expected overall contribution of £20,200. The Treasury and Technical Section were aware of the matter and at the time of audit was in the process of raising an invoice. This point is noted for information only.

### Reconciliation Procedures

- 2.2.10 Contribution data from admitted body payrolls is reconciled to Treasury and Technical Section data, the General Ledger and the Altair Pensions System. Admitted bodies are required to submit annual returns detailing total contribution figures paid in year. These are reconciled to Treasury and Technical Section records, with the Altair system being updated with employee contribution data on an annual basis. As in previous years, the Pensions Section make every effort to reconcile the above data to the Altair system for each admitted body but due to the volume of staff movements between periods in the larger admitted bodies, there are often difficulties in reconciling the data in total for such bodies
- 2.2.11 Since the implementation of i-connect, employer and employee contributions are reconciled as part of the uploading process on a monthly basis. At the time of audit, only City and County of Swansea and Neath Port Talbot County Borough Council were using i-connect, although there are plans for other employers to use the system in the near future.
- 2.2.12 The Pensions Section also undertakes monthly reconciliations of the Altair system data and ISIS Pensions Payroll data. The number of pensioners and amount of pension paid (£) is reconciled monthly, with cases being investigated and corrections being undertaken as and when required. Note that this is in addition to the data matching exercise undertaken by ATMOS (Address Tracing and Mortality Screening).

## **2.3 New Members joining the Scheme**

2.3.1 A sample of ten new scheme members was selected for testing. The following was found:

- a) Seven records had starter forms or equivalent on file. Three new starters had been entered onto the system via i-connect and starter packs had either been sent out or were due to be sent out to the individuals.
- b) There were seven records without an Employee Statement on file. They had been issued but not returned. It is noted that new employees are automatically admitted into the scheme and as such confirmation of 'opting in' is not required. Confirmation is only required should the employee wish to 'opt out' It was also noted that one member had since opted out of the LGPS and one had left employment.
- c) Only one of the records reviewed held a birth certificate on file as confirmation of the date of birth of the new member. However, please note 2.3.2 below.

2.3.2 As noted in previous reviews, birth certificates are requested from new members on entry, but they often fail to provide these. Note that birth certificates are requested when benefits are calculated for transfers out of the scheme or on retirement and as such, the lack of provision of a certificate on entry into the scheme represents minimal risk.

## **2.4 AVC's/APC's**

2.4.1 Prudential continues to be the appointed AVC provider for all new AVC's. The maximum AVC a member can pay is 100% of their pay after allowing for any pension, NI or other deductions. Members apply directly to Prudential to start paying AVC's and acceptance is confirmed to both the Pensions Team and Employee Services independently by Prudential.

2.4.2 Members can also purchase Additional Pension Contributions (APC's) of up to £6,500 per year. Since the introduction of the Additional Annual Leave Purchase Scheme, members have purchased APC's to buy back 'lost' pension.

2.4.3 There was evidence of acceptance of new AVC arrangements on nine members' records that were selected for testing, where agreement was able to be made between the AVC/APC details and the centrally held records. There was a note on one member's record that additional leave and APC's had been purchased, but there was no corresponding documentation held on record. It was confirmed that payments had been deducted by Employee Services.

2.4.4 During the testing it was identified that one member had been deducted APC's for five consecutive months after purchasing additional annual leave, when the deduction should have only been made once. This was highlighted to Employee Services and the member has since been refunded. This point is noted for information purposes only.

2.4.5 It was noted that the annual allowance for pension contributions has remained the same since the previous review in 2014/15 at £40k. This has not had any impact in the current year, as any unused allowance from 'pension input periods' ending in the previous three tax years may be carried forward to increase the annual allowance for the current year.

## **2.5      Transfers In and Out of the Scheme**

### **2.5.1      Transfers In**

A sample of five transfers in was selected for testing. The following was found:

- a) Electronically scanned personal files were available for all five members selected for review.
- b) All had copies of the transfer calculation on file and had appropriate authorisation from the employee requesting the transfer, and these were checked for accuracy.
- c) All transfers in were agreed to transfer spreadsheets maintained by the Treasury and Technical Section, and all details recorded were correct.
- d) All transfers had been coded to the appropriate ledger code and could be traced to the General Ledger as confirmation of funds being receipted by Cashiers.
- e) One record did not have any forms of identification for the member on file, however, a birth certificate was held by the employer.

### **2.5.2      Transfers Out**

A sample of five transfers out was selected for detailed testing. The following was found:

- a) Of the sample of five files selected for testing, all had individual scanned personal files available for review as required.
- b) Calculations of the transfer value were on file and had been appropriately signed as checked in all cases.
- c) Electronic checks were not evident for calculations within the task management section of Altair for one member.
- d) A payments pro-forma is completed for all payments which are forwarded to Accounts Payable to initiate payment. The completed pro-forma is signed as independently checked by the Pensions team as evidence of the calculation of the amount of the payment being made. It was found that all payment amounts had been checked as required.
- e) All payments made had been appropriately checked and authorised by the Treasury and Technical Section and had been posted correctly to the General Ledger.
- f) It was noted that one transfer out included a transfer of an AVC, but at the time of the audit, whilst the electronic checks were available, the task management system did not distinguish between a standard transfer out and an AVC transfer out.

## **2.6 New Pensioners**

2.6.1 A sample of ten new pensioners retiring after 1<sup>st</sup> April 2015 was selected for testing. As part of the testing, the pension benefits payable including the commutation of pension to additional lump sum in the ratio of £1 pension to £12 lump sum, were checked to confirm the system parameters had been correctly implemented.

Of the sample of ten, the following was found:

- a) All new pensioners had individual scanned personal files, all of which contained the relevant leaver form or equivalent.
- b) For nine of the ten files reviewed, copies of the wedding certificate and partner's birth certificate were on file. A marriage certificate / spouse's death certificate were not available for one member; however, this does not have any implications for the member or the fund.
- c) No significant delays were noted in the processing of the new pensioner details or payment of the first pension.
- d) Copies of birth certificates or passports were on file for all files reviewed, as were signed declaration of benefit (options) forms.

2.6.2 The payment request/authorisation sheets for the lump sum payments, for the sample selected above were also reviewed. The following was found:

- a) Payment request pro-formas were available for all payments and had been appropriately signed as being prepared and checked by two members of the Pensions Team.
- b) All payment pro-formas had been correctly completed and included interest payable where applicable.
- c) All payments had also been signed as checked by a member of the Treasury and Technical Section and had been certified by suitably authorised officers within Financial Services, prior to payment via the Accounts Payable.

## **2.7 Deferred Pensioners**

2.7.1 A sample of ten scheme members whose benefits had been deferred was selected for testing. It was found that all of the employees had been in post in excess of three months and therefore benefits had been correctly deferred.

2.7.2 For all ten selected, it was confirmed in letters sent on deferral of benefits that the deferred benefit would be increased in accordance with the Pension Income Review each year.

2.7.3 In addition, it was confirmed that the Pensions Section run monthly reports to identify deferred pensioners approaching the eligible age. Sample testing of two deferred pensioners approaching eligible age confirmed that letters detailing the calculation of the pension options had been sent out with option forms, all of which agreed to Altair.

2.7.4 Periodic reports are also being produced to highlight members who had reached, exceeded or were approaching 75 years of age and have not yet claimed their pension. No issues were evident as none had attained their 75<sup>th</sup> birthday.

2.7.5 It was noted that one deferred member is due to reach the age of 75 in January 2016. The Pensions Section has contacted the member to inform them that their Pension benefits must be put into payment before they turn 75 or they will incur tax penalties from HMRC.

## **2.8 Continuing Pensioners**

2.8.1 Historically there has been an annual increase in the value of pensions paid to continuing pensioners. The annual increase from April 2015 was 1.2%. The pensions increase calculation is completed by Heywoods, the pension systems provider. A hard copy of the increase calculation is retained for information purposes.

2.8.2 The annual pensions increase calculation worksheet was satisfactorily reviewed to confirm the correct percentage increase had been implemented.

2.8.3 A sample of ten existing pensioners was tested against the ISIS system to confirm that the pension increase had been implemented correctly. Testing proved satisfactory.

## **2.9 Child Pensions**

2.9.1 A copy of the report (produced monthly) identifying children approaching the age of 18 was reviewed and it was confirmed that procedures are in place to ensure that all children in receipt of a pension and approaching 18 are sent entitlement letters to the legal guardian to confirm continued eligibility post 18 i.e. in full time education. As noted in the previous audit review, the section have introduced a declaration letter requiring all those in receipt of a child pension to obtain an official stamp / confirmation from the education provider as evidence of continuation in education.

2.9.2 A sample of ten children in receipt of a child's pension was selected for testing. The following points were noted:

- a) For the sample of ten child pensioners selected for testing, all had records on Altair; however, not all documents had been scanned into the system. One paper file could not be located for review.
- b) Where the pension continued to be paid past the recipients 18th birthday, medical evidence or confirmations from relevant education establishments were on file to confirm that the person was eligible to receive the pension.
- c) One record did not have a birth certificate on file in order to confirm date of birth.

## **2.10 ICT, Administration and Back-up**

2.10.1 A training pack is in existence to brief staff on the relevant procedures and legislation. The training pack is a set of working documents, updated as necessary whenever new legislation is released. The training pack continues to reflect current

- legislation and all documents are available to members of the Pensions Team.
- 2.10.2 The Team are continuing the process of back-scanning all pension files. It was noted during the audit that the all of the files required as part of the testing were available to review on-line via the Altair system.
- 2.10.3 The Pensions System allows the monitoring of tasks that are outstanding via 'task lists' which show the various tasks outstanding for each user of the system. Staff are asked to monitor their own lists and to follow up any incomplete tasks in a timely manner. Task monitoring reports are produced and followed up on a monthly basis by the Team Leaders.
- 2.10.4 New users are created on the system by the Technical Officer, via a User Creation Request form approved by the Pensions Manager. It was noted that one User Creation Request form had been created retrospectively; however, verbal approval was received to create the record due to timescales.
- 2.10.5 It was noted that users on the system have the necessary permissions to access all records and initiate all functions on the system.
- 2.10.6 Users continue to be required to change their passwords every 3 months to coincide with corporate policy.
- 2.10.7 The system is backed up on a daily basis. E-mails are sent to the Pensions Officer confirming whether or not the back-up has been successful.
- 2.10.8 The Business Continuity Plan was updated in February 2014. It is due to be reviewed and updated once the Corporate IT Plan is implemented.

## **2.11 Continued Entitlement**

- 2.11.1 The Pensions Section continues to use the services of a data matching/cleansing company ATMOS for data matching purposes. The company receives monthly reports taken from the Altair system and undertake a number of verification checks where any data matches / queries are returned to the Pensions Section for follow up. Matches may be on a number of key fields, including pensioner name, age, date of birth etc. All cases which meet certain matching criteria are followed up and mortality checks are undertaken by the Pensions Team. Any cases where pension is no longer payable are communicated to the Payroll Section in order to suspend payment.
- 2.11.2 The Pensions Team also compares pensioner data from the Altair system to the ISIS system to ensure the two systems reconcile in terms of the number of pensioners, payment amounts (£) and pensioner details. This is carried out on a monthly basis.
- 2.11.3 A new company has been procured (Western Union Business Solutions) to carry out overseas matching continuance checks, this will hopefully commence before the end of the 2015/16 financial year on behalf of the Pension Scheme.
- 2.11.4 The Accountancy Section monitors un-presented pension cheque payments on a monthly basis. Any cheques that have not been presented within six months are cancelled. Following previous recommendations, a report of un-presented cheque payments is now forwarded to the Employee Services Section to be followed up.

- 2.11.5 Returned payments would be monitored and followed up by either Employee Services or Accounts Payable as appropriate.
- 2.11.6 Suspended pensioners on the Payroll System are reviewed on an annual basis. A report of suspended pensioners was generated in March 2015, as noted in the previous audit report, showed the number of suspensions as 51. The reports are reviewed by the Pensions Section and appropriate action taken as necessary.
- 2.11.7 The third tier of retirement on the grounds of ill health requires the employee's case to be reviewed 18 months after retirement. The Pensions Section produces a monthly report from the Altair system listing all third tier ill health cases approaching the 18 month review point. Results are forwarded to the HR department within the employing body for further follow up. It is noted that it is not the responsibility of the Pensions Section to follow up each case, as the onus is on the employing body to do this.
- 2.11.8 Two members on the third tier of ill health retirement and due for review in 2015-16 were tested and it was confirmed that the review had taken place.

## **2.12 Other Issues**

- 2.12.1 The Pensions Section would like to move away from the manual calculation checks which involve the printing and signing of calculations as checked before scanning back into the Altair system. The task management module of the system provides an audit trail, which records when a calculation is created and completed. It also records when a calculation is checked. The system, however, relies on users promptly marking tasks as completed.
- 2.12.2 The Pensions Manager raised concerns over the length of time taken to receive Pensionable Pay Forms for CARE Refunds. The current process is done manually, however, as i-connect has been implemented, refunds could be undertaken automatically which would speed the process and reduce the possibility of errors.

## **3. Conclusion**

- 3.1 The Internal Audit Section operates a system of Assurance levels which gives a formal opinion of the achievement of the service's/system's control objectives. The Assurance levels vary over four categories: 'High', 'Substantial', 'Moderate' and 'Limited'.
- 3.2 Recommendations arising from this review are detailed in the attached Management Action Plan. Each recommendation has been prioritised according to perceived risk – High, Medium, Low and Good Practice. The overall Assurance level is based on the recommendations made in the report.
- 3.3 The description of each type of recommendation and also the basis for each of the Assurance levels is noted in **Appendix 1**.
- 3.4 Based on the audit testing undertaken, it was found that many procedures were operating satisfactory but there were some where improvements are needed, resulting in some Low and Medium Risk recommendations.



- 3.5 As a result, an Assurance Level of '**Substantial**' has been given. This indicates that 'there is a sound system of internal control but there is some scope for improvement as the ineffective controls may put the system objectives at risk'.
- 3.6 We will contact you in due course to confirm that you have implemented the agreed recommendations.

**Classification of Audit Recommendations**

<b>Recommendation</b>	<b>Description</b>
High Risk	Action by the client that we consider <b>essential</b> to ensure that the service / system is not exposed to <b>major risks</b> .
Medium Risk	Action by the client that we consider <b>necessary</b> to ensure that the service / system is not exposed to <b>significant risks</b> .
Low Risk	Action by the client that we consider <b>advisable</b> to ensure that the service / system is not exposed to <b>minor risks</b> .
Good Practice	Action by the client where we consider <b>no risks</b> exist but would result in better quality, value for money etc.

**Audit Assurance Levels**

<b>Assurance Level</b>	<b>Basis</b>	<b>Description</b>
High Assurance	Recommendations for ineffective controls affecting the material areas of the service are not High or Medium Risk. Any recommendations are mainly Good Practice with few Low Risk recommendations.	There is a sound system of internal control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	Recommendations for ineffective controls affecting the material areas of the service are not High Risk. Occasional Medium Risk recommendations allowed provided all others are Low Risk or Good Practice	There is a sound system of internal control but there is some scope for improvement as the ineffective controls may put the system objectives at risk
Moderate Assurance	Recommendations for ineffective controls affecting the material areas of the service are at least Medium Risk	The ineffective controls represent a significant risk to the achievement of system objectives
Limited Assurance	Recommendations for ineffective controls affecting the material areas of the service are High Risk	The ineffective controls represent unacceptable risk to the achievement of the system objectives

**CITY AND COUNTY OF SWANSEA  
MANAGEMENT ACTION PLAN  
HUMAN RESOURCES AND ORGANISATIONAL DEVELOPMENT: PENSIONS ADMINISTRATION 2015/16**

REPORT REF	RECOMMENDATION	CLASS (HR; MR; LR; GP)	AGREED ACTION/ COMMENTS	RESPONSIBILITY FOR IMPLEMENTATION	IMPLEMENTATION DATE
<b>AVC's/APC's</b>					
2.4.3	It should be ensured that all necessary documentation has been received and entered onto Altair	LR	Staff are to be reminded that all documentation should be held electronically on the member's record	Pensions Manager / Communications Officer	February 2016
<b>Transfers In</b>					
2.5.1 e	It should be ensured that all necessary documentation has been received and Date of Birth is verified.	MR	Staff are to be reminded the importance of verifying the date of birth before any actual calculations are made	Pensions Manager / Communications Officer	February 2016
<b>Transfers Out</b>					
2.5.2 c	Electronic checks should be available and correspond to the tasks undertaken.	LR	Staff are to be reminded the importance of ensuring that tasks correspond to the relevant processes	Pensions Manager / Technical Officer / Communications Officer	February 2016
<b>Child Pensions</b>					
2.9.2 c	It should be ensured that all documentation is received and scanned into Altair and that Date of Birth is verified.	MR	Staff are to be reminded of the importance of verifying the date of birth before a child's pension commences	Pensions Manager / Communications Officer	February 2016

REPORT REF	RECOMMENDATION	CLASS (HR; MR; LR; GP)	AGREED ACTION/ COMMENTS	RESPONSIBILITY FOR IMPLEMENTATION	IMPLEMENTATION DATE
<b>ICT, Administration and Back-up</b>					
2.10.4	User Creation Requests should be completed and approved prior new starts being entered on the system.	GP	Agreed – this was a one-off incident	Pensions Manager / Technical Officer	February 2016
<b>Other Issues</b>					
2.12.1  Page 18	Consideration should be given to ceasing the manual calculation checks as the task management module of the system provides an audit trail, which records when a calculation is created and completed	GP	Process to be devised to ensure smooth transition from manual to electronic checks	Pensions Manager / Communications Officer	September 2016
2.12.2	Consideration should be given for processing CARE refunds automatically.	GP	Procedures to be amended to allow for the processing of refunds from data automatically transferred from payroll via i-Connect	Pensions Manager / Technical Officer / Communications Officer	September 2016

<p style="text-align: center;"><b>CITY &amp; COUNTY OF SWANSEA</b>  <b>FINAL INTERNAL AUDIT REPORT</b>  <b>FINANCE AND DELIVERY: PENSION FUND INVESTMENTS</b>  <b>2015/16</b></p>
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## 1. Introduction

- 1.1 An audit has been completed of Pension Fund Investment activities undertaken by the Treasury Management Team. The City and County of Swansea Pension Fund manages the pensions and pension fund investments of current and former members of the Authority as well as a number of other admitted bodies.
- 1.2 The audit reviewed the procedures in place and included detailed testing on the following areas:
- Pension Fund Committee Meetings
  - Fund Manager Agreements
  - Fund Manager Performance and Monitoring
  - Fund Manager Fee Invoices
- 1.3 It should be noted that the Pension Fund is also subject to a separate audit by the Authority's external auditors, whose audit scope is wider than our remit above. In addition to this, a separate review of Pension Administration is undertaken by the Internal Audit Section, the scope of which is detailed in that particular audit.
- 1.4 During 2014/15 the value of the Fund increased by £155,147m, with £149,408m of the increase being the result of net returns on investments. In the year to the 31<sup>st</sup> March 2015 the net assets of the fund increased by 11% from £1,385m to £1,540m. This is in contrast to the increase of 8% in 2013/14.
- 1.5 Detailed findings are recorded below and the recommendations arising are included in the attached Management Action Plan.

## 2. Work Done / Findings

- 2.1 As noted during the last audit, following recommendations made by the Authority's external auditors, the Treasury Management Team have separated all treasury functions for the Pension Fund from the daily cash and investing activities for the Authority. This included the opening of a call account for Pension Fund cash, as well as separating Pension Fund investment activities from the Authority's. As a result, from the 18<sup>th</sup> March 2013 all cash investing activities undertaken in relation to the Pension Fund were completely separate from the Authority's cash management activities, and Fund assets are no longer included in the overall pool balance for the Authority.
- 2.2 In addition to this, as noted in the previous audit report, all investments made by the City and County of Swansea Pension Fund from cash reserves managed by the Treasury Management Team are paid directly from the relevant Pension Fund bank account. Note that the Local Government Pension Scheme (Management of Investment of Funds) Regulations 2009 make no mention of the requirement for

investments made on behalf of the Fund to be paid directly from the Pension Fund Bank Account. The historical pooled method of making investments meant that payments had previously been made from the Treasury Account only. These changes have been actioned following guidance from the Wales Audit Office and their legal advisors.

- 2.3 Sample testing of Fund Manager invoices that have been paid in year revealed that all invoices had been signed as checked. Testing also revealed that the value of funds held was not stated on two invoices. The calculation of fees therefore was verified via the quarterly statement. Note that this point is noted for information only.
- 2.4 No material findings or lapses in internal control were noted during the course of the audit and the point above is noted for information purposes only.

### **3. Conclusion**

- 3.1 The Internal Audit Section operates a system of Assurance levels which gives a formal opinion of the achievement of the service's/system's control objectives. The Assurance levels vary over four categories: 'High', 'Substantial', 'Moderate' and 'Limited'.
- 3.2 Recommendations arising from this review are detailed in the attached Management Action Plan. Each recommendation has been prioritised according to perceived risk – High, Medium, Low and Good Practice. The overall Assurance level is based on the recommendations made in the report.
- 3.3 The description of each type of recommendation and also the basis for each of the Assurance levels is noted in **Appendix 1**.
- 3.4 Based on the audit testing undertaken, all of the areas reviewed proved satisfactory, resulting in no recommendations being made.
- 3.5 As a result, an Assurance Level of '**High**' has been given. This indicates that 'there is a sound system of internal control designed to achieve the system objectives and the controls are being consistently applied.'

**Classification of Audit Recommendations**

<b>Recommendation</b>	<b>Description</b>
High Risk	Action by the client that we consider <b>essential</b> to ensure that the service / system is not exposed to <b>major risks</b> .
Medium Risk	Action by the client that we consider <b>necessary</b> to ensure that the service / system is not exposed to <b>significant risks</b> .
Low Risk	Action by the client that we consider <b>advisable</b> to ensure that the service / system is not exposed to <b>minor risks</b> .
Good Practice	Action by the client where we consider <b>no risks</b> exist but would result in better quality, value for money etc.

**Audit Assurance Levels**

<b>Assurance Level</b>	<b>Basis</b>	<b>Description</b>
High Assurance	Recommendations for ineffective controls affecting the material areas of the service are not High or Medium Risk. Any recommendations are mainly Good Practice with few Low Risk recommendations.	There is a sound system of internal control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	Recommendations for ineffective controls affecting the material areas of the service are not High Risk. Occasional Medium Risk recommendations allowed provided all others are Low Risk or Good Practice	There is a sound system of internal control but there is some scope for improvement as the ineffective controls may put the system objectives at risk
Moderate Assurance	Recommendations for ineffective controls affecting the material areas of the service are at least Medium Risk	The ineffective controls represent a significant risk to the achievement of system objectives
Limited Assurance	Recommendations for ineffective controls affecting the material areas of the service are High Risk	The ineffective controls represent unacceptable risk to the achievement of the system objectives



# Agenda Item 5a

## Report of the Section 151 Officer

Local Pension Board – 21 July 2016

### THE PENSION REGULATOR CODE OF PRACTICE - GOVERNANCE AND ADMINISTRATION OF PUBLIC SERVICE PENSION SCHEMES -FORWARD CORE WORKPLAN

<b>Purpose:</b>	To approve a core workplan agenda for the Local Pension Board.
<b>Reason for Decision:</b>	To agree a schedule of information and reports to be considered by the Local pension Board.
<b>Consultation:</b>	Legal, and Finance.
<b>Recommendation</b>	It is recommended that the forward core workplan for the Local Pension Board be approved.
<b>Report Author:</b>	J Dong
<b>Finance Officer:</b>	M Hawes
<b>Legal Officer:</b>	S Williams
<b>Access to Services Officer:</b>	N/A

## 1 Background

1.1 The Pensions Regulator has issued draft code of practice guidance note no.14 “ Governance and Administration of Public Service Pension Schemes” attached at Appendix 1.

1.2 The Public Service Pensions Act 2013 introduces the framework for the regulatory oversight of the governance and administration of public service pension schemes by the regulator, expanding its role.

The regulator is issuing this code of practice relating to those specific matters about which it is required to issue a code in relation to public service pension schemes<sup>6</sup>. This code of practice sets out the legal requirements for public service pension schemes in respect of those specific matters. It contains practical guidance and sets out standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.

The practical guidance sections in this code are not intended to prescribe the process for every scenario. They do, however, provide principles, examples and benchmarks against which scheme managers and members of pension boards can consider whether or not they have understood their duties and obligations and are reasonably complying with them.

If scheme managers and the members of pension boards are, for any reason, unable to act in accordance with the guidance set out in this code, or an alternative approach that meets the underlying requirements, they should consider their statutory duty under section 70 of the Pensions Act 2004 to assess and if necessary report breaches of the law<sup>7</sup>. Further information can be found in the section of this code on reporting breaches of the law.

## **2 Using the Code of Practice to inform the core agenda for the work of the Local Pension Board**

2.1 The draft code of guidance contains the following main topic areas:

### **Governing your scheme**

- Knowledge and understanding required by pension board members
- Conflicts of interest
- Information to be published about schemes

### **Managing risks**

- Internal controls

### **Administration**

- Scheme record-keeping
- Maintaining contributions
- Information to be provided to members

### **Resolving issues**

- Internal dispute resolution
- Reporting breaches of the law

2.2 It may be useful to adopt these outline areas as the core agenda items for consideration by the Local Pension Board work agenda. It can be seen from analysing the above that the Local Pension Board has received reports outlining the governance about the scheme and it shall receive a number of reports at this meeting about managing risks.

2.3 It is proposed to report to Local Pension Board at its next meeting on Scheme Administration and Resolving issues processes and procedures.

- 2.4 It is recognised that the Local Pension Board shall include topical and relevant items as appropriate in addition to the above.

### **3 Legal Implications**

- 3.1 The legal implications are outlined in the Code

### **4 Financial Implications**

- 4.1 There are no financial implications arising from this report

### **5 Equality Impact Assessment Implications**

- 5.1 N/A

**Background Papers:** None.

Appendices: Appendix 1 - The Pensions Regulator has issued draft code of practice guidance note no.14 “ Governance and Administration of Public Service Pension Schemes”.

# **Governance and administration of public service pension schemes**

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# Introduction

1. This code of practice is issued by The Pensions Regulator ('the regulator'), the body that regulates occupational and personal pension schemes provided through employers.
2. The regulator's statutory objectives<sup>1</sup> are to
  - protect the benefits of pension scheme members
  - reduce the risks of calls on the Pension Protection Fund (PPF)
  - promote, and improve understanding of, the good administration of work-based pension schemes
  - maximise compliance with the duties and safeguards of the Pensions Act 2008.
3. The regulator has a number of regulatory tools, including issuing codes of practice, to enable it to meet its statutory objectives.
4. Codes of practice provide practical guidance on the requirements of pensions legislation and set out standards of conduct and practice expected of those who must meet the requirements<sup>2</sup>.

## Status of codes of practice

5. Codes of practice are not statements of the law and there is no penalty for failing to comply with them. It is not necessary for all the provisions of a code of practice to be followed in every circumstance. Any alternative approach to that appearing in the code of practice will nevertheless need to meet the underlying legal requirements, and a penalty may be imposed if these requirements are not met. When determining whether the legal requirements have been met, a court or tribunal must take any relevant provisions of a code of practice into account<sup>3</sup>.
6. If there are grounds to issue an improvement notice<sup>4</sup>, the regulator may issue a notice directing a person to take, or refrain from taking, such steps as are specified in the notice. These directions may be worded by reference to a code of practice issued by the regulator<sup>5</sup>.

<sup>1</sup>  
Section 5(1) of the Pensions Act 2004 (c.35).

<sup>2</sup>  
Section 90A(1) of the Pensions Act 2004.

<sup>3</sup>  
Section 90A(5) of the Pensions Act 2004.

<sup>4</sup>  
Where the regulator considers that legal requirements are not being met, or have been contravened in circumstances which make it likely that the breach will continue or be repeated, it may issue an improvement notice under section 13 of the Pensions Act 2004 (as amended by paragraph 3 of Schedule 4 to the Public Service Pensions Act 2013).

<sup>5</sup>  
Section 13(3) of the Pensions Act 2004.

## This code of practice

7. The Public Service Pensions Act 2013 introduces the framework for the regulatory oversight of the governance and administration of public service pension schemes by the regulator, expanding its role.
8. The regulator is issuing this code of practice relating to those specific matters about which it is required to issue a code in relation to public service pension schemes<sup>6</sup>. This code of practice sets out the legal requirements for public service pension schemes in respect of those specific matters. It contains practical guidance and sets out standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.
9. The practical guidance sections in this code are not intended to prescribe the process for every scenario. They do, however, provide principles, examples and benchmarks against which scheme managers and members of pension boards can consider whether or not they have understood their duties and obligations and are reasonably complying with them.
10. If scheme managers and the members of pension boards are, for any reason, unable to act in accordance with the guidance set out in this code, or an alternative approach that meets the underlying requirements, they should consider their statutory duty under section 70 of the Pensions Act 2004 to assess and if necessary report breaches of the law<sup>7</sup>. Further information can be found in the section of this code on reporting breaches of the law.

## At whom is this code directed?

11. This code relates to public service pension schemes established under the Public Service Pensions Act 2013 and to other statutory pension schemes which are connected to those schemes. It does not apply to schemes in the wider public sector.
12. This code is particularly directed at scheme managers and the members of pension boards of those public service pension schemes and connected schemes who, along with responsible authorities, have certain legal functions, including management and administration responsibilities. They may delegate some of those functions to others, if the scheme regulations allow, or outsource them. However, they will not be able to delegate their accountability for a legal responsibility. Where pension boards are not directly undertaking a particular function, they remain accountable for assisting the scheme manager in securing compliance with the legal requirements relating to the governance and administration of the scheme.

<sup>6</sup>  
Section 90A(2) of the Pensions Act 2004.

<sup>7</sup>  
As amended by paragraph 6 of Schedule 4 to the Public Service Pensions Act 2013.

13. This code should be followed by anyone to whom legal requirements or responsibilities relating to the management or administration of a public service pension scheme apply, or have been delegated or outsourced.
14. Public service pension schemes are established primarily as defined benefit (DB) schemes. Some of these schemes also enable members to make additional voluntary contributions (AVCs) on either a DB basis or to a separate defined contribution (DC) scheme. This public service code applies to any DC scheme which is connected to a public service pension scheme (and which is therefore defined as a 'public service pension scheme').

## Terms used in this code

15. **The 2013 Act** – the Public Service Pensions Act 2013, which sets out the arrangements for the creation of schemes for the payment of pensions and other benefits. It provides powers to ministers to create such schemes according to a common framework of requirements.
16. **Public service pension schemes**<sup>9</sup> – these are (a) new public service pension schemes set up under section 1 of the 2013 Act including schemes which have effect as such a scheme under section 28 of the 2013 Act; (b) new public body pension schemes set up under that Act<sup>8</sup>; and (c) any statutory pension schemes connected with a scheme described in (a) or (b). Substantially, these are the schemes providing pension benefits for civil servants, the judiciary, local government workers, teachers, health service workers, fire and rescue workers, members of police forces and the armed forces. Except where specified otherwise, the legal requirements and practical guidance set out in this code apply to any kind of public service pension scheme, whether it is established under section 1 of the 2013 Act, a new public body scheme or a connected scheme.
17. **Connected scheme** – a scheme established under the 2013 Act and another statutory pension scheme are connected if and to the extent that the schemes make provision in relation to persons of the same description. Scheme regulations may specify exceptions<sup>10</sup>.
18. **Responsible authority** – the 2013 Act identifies secretaries of state/ ministers, each being the responsible authority for their schemes, who have power to make the scheme regulations for the relevant schemes<sup>11</sup>. The responsible authority may also be the scheme manager<sup>12</sup>. In relation to a public body pension scheme, references in the code to the responsible authority are to be read as references to the public authority which established the scheme.

8  
New public body pension schemes may be set up under section 30 of the 2013 Act and are defined in that section.

9  
As defined in section 318 of the Pensions Act 2004.

10  
Section 4(6) and (7) of the 2013 Act.

11  
Section 2 of, and Schedule 2 to, the 2013 Act.

12  
Section 4(3) of the 2013 Act.



19. **Scheme regulations** – each new scheme made under section 1 of the 2013 Act has scheme regulations which set out the detail of the membership and benefits to be provided under the scheme<sup>13</sup> and must provide for the identification of scheme managers, pension boards and a scheme advisory board. These regulations constitute the scheme rules<sup>14</sup>.
20. **Scheme manager** – each public service pension scheme has one or more persons responsible for managing or administering the scheme<sup>15</sup>. Public service pension schemes can have different persons acting as scheme manager for different parts of the pension scheme. For the locally-administered schemes<sup>16</sup>, the scheme managers may be the local administering authorities or a person representing an authority or police force.
21. **Pension board** – the scheme manager (or each scheme manager) for a scheme has a pension board<sup>17</sup> with responsibility for assisting the scheme manager to comply with the scheme regulations and other legislation relating to the governance and administration of the scheme and requirements imposed by the regulator. The pension board must also assist the scheme manager with such other matters as the scheme regulations may specify. It will be for scheme regulations and the scheme manager to determine precisely what the pension board's role entails.
22. **Scheme advisory board** – each DB public service pension scheme has a scheme advisory board<sup>18</sup> with responsibility for providing advice on the desirability of changes to the scheme, when requested to do so by the responsible authority. Where there is more than one scheme manager the scheme regulations may also provide for the scheme advisory board to provide advice (on request or otherwise) to the scheme managers or the scheme's pension boards on the effective and efficient administration and management of the scheme or any pension fund of the scheme.
23. **Schemes** – in this code the term 'schemes' is used throughout where actions to comply with a legal requirement, standard or expectation may be carried out by the scheme manager, pension board or by a specified person(s) to whom responsibilities have been delegated. The scheme manager or pension board will be ultimately accountable, depending upon to whom the legal obligation applies under the legislation.
24. **Must** – in this code the term 'must' is used where there is a legal requirement.
25. **Should** – in this code the term 'should' is used to refer to practical guidance and the standards expected by the regulator.

13  
Section 3 of, and  
Schedule 3 to, the 2013  
Act.

14  
New public body pension  
schemes and some  
connected schemes  
are not established by  
regulations. References  
in the code to scheme  
regulations therefore  
should be read as  
references to the rules  
of the scheme in these  
cases.

15  
Section 4 of the 2013 Act.

16  
Locally-administered  
schemes include the  
schemes for local  
government and fire  
and rescue workers  
and members of police  
forces.

17  
Section 5 of the 2013 Act.

18  
Section 7 of the 2013 Act.

## How to use this code

26. The code is structured as a reference document to be used by scheme managers and pension boards to inform their actions in four core areas of scheme governance and administration: governing your scheme; managing risks; administering your scheme; and resolving issues.
27. Each core section includes practical guidance to help scheme managers and pension boards to discharge their legal duties. The regulator recognises that there may be alternative and justifiable actions or approaches scheme managers or pension boards may wish to adopt.
28. Schemes will need to consider and apply the practical guidance to suit their own particular characteristics and arrangements.

## Territorial extent

29. The application of this code corresponds with the scope of the public service pension schemes established under the 2013 Act and other statutory pension schemes which are connected to those schemes.
30. It therefore applies in respect of public service pension schemes for England, Wales and Scotland. It also applies in Northern Ireland so far as the public service pension schemes for the armed forces and judiciary apply in Northern Ireland.

# Governing your scheme

31. This part of the code covers:

- knowledge and understanding required by pension board members
- conflicts of interest
- information to be published about schemes.

## Knowledge and understanding required by pension board members

### Legal requirements

32. A member of the pension board of a public service pension scheme must be conversant with:

- a. the rules of the scheme, and
- b. any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

33. A member of a pension board must have knowledge and understanding of:

- a. the law relating to pensions, and
- b. any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual properly to exercise the functions of a member of the pension board<sup>19</sup>.

### Practical guidance

34. The legislative requirements about knowledge and understanding only apply to pension board members, but scheme managers should take account of this guidance as it will support them in understanding the legal framework and enable them to help pension board members to meet their legal obligations.

35. Schemes<sup>20</sup> should establish and maintain policies and arrangements for the acquisition and retention of knowledge and understanding for their pension board members. Schemes should designate a person to take responsibility for ensuring that a framework is developed and implemented.

<sup>19</sup>  
Section 248A of the Pensions Act 2004 as inserted by paragraph 19 of Schedule 4 of the 2013 Act.

<sup>20</sup>  
For the use of 'schemes', please refer to paragraph 23.

36. It is for individual pension board members to be satisfied that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the pension board.

### **Provide clarity about the areas of knowledge and understanding required for pension board members**

37. Being 'conversant' means having a working knowledge (ie a sufficient level of familiarity) of the scheme rules (which for most public service pension schemes are set out in the scheme regulations) and documents recording policy about the administration of the scheme, so that pension board members can use them effectively when carrying out their duties.
38. Specific documents recording policy about the administration of the scheme will vary from scheme to scheme. However, the following are some examples of administration policies which the regulator considers to be particularly pertinent and would expect to be documented where applicable, and with which pension board members should therefore be conversant. This list is not exhaustive and other documented policies may fall into this category:
- Any scheme approved policies and procedures including documentation relating to:
    - a. conflicts of interest
    - b. record-keeping
    - c. internal dispute resolution
    - d. reporting breaches
    - e. maintaining contributions to the scheme
    - f. the appointment of pension board members.
  - The risk assessment/management policy(ies) for the scheme
  - Scheme booklets, announcements and other key member and employer communications, which describe scheme policies and procedures
  - Terms of reference, structure and operational procedures of the pension board and/or any sub-committee
  - The roles and responsibilities of the scheme manager, pension board and individual pension board members
  - Statements of policy about the exercise of discretionary functions

- Statements of policy about communications with members and scheme employers
  - Accounting requirements relevant to the scheme
  - The pension administration strategy, or equivalent<sup>21</sup> and
  - Any admission agreement information, or equivalent.
39. For pension board members of funded pension schemes, documents which record policy about the administration of the scheme will include those relating to investment governance. For example, where relevant they should be familiar with the statement of investment principles and the funding strategy statement.
40. Pension board members should also be familiar with other types of documents and information related to the governance and administration of the scheme. For example, where relevant they should be familiar with:
- the register of interests
  - the risk register
  - details of the contributions payable by employers participating in the scheme
  - statements of assurance (for example, assurance reports on governance arrangements)
  - third party contracts and service level agreements
  - regular stewardship reports from outsourced service providers (for example, those performing outsourced functions such as scheme administration), including about compliance issues
  - scheme annual reports and accounts
  - audit reports, including audit reports from outsourced service providers and
  - other scheme-specific governance documents.
41. Where public service pension schemes offer DC/AVC options to their members, pension board members should also be familiar with the requirements for the payment of member contributions to DC/AVC providers, the principles relating to the operation of DC/AVC arrangements, the choice of investments to be offered to members, the providers' investment and fund performance report and the payment schedule for DC/AVC arrangements.
42. Schemes should prepare and keep an updated list of the documents with which they consider pension board members need to be conversant to effectively carry out their role and make sure that both the list and the documents are accessible.

<sup>21</sup>  
For the Local Government Pension Scheme, this might include information about the setting of performance targets, making agreements about levels of performance etc.

## **Provide clarity about the degree of knowledge and understanding required for pension board members**

43. Pension board members should understand their scheme rules and documented administration policies in enough detail to know where they are relevant to an issue and where a particular provision or policy may apply.
44. Pension board members should be aware of the range and extent of pensions law which applies to public service pension schemes and have sufficient understanding of the content and effect of that law to recognise when and how it impacts on their responsibilities.
45. Schemes should assist individual pension board members to determine the degree of knowledge and understanding that is appropriate for the purpose of enabling the individual to exercise their functions. A pension board member's knowledge and understanding should be sufficient for them to effectively carry out their role.
46. Pension board members should be able to challenge any failure to comply with the scheme rules and legislation relating to the governance and administration of the scheme and/or any failure to meet the standards and expectations set out in any relevant codes of practice issued by the regulator.
47. The roles and responsibilities of pension boards and their individual members will vary between pension schemes. Pension board members' breadth of knowledge and understanding should be sufficient to allow them to understand fully any advice they are given. Pension board members should be able to challenge any information or advice they are given and understand how that information or advice impacts on any decision for which they are legally responsible.
48. Pension board members of funded pension schemes should ensure that they have the appropriate degree of knowledge and understanding of funding and investment governance matters relating to their scheme to enable them to effectively carry out their role.

## Acquiring, reviewing and updating knowledge and understanding

49. Schemes should ensure that pension board members invest sufficient time in their learning and development alongside their other duties. Training is an important part of the individual's role and will help to ensure that they have the necessary knowledge and understanding to effectively meet their legal obligations.
50. Pension board members must be aware that their legal responsibilities begin from the date they take up their post, so they should immediately start to familiarise themselves with the scheme regulations, documents recording policy about the administration of the scheme and relevant pensions law. Schemes should offer pre-appointment training or arrange for mentoring by existing pension board members. This can also ensure that historical and scheme specific knowledge is retained when pension board members change.
51. Schemes should recognise that newly appointed pension board members are likely to need additional support and training in the first few months, in order to help them attain the appropriate level of knowledge and understanding to competently carry out their responsibilities.
52. Pension board members should undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses. A personalised training plan should be used to document and address these promptly.
53. Learning programmes should be flexible, allowing pension board members to access specific modules, when necessary. This will enable them to update particular areas of learning where required and acquire new areas of knowledge in the event of any change. For example, pension board members who take on new responsibilities will need to have knowledge and understanding which is relevant to carry out those new responsibilities.
54. The regulator provides an e-learning programme<sup>22</sup> which has been developed to meet the needs of all pension board members, whether or not they have access to other learning. If schemes choose alternative learning programmes they should assure themselves that those programmes cover the type and degree of knowledge and understanding that is required, that they reflect the legal requirements and that programmes are delivered within an appropriate timescale.

<sup>22</sup>

The e-learning programme is planned to be available from autumn 2014.

## Demonstrate knowledge and understanding

55. Schemes should keep appropriate records of the learning activities of individual pension board members and the board as a whole. This will assist pension board members in demonstrating their compliance, if necessary, with legal requirements and how they have mitigated risks associated with knowledge gaps. A good external learning programme will maintain records of the learning activities of individuals on the programme or of group activities, if these have taken place.
56. Pension board members who are appointed for their specific expertise and skills should be able to demonstrate to the scheme manager and to their fellow pension board members that they have the appropriate knowledge and understanding, including any relevant qualifications, from the date of their appointment to the pension board.

## Conflicts of interest

### Legal requirements

57. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the pension board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the board is established<sup>23</sup>.
58. In relation to the pension board, scheme regulations must include provision requiring the scheme manager to:
  - a. be satisfied that a person to be appointed as a member of the pension board does not have a conflict of interest and
  - b. be satisfied from time to time that none of the members of the pension board has a conflict of interest<sup>24</sup>.
59. The regulations must also require each member of a pension board, or a person proposed to be appointed as a member of a pension board, to provide the scheme manager with such information as the scheme manager reasonably requires for the purposes of meeting the requirements referred to above<sup>25</sup>.
60. Scheme regulations must include provision requiring the pension board to include employer representatives and member representatives in equal numbers<sup>26</sup>.

23  
Section 5(5) of the 2013 Act defines a conflict of interest in relation to pension board members and section 7(5) of that Act in relation to scheme advisory board members.

24  
Section 5(4)(a) of the 2013 Act.

25  
Section 5(4)(b) of the 2013 Act.

26  
Section 5(4)(c) of the 2013 Act.



61. In relation to the scheme advisory board, the regulations must also include provision requiring the responsible authority to:
- be satisfied that a person to be appointed as a member of the scheme advisory board does not have a conflict of interest, and
  - to be satisfied from time to time that none of the members of the scheme advisory board has a conflict of interest<sup>27</sup>.

## Practical guidance

62. This guidance is to assist scheme managers in meeting their legal duty to be satisfied that pension board members do not have any conflicts of interest. The same requirements apply to responsible authorities in relation to scheme advisory boards, but the regulator does not have specific responsibility for oversight of scheme advisory boards.
63. Actual conflicts of interest, which are interests likely to prejudice a pension board member's exercise of their functions, are prohibited by the 2013 Act. They cannot be managed. Only potential conflicts of interest can be managed.
64. A conflict of interest may arise when pension board members:
- must fulfil their legal duty to assist the scheme manager in securing compliance with the scheme regulations, other legislation relating to governance and administration of the scheme and the requirements of the regulator or any other matter for which they are responsible, and
  - at the same time they have either:
    - a separate personal interest (financial or otherwise), or
    - another responsibility in relation to that decision, giving rise to a possible conflict with their first responsibility.
65. Some, if not all of the Seven Principles of Public Life (formerly known as the Nolan Principles)<sup>28</sup> will already apply to people carrying out roles in public service pension schemes, for example by virtue of the Ministerial Code, Civil Service Code or other codes of conduct. These principles should be applied to all pension board members in the exercise of their functions as they require the highest standards of conduct. Schemes should incorporate the Seven Principles into any codes of conduct (and across their policies and processes) and other internal standards for pension boards.

<sup>27</sup>  
Section 7(4)(a) of the 2013 Act.

<sup>28</sup>  
The Committee on Standards in Public Life has set out seven principles of public life which apply to anyone who works as a public office-holder or in other sectors delivering public services: [www.public-standards.gov.uk/wp-content/uploads/2013/01/Standards\\_Matter.pdf](http://www.public-standards.gov.uk/wp-content/uploads/2013/01/Standards_Matter.pdf).

66. There are other legal requirements relating to conflicts of interest which may apply to pension board members, scheme advisory board members or others involved in the management or administration of public service pension schemes, including scheme managers<sup>29</sup>. The regulator may not have specific responsibility for enforcing all such legal requirements, but it does have a particular role in relation to pension board members and conflicts of interest. Whilst pension board members may be subject to other legal requirements, when exercising functions as a member of a pension board the regulator expects the requirements which specifically apply by virtue of the 2013 Act to be met and the standards of conduct and practice set out in this code to be satisfied.
67. It is highly likely that pension board members will have dual interests and responsibilities. For example, a finance officer appointed as a pension board member can offer their knowledge and make substantial contributions to the operational effectiveness of the scheme, but they may, from time to time, be required to take or scrutinise a decision which may be, or appear to be, in opposition to another interest or responsibility. For example, they may be required to take or scrutinise a decision which involves the use of departmental resources to improve scheme administration, whilst at the same time being tasked, by virtue of their employment, with reducing departmental spending. A finance officer may not be prevented from being a member of a pension board, but the scheme manager must be satisfied that his/her dual interests and responsibilities would not prejudice the pension board member in the exercise of any particular function.
68. Clear guidance on the roles, responsibilities and duties of pension boards and the members of those boards should be set out in scheme regulations or in other scheme documentation which records policy and processes about the administration of the scheme. This should cover, for example, whether they have responsibility for administering or monitoring the administration of the scheme; developing or delivering governance and/or administration policies; and taking or scrutinising decisions relating to governance and/or administration. Regardless of their remit, potential conflicts of interest affecting pension board members need to be identified, monitored and managed effectively.
69. Schemes should consider potential conflicts of interest in relation to the roles, responsibilities and full scope of duties owed by pension board members. It is recommended that all those involved in the management or administration of public service pension schemes take professional legal advice when considering issues to do with conflicts of interest.

<sup>29</sup>

For example, local government legislation applicable to English local authorities contains legal requirements in relation to certain people about standards of conduct, conflicts of interest and disclosure of certain interests (eg see the Localism Act 2011 and section 117 of the Local Government Act 1972).

## **A three-stage approach to managing potential conflicts of interest**

70. Conflicts of interest can inhibit open discussions and/or result in decisions, actions or inactions which could result in the ineffective governance and administration of the scheme. They may result in pension boards acting improperly, or lead to a perception that they have acted improperly. It is therefore essential that any dual interests and responsibilities, which have the potential to become conflicts of interest and/or to be perceived as conflicts of interest, are identified and that potential conflicts of interest (whether perceived or otherwise) are monitored and managed effectively.
71. Schemes should ensure that there is an agreed and documented conflicts policy and procedure, which includes the identification, monitoring and management of potential conflicts of interest. They should keep this under regular review. Policies and procedures should include examples of scenarios giving rise to conflicts of interest, how a conflict might arise specifically in relation to a pension board member and the process to be followed by pension board members and scheme managers to address a situation where board members are subject to a potential or actual conflict of interest.
72. Broadly, when considering potential conflicts of interest, this should be done in three stages:
  - a. identification
  - b. monitoring
  - c. managing

## **Identifying potential conflicts**

73. Schemes should cultivate a culture of openness and transparency. The need for continual consideration of conflicts should be recognised. Disclosure of dual interests and responsibilities, which have the potential to become conflicts of interest, should not be ignored. Pension board members should have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest and know how potential conflicts should be managed.
74. Pension board members and people who are proposed to be appointed to a pension board must provide scheme managers with information reasonably required by the scheme manager to enable the scheme manager to be satisfied that pension board members and proposed members do not have a conflict of interest.

75. Schemes should ensure that pension board members are appointed under procedures that require them to disclose any dual interests or responsibilities, which could become conflicts of interest and which may adversely affect their suitability for the role, before they are appointed.
76. All terms of engagement (for example appointment letters and any contracts for services) should include a clause requiring disclosure of all dual interests and responsibilities which have the potential to become conflicts of interest, as soon as they arise. All interests and responsibilities disclosed should be recorded (see the section on 'monitoring potential conflicts').
77. Schemes should take time to consider what key decisions are likely to be made during, for example, the year ahead and identify and consider any conflicts of interest that may arise in the future. Other pension board members should be notified as soon as practically possible and mitigations should be put in place to avoid these conflicts from materialising.

## Monitoring potential conflicts

78. As part of their risk assessment process, schemes should identify, evaluate and manage dual interests and responsibilities which have the potential to become conflicts of interest and pose a risk to the scheme and possibly members, if they are not mitigated. Schemes should evaluate the nature of any dual interests and responsibilities and assess the impact on scheme operations were a conflict of interest to materialise.
79. A register of interests should provide a simple and effective means of recording and monitoring dual interests and responsibilities. Schemes should also capture decisions about how potential conflicts of interest should be managed – in their risk registers or elsewhere. The register of interests and other relevant documents should be circulated to the pension board for ongoing review and published, for example on a scheme's website.
80. Conflicts of interest should be included as an opening agenda item at board meetings and revisited during the meeting, where necessary. This provides an opportunity for those present, including non-board members, to declare any dual interests and responsibilities, which have the potential to become conflicts of interest and minute discussions about how they will be managed to prevent an actual conflict arising.

## Managing potential conflicts

81. Schemes should establish and operate procedures which ensure that pension boards are not compromised by a potentially conflicted member(s). They should consider and determine the roles and responsibilities of pension boards and individual board members carefully to ensure that conflicts of interest do not arise, nor are perceived to have arisen.
82. A perceived conflict of interest can be as damaging to the reputation of a scheme as an actual conflict of interest. It could result in scheme members and interested parties losing confidence in the way a scheme is managed. Schemes should be open and transparent about the way they manage potential conflicts of interest.
83. When seeking to prevent a potential conflict of interest becoming detrimental to the conduct or decisions of the pension board, schemes should consider obtaining professional legal advice when assessing any option.

## Examples of conflicts of interest

84. Below are some examples of conflicts of interest which could arise, or be perceived to have arisen, in relation to public service pension schemes. The examples provided are for illustrative purposes only and are not exhaustive. They should not be relied upon as a substitute for the exercise of judgement based on the principles set out in this code and any advice considered appropriate, on a case by case basis.
  - a. **Investing to improve scheme administration vs. saving money:**  
An employer representative, who may be a Permanent Secretary, finance officer or local councillor, is aware that system X would help to improve standards of record-keeping, but it would be costly to implement. The department or local authority would need to meet the costs of the new system at a time when there is internal and external pressure to keep costs down. In order to meet the costs of the new system, the department or local authority would need to find money, perhaps by using a budget that was intended for another purpose. This decision could prove unpopular with the wider public/taxpayers. A conflict of interest could arise where the scheme employer representative was likely to be prejudiced in the exercise of their functions by virtue of their dual interests and responsibilities.

- b. **Outsourcing a function vs. keeping a function in-house:**  
In an extension of this example, a member representative, who is also an employee of a participating employer, is aware that system X would help to improve standards of record-keeping, but it would mean outsourcing a function that is currently being undertaken in-house. The member representative could be conflicted if they were likely to be prejudiced in the exercise of their functions by virtue of their employment.
- c. **Representing the breadth of membership vs. representing narrow interests:**  
A member representative, who is also a trade union representative, appointed to the pension board to represent the entirety of a public service pension scheme's membership, could be conflicted if they only serve to act in the interests of their union and union membership, which does not include all the professionals/staff who are in the scheme.
- d. **Assisting the scheme manager vs. furthering personal interests:**
  - i. A pension board member may own shares in a company and be conflicted where they are involved in taking or scrutinising investment-related decisions
  - ii. A pension board member, who is also a scheme adviser, may recommend the services or products of a related party, for which they might derive some form of financial (or non-financial) benefit, resulting in them not providing, or not being seen to provide, independent advice or services
  - iii. A pension board member who is involved in procuring or tendering for services for a scheme administrator, and who can influence the award of a contract, may be conflicted where they have an interest in a particular supplier
- e. **Sharing information with the pension board vs. a duty of confidentiality to an employer:**  
An employer representative has access to information by virtue of their employment, which could influence or inform the decisions or actions of the pension board. They have to consider whether to share this information with the pension board in light of their duty of confidentiality to their employer. If their decision to withhold this information is likely to prejudice their ability to carry out their functions as a member of the pension board, this would constitute a conflict of interest.

## Information to be published about schemes

### Legal requirements

85. The scheme manager for a public service scheme must publish information about the pension board for the scheme(s) and keep that information up-to-date<sup>30</sup>.
86. That information must include information about:
  - a. who the members of the pension board are
  - b. representation on the board of members of the scheme and
  - c. the matters falling within the pension board's responsibility<sup>31</sup>.

### Practical guidance

#### Publication of pension board information

87. Scheme members and interested parties will want to know that their scheme is being efficiently and effectively managed. Public service pension schemes should have a properly constituted, trained and competent pension board, which is responsible for assisting the scheme manager to comply with the scheme regulations and other legislation relating to the governance and administration of the scheme and requirements imposed by the regulator.
88. Scheme managers must publish the information required about the pension board and keep that information up-to-date to ensure that scheme members can easily access information about who the pension board members are, how pension scheme members are represented on the pension board and the responsibilities of the board as a whole.
89. Schemes<sup>32</sup> should also publish information such as:
  - the full terms of reference for the pension board, including details of how they will operate
  - the pension board appointment process
  - who each individual pension board member represents and
  - any specific roles and responsibilities of individual pension board members.

<sup>30</sup>  
Section 6(1) of the 2013 Act.

<sup>31</sup>  
Section 6(2) of the 2013 Act.

<sup>32</sup>  
For the use of 'schemes', please refer to paragraph 23.

90. Schemes should publish additional information about the pension board, for example board papers, agendas and minutes of meetings (redacted to the extent that they contain confidential information and/or data covered by the Data Protection Act 1998) and consider any requests for additional information to be published, to encourage scheme member engagement and promote a culture of transparency.
91. Schemes must ensure that information published about the pension board is kept up-to-date. Schemes should have in place policies and processes to ensure that all data is monitored on an ongoing basis to ensure its accuracy and completeness.

## Other legal requirements

92. Schemes will need to comply with any other legal requirements relating to the publication of information about governance and administration. In particular, HM Treasury directions may require the scheme manager or responsible authority of a public service pension scheme to publish scheme information, including information about scheme administration and governance and may specify how and when information is to be published<sup>33</sup>.

<sup>33</sup>  
Section 15 of the 2013 Act.



# Managing risks

93. This part of the code covers the requirement for scheme managers to establish and operate adequate internal controls.

## Internal controls

### Legal requirements

94. The scheme manager of a public service pension scheme must establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.

For these purposes 'internal controls' means:

- a. arrangements and procedures to be followed in the administration and management of the scheme
- b. systems and arrangements for monitoring that administration and management and
- c. arrangements and procedures to be followed for the safe custody and security of the assets of the scheme<sup>34</sup>.

### Practical guidance

95. Internal controls are systems, arrangements and procedures that are put in place to ensure that pension schemes are being run in accordance with the scheme rules (which for most public service pension schemes are set out in the scheme regulations) and other law. They should include a clear separation of duties, processes for escalation and sign-off/decision making and documented procedures for assessing and managing risk, reviewing breaches of law and managing contributions to the scheme.
96. Good internal controls are a key characteristic of a well-run scheme and a key component of the scheme manager's role in securing the effective governance and administration of the scheme. Internal controls can help protect pension schemes from adverse risks, which could be detrimental to the scheme and members if they are not mitigated.
97. Scheme managers must establish and operate internal controls which address significant risks which are likely to have a material impact on the scheme. They should employ a risk-based approach and ensure that sufficient time and attention is invested in identifying, evaluating and managing risks and developing and monitoring appropriate controls. They should seek advice, as necessary.

<sup>34</sup> Section 249B of the Pensions Act 2004 as inserted by paragraph 21 of Schedule 4 to the 2013 Act.

## Identifying risks

98. Before implementing an internal controls framework, schemes<sup>35</sup> should carry out a risk assessment. They should begin by:
- setting the objectives of the scheme
  - determining the various functions and activities carried out in the running of the scheme
  - identifying the key risks associated with those objectives, functions and activities.
99. An effective risk assessment process will assist schemes in identifying a wide range of both internal and external risks, which are critical to the scheme and members. Schemes should refer to relevant sources of information, such as records of internal disputes and legislative breaches, the register of interests, internal and external audit reports and service contracts, when identifying risks.
100. Once schemes have identified risks, they should be recorded in a risk register and reviewed regularly. Schemes should keep appropriate records to assist them in demonstrating their compliance, if necessary, with legal requirements.

## Evaluating risks and establishing adequate internal controls

101. Not all risks will have the same potential impact on scheme operations and members or the same likelihood of materialising. Schemes should consider both these areas when determining the order of priority for managing risks and focus on those areas where the impact and likelihood of a risk materialising is high.
102. Many pension schemes will already have adequate internal controls in place, some of which may apply to a variety of the functions of the administering authority. Schemes should review their existing arrangements and procedures to determine whether they can prevent and detect errors in scheme operations and help mitigate pension scheme-related risks.
103. Schemes should consider what internal controls are appropriate to mitigate the key risks they have identified and how best to monitor them. For example, the scheme manager(s) for a funded scheme should establish and operate internal controls that regularly assess the effectiveness of investment-related decision making. Scheme managers for all pension schemes should establish and operate internal controls that regularly assess the effectiveness of data management and record-keeping.

<sup>35</sup>  
For the use of 'schemes', please refer to paragraph 23.

## Managing risks by operating internal controls

104. Schemes should consider a number of issues when designing internal controls to manage risks. The examples provided are for illustrative purposes only and are not exhaustive. They should not be relied upon as a substitute for the exercise of judgement, based on the principles set out in this code and any advice considered appropriate, particularly in light of any problems experienced in the past.

- a. **How the control is to be implemented and the skills of the person performing the control:**  
For example, schemes should ensure that member data is correct and where employers are supplying incorrect data, schemes should ensure that the employer identifies the cause of the error and takes appropriate action to avoid recurrence (for example, remedying a systemic error)
- b. **The level of reliance that can be placed on information technology solutions where processes are automated:**  
For example, where public service pension schemes' administration processes use an automated system, internal or external auditors could audit the system on an annual basis to assess whether it is capable of performing a required function and report any issues that are identified
- c. **Whether or not a control is capable of preventing future recurrence or merely detecting an event that has already happened:**  
For example, schemes should establish and operate systems which support the maintenance and retention of good member records and implement procedures which identify where the system is not fit for purpose, there are gaps in the data, the data is of a poor quality or there has been a loss of data
- d. **The frequency and timeliness of a control process:**  
For example, schemes should ensure that data is complete and should undertake a data-cleansing or member-tracing exercise and review this on a regular basis (at least annually or at more regular intervals that they consider appropriate for the scheme)
- e. **How the control will ensure that data is managed securely:**  
For example, schemes should ensure that all staff, including temporary or contract staff, complete data security/information management training before access to sensitive data is permitted
- f. **The process or reporting mechanism for flagging errors or control failures:**  
For example, schemes should ensure that member communications are of a high standard and that they are regularly reviewed and, if necessary, redrafted.

## Effectively monitoring controls

105. Risk assessment is a continuous process and must take account of a changing environment and new and emerging risks, including significant changes in or affecting the scheme and employers who participate in the scheme.
106. For example, where relevant, schemes should put in place systems and processes for making an objective assessment of the strength of an employer's covenant (which should include analysis of their financial position, prospects and ability to continue to fund the scheme's benefits).
107. An effective risk assessment process will provide a mechanism to detect weaknesses at an early stage. Schemes should periodically review the adequacy of internal controls in mitigating risks, supporting longer-term strategic aims (eg relating to investments), identifying success (or otherwise) in achieving agreed objectives and providing a framework against which compliance with the scheme regulations and legislation can be monitored.
108. Internal or external audits and/or quality assurance processes should ensure that adequate internal controls are in place and being operated effectively. Reviews should take place if/when substantial changes take place, such as changes to pension scheme personnel, or the procurement/implementation of new administration systems or processes, or where a control has been found to be inadequate.
109. A persistent failure to put in place adequate internal controls may be a contributory cause of an administrative breach. Where the effect and wider implications of not having in place adequate internal controls are likely to be 'materially significant', the regulator would expect to receive a report, commonly referred to as a 'whistleblowing' report, outlining relevant information in relation to the breach. Detailed guidance on reporting breaches of the law can be found in this code.
110. Ultimately, the legal responsibility for establishing and operating adequate internal controls rests with the scheme manager. Scheme regulations or other documents may delegate responsibilities to pension board members or others – for example identifying, evaluating and managing risks, developing and maintaining appropriate controls and providing assurance to the scheme manager about any controls in place. However, accountability for those controls and the governance of policies, procedures and processes will reside with the scheme manager.

## Outsourcing services

111. The legal requirements relating to internal controls apply equally where schemes outsource services connected with the running of the scheme and providers should be required to demonstrate, in their tenders for delivering services, how they will meet these requirements and these should be incorporated in the terms of engagement. Outsourced services may include all aspects of scheme administration, including the maintenance of records and data and calculation of benefits. Where services are outsourced, scheme managers should be satisfied that internal controls associated with those services are adequate and effective.
112. An increasing number of service providers are obtaining independent assurance reports to help demonstrate their ability to deliver quality administration services. Schemes should ask their service providers to demonstrate how they comply with the legal standard of adequate internal controls for the services they provide.

# Administration

113. This part of the code covers:

- scheme record-keeping
- maintaining contributions
- information to be provided to members.

## Scheme record-keeping

### Legal requirements

114. Scheme managers must keep records of information relating to:

- member information<sup>36</sup>
- transactions<sup>37</sup> and
- pension board meetings<sup>38</sup>.

115. The legal requirements are set out in the draft Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations ('the draft Record-keeping Regulations'). These include the period for which records must be retained<sup>39</sup>.

### Practical guidance

116. Failure to maintain complete and accurate records and put in place effective internal controls to achieve this can affect the ability of schemes<sup>40</sup> to carry out basic functions. Poor record-keeping can result in schemes failing to pay benefits in accordance with scheme rules, processing incorrect transactions and ultimately paying members incorrect benefits. For funded schemes, it may lead to schemes managing investment risks ineffectively. There is also the potential for the maladministration of members' contributions and failure to identify any misappropriation of assets. Schemes must be able to demonstrate to the regulator, where required, that they keep accurate, up-to-date and enduring (for the periods prescribed in the regulations) records to be able to govern and administer their pension scheme efficiently.

117. Scheme managers must establish and operate adequate internal controls<sup>41</sup>, which should include processes and systems to support record-keeping requirements and ensure that they are effective at all times.

<sup>36</sup>  
Regulation 3 of the draft Record-keeping Regulations.

<sup>37</sup>  
Regulation 4, *ibid*.

<sup>38</sup>  
Regulation 5, *ibid*.

<sup>39</sup>  
Regulation 6, *ibid*.

<sup>40</sup>  
For the use of 'schemes', please refer to paragraph 23.

<sup>41</sup>  
Section 249B of the Pensions Act 2004 (as inserted by paragraph 21 of Schedule 4 to the 2013 Act).

## Records of member information

118. Schemes must ensure that member data across all membership categories for the scheme is complete and accurate. Member data should be subject to regular data evaluation to enable schemes to pay the right benefits to the right person (including all beneficiaries) at the right time.
119. The requirement for good ongoing record-keeping is important for schemes, particularly with the establishment of career average re-valued earnings (CARE) schemes, so that they are able to provide a member with accurate information regarding their pension benefits (accrued benefits to date and their future projected entitlements) as required and on a timely basis.
120. For schemes to meet these requirements, they must hold specific data to be able to uniquely identify a scheme member and calculate the benefits correctly<sup>42</sup>.
121. Schemes should require participating employers to provide them with timely and accurate data in order to fulfil their legal obligations. Schemes must ensure that processes are established by employers which enable the transmission of complete and accurate data from the outset. Processes will vary from scheme to scheme, depending on factors such as employee turnover, pay periods, scheme size and the timing and number of payroll processing systems.
122. Schemes should seek to ensure that employers understand the key events which require information about members to be passed from the employer to the scheme, such as when an employee joins or leaves the scheme, changes their rate of contributions, changes their name, address or salary, or changes their member status.
123. Schemes should ensure that appropriate procedures and timescales are in place for scheme employers to provide updated information when member data changes, for checking scheme data against employer data and for receiving information which may affect the profile of the scheme. If an employer fails to act in accordance with the procedures set out above, schemes (and others under a duty to report) should consider their statutory duty under section 70 of the Pensions Act 2004 to report breaches of the law and assess whether there has been a relevant breach.

<sup>42</sup>  
Regulation 3 of the  
draft Record-keeping  
Regulations.

## Records of transactions

124. Schemes should be able to trace the flow of funds into and out of the scheme and reconcile these against expected contributions and scheme costs. In doing so, they will have clear oversight of the core scheme transactions and should be able to mitigate risks swiftly.
125. Schemes must keep, and be able to demonstrate that they keep, records of transactions made to and from the scheme<sup>43</sup>.

## Records of pension board meetings

126. Schemes must keep records of pension board meetings including any decisions made<sup>44</sup>. Schemes should also keep records of key discussions, which may include topics such as compliance with policies in relation to the administration of the scheme, where appropriate.
127. The records of pension board meetings must also include whether since the previous meeting there has been any occasion when any decisions have been taken by the pension board and, if so, the date, time, and place of the decision and the names of members participating in that decision. Schemes must keep records of all decisions made by the pension board to ensure that there is a clear and transparent audit trail of the decisions made.

## Retention of scheme records

128. Schemes must retain records for the periods prescribed in the draft Record-keeping Regulations<sup>45</sup>. Member records must be kept for six years after any entitlement to benefits has ceased for DB arrangements and for six years after the member's funds have been converted into retirement income for DC arrangements. Other records must be retained for at least six years from the end of the scheme year to which they relate.

## Ongoing monitoring of data

129. Schemes should have in place policies and processes to ensure that data is monitored on an ongoing basis to ensure its accuracy and completeness, regardless of the volume of scheme transactions. This should be in relation to all membership categories, including pensioner member data where queries may arise once the pension is in payment.
130. Schemes should adopt a proportionate and risk-based approach to monitoring, based on any known or historical issues that may have occurred in relation to the scheme's administration. This is particularly important in relation to the effective administration of CARE pension schemes, which require schemes to hold significantly more data.

<sup>43</sup>  
Regulation 4 of the  
draft Record-keeping  
Regulations.

<sup>44</sup>  
Regulation 5, *ibid*.

<sup>45</sup>  
Regulation 6, *ibid*.



## Data review exercise

131. Schemes should continually review their data and carry out a full data review exercise at least annually. This should include an assessment of the accuracy and completeness of the member information data held.
132. Where the management of scheme data has been outsourced, it is vital that schemes understand and are satisfied that the controls in place will ensure the integrity of scheme member data. They should ensure that the administrator has assessed the risks that poor or deficient member records may present to the scheme and has taken the necessary steps to mitigate them, where applicable.
133. Where there has been a change of administrator or the administration system/platform, schemes should review and cleanse data records and satisfy themselves that all data is complete and accurate.

## Data improvement plan

134. Where schemes identify poor quality data or missing data, they should have in place a data improvement plan to address these issues. The plan should have specific data improvement measures which can be monitored and tracked and a defined end date within a reasonable timeframe to have complete and accurate data for the scheme.

## Reconciliation of member records

135. Schemes should ensure that member records are reconciled with information held by the employer, for example postal or electronic address changes and new starters. Schemes should also ensure that the numbers of scheme members is as expected based on the number of leavers and joiners since the last reconciliation. Schemes should be able to determine those members who are approaching retirement, those who are active members and those who are deferred members.

## Data protection and internal controls

136. Schemes must ensure that processes that are created in respect of scheme member data meet the requirements of the Data Protection Act 1998 and the data protection principles.
137. Schemes should understand the following in relation to data management:
- their obligations as data controllers and who the data processors are in relation to the scheme
  - the difference between personal data and sensitive personal data (as defined in the Data Protection Act 1998)
  - how data is held and how they should respond to data requests from different parties
  - the systems which need to be in place to store, move and destroy data
  - how data protection affects member communications.

## Other legal requirements

138. There are various legal requirements for records to be kept in relation to public service pension schemes, in addition to the requirements set out in the draft Record-keeping Regulations. Those requirements apply variously to managers, administrators and employers. Not all requirements apply to all public service pension schemes, but some of the key requirements are set out under the following legislation:
- a. The Pensions Act 1995 and 2004
  - b. The Pensions Act 2008 and the Employers' Duties (Registration and Compliance) Regulations 2010<sup>46</sup>
  - c. The Occupational Pension Schemes (Scheme Administration) Regulations 1996
  - d. The Registered Pension Schemes (Provision of Information) Regulations 2006
  - e. The Data Protection Act 1998.
139. Where applicable<sup>47</sup>, schemes should be able to demonstrate that they are keeping records in accordance with these and any other relevant legal requirements. Schemes should read the relevant pensions legislation and any guidance in conjunction with this code where applicable.

<sup>46</sup>  
See the regulator's guidance **Detailed guidance no. 9 – Keeping records** for more information about record-keeping requirements under this legislation.

<sup>47</sup>  
Not all legal requirements will apply to all public service schemes.

## Maintaining contributions

### Legal requirements

140. Employer contributions must be paid to the scheme on or before the 'due date' (the date on which contributions are due under the scheme). Where employer contributions are not paid on or before the date they are due under the scheme and the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, the scheme manager must give a written report of the matter to the regulator as soon as reasonably practicable<sup>48</sup>.
141. Where employee contributions are deducted from a member's pay, the amount deducted is to be paid to the managers of the scheme within 19 days beginning on the day after the deduction is made, or within 22 days if paid electronically (the 'prescribed period')<sup>49</sup>.
142. Where employee contributions are not paid within the prescribed period, if the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, they must, except in prescribed circumstances, give written notice of the failure to the regulator and the member within a reasonable period after the end of the prescribed period<sup>50</sup>.

48  
Section 70A of the Pensions Act 2004 as inserted by paragraph 7 of Schedule 4 to the 2013 Act. The main objectives of the regulator in exercising its functions are set out in section 5 of that Act.

49  
Section 49(8) of the Pensions Act 1995 and regulation 16 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996. References to 'days' means all days (Monday to Sunday). References to 'working days' do not include Saturdays, Sundays or Bank Holidays.

### Practical guidance

143. As part of their duty to establish and operate adequate internal controls, scheme managers should ensure that there are effective procedures and processes in place to identify late payments of contributions that are – and are not – of material significance to the regulator. Schemes<sup>51</sup> should monitor pension contributions, resolve payment issues and report payment failures, as appropriate, so that the scheme is administered and managed in accordance with the scheme regulations and the law.
144. Adequate procedures and processes are likely to involve:
- developing a record to monitor the payment of contributions
  - monitoring the payment of contributions
  - managing overdue contributions
  - reporting materially significant payment failures.

This guidance will help scheme managers to meet their duty to report late payment of contributions to the regulator, as well as ensuring the effective management of scheme contributions and payment of the right pension.

50  
Section 49(8) and (9) of the Pensions Act 2004 and regulation 16 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended by regulation 7 of the draft Record-keeping Regulations).

51  
For the use of 'schemes', please refer to paragraph 23.

## Developing a record for monitoring the payment of contributions

145. Managers of DC public service schemes must prepare, maintain and revise from time to time if necessary, a scheme payment schedule<sup>52</sup> showing:

- the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme
- such other amounts payable towards the scheme as may be prescribed and
- due date(s) on or before which payment of contributions and other amounts are to be made<sup>53</sup>.

146. Contribution rates and other matters to be included in the schedule must reflect the rules of the scheme (which for most public service pension schemes will be set out in the scheme regulations) and overriding legislation. Schemes should prepare the schedule in consultation with the employer.

147. Even for those public service pension schemes which are not legally required to prepare and maintain a payment schedule (or schedule of contributions), developing a record for monitoring the payment of contributions to the scheme (a 'contributions monitoring record') will enable schemes to check whether contributions have been paid on time and in full and if not, provide a trigger for escalation for investigation and consideration of whether they need to report to the regulator and, where relevant, members.

148. A contributions monitoring record should include the following information:

- contribution rates
- the date(s) on or before which payment of employer contributions are to be made to the scheme
- the date by when or period within which the payment of employee contributions are to be made to the scheme and
- the rate or amount of interest payable where the payment of contributions is late.

149. The date by when employer contributions must be paid is the date on which they are due under the scheme. The date will usually be set out in the scheme rules or other scheme documentation. Schemes should assess the timing of payments against the date specified.

52

Section 87(2) Pensions Act 1995. This requirement does not apply to schemes falling within a prescribed class or description (section 87(1) of that Act). Schemes which are provided for, or by, or under an enactment and which are guaranteed by a minister of the Crown or other public authority are a prescribed class for those purposes (regulation 17 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996).

53

Section 87(2) of the Pensions Act 1995 (c. 26), see also regulations 18 and 19 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996).

150. In relation to employee contributions, while there is a legal requirement for these to be paid to the scheme within 19 days beginning on the day after the deduction is made, or within 22 days if paid electronically, this does not override any earlier time periods set out in the scheme rules or other scheme documentation. There are special rules for the first deduction of contributions on automatic enrolment under the Pensions Act 2008<sup>54</sup>.
151. A contributions monitoring record should help schemes to identify any employers who are not paying contributions on time and/or in full and support schemes in ensuring that contributions are paid and that new processes are developed and implemented by employers, as appropriate. The contributions monitoring record should provide schemes with information to maintain records of money received and will be useful for schemes to ensure that their member records are kept up-to-date.

### Monitoring the payment of contributions

152. Schemes should monitor contributions on an ongoing basis and in relation to all the membership categories within the scheme. Schemes should regularly check payments due against the contributions monitoring record.
153. Schemes should apply a risk-based approach that will help identify situations which present a higher risk of late payments occurring and which are likely to be of material significance and require the intervention of the scheme manager.
154. Scheme managers should be aware of what is to be paid in accordance with the contributions monitoring record or other scheme documentation which may be used by the pension scheme. Schemes should have in place a process to identify where payments are late or have been under or overpaid, or not paid at all.
155. For schemes to effectively monitor contributions they will require access to certain information. Employers will often provide the payment information schemes need to monitor contributions at the same time as they send the contributions to the scheme - this may be required under the scheme regulations. Payment information may include:
- the contributions due to be paid by the employer and on behalf of the member, which should be specified in the scheme rules and/or other scheme documentation
  - the pensionable pay that contributions are based upon (where required)
  - what contributions are due to be deducted from the earnings of a member.

<sup>54</sup> Regulation 16 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

156. Schemes should record and retain information on transactions, including any employer and employee contributions received and payments of pensions and benefits<sup>55</sup>, which will support them in their administration and monitoring responsibilities. They should have adequate internal controls in place to monitor the sharing of payment information between the employer, pension scheme and member.
157. Where the necessary payment information is not automatically available or provided by employers, schemes should request the additional information they need. Schemes may not need to obtain payment information as a matter of course, only where it is required for effective monitoring.
158. Where the administration of scheme contributions is outsourced to a service provider, schemes should ensure that there is a process in place to obtain regular information on the payment of contributions to the scheme and a clear procedure in place to enable them to identify and resolve payment failures which may occur.

## Managing overdue contributions

159. When a problem is identified or where they receive notification of a problem, schemes should assess whether a late payment has occurred before taking steps to resolve or, if necessary, report. During their assessment, schemes should take into account:
- legitimate agreed payments made directly by the employer for scheme purposes ie where the scheme has agreed that a contributions payment can be made late due to exceptional circumstances
  - legitimate agreed payment arrangements made between the employee and the employer ie where the employer has agreed that a contribution payment can be made late due to exceptional circumstances
  - contributions paid directly to a pension provider, scheme administrator or investment manager and
  - any AVCs included with the employer's overall payment.

<sup>55</sup>  
Regulation 4 of the  
draft Record-keeping  
Regulations.

160. Where schemes identify the late payment of contributions, they should follow a process to resolve issues quickly. This should normally involve the following steps:
- a. Investigate any apparent employer failure to make payments in accordance with the contributions monitoring record or legal requirements with regards to employer/employee contributions
  - b. Contact the employer promptly to alert them to the late payment and to seek to resolve the overdue payment
  - c. Discuss it with the employer as soon as practicable with a view to finding out the cause and circumstances of the late payment
  - d. Rectify any underpayment and take steps to avoid a recurrence in the future.
161. Schemes should maintain a record of their investigation and communications between themselves and the employer. Recording this information will help to provide evidence of schemes' effective monitoring processes and could help to demonstrate that the scheme manager has met the legal requirement to establish and operate adequate internal controls. It will also feed into the consideration of whether or not to report a late payment to the regulator and, where relevant, members.
162. The regulator recognises that a monitoring process based on information provided by the employer may not be able to confirm deliberate underpayment or non-payment, or fraudulent behaviour by the employer. Schemes should develop a process which is able to detect situations where fraud may be more likely to occur and where additional checks may be appropriate.
163. Ultimately, schemes have flexibility to design their own procedures so that they can obtain overdue payments and rectify administrative errors in the most effective and efficient way for their particular scheme.

## **Reporting payment failures which are likely to be of material significance to the regulator as soon as reasonably practicable**

164. A 'late payment' is where contribution payments and other amounts are not paid to the scheme by the due date(s), or within the prescribed period. Attempts to recover contributions should be made within 90 days from the due date or prescribed period having passed without full payment of the contribution.

165. While schemes are not expected to undertake a full investigation to establish materiality or investigate whether an employer has behaved fraudulently, schemes should seek to enquire of the employer:

- a. The cause and circumstances of the payment failure
- b. What action has been taken by the employer as a result of the payment failure
- c. The wider implications or impact of the payment failure.

When reaching a decision about whether to report, schemes should consider these points together and establish whether they have reasonable cause to report.

166. Having 'reasonable cause' means more than merely having a suspicion that cannot be substantiated. Schemes should investigate the late payment of contributions and use their judgement when deciding whether to report to the regulator.

167. Schemes may choose to take an employer's response to their enquiries at face value if they have no reason to believe it to be untrue or where their risk-based process indicates that there is a low risk of continuing payment failure. Where no response is received, schemes may infer that an employer is unwilling to pay the contributions due.



168. Examples of late payments which are likely to be of material significance to the regulator include:

- where schemes have reasonable cause to believe that the employer is neither willing nor able to pay contributions, for example in the event of a business failure or where an employer becomes insolvent and is unable to make pension payments
- where there is a payment failure involving possible dishonesty or a misuse of assets or contributions. For example, where schemes have concerns that an employer is retaining and using contributions to manage cash flow difficulties or where schemes have become aware that the employer has transferred contributions elsewhere other than to the pension scheme, which may be misappropriation
- where the information available to schemes may indicate that the employer is knowingly concerned with the fraudulent evasion of the obligation to pay employee contributions
- where schemes become aware that the employer does not have adequate procedures or systems in place to ensure the correct and timely payment of contributions due and the employer appears not to be taking adequate steps to remedy the situation, for example where there are repetitive and regular payment failures
- in any event where contributions have been outstanding for 90 days from the due date (unless the payment failure was a one-off or infrequent administrative error, which had already been corrected on discovery or is thereafter corrected as soon as possible).

169. Examples of late payments which are not likely to be of material significance to the regulator include:

- where a payment arrangement is being met by an employer for the recovery of outstanding contributions
- where there are infrequent one-off payment failures or administrative errors such as where employees leave or join the scheme and those occasional failures or errors have been corrected within 90 days of the due date.

170. Schemes should identify and alert the regulator, as appropriate, to any late payments that taken individually may not be of material significance, but which could indicate a systemic problem. For example, a consistent failure of an employer to pay contributions by the due date or within the prescribed period, but to pay within 90 days, may be due to inefficient scheme systems and processes. Schemes may also need to report where late payments occur repeatedly and could be materially significant to the regulator.
171. Reporting late payments of employer contributions as soon as 'reasonably practicable' means as soon as the scheme manager has reasonable cause to believe that the late payment is likely to be of material significance to the regulator. Schemes should also consider whether it may be appropriate to report a late payment of employer contributions to scheme members.
172. A reasonable period for reporting would be within ten working days, depending upon the seriousness of the late payment and impact on the scheme. A written report should be preceded by a telephone call, if appropriate.
173. In the case of an employer's failure to pay employee contributions to the pension scheme, if the scheme manager has reasonable cause to believe that the late payment is likely to be of material significance to the regulator, the failure must be reported to the regulator and members within a reasonable period after the end of the prescribed period. A reasonable period for reporting to the regulator will be within ten working days and to members within thirty days of having reported to the regulator.
174. Reports in relation to the late payment of employer contributions must be made in writing (preferably electronically). In exceptional circumstances the scheme manager could make a telephone report.
175. The regulator has standardised reporting procedures and expectations regarding content, format and channel. Further information can be found in the section of this code on reporting breaches of the law.

## Information to be provided to members

### Legal requirements

176. The law requires schemes<sup>56</sup> to disclose information about benefits and scheme administration to scheme members and others. This section summarises the legal requirements relating to benefit statements and other certain information which must be provided and should be read alongside the requirements in the 2013 Act, any related Treasury directions and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 ('the Disclosure Regulations 2013')<sup>57</sup>.

### Benefit statements

#### Benefit statements for active members of DB schemes under the 2013 Act

177. Scheme regulations must require scheme managers to provide an annual benefit information statement to each active member of a DB scheme established under the 2013 Act<sup>58</sup>. The statement must include a description of the benefits earned by a member in respect of their pensionable service<sup>59</sup>.

178. The first statement must be provided no later than 17 months after the scheme regulations establishing the scheme come into force. Subsequent statements must be provided at least annually after that date<sup>60</sup>.

179. Statements must also comply with any Treasury directions in terms of any other information which must be included and must be provided to members in any manner specified by Treasury directions.

#### Benefit statements for active, deferred or pension credit members of any DB public service pension scheme

180. Schemes must also provide a benefit statement following a request by an active, deferred or pension credit member of a DB scheme if the information has not been provided to that member on request in the previous 12 months before that request<sup>61</sup>.

181. These benefit statements must include a description of the benefits earned by a scheme member in respect of their pensionable service. The full details are dependent on the type of member making the request.

182. The information must be given as soon as practicable but no more than two months after the date the request is made<sup>62</sup>.

56

For the use of 'schemes', please refer to paragraph 23.

57

In addition to duties arising under the 2013 Act and Disclosure Regulations 2013, there are other legal requirements relating to the provision of information to members under other legislation not covered in this section.

58

Section 14(1) of the 2013 Act.

59

Section 14(2)(a) of the 2013 Act.

60

Section 14(4) and (5) of the 2013 Act.

61

Regulation 16 of the Disclosure Regulations 2013.

62

Regulation 16(3), *ibid.*

## Benefit statements for members of a DC public service pension scheme

183. Schemes must provide a benefit statement to a member of a DC public service pension scheme who is not an 'excluded person', within 12 months of the end of the scheme year<sup>63</sup>. An 'excluded person' is a member or beneficiary whose present postal address and electronic address is not known to the scheme because the correspondence has been returned (in the case of postal correspondence) or has not been delivered (in the case of electronic correspondence)<sup>64</sup>.

184. The information which must be provided includes the amount of contributions (before any deductions are made) credited to the member during the immediately preceding scheme year<sup>65</sup>, the value of the member's accrued rights under the scheme at a date specified by the managers of the scheme<sup>66</sup> and a statutory money purchase illustration ie an illustration of what the member's pension may be at retirement<sup>67</sup>. The full detail of the information which must be provided is set out in the Disclosure Regulations 2013.

## Other information about scheme administration

185. The Disclosure Regulations 2013 require other information to be provided to members and others in certain circumstances (including on request), where relevant, including:

- a. basic scheme information
- b. information about the scheme that has materially altered
- c. information about the constitution of the scheme
- d. annual report
- e. information about funding principles, actuarial valuations and payment schedules
- f. information about transfer credits
- g. information about lifestyling
- h. information about accessing benefits and
- i. information about benefits in payment.

<sup>63</sup>  
Regulation 17 of the Disclosure Regulations 2013.

<sup>64</sup>  
Regulation 2, *ibid*.

<sup>65</sup>  
'Scheme year' is defined in regulation 2 of the Disclosure Regulations 2013.

<sup>66</sup>  
Regulation 17 of, and Schedule 6 to, the Disclosure Regulations 2013.

<sup>67</sup>  
Paragraph 6 of Schedule 6, *ibid*. There are certain exceptions to the requirements to provide this information.

## Who is entitled to information

186. The Disclosure Regulations 2013 make provision for scheme members and others to receive information that is relevant to their pension rights and entitlements under the scheme and specifies the type of member and others who are entitled to receive the specified information:

- active members
- deferred members
- pensioner members
- prospective members
- spouses or civil partners of members
- beneficiaries
- recognised trade unions.

187. Schemes must ensure that scheme members and others are given information in accordance with the requirements specified in the Disclosure Regulations 2013, unless they fall within the definition of an 'excluded person', as previously defined.

## What information needs to be provided

188. The information that must be provided to scheme members is set out in the Disclosure Regulations 2013. Schemes must provide the required information, along with confirmation that members may request further information if required and the type of information that is available.

## When the basic scheme information must be provided

189. Schemes must disclose certain basic information about the scheme and the benefits it provides to a prospective member (if practicable to do so) or a new member<sup>68</sup>. The timescales for providing this information depend on whether the managers of the scheme have received jobholder information<sup>69</sup> for the member. Where they have, the information must be given within a month of the jobholder information being received<sup>70</sup>. Where they have not received jobholder information for that member the information must be given within two months of the date the person became an active member of the scheme<sup>71</sup>. The information must also be provided on request, within two months of the request being made, except where the same information was provided to the same person or trade union in the 12 months prior to the request<sup>72</sup>.

<sup>68</sup>  
Regulation 6 of the Disclosure Regulations 2013

<sup>69</sup>  
'Jobholder information' means the information specified in regulation 3 of the Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010.

<sup>70</sup>  
Regulation 6(5) of the Disclosure Regulations 2013.

<sup>71</sup>  
Regulation 6(6), *ibid.*

<sup>72</sup>  
Regulations 6(4) and (7), *ibid.*

## What information must be disclosed on request

190. Pension scheme members and others, in some circumstances, are entitled to request certain scheme information or scheme documents including:

- information about the constitution of the pension scheme
- information about transfer credits
- the latest scheme actuarial valuation (if appropriate)
- the latest statement of investment principles (if appropriate) and
- information about the rights and options of deferred members.

## How benefit statements and other information must be provided

191. Generally, schemes may choose how they provide information to scheme members, including by post, electronically (by email or by making it available on a website) or by such other means as may be permitted by the law. For benefit statements issued under the 2013 Act, Treasury directions may specify how the information must be provided. Where schemes wish to provide information required under the Disclosure Regulations 2013 electronically there are important steps and safeguards that must first be met<sup>73</sup>.

These include:

- a. schemes providing scheme members and beneficiaries with the option to opt-out of receiving information electronically by giving written notice to the scheme
- b. schemes being satisfied that the electronic communications have been designed:
  - so that the person will be able to access and either store or print the relevant information and
  - taking into account the requirements of disabled people
- c. that members and beneficiaries who were a member or beneficiary of the public service pension scheme on 1 December 2010 (where the scheme had not provided information electronically prior to that date) have been sent a written notice (other than via email or website), informing them that:
  - it is proposed to provide information electronically in future and
  - scheme members and beneficiaries may opt-out of receiving information electronically by sending written notice.

<sup>73</sup> Regulation 26 of the Disclosure Regulations 2013.

192. Before making information or a document available on a website for the first time, schemes must give a notice (other than via a website) to the recipient<sup>74</sup>. They must ensure that the notice includes:

- a statement advising that the information is available on the website
- the website address
- details of where on the website the information or document can be read and
- an explanation of how the information or document may be read on the website.

193. Before making any subsequent information available on a website, the scheme must give a notice (other than via a website) to recipients informing them that the information is available on the website. This notice will not be required where<sup>75</sup>:

- at least two documents have been given to the recipient by hand or sent to the recipient's last known postal address, and
- each of those letters asks the recipient to give their electronic address to the scheme and informs the recipient of their right to request (in writing) that information or documents are not to be provided electronically, and
- a third letter has been given to the recipient by hand or sent to the recipient's last known postal address and includes a statement that further information will be available to read on the website and that no further notifications will be sent to the recipient, and
- the scheme does not know the recipient's email address and has not received a written request that information or documents are not to be provided to the recipient electronically.

194. In some cases, the Disclosure Regulations 2013 specify that information must be made available by one of the following methods<sup>76</sup>:

- available to view free of charge, at a place that is reasonable having regard to the request
- published on a website (in which cases the procedure to be followed before making information available on a website does not apply, except that the person or trade union must be notified of certain details)
- given for a charge that does not exceed the expense incurred in preparing, posting and packing the information or
- publicly available elsewhere.

74  
Regulations 27 of the Disclosure Regulations 2013.

75  
Regulation 28, *ibid.*

76  
Regulation 29, *ibid.*

## Practical guidance

195. Communications to scheme members should be designed and delivered in a way that ensures members are able to engage with their pension provision. Information should be clear and simple to understand as well as being accurate and easily accessible. It is important that members are able to understand their pension arrangements and make informed decisions where required.
196. Schemes should attempt to make contact with their scheme members and where contact is not possible, schemes should consider carrying out a tracing exercise to locate the member and ensure that their member data is up-to-date.
197. For the provision of information, a member's postal address may be their last known home address or their place of work.
198. Alongside the information that must be provided to scheme members as set out in the Disclosure Regulations 2013, schemes should ensure that members are given the address and contact details for the individual(s) responsible for dealing with information requests.
199. Where a person has made a request for information, schemes should provide them with an acknowledgement of receipt if they are unable to provide the information at that stage. Schemes may encounter situations where the time period for providing information takes longer than anticipated. In these circumstances the person should be notified and their expectations managed in relation to when they will receive the information.
200. As a matter of good practice and to promote transparency, scheme managers should make information readily available at all times to ensure that prospective and existing members are able to access information when required. Schemes must also advise members that further information<sup>77</sup> is available on request and provide details of how requests can be made.

<sup>77</sup>

Further information includes, for example, information about annuities given before retirement and information about benefits at retirement.



## Other legal requirements

201. There are other legal requirements for information to be provided to members of public service pension schemes in certain circumstances. Not all requirements apply to all public service pension schemes and some may only arise in limited circumstances. Some of the requirements of which schemes may need to be aware are set out in or under the following legislation<sup>78</sup>:

- the Occupational Pension Schemes (Contracting-out) Regulations 1996
- the Occupational Pension Schemes (Transfer Values) Regulations 1996
- the Occupational Pension Schemes (Winding up etc) Regulations 2005 and
- the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008 (the requirements of these Regulations are covered in the section on internal dispute resolution).

78

The legislation identified in this list is made under section 113 of the Pension Schemes Act 1993. There are other requirements relating to the provision of information to members which arise under other legislation, and which may be relevant to public service pension schemes.

# Resolving issues

202. This part covers:

- internal dispute resolution
- reporting breaches of the law.

## Internal dispute resolution

### Legal requirements

203. Scheme managers are required to make and implement dispute resolution arrangements<sup>79</sup>, which comply with the requirements of the law and support the resolution of pensions disputes<sup>80</sup> between the scheme manager and a person with an interest in the scheme.

204. There are certain 'exempted disputes' to which the internal dispute resolution procedure does not apply (section 50(9) of the Pensions Act 1995). 'Exempted disputes' include those where proceedings in respect of the dispute have been commenced in any court or tribunal, or where the Pensions Ombudsman has commenced an investigation in respect of it. Certain other prescribed disputes, for instance medical-related disputes, which may arise in relation to police and fire and rescue workers for example, are also 'exempted disputes'<sup>81</sup>.

205. A person has an interest in the scheme if:

- a. they are a member or beneficiary of the scheme
- b. they are a prospective member of the scheme
- c. they have ceased to be a member or beneficiary or prospective member
- d. they claim to be in one of the categories mentioned above and the dispute relates to whether they are such a person.

206. Dispute resolution arrangements may require people with an interest in the scheme to first refer matters in dispute to a 'specified person' in order for that person to consider and give their decision on those matters. The specified person's decision may then be confirmed or replaced by the decision taken by the scheme manager<sup>82</sup>.

207. Scheme managers and specified persons (if used as part of a scheme's procedure) must take the decision required on the matters in dispute within a reasonable period of the receipt of the application by them and notify the applicant of the decision within a reasonable period of it having been taken<sup>83</sup>.

79  
Section 50 of the  
Pensions Act 1995

80  
A 'pension dispute' is a dispute which is between the managers of a scheme and one or more people with an interest in the scheme (see section 50A of the Pensions Act 1995), about matters relating to the scheme and which is not an 'exempted dispute' (section 50(3) of that Act).

81  
Regulation 4 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008.

82  
Section 50(4A) of the Pensions Act 1995.

83  
Section 50(5) of the Pensions Act 1995.

208. Internal dispute resolution procedures must state the manner in which an application for the resolution of a pension dispute is to be made, the particulars which must be included in such an application and the manner in which any decisions required in relation to such an application are to be reached and given<sup>84</sup>.

## Practical guidance

209. Scheme members expect their pension scheme to be managed effectively. Where a person with an interest in the scheme is not satisfied with any decision made affecting them, they have the right to ask for that decision to be reviewed.

210. Internal dispute resolution arrangements provide formal procedures and processes for pension scheme disputes to be investigated and decided upon quickly and effectively. They play a key role in the effective governance and administration of a scheme.

## Determining your internal dispute resolution procedure

211. The law allows schemes<sup>85</sup> to operate a two-stage procedure with a 'specified person' undertaking the first-stage decision. Alternatively, they may adopt a single-stage procedure if they consider that is more appropriate for their scheme.

212. With the exception of certain matters outlined below, the law does not prescribe the detail of the dispute resolution procedure. Schemes should decide on this and ensure it is fit for purpose.

## Determining your internal dispute resolution processes

### When applications should be submitted

213. Schemes may choose to specify time limits within which an application for the resolution of a dispute must be made by the following people:

- a. A scheme member
- b. A widow, widower, surviving civil partner or surviving dependant of a deceased scheme member
- c. A surviving non-dependant beneficiary of a deceased scheme member or
- d. A prospective scheme member.

<sup>84</sup>  
Section 50B(4) of the Pensions Act 1995.

<sup>85</sup>  
For the use of 'schemes', please refer to paragraph 23.

214. If a decision is made to specify time limits, schemes should publish and make those time limits readily available to ensure that those with an interest in the scheme are aware that they must submit an application within a prescribed time limit.
215. Schemes must specify a reasonable period within which applications must be made by the following people:
- a. a person who has ceased to be within the categories in paragraph 213 above, and
  - b. a person who claims that they were a person within the categories in paragraph 213 above and have ceased to be such a person, and the dispute relates to whether they are such a person
216. A reasonable period would be six months beginning immediately after the date on which the person ceased to be, or claims they ceased to be, a person with an interest in the scheme. However, schemes have the flexibility to exercise their judgment and take an application outside of a specified time period, if appropriate.

### When decisions should be taken

217. Scheme managers and specified persons (where applicable) should make a decision on a dispute within four months of receiving the application. Where a dispute is referred to scheme managers for a second-stage decision, the reasonable period for making a decision begins when the managers receive the referral. However, there may be cases where it will be possible to process an application sooner than the reasonable time given. Where this is the case, there should not be a delay in taking the decision.
218. There may be exceptional circumstances of a particular dispute which may prevent the process being completed within the reasonable time period stated above. For instance, where the dispute involves unusually complex and labour intensive calculations or research, or delays occur that are outside the control of the scheme manager (or 'specified person'), or because they need to obtain independent evidence.
219. The regulator recognises that the circumstances of each dispute are different and decision times may vary. Schemes should be satisfied that the time taken to provide a decision is appropriate to the situation and that the necessary action has been taken to operate arrangements within the reasonable time period and be able to demonstrate this, if necessary.

## When applicants should be informed of a decision

220. Applicants must be notified of the decision made by a scheme manager or specified person (where applicable) within a reasonable time period following the decision being made. Schemes should usually notify applicants of the decision no later than 15 working days after the decision has been made. However, there may be cases where it will be possible to notify an applicant sooner than the reasonable time given. Where this is the case, there should not be a delay in notifying them of the decision.
221. Schemes should provide the person who has made an application for a matter in dispute with regular updates on the progress of their investigation. The person should be notified where the time period for a decision is anticipated to be shorter or longer than the reasonable time period and their expectations managed in relation to when they will receive an outcome.

## Implementing your procedure and processes

222. Schemes should focus on educating and raising awareness of their internal dispute resolution arrangements and ensuring that they are followed. Once implemented, schemes should ensure that the effectiveness of the arrangements is assessed regularly and be satisfied that those adopting the process are complying with the requirements set, which includes effective decision making. This is particularly important where the arrangements require employers participating in the pension scheme to carry out duties as part of the process.
223. Scheme rules (which for most public service pension schemes will usually be set out in regulations) or other documents recording policy about the administration of the scheme, should specify internal dispute resolution arrangements and confirm and communicate those arrangements to members – for example, in the joining booklet. They should make their arrangements accessible to potential applicants – for example, by publishing them on a scheme website.
224. If appropriate, schemes should ensure that scheme employers are implementing procedures, for example where schemes have implemented the two-stage procedure and employers are acting as the ‘specified person’ for the first stage.

225. Scheme managers must provide information about the procedure and processes the scheme has in place for the internal resolution of disputes to certain people in certain circumstances<sup>86</sup>:

- a. Prospective members, if it is practicable to do so
- b. Any scheme members who have not already been given the information
- c. Certain people who request the information and who have not been given that information in the previous 12 months and
- d. Members or prospective members when schemes receive jobholder information, or when a jobholder becomes an active member, in connection with automatic enrolment.

The postal/electronic address and job title of the person to be contacted must also be provided.

226. In addition, schemes must provide information about The Pensions Advisory Service (TPAS) and the Pensions Ombudsman at certain stages<sup>87</sup>. Upon receipt of an application for the resolution of a pension dispute, schemes (or the specified person, as the case may be) must make the applicant aware (as soon as reasonably practicable) that TPAS is available to assist members and beneficiaries of the scheme and provide contact details for TPAS. When notifying the applicant of the decision, schemes must also notify the applicant that the Pensions Ombudsman is available to investigate and determine complaints or disputes of fact or law, in relation to a public service pension scheme, and provide the Pension Ombudsman's contact details.

227. Schemes should ensure the following information is made available to applicants:

- The procedure and processes for making an application for the resolution of a dispute
- The information which must be included in an application
- The process by which any decisions required are to be reached and
- An acknowledgement sent to the applicant once an application has been received.

228. The law does not stipulate what information schemes should request from applicants to enable them to reach a decision on a disputed matter. The legislation provides flexibility for scheme managers to decide what is appropriate and how applications should be submitted.

<sup>86</sup>  
Regulation 6 of, and Part 1 of Schedule 2 to, Disclosure Regulations 2013.

<sup>87</sup>  
Regulation 2 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures) (Consequential and Miscellaneous Amendments) Regulations 2008.

229. When reviewing an application, scheme managers or a specified person should be satisfied that they have taken the necessary time to take a decision which is appropriate to the situation and that the necessary action has been taken to meet the reasonable time period. Scheme managers should ensure that they have all the appropriate information to make an informed decision and if required, request further information.

## Reporting breaches of the law

### Legal requirements

230. Certain people are required to report breaches of the law to the regulator where they have reasonable cause to believe that:

- a legal duty<sup>88</sup> which is relevant to the administration of the scheme has not been, or is not being, complied with and
- the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions<sup>89</sup>.

231. The people who are subject to the reporting requirement in the context of public service pension schemes are as follows:

- a. scheme managers
- b. members of pension boards
- c. any person who is otherwise involved in the administration of a public service pension scheme
- d. employers<sup>90</sup>. In the case of a multiemployer scheme, any participating employer who becomes aware of a breach should consider their duty to report, regardless of whether the breach relates to, or affects, members who are its employees or those of other employers
- e. professional advisers<sup>91</sup> including auditors, actuaries, legal advisers and fund managers. Not all public service pension schemes are subject to the same legal requirements to appoint professional advisers, but nonetheless the regulator expects that all schemes will have professional advisers either resulting from other legal requirements or simply as a matter of practice
- f. any person who is otherwise involved in advising the scheme manager in relation to the scheme<sup>92</sup>.

232. The report must be made in writing and should be given as soon as reasonably practicable<sup>93</sup>.

88

The reference to a legal duty is to a duty imposed by, or by virtue of, an enactment or rule of law (section 70(2)(a) of the Pensions Act 2004).

89

Section 70(2) of the Pensions Act 2004. The main objectives of the regulator in exercising its functions are set out in section 5 of that Act.

90

As defined in section 318 of the Pensions Act 2004.

91

As defined in section 47 of the Pensions Act 1995.

92

Section 70(1) of the Pensions Act 2004 (as amended by paragraph 6 of Schedule 4 to the 2013 Act).

93

Section 70(2) of the Pensions Act 2004.

## Practical guidance

233. This guidance is designed to assist those under a duty to report breaches of the law to the regulator to meet their legal obligations. Schemes<sup>94</sup> should be satisfied that those responsible for reporting breaches are made aware of the legal requirements and this guidance. Schemes should provide training for scheme managers and pension board members. All others under the duty to report should ensure they have a sufficient level of knowledge and understanding to fulfil that duty. This means having sufficient familiarity of the legal requirements and procedures and processes for reporting.

## Implementing adequate procedures

234. Identifying and assessing a breach of the law is important in reducing risk and providing an early warning of possible malpractice in public service pension schemes. Those people with a responsibility to report breaches, including scheme managers and pension board members should establish and operate appropriate and effective procedures to ensure that they are able to meet their legal obligations. Procedures should enable people to raise concerns and facilitate the objective consideration of those matters. It is important that procedures allow reporters to make a judgement within an appropriate timescale as to whether a breach must be reported. Reliance cannot be placed on waiting for others to report.

235. Procedures should include the following features:

- Obtaining clarification of the law where it is not clear to those responsible for reporting
- Clarifying the facts around the suspected breach where they are not known
- Consideration of the material significance of the breach taking into account its cause, effect, the reaction to it, and its wider implications, including where appropriate, dialogue with the scheme manager or pension board
- A clear process for referral to the appropriate level of seniority at which decisions can be made on whether to report to the regulator
- An established procedure for dealing with difficult cases
- A timeframe for the procedure to take place that is appropriate to the breach and allows the report to be made as soon as reasonably practicable
- A system to record breaches even if they are not reported to the regulator (the principal reason for this is that the record of past breaches may be relevant in deciding whether to report future breaches, for example it may reveal a systemic issue) and
- A process for identifying promptly any breaches that are so serious they must always be reported.

94

For the use of 'schemes', please refer to paragraph 23.



## Judging whether a breach must be reported

236. Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and, for funded pension schemes, making investment or investment-related decisions.

## Judging whether there is 'reasonable cause'

237. Having 'reasonable cause' to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated.

238. Reporters must ensure that where a breach is suspected, they carry out checks to establish whether or not a breach has in fact occurred. For example, a member of a funded pension scheme may allege that there has been a misappropriation of scheme assets where they have seen in the annual accounts that the scheme's assets have fallen. However, the real reason for the apparent loss in value of scheme assets may be due to the behaviour of the stock market over the period. This would mean that there is not reasonable cause to believe that a breach has occurred.

239. Where the reporter does not know the facts or events around the suspected breach, it will usually be appropriate to check with the pension board or scheme manager or with others who are in a position to confirm what has happened. It would not be appropriate to check with the pension board or scheme manager or others in cases of theft, or suspected fraud or if other serious offences might have been committed and where discussions might alert those implicated or impede the actions of the police or a regulatory authority. Under these circumstances a reporter should alert the regulator without delay.

240. If the reporter is unclear about the relevant legal provision, they should clarify their understanding of the law to the extent necessary to form a view.

241. In establishing whether there is reasonable cause to believe that a breach has occurred, it is not necessary for a reporter to gather all the evidence which the regulator may require before taking legal action. A delay in reporting may exacerbate or increase the risk of the breach.

## Judging what is of 'material significance' to the regulator

242. Deciding whether a breach is likely to be of 'material significance' to the regulator requires those with a duty to report to consider the following:

- a. The cause of the breach
- b. The effect of the breach
- c. The reaction to the breach
- d. The wider implications of the breach.

243. When reaching a decision about whether to report, those responsible should consider these points together. Reporters should take into account expert or professional advice, where appropriate, when deciding whether the breach is likely to be of material significance to the regulator. Each of these aspects is considered in more detail, below.

### The cause of the breach

244. The breach is likely to be of material significance to the regulator where it was caused by:

- dishonesty
- poor governance, inadequate controls resulting in deficient administration, or slow or inappropriate decision-making practices
- incomplete or inaccurate advice or
- acting (or failing to act) in deliberate contravention of the law.

245. When deciding whether a breach is of material significance, those responsible should consider other reported and unreported breaches of which they are aware. However, historical information should be considered with care, particularly if changes have been made to address previously identified problems.

246. A breach will not normally be regarded as materially significant if it has arisen from an isolated incident, for example resulting from teething problems with a new system or procedure, or from an unusual or unpredictable combination of circumstances. But in such a situation, it is also important to consider other aspects of the breach such as the effect it has had and to be aware that persistent isolated breaches could be indicative of wider scheme issues.

## The effect of the breach

247. With the regulator's role in relation to public service pension schemes and its statutory objectives in mind, evidence in relation to any of the following matters is particularly important and likely to be of material significance to the regulator:

- Pension board members not having the appropriate degree of knowledge and understanding
- Pension board members having a conflict of interest
- Adequate internal controls not being established and operated
- The right money not being paid to the scheme at the right time
- Internal dispute resolution procedures not having been made and/or implemented
- Information about benefits and other information about scheme administration not being disclosed to scheme members and others
- Information about pension boards not being published
- Public service pension schemes not being administered properly
- Appropriate records not being maintained
- Pension board members having misappropriated any assets of the scheme or being likely to do so
- Repeated miscalculations or incorrect payment of benefits which have a detrimental impact on scheme members.

## The reaction to the breach

248. Where prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, notify any affected members, the regulator will not normally consider this to be materially significant.

249. A breach is likely to be of concern and material significance to the regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence
- are not pursuing corrective action to a proper conclusion or
- fail to notify affected scheme members where it would have been appropriate to do so.

## The wider implications of the breach

250. The wider implications of a breach should be considered when assessing which breaches are likely to be materially significant to the regulator. For example, a breach is likely to be of material significance where the fact that the breach has occurred makes it appear more likely that other breaches will emerge in the future. This may be due to the scheme manager or pension board members having a lack of appropriate knowledge and understanding to fulfil their responsibilities or where other pension schemes may be affected. For example, public service pension schemes administered by the same organisation may be detrimentally affected where a system failure has caused the breach to occur.

## Submitting a report to the regulator

251. Reports must be submitted in writing and can be sent by post or electronically, including by email or by fax. Reporters should wherever practicable use the standard format available on the regulator's website.

252. The report should be dated and should include as a minimum:

- Full name of the scheme
- Description of the breach or breaches
- Any relevant dates
- Name of the employer or scheme manager (where known)
- Name, position and contact details of the reporter and
- Role of the reporter in relation to the scheme.

253. Additional information that would be helpful to the regulator:

- The reason the breach is thought to be of material significance to the regulator
- The address of the scheme
- The contact details of the scheme manager (if different to the scheme address)
- The pension scheme's registry number (if available)
- Whether the concern has been reported before.

254. Urgent reports should be marked as such and attention should be drawn to matters considered particularly serious by the reporter. A written report can be preceded by a telephone call, if appropriate.

255. A reporter should ensure they receive an acknowledgement in respect of any report they send to the regulator. Only when an acknowledgement of receipt is received by the reporter can they be confident that the regulator has received their report.
256. The regulator will acknowledge all reports within five working days of receipt, however it will not generally keep a reporter informed of the steps taken in response to a report of a breach as there are restrictions on the information it can disclose.
257. Further information or reports of further breaches should, however, be provided by the reporter, if this may assist the regulator in exercising its functions. The regulator may make contact to request further information.
258. Breaches should be reported as soon as reasonably practicable. What is reasonably practicable depends on the circumstances. In particular, the time taken should reflect the seriousness of the suspected breach.
259. In cases of immediate risk to the scheme for instance, where there is any indication of dishonesty, the regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently these necessary checks should be made. In cases of potential dishonesty, the reporter should avoid, where possible, checks which might alert those implicated. In serious cases reporters should use the quickest means possible to alert the regulator to the breach.

## Whistleblowing protection and confidentiality

260. The Pensions Act 2004 makes clear that the duty to report overrides any other duties a reporter may have such as confidentiality and that any such duty is not breached by making a report. The regulator understands the potential impact of a report on relationships, for example, between an employee and their employer.
261. The duty to report does not, however, override 'legal privilege'<sup>95</sup>. What this means is that communications (oral and written) between a professional legal adviser and their client, or a person representing that client, whilst obtaining legal advice, do not have to be disclosed. Where appropriate a legal adviser will be able to provide further information on this.

<sup>95</sup>  
See section 311 of the  
Pensions Act 2004.

262. The regulator will do its best to protect a reporter's identity (if desired) and will not disclose the information except where lawfully required to do so. It will take all reasonable steps to maintain confidentiality, but it cannot give any categorical assurances as the circumstances may mean that disclosure of the reporter's identity becomes unavoidable in law ie the regulator is ordered by a court to disclose it.
263. The Employment Rights Act 1996 (ERA) provides protection for employees making a whistleblowing disclosure to the regulator. Consequently, where individuals employed by firms or another organisation having a duty to report disagree with a decision not to report to the regulator, they may have protection under the ERA if they make an individual report in good faith. The regulator expects such individual reports to be rare and confined to the most serious cases.

## How to contact us

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Draft code of practice no. 14

### **Governance and administration of public service pension schemes**

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**The Pensions  
Regulator**

# Agenda Item 5b

## Report of the Section 151 Officer

Local Pension Board – 21 July 2016

### RISK REGISTER

<b>Purpose:</b>	To inform Local Pension Board of the risks identified in the risk register and mitigating controls
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Report Author:</b>	Jeffrey Dong
<b>Finance Officer:</b>	Mike Hawes
<b>Legal Officer:</b>	S Williams
<b>Access to Services Officer:</b>	N/A
<b>FOR INFORMATION</b>	

## 1 Background

1.1 The risk register is a tool used to effectively identify, prioritise, manage and monitor risks associated with the City & County of Swansea Pension Fund.

It assists the Fund by:

- identifying managed and unmanaged risks
- providing a systematic approach for managing risks
- implementing effective and efficient control
- identifying responsibilities
- identifying risks at the planning stage and monitoring the risks
- helping the Fund to achieve its objectives

1.2 The risk register is attached at Appendix 1 for information

1.3

## 2 Legal Implications

2.1 There are no legal implications arising from this report

## 3 Financial Implications

3.1 There are no financial implications arising from this report



## **4 Equality and Engagement Implications**

4.1 There are no equality and engagement implications arising from this report

## City &amp; County of Swansea Pension Fund Risk Register 2016/17

Risk	Existing control measures /new control measures	Impact	Likelihood	Assigned	Date	Risk status
<b>CCSPF1- Failure to comply with LGPS Regulation</b>  <b>If there is failure to comply with regulation, there would be adverse audit opinion and loss of trust from employers within scheme</b>	<ul style="list-style-type: none"> <li>Well trained staff</li> <li>CPD</li> <li>Pensions Officer Group</li> <li>Society of Welsh Treasurers</li> <li>Internal/external audit regime</li> </ul>	High	Low	JD	2016/17	Green
<b>CCSPF2 – Failure to process accurate pension benefits in a timely manner</b>  <b>If a pension benefit is paid incorrectly there could be a cost to the fund or penalty imposed for lateness of payment</b>	<ul style="list-style-type: none"> <li>Well trained staff</li> <li>Established procedure with imbedded checks and segregation of duties in place</li> <li>Regular KPI monitoring</li> <li>Use of market leading software Altair</li> <li>NFI checks</li> <li>Atmos checks</li> </ul>	High	Low	LM/JD	2016/17	Green
<b>CCS PF3- Failure to collect and account for full receipt of contributions from employers and employees on time</b>  <b>If there is a failure to collect appropriate contributions there may be a rise in employers contributions and an adverse impact on cashflow and the ability to pay benefits and adverse audit opinion</b>	<ul style="list-style-type: none"> <li>Contribution timetable/monitoring procedure</li> <li>Administering Authority agreement</li> <li>Escalation and fines for non compliance</li> <li>Internal audit</li> </ul>	High	Low	JD	2016/17	Green

<b>CCS PF4 – Failure to keep pension records up to date</b> <b>If pension records are not up to date, a wrong benefit may be calculated and paid</b>	<ul style="list-style-type: none"> <li>• Administering Authority agreement with employers to ensure timely passing of information</li> <li>• Data accuracy checks undertaken</li> <li>• Data validation on Altair system</li> <li>• Periodic data validation by scheme actuary/NFI</li> <li>• </li> </ul>	High	Medium	LM	2016/17	Amber
<b>CCSPF 5 Failure to hold personal data securely</b>  <b>If there is breach of data there is a risk to the individual's details and loss of trust in the Authority</b>	<ul style="list-style-type: none"> <li>• Compliance with Data Protection Act 1998</li> <li>• Business Continuity plan</li> <li>• IT Security Policy</li> <li>• Systems and pension payroll audit annually</li> </ul>	High	Low	LM/JD	2016/17	Green
<b>CCSPF6 Loss of funds through fraud or misappropriation by Administrative staff</b>  <b>If funds are lost through fraud or misappropriation by Administrative staff could lead to increase in employer contributions</b>	<ul style="list-style-type: none"> <li>• Segregation of duties</li> <li>• Clear roles and responsibilities and schemes of delegation</li> <li>• Internal external audit</li> </ul>	High	Low	LM	2016/17	Green
<b>CCSPF7 – Loss funds through fraud or misappropriation in investment related functions</b>  <b>If funds are lost through fraud or misappropriation in investment related functions could lead to increase in employer contributions</b>	<ul style="list-style-type: none"> <li>• Segregation of duties</li> <li>• Clear roles and responsibilities and schemes of delegation</li> <li>• Internal/external audit</li> <li>• Regulatory control reports by external fund managers, custodians, fund administrators</li> <li>• FCA registration</li> <li>• Due diligence upon appointment</li> </ul>	High	Low	JD	2016/17	Green
<b>CCSPF8- Liquidity/cashflow risks – insufficient liquid assets</b>	<ul style="list-style-type: none"> <li>• Weekly pension fund cash investments monitoring</li> </ul>	High	Low	JD	2016/17	Green

<p><b>with which to meet liabilities as they fall due</b></p> <p><b>If levels of liquidity are insufficient then pension payments may not be able to be met</b></p>	<ul style="list-style-type: none"> <li>SIP allocation to liquid assets</li> </ul>					
<p><b>CCSPF 9- Volatility in employer contribution rates due to decrease/increase in valuation of assets/liabilities</b></p>	<ul style="list-style-type: none"> <li>Engage with expert actuary to make appropriate assumptions and employ suitable mechanisms to mitigate unaffordable rises</li> <li>Regular monitoring of investment manager performance</li> <li>Diversified investment asset allocation</li> </ul>	High	Medium	JD	2016/17	Amber
<p><b>CCSPF10- Prolonged failure of investment managers to achieve their objective returns</b></p>	<ul style="list-style-type: none"> <li>Regular investment monitoring by officers</li> <li>Regular presentation to pension fund committee</li> <li>Ability to sack managers</li> <li>Diversified investment strategy with a number of different managers</li> </ul>	Medium	Medium	JD	2016/17	Green/Amber
<p><b>CCSPF11- Price Risk- the volatility of the price of the quoted investments held exposes the fund to the risk of price movements in the market</b></p>	<ul style="list-style-type: none"> <li>A comprehensive diversified investment approach is adopted</li> </ul>	High	Low	JD	2016/17	Green
<p><b>CCSPF 12- Interest rate risk- The risk of exposure to significant interest rate rises</b></p>	<ul style="list-style-type: none"> <li>A comprehensive diversified investment approach is adopted</li> </ul>	Medium	Low	JD	2016/17	Green
<p><b>CCSPF 13 Discount Rate Risk- Volatility in the discount rate</b></p>	<ul style="list-style-type: none"> <li>Engage professionally qualified actuary who can mitigate the</li> </ul>	High	Medium	JD	2016/17	Amber

used inflates the level of liabilities to be paid	effects of abnormal discount rates					
<b>CCSPF 14 Foreign Exchange Risk-</b> The risk of fluctuation the value of foreign currencies ( the fund holds foreign investments whilst its liabilities are payable in sterling)	<ul style="list-style-type: none"> <li>• A comprehensive diversified investment approach is adopted</li> <li>• Good cashflow management</li> </ul>	High	Low	JD	2016/17	Green
<b>CCSPF 15 – having suitably trained/experienced staff</b>	<ul style="list-style-type: none"> <li>• Training, development and succession planning</li> </ul>	High	Medium	JD/LM	2016/17	Amber
<b>CCPF 16- Having suitably trained knowledgeable Pension Fund Committee Members/Local Pension Board Members</b>	<ul style="list-style-type: none"> <li>• CIPFA Knowledge and Skills framework</li> <li>• Training Plan</li> <li>• Professional Advisors/Officers advising</li> </ul>	High	Low	JD	2016/17	Green



# Agenda Item 5c

## Report of the Section 151 Officer

Local Pension Board – 21 July 2016

### INTERNAL CONTROLS REPORTS OF APPOINTED FUND MANAGERS & CUSTODIAN

<b>Purpose:</b>	To inform Local Pension Board of reportable items contained within the internal controls reports of appointed fund managers and custodian
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Report Author:</b>	Jeffrey Dong
<b>Finance Officer:</b>	Mike Hawes
<b>Legal Officer:</b>	S Williams
<b>Access to Services Officer:</b>	N/A
<b>FOR INFORMATION</b>	

## 1 Background

- 1.1 The internal control and governance framework in which a business operates comprises the systems, work processes and culture and values by which the business directs and controls its business to provide comfort to its customers, clients and shareholders.
- 1.2 Asset managers and custodians are subject to heavy regulation from a global, EU and UK context. They are required to report on their systems of internal control which are subject to external audit and comment by suitably qualified and independent audit companies.
- 1.3 The summary of exceptions for the last calendar year is attached at Appendix 1 for the City & County of Swansea's appointed fund managers and custodian.

It is noted that the exceptions have been addressed appropriately by management and are recognised as such with appropriate remedial action being undertaken. The exceptions highlighted are taken seriously but do not pose direct concern for the businesses concerned or the assets under management.

## 2 Legal Implications

- 2.1 There are no legal implications arising from this report

### **3 Financial Implications**

3.1 There are no financial implications arising from this report

### **4 Equality and Engagement Implications**

4.1 There are no equality and engagement implications arising from this report



**Fund Manager Summary of Internal Control Reports - 2015**

<b>Fund Manager</b>	<b>Page</b>
1. Blackrock	
2. Aberdeen Asset Management	
3. Goldman Sachs	
4. HarbourVest	
5. Invesco	
6. JP Morgan	
7. Legal & General	
8. Permal	
9. Partners Group	
10. Schroders Investment Management	
11. HSBC Security Services (Custodian)	

**Blackrock – Report of Controls at Blackrock Placed in Operation and Test of Operating Effectiveness for Asset Management Services, 1<sup>st</sup> October 2014 to 30<sup>th</sup> September 2015**

<b>Control Procedure</b>	<b>Test Performed</b>	<b>Exception Noted</b>	<b>Management Response</b>
Business operations releases wire instructions to custodians to make certain types of payment in response to requests received from other groups. Wire instructions require dual authorisation from individuals on Blackrock's authorised signatory list or unique bank approved-stamp approval process prior to release.	Inspected physical security of the bank-approved stamps to ascertain that stamps were secured in a locked drawer and access was limited to authorised personnel within Business Operations.	For 1 of 45 wire instructions selected for testing, performance of the dual authorisation was unable to be evidenced.	Due to the unique bank approved stamps, Japanese trust banks do not require dual authorisation to process wire payments, but management require dual authorisation for all manual payments globally. While dual authorisation could not be evidenced for one sample, management were able to confirm that payment was appropriate. In February 2015, Blackrock and the Japanese trust banks implemented a new payment process whereby settlement instructions form individual margin movements are no longer required.
Daily, DIG reviews an Aladdin-generated Unreviewed Securities Held in Positions Report and validates security data against data sources for accuracy. DID researches and resolves, as necessary.	On multiple occasions during the examination period, observed DIG review the Aladdin generated Unreviewed Securities Held in Positions Report, attest security data against external data sources and research and resolve exceptions, as necessary.	For 1 of 25 securities selected for testing from the Unreviewed Securities Held in Positions Report, DIG was unable to provide evidence of research and monitoring.	Management confirmed that the modification made was authorised, however, evidence of continuous monitoring prior to resolution was not able to be provided for testing. The modified security was reviewed within eighteen business days. Management noted that the exception identified had no impact to Blackrock managed client accounts.

## Blackrock Alternative Advisors cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
Client reports are selected by Business Operations for quality assurance review based on account type, report type and report complexity, prior to client distribution. Discrepancies are researched and resolved.	On multiple occasions during the examination period, observed Business Operations select client reports for quality assurance review and observed Business Operations research and resolve discrepancies before client distribution. For a selection of client reports and months or quarters, inspected documentation to ascertain that Business Operations performed quality assurance activities on client reports before client distribution.	For 1 of 50 client reports selected for testing, performance of the quality assurance review was unable to be evidenced.	Management confirmed that the relevant teams were notified that the Australian fund-specific report was available for quality assurance review, however, no evidence of review was available for testing. Client Reporting Management re-emphasised the importance of maintaining the evidence of completed reviews.
Upon addition, transfer or termination of personnel in the HR system of record, Human Resources sends out an HR notification to formally notify corporate groups of events.	Obtained the termination listing during the examination period and compared it to enterprise logon access listing to identify if employees retained access subsequent to termination. For employees that retained enterprise access subsequent to terminations, obtained HR-act notification email to ascertain Human Resources formally notified corporate groups of the termination in a timely manner.	For 2 of the 102 individuals across new hires, transfers and terminations selected for testing to identify timely notifications by HR to corporate groups, noted that HR-act transfer notifications were not sent timely. New access was not granted until notifications were received.	HR Management re-emphasised the importance of the quality and timeliness of HR notifications as well as the retention of applicable documentation to the teams responsible for processing personnel updates in the HR system of record. HR is reviewing the timeliness of transfer notifications and processing through key metrics and process review.

### Blackrock Alternative Advisors cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>The ability to modify system security parameters or to perform user administration functions is granted only to administrators and operations personnel whose job functions require such access.</p>	<p>For a selection of users with the ability to modify system security parameters or perform user administration functions, inspected documentation and Company departments within the Human Resources listing, and inquired with process owners to ascertain that access was authorised and consistent with job responsibilities.</p>	<p>In testing the total population of 37 privileged OMS application users, noted one user with inappropriate access. Upon investigation, noted the administrative privileges were granted during the new user administration procedures. Per inspection of the applications database activity log, noted the user did not perform any administrative actions while the access was retained. Access for this user was corrected.</p>	<p>Management confirmed that while an approved access request did not exist for this user the individual was granted additional administrative access due to human error. Management has re-emphasised the importance of verifying that only the level of approved entitlements is granted, in addition to validating a request receives adequate approval. Management confirmed that the user did not perform any inappropriate activities with the elevated administrative access and removed access immediately upon identification of the issue. In addition management has in place a compensating control in the form of a periodic user access re-certification for this system.</p>

**Aberdeen Asset Management Ltd – Internal Controls Report for the period ended 30<sup>th</sup> June 2015**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
The Client Lifecycle team ensures that new clients or funds are accurately set up in appropriate fund management, dealing and pricing systems, as part of the take-on process. For each client or fund take-on, the Appian workflow tool (or alternative checklist) that documents each stage of the take-on process, from completion of the Take-On Form/Account Opening Form to input of the client or fund information onto Aberdeen's systems, is completed to certify that each stage has been completed. The checklist is subject to sign-off by a preparer and reviewer.	For a sample of new clients taken on during the reporting period, inspected the Appian milestones (or legacy checklist) for evidence of completion and management sign-off.	For one of 10 items tested, there was no evidence available to demonstrate the review of the client take-on process by Client Lifecycle team, recorded on the Take-On Form/Account Opening form.	In this instance the coding was done by a new member of the team who was being supervised by his manager during the process to explain what was required and how to proceed with the coding. The coding was entered accurately and no further amendments were required by management. Whilst the document was not signed by a peer there was no risk as the oversight was still present and nothing extra was required other than the countersignature.

# Aberdeen Asset Management Ltd cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
A monthly review is performed by Front Office Compliance for a sample of trades placed during the previous month. The review is designed to assess trades' timely execution and fair allocation with respect to compliance with the Group's Trade Execution Policy & with relevant regulation. Any exceptions identified are reviewed by Compliance and raised with the business where necessary. Supporting rationale and explanations from the business are documented in a formal monthly report.	Inspected evidence that monthly reviews of a sample of trades were performed by Front Office Compliance in a timely manner.	For two of 5 items tested, Front Office Compliance did not carry out the monthly review of trading activity in a timely manner.	The control was operational during the period, but it is accepted that for two of the months sampled we were unable to demonstrate that this was operated in a timely manner. The delay in operating the control was a result of resource pressures arising from the integration of the SWIP business to AAM, and will not be a recurring issue. There was no client implication as a result of the delay in completing the controls, as no material concerns were identified. In addition compensating controls have been in place since September 2014 through committee governance structures.

**Aberdeen Asset Management Ltd cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
Security prices which are stale, unquoted, fair valued, in liquidation, suspended or written down are sent to Fund Managers for review and sign-off on a monthly basis.	For a sample of months, inspected the evidence to confirm the review and sign-off of stale and unquoted prices by the Fund Manager.	For the full sample of 5 items, it was noted that the monthly sign-off of security prices which are stale, unquoted, fair valued, in liquidation, suspended or written down, were not completed in all instances by the Fund Managers.	The completeness of sign off of the monthly price reports has been an issue discussed at the Group Pricing Committee and raised during a recent Compliance Monitoring review of pricing. Issues with sign off have occurred since Stale prices were combined with Fair Value, Delisted, In Liquidation and Written down prices on a monthly basis to provide the front office with a single point of sign off in addition to combining with the SWIP universe of assets. It has subsequently been agreed to split the report and send all stale prices to the Dealers who will have better access to market colour whilst sending the other securities to the front office desk for confirmation of the price. This process along with a monthly fund valuation review currently forms part of a live project to optimise the sign off process by automating as much as possible and placing

			less reliance on the Data Management team.
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**Aberdeen Asset Management Ltd cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
All client reports (Investment and Accounting) are reviewed and formally approved by appropriate personnel via electronic signature in the Institutional Client Reporting database (Philadelphia – hard copy signature on Client Report Cover Sheet) prior to being distributed to clients.	For a sample of client reports issued in the reporting period, inspected evidence that the reports were reviewed and approved prior to being distributed to clients.	For 1 of 25 items tested, the formal approval of the client report was not performed prior to distribution of the client report.	On this occasion a verbal approval was given to ensure client requirements were met. We have retrospectively confirmed that all internal requirements were met and no issues were noted. Staff have been reminded to retain appropriate evidence in line with internal process.
On a daily basis, late or unexpected cash receipts that require action by SWIP are reported by State Street to the Trade Support team. Where there are no items to report, State Street advises SWIP by email. The Trade Support team investigates any cash reconciling items and evidence this through team member sign-off on the cash	For a sample of days, inspected the cash management daily checklists to confirm that the late or unexpected cash receipts report provided by State Street was reviewed and any reconciling items were investigated by the Trade Support team.	For two of 30 items tested, there was no evidence available to demonstrate the review of the cash reconciliations by a member of the Trade Support team, recorded on the daily checklist.	In this instance the daily reviews were conducted completely and accurately, and no issues were noted. It is recognised that as a result of human error the secondary review was not evidenced. All team members have been reminded of their responsibilities.



management daily checklist.			
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**Aberdeen Asset Management Ltd cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
Outstanding stock reconciling items that require action by SWIP are reported by State Street to the Collective Investments team each day. Where there are no items to report, State Street advises SWIP by email. The Collective Investments team investigates any stock reconciling items and evidence this on a daily checklist that is reviewed by a second team member.	For a sample of days, inspected the daily checklist to confirm that the outstanding stock report provided by State Street is reviewed, any reconciling items are investigated by the Collective Investments team and that the checklist is reviewed by a second team member.	For one of 30 items tested, there was no evidence available to demonstrate the review of the stock reconciliation by a second member of the Collective Investments team, recorded on the daily checklist.	In this instance the daily reviews were conducted completely and accurately, and no issues were noted. It is recognised that as a result of human error the secondary review was not evidenced. All team members have been reminded of their responsibilities.
New investors' applications are reviewed for compliance with the account opening procedures. All investors' names, signatories, beneficial owners and proxies of the application	For a sample of new investor account setups, inspected that the applications are in line with the account opening procedures and that the blacklist performed in WorldCheck is evidenced in	For 1 out of 25 items tested, one signature in the application form does not appear on the authorised signature list.	We have reviewed the document in question and confirmed that the signatory was authorised to complete the process and that all actions were taken correctly, although it is recognised that the

form are run against official black lists.	the AWD history.		authorised signatory list was not up to date at the point of review. There was no risk to clients at any point in time. This appears to have been a one-off error; staff are fully aware of the requirement to check signatures and request updated authorised signatory lists in the event of discrepancies.
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**Goldman Sachs – Report on Goldman Sachs Asset Management’s Description of its Investment Management System and on the Suitability of the Design and Operating Effectiveness of Controls – 1<sup>st</sup> October 2014 through 30<sup>th</sup> September 2015.**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
GSAM and client initiated changes to investment guidelines or portfolio benchmarks require written authorisation from the client. Changes are reviewed and approved by the legal, coding, operations and portfolio management team as required. The Client Relationship Team monitors all required approvals to ensure	For a sample of changes, inspected evidence to determine whether written authorisation was received from the client for changes in investment strategy, investment guidelines or portfolio benchmarks.	For 1 of 45 sampled account changes, approval from the Coding team was not documented timely.	The account change identified as a timeliness exception was related to a GSAM initialled request to increase risk limits in a Clients portfolio. Investment guideline coding for this change was completed 8 business days after the effective date. There was no risk of being in breach of the new guidelines during this period as the existing

completion on a timely basis.			guidelines were more conservative than the new guidelines. In addition, there were no missed investment opportunities during the period as the portfolio management team was aware the amendment was in the process of being coded. Following the incident, GSAM enhanced weekly management reports to highlight imminent guidance, changes for which coding is pending. GSAM also reinforced internal processes and procedures with Client Relationship Management and Coding teams.
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**HarbourVest Partners LLC – Private Equity Fund Administration Report on Controls Placed in Operation and Tests of Operating Effectiveness – October 1, 2014 to September 30, 2015**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
After Accounting approval, the information is sent to the Marketing group, which then prepares a distribution notice to send to limited partners. The distribution notice and	Inspected a sample of Final Distribution Notices for evidence of approval by an accounting manager or fund controller and the Chief Financial Officer.	For one (1) of 40 Final Distribution Notices selected for testing, evidence of Chief Financial Officer approval was not provided.	Management acknowledges that evidence of review by the CFO for one distribution notice was not documented. However, there was evidence the distribution was reviewed by the Vice President,

attachments are reviewed by an accounting manager or fund controller and then approved by the Chief Financial Officer. Once approved, marketing staff sends the distribution notice and attachments via email, fax, or mail to each of the limited partners, usually at least two days prior to the actual cash distribution.			Fund Controller.
Privileged access is limited to appropriate personnel within IT based on the assigned job role and responsibilities. For Equitrak, where access administration and access re-certifications are performed by an employee outside of IT, an independent review of such actions is performed by a Senior Business Analyst.	Inspected privileged access at the application, database and operating system levels to determine whether access was restricted to appropriate personnel within IT based on job role and responsibilities. For Equitrak, inspected a sample of Equitrak access requests and access re-certifications to determine that an independent review was performed by a Senior Business Analyst.	For one out of nine samples inspected for Equitrak to determine that an independent review was performed, the evidence of such review could not be retrieved.	Although the review was performed, the file evidencing the review could not be retrieved. Several attempts were made by the Director of Global Infrastructure, IT to recover the file. On a go forward basis, multiples copies of these files will be maintained.

**Invesco – Report on Invesco Asset Management Ltd, Description of their Investment Management Services and on the Suitability of the Design and Operating Effectiveness of Controls for the Period 1 October 2014 to 30 September 2015**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
When the Legal team has reviewed the changes to the IMA, Compliance is notified of the changes required for post-	Confirmed that when the Legal team has reviewed the changes to the IMA, Compliance is notified of the	For one out of one IMA changes the GDS Team Leader did not review and approve the checklist to ensure	In August 2015, a client instruction detailing changes to the Discretionary Investment Management Agreement

<p>trade investment restriction monitoring. A GDS Team Leader then reviews and approves the checklist to ensure all appropriate actions have been taken and passes to the GDS Reporting Team Manager for final review and sign-off.</p>	<p>changes required for post-trade investment restriction monitoring.</p>	<p>that all actions had been taken and did not pass to the GDS Reporting Team Manager for final review and sign-off.</p>	<p>between IAML and an Institutional client managed by the Invesco Fixed Income Team was not passed to the correct team, who are responsible for the maintenance and updating of documentation for discretionary managed clients contracted with IAML, to action. Subsequently, the review and approval by this team was missed. There was no impact to the client as the change requested was actioned in a timely manner.</p> <p>The teams involved have recorded the incident on the Risk tool and the appropriate preventative measures have been taken. These measures include a refresher of the procedures, roles and responsibilities.</p>
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**JP Morgan Asset Management – Report on JP Morgan Asset Management’s Description of its Investment Management Services System and on the Suitability of the Design and Operating Effectiveness of its Controls. 1 January 2015 – 31 December 2015**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
Trade Order Entry and Allocation Controls provide reasonable assurance that trade orders are authorised and executed with JP Morgan Asset Management approved brokers or counterparties and allocated in a complete and accurate manner.	Trade orders can only be entered into the order entry system by the Portfolio Manager or their delegate.	One user, who was not a Portfolio Manager, of a population of 205 users had inappropriate order entry access to the Osiris (Equity) application for the period 20 August 2015 through 31 December 2015.	Management had independently identified the inappropriate access and arranged for it to be removed. Management confirmed this was a one-off error and performed a detailed review which confirmed the user had not raised any orders on Osiris.
For Fixed Income, a quarterly review of raised orders is performed to confirm orders raised by on e portfolio manager are executed by a different portfolio manager or trader.	Any orders identified as raised and executed by the same person are logged and monitored to resolution.	For three of four quarters, the review to determine if orders were raised and executed by the same Portfolio Manager or Trader was not performed on a timely basis.	The Fixed Income Teams in London were split between dedicated Portfolio Managers and Traders. However, there were as small number of individuals, approved by Management, who were able to act as both Portfolio Manager and Trader for contingency purposes, hence the report was put in place to identify any inappropriate trading activity. Following identification of the exception, a subsequent review of all orders that might have been executed by the

			same individual was performed. In the two instances where it was identified the trades were raised and executed by the same individual, the trades have been found appropriate.
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**JP Morgan Asset Management cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
On a daily basis, OTC derivative prices received are compared to internally generated prices and differences greater than the threshold are reviewed. A checklist is completed by the individual who completes the review of differences and the approver who reviews the changes made.	To review the checklist	For two of a sample of 40 days, Fixed Income OTC derivative price variances were not reviewed completely.	The prices for the seven derivatives that were not reviewed on the two days where exceptions were identified were subsequently reviewed. It was confirmed that they were appropriately priced.

**Legal & General – AAF 01/06/ISAE 3402 Assurance Report on Internal Controls for the Period 1 January 2015 to 31 December 2015**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
Investment limits and restrictions are established.	Amendments to a FOG must be initiated by an approved source. Amendments are reviewed and circulated to the Fund Manager.	For one sample, there is no evidence of complete review (checklist incomplete). This was due to a member of the team leaving mid process.	All amendments to FOGs have to be initiated by an approved source, independently reviewed and then the amended document distributed to the Fund Manager and interest parties. On the 3rd March 2015 for one amendment, whilst being initiated by an approved source and independently reviewed there was no evidence of the changed FOG being distributed. There was no failure in his control process and the change was distributed, however there was a lack of evidence of the distribution. It has already been re-iterated to the team that they must ensure that they maintain evidence of all of their reviews and related communications.



## Legal & General cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
Client new monies and withdrawals are processed and recorded completely and accurately; withdrawals are appropriately authorised.	For new monies, all funds received are paid into the PMC management account for which bank reconciliations are prepared and reviewed daily.	For one out of 25 days sampled there was no evidence that the reconciliation had been reviewed.	The PMC dealing accounts undergo a daily reconciliation to determine the expected end of day cash positions, which allows for balances to be placed on deposit with counterparties and manage PMC daily cash exposure. The reconciliation for the Daily Sterling Dealing account on 22 April 15 was completed and reviewed as expected, but the signature box at the bottom of the reconciliation was not signed.. There was no process failure other than the missing signatures. Daily placing of monies / exposure management on this day was complete with no reported errors. The message of greater diligence around sign off of files has been fully communicated with the responsible Team.

## Legal & General cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
Logical access to computer systems programs, master data, transaction data and parameters, including access by administrators to applications, databases, systems and networks, is restricted to authorised individuals via information security tools and techniques.	User access to IT network, infrastructure and applications is disabled on staff departure date and deleted after three months.	For 6 out of 155 leavers, access was not appropriately disabled after they left LGIM.	HR Operations in Cardiff have responsibility for sending the Leavers List email to various recipients, IT being one of them. IT access is then removed as per the date on the email. In these instances, a process handover failure resulted in the email not being distributed or actioned. LGIM HR and IT have already re-enforced what the process should be to their teams and training has taken place.
The physical IT equipment is maintained in a controlled environment.	Regular maintenance of environmental controls is scheduled using a diary application by GRE team. A log is maintained containing sign-offs that maintenance has occurred.	The maintenance of the fire suppression system of the LGIM server and media room has not been performed in the period under review.	The scheduled Fire suppression maintenance did not proceed as planned in June 2015 due to an access issue on the day, it has since been rescheduled and confirmed to take place on 24 <sup>th</sup> February 2016.

**Permal – Report on HSBC Security Services in Ireland’s Description of its Fund, Custody and Transfer Agency Services System and on the Suitability of the Design and Operating Effectiveness of Controls for the period 1 January 2015 – 30 November 2015**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
Notifications from third parties are captured in the XSP application. Automatic matching occurs for each event, where differences are identified the record is manually validated to other external sources and a “Golden Record” is created. Each Golden Record is subject to second-level review.	Validation of corporate actions	For one of 25 corporate action events sampled, there was no evidence of a secondary review of the details uploaded into Icon.	The Head of Asset Servicing reviewed the incomplete checklist and can confirm that a second level review was undertaken at the time. The approval is recorded within the XSP system and the audit trail clearly shows that this event was approved in a timely manner. Controls had been completed and the non-completion of the checklist is a documentation oversight. To avoid a recurrence, team management has strongly reiterated the requirement to complete all checklists as required. We can confirm that the corporate action event on the date where the checklist exception was noted was not applicable to any clients of HSS in Ireland.

**Partners Group – Report on the Internal Controls, Holdings AG as of 31 December 2015**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
		There were no exceptions noted.	

**Schroders Investment Management Ltd – Internal Controls Report 2015 ISAE 3402/AAF 01/16**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
As part of the client take-on process, Schroders conducts anti-money laundering checks, codes investment restrictions and ensures other key support functions are operationally ready for investment activity to commence. The Schroders Client Service Team, completes and reviews a checklist (signed by both Client Executive/Manager & Client Director) to ensure that all of the required functions have confirmed completion of their activities.	For a sample of new clients in the period, inspected the new client checklist and supporting documentation to confirm that: - it included the confirmation that anti-money laundering checks had been conducted, investment restrictions had been coded and key support functions were operationally ready for investment activity to commence; and - it had been completed prior to investment activity commencing.	For the test sample of 64 which represents the total population, there were 2 exceptions identified.	Client take-on processes are in place and require check lists and sign off to verify completion of all required activities; however, for one UK client, the due diligence and sign off control were not fully completed prior to inception of investment activity. This was due to human error in ensuring the requirements for this particular client were completed. During the on-boarding of a different UK client, the take-on processes were undertaken correctly but the check-list was not signed due to human error. In both cases, the control processes were completed immediately upon identification of the errors. We have put in place additional controls in the UK including automatically generated

			exception reports and enhanced review of client take-on documentation by managers. Relevant staff members have also been re-trained on the control requirements.
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### Schroders Investment Management Ltd cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
A client agreement (e.g. investment management agreement or life policy) specifying investment strategy guidelines is: signed by both the client and authorised Schroders personnel and obtained prior to investment activity commencing, unless authorisation to proceed is received from the client and approved by authorised personnel. The account "active" flag is not updated in the order management system until authorisation has been received, and the system automatically prevents trading on the account until the account is flagged as active in the system.	<p>For a sample of new clients during the period, inspected the client agreement and confirmed that:</p> <ul style="list-style-type: none"> <li>- it had been signed by an authorised client signatory and an authorised Schroders' signatory prior to the first investment transaction; or that authorisation to proceed had been received from the client and approved by authorised personnel.</li> <li>- any contractual changes to the client agreements are authorised by the client and approved by authorised Schroders personnel.</li> </ul> <p>For a sample of contractual changes to client agreements during the period, inspected the client agreement and confirmed that it had been signed by an authorised client signatory and an</p>	For 1 out of 38 contractual changes tested, the authoriser was not included within the approved Schroders personnel listing.	A human error occurred in judging the nature of the client document received by Client Services and resulted in the document not being signed by an appropriately authorised Schroders member of staff. Mitigation of this risk will be achieved through formalising referral routes to Legal and Company Secretariat in the event that there is any doubt as to who is authorised to sign documentation on behalf of Schroders.

	authorised Schroders' signatory.		
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### Schroders Investment Management Ltd cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
Key terms in respect of in-scope instruments as per European Securities and Markets Authority (ESMA) guidelines are reconciled to counterparty data for portfolios holding OTC and ETD derivatives on a daily basis. Unreconciled items are notified to the relevant counterparties and investigated and resolved.	For a sample of days, inspected reconciliation performed as per ESMA guidelines for OTC and ETD derivatives. For a sample of unreconciled items for OTC and ETD derivatives, inspected evidence that they were notified to the relevant counterparties, investigated and resolved.	For 24 out of 45 unreconciled OTC trades tested, evidence was not retained for the notification to the relevant counterparties of unreconciled items.	For 24 out of a sample of 45 unreconciled items, evidence of the notification to the counterparty could not be retrieved from the third party software used for the investigations. No items remained unreconciled and all issues were resolved in a timely manner. No regulatory breach occurred. Notifications are now being evidenced manually whilst alternative methods of retaining evidence are explored with the software vendor.
For new and existing clients who wish to start trading derivatives, a checklist detailing all tasks required for the client take-on/change process is completed and signed off prior to the commencement of investment activity. This includes checking whether clients have an active Legal Entity Identifier (LEI), obtaining the LEI and ensuring it is uploaded into the relevant	For a sample of new and existing clients who wish to start trading derivatives, inspected checklists for client take-on/change process to ensure they had been completed and signed off.  Inspected that these had been signed off prior to the commencement of investment activity, and that they had been uploaded into the relevant systems.	For 4 out of 6 clients tested, one of the procedures was not completed (the LEI was not uploaded onto the trade repository) prior to the investment activity.	The four exceptions occurred as a result of errors in the LEI set up process. These errors were identified and resolved during Q1 2015 following the introduction of a new internal exception report.  As a result, additional controls and changes in process such as regular exception reports and system enhancements to include mandatory regulatory data fields were implemented during the first

systems for reporting to the trade repository.			half of 2015 to reinforce our timely reporting to the trade repository.
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### **Schroders Investment Management Ltd cont'd**

## **Independent service auditor's assurance report on controls at Schroders in respect of the European Markets Infrastructure Regulations (EMIR).**

### **Service auditor's assurance report on EMIR controls**

#### **Inherent Limitations**

Controls designed to address specific control objectives are subject to inherent limitations and accordingly, errors or irregularities may occur and not be detected. Such controls and our work related to those controls cannot guarantee protection against (amongst other things) fraudulent collusion especially on the part of those holding positions of authority or trust. Our opinion is based on historical information and the projection to future periods of any evaluation of the fairness of the presentation of the description, or the suitability of the design or operating effectiveness of the controls would be inappropriate.

#### **Basis for Qualified Opinion**

- 1) For the period 1 January 2015 to 31 December 2015, management were unable to provide evidence of the investigation of the majority of unreconciled OTC trades with the counterparties. As a result, controls were not operating effectively to achieve the relevant control objective "Controls provide reasonable assurance that client positions and transactions are monitored for timely confirmation matching, portfolio reconciliation, portfolio compression and dispute resolution with evidence retained (as a regulatory requirement and for audit purposes)" during this period; and
- 2) For the period 1 January 2015 to 31 December 2015, controls to ensure that clients' Legal Entity Identifier (LEI) were uploaded into the relevant systems for reporting to the Trade Repository prior to the client trading derivatives were not operating effectively to achieve the control objective "Events related to EU Client positions are reported to Trade Repository accurately, completely and timely" during the period.

#### **Opinion**

In our opinion, in all material respects, except for the matters described in the Basis for Qualified Opinion paragraph above, based on the criteria:

- a. the description on pages 60 to 64 fairly presents the EMIR control procedures that were designed and implemented throughout the period from 1 January 2015 to 31 December 2015;

b. the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period from 1 January 2015 to 31 December 2015; and

c. the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from 1 January 2015 to 31 December 2015.

### **Description of tests of controls**

The specific controls tested and the nature, timing and results of those tests are detailed on pages 60 to 64.

### **Intended users and purpose**

This report and the description of tests of controls and results thereof on pages 60 to 64 are intended solely for the use of the Service Organisation and solely for the purpose of reporting on the controls of the Schroders' service organisation, in accordance with the terms of our engagement letter dated 24 September 2015 (the "agreement").

Our report must not be recited or referred to in whole or in part in any other document nor made available, copied or recited to any other party, in any circumstances, without our express prior written permission. We permit the disclosure of this report, in full only, including the description of tests of controls and results thereof by the Schroders' service organisations at their discretion to customers using their investment management services conducted on behalf of institutional clients invested in direct portfolios or pooled funds and to the auditors of such customers, to enable customers and their auditors to verify that a service auditor's report has been commissioned by the Service Organisation and issued in connection with the controls of the Schroders' service organisation, and without assuming or accepting any responsibility or liability to customers or their auditors on our part.

We are prepared to extend our assumption of responsibility to those customers of the Service Organisation who first accept in writing the relevant terms of the agreement entered previously with the Service Organisation as if the customer had signed the agreement when originally issued, and including the provisions limiting liability contained in the agreement ("Contracted Customers"). This extension will not apply to a customer where we inform that customer, whether before or after the customer accepts the relevant terms of the agreement, that they do not meet our acceptance criteria.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Service Organisation and Contracted Customers for our work, for this report or for the opinions we have formed.

PricewaterhouseCoopers LLP  
Chartered Accountants  
17 March 2016



**HSBC Security Services in Ireland (Custodian) - Report on the Description of its Fund, Custody and Transfer Agency Services System and on the Suitability of the Design and Operating Effectiveness of Controls for the period 1 January 2015 – 30 November 2015**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
The Global Corporate Actions Processing team performs manual position/entitlement reconciliation between GCS and the agent for each corporate actions event. Discrepancies are researched and resolved by the Global Corporate Actions Processing team with the agent.	To test reconciliation of corporate events.	For 1 of the 25 dates sampled, there is no evidence of the control operation.	The printout of entitlement from GCS and the agent has not been saved as part of the archived corporate action event dossier. However, the entitlement reconciliation is performed under a dual control that is evidenced in GICAD, therefore if the reconciliation was not performed, the relevant action would appear in the end of the day GICAD report that is reviewed on a daily basis by the manager. The relevant screen prints from GICAD has been provided which shows that the event was checked. A compensating control to capture any stock breaks is a stock reconciliation performed on a daily basis.

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**HSBC Security Services cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
The Global Corporate Actions Processing team reconciles the payment notification from agents/brokers against the transaction recorded in GCS. Reconciliation breaks are researched and resolved by the Global Corporate Actions Processing team with the agent/broker.	To test the reconciliation of payment notifications.	For 3 out of 25 corporate action events sampled, there is no evidence of the control operation.	The Matched cash printout from Scannor has not been saved as part of the archived corporate action event dossier. However, the matching of cash is performed under a dual control that is evidenced in GICAD, therefore if the reconciliation was not performed, the relevant action would appear in the end of the day GICAD report that is reviewed on a daily basis by the manager. The relevant screen prints from GICAD have been provided which shows that the event was checked. A compensating control to capture any unmatched cash items is a cash reconciliation performed on a daily basis.

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**HSBC Security Services cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
On a daily basis, the Front Office team reviews and signs off the Negative Availability reports which lists holdings with negative availability on Global One. Reported holdings are monitored and recalls are initiated if required by the Front Office team.	To test controls around Negative Availability reports.	For 1 of the 25 dates sampled, there is no evidence of the control operation.	HSS will add a weekly sign-off by the recalls desk assistant and Head of trading or deputy to ensure that each days recall notifications are stored securely and available for review.

# Agenda Item 5d

## Report of the Section 151 Officer

Local Pension Board – 21 July 2016

### LOCAL PENSION BOARD TRAINING PLAN 2016 17

<b>Purpose:</b>	To approve the training plan for the Local Pension Board
<b>Policy Framework:</b>	None
<b>Reason for Decision:</b>	Under Guidance, a Local Pension Board is required to approve a training policy and have a plan to implement that policy
<b>Consultation:</b>	Legal, Finance & Delivery and Access to Services.
<b>Recommendations:</b>	It is recommended that:  1) The training identified in 3.1 for the City & County of Swansea Local Pension Board is approved
<b>Report Author:</b>	Jeff Dong
<b>Finance Officer:</b>	Mike Hawes
<b>Legal Officer:</b>	S Williams
<b>Access to Services Officer:</b>	Sherill Hopkins

#### 1. Introduction

- 1.1 Members of the Local Pension Board are required to ensure that they are adequately trained and equipped with the appropriate skills and knowledge with which to discharge their duties.. As part of the Pension Act 2013 and the Pension Regulator's (tPR) Code of Practice, the Local Pension Board is required to approve a training policy to implement appropriate training for Local Pension Board members. The Local Pension Board approved its training policy in July 2015.

#### 2 Training Undertaken in the last 12 months

- 2.1 The Local pension Board has undertaken the following training in the last 12 months:

LGA Trustee Fundamentals

- Day1
- Day2
- Day3

Joint Local Pension Board Training hosted by Dyfed Pension Fund

- Introductory session including asset class overview

Environmental, Social Governance Training alongside other Welsh Pension Funds

Triennial Valuation Training

CIPFA Governance Update Training

### **3 Training Plan**

#### **3.1** The following training is recommended :

LGA Trustee Fundamentals

- Day1
- Day2
- Day3

For Local Pension Board members who have not undertaken

PLSA Local Pension Board member training

Regulated Investment Vehicle Training

Investment Beliefs

Transition Management training

Any other training identified by the Section 151 officer which is appropriate for Local Pension Board Members

### **4 Financial Implications**

#### **4.1** None

### **5 Legal Implications**

#### **5.1** As outlined under the Pension Act 2013 and the Pension Regulator's (tPR) Code of Practice Guidance, the Local Pension Board is required to ensure its Local Pension Board members have adequate training

### **6 Equality Impact Implications**

#### **6.1** There are no equality impact implications as a result of this report

**Background Papers:** None.

**Appendices:** None.

# Agenda Item 5e

## Report of the Section 151 Officer

Local Pension Board – 21 July 2016

### MINUTES OF PENSION FUND COMMITTEE 10 MARCH AND 14 JULY 2016

<b>Purpose:</b>	To circulate minutes of previous Pension Fund Committee meetings
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Report Author:</b>	Jeffrey Dong
<b>Finance Officer:</b>	Mike Hawes
<b>Legal Officer:</b>	S Williams
<b>Access to Services Officer:</b>	N/A
<b>FOR INFORMATION</b>	

#### **1 Pension Fund Committee Meeting Minutes 10<sup>th</sup> March & 14<sup>th</sup> July 2016**

- 1.1 Attached at Appendix 1 are the minutes of the Pension Fund Committee meetings of the 10<sup>th</sup> March 2016 and 14<sup>th</sup> July 2016 for information

#### **2 Legal Implications**

- 2.1 There are no legal implications arising from this report

#### **3 Financial Implications**

- 3.1 There are no financial implications arising from this report

#### **4 Equality and Engagement Implications**

- 4.1 There are no equality and engagement implications arising from this report

**Background Papers:** None.

Appendices: Appendix 1 – Pension Fund Committee Minutes – 10 March 2016 and Pension Fund Committee Minutes – 14 July 2016.

**CITY AND COUNTY OF SWANSEA**

**MINUTES OF THE PENSION FUND COMMITTEE**

**HELD AT COMMITTEE ROOM 5, GUILDHALL, SWANSEA ON  
THURSDAY, 10 MARCH 2016 AT 10.00 AM**

**PRESENT:** Councillor P Downing (Vice-Chair) presided

**Councillor(s)**  
C E Lloyd

**Councillor(s)**  
D G Sullivan

**Councillor(s)**

**Neath Port Talbot County Borough Council Councillor:**  
P A Rees

**Officer(s)**

Jeffrey Dong  
Jeremy Parkhouse  
Stephanie Williams

- Chief Treasury & Technical Officer  
- Democratic Services Officer  
- Principal Lawyer

**ALSO PRESENT:**

N Mills - Independent Investment Advisor  
V Furniss - Independent Investment Advisor

**Apologies for Absence**

Councillor(s): J Newbury, R C Stewart and M Thomas

40 **DISCLOSURES OF PERSONAL AND PREJUDICIAL INTERESTS.**

In accordance with the Code of Conduct adopted by the City and County of Swansea, the following interest was declared: -

Councillor P Downing - agenda as a whole - my brother works for the Council and contributes to the Pension Fund.

**NOTED** that Councillor P Downing had received dispensation from the Standards Committee in this respect.

Councillor C E Lloyd – agenda as a whole – my father is a member of the Local Government Pension Scheme – personal.

Councillor D G Sullivan - agenda as a whole - I am in receipt of a Local Government Pension - administered by Dyfed Pension Scheme - personal.

41 **MINUTES.**

**RESOLVED** that the Minutes of the Pension Fund Committee held on 17 December 2015 be approved as correct record, subject to the following amendment: -

Minute No.35 – Review of the Current Abatement Policy – Paragraph 1 – amend the spelling of ‘asses’ to ‘assess’.

42 **ANNUAL AUDIT PLAN 2016/17.**

In the absence of the Wales Audit Office, the Chief Treasury and Technical Officer presented the Annual Audit Plan 2016/17.

It was outlined that under the Code of Audit Practice the external auditor must examine and certify whether the City and County of Swansea Pension Fund Accounting Statements were “true and fair”. The purpose of the plan was to set out the proposed work, when it will be undertaken, how much it would cost and who will undertake it. There had been no limitations imposed upon the external auditor in planning the scope of this audit and his responsibilities, along with those of management and those charged with governance were set out at Appendix 1 of the report.

It was added that the external auditor had responsibility to issue a report on the accounting statements for the year ending 31 March 2016. The financial audit risks which he considered to be significant were set out at Exhibit 2 along with the work the external auditor intended to undertake to address these risks. The estimated fee for 2016 was set out at Exhibit 3 and the timetable for work was provided at Exhibit 5.

**RESOLVED** that the contents of the report be noted.

43 **UPDATED INVESTMENT REGULATIONS RESPONSE TO CONSULTATION.  
(FOR INFORMATION)**

The Chief Treasury and Technical Officer provided a ‘for information’ report regarding updated investment regulations response to consultation. The report presented the response of the City & County of Swansea Pension Fund Committee to the consultation exercise by DCLG.

44 **INVESTMENT REFORM CRITERIA - RESPONSE TO CONSULTATION. (FOR  
INFORMATION)**

The Chief Treasury and Technical Officer provided a ‘for information’ report regarding investment reform criteria response to consultation. The report presented the submitted response of the City & County of Swansea Pension Fund Committee to the consultation exercise undertaken by DCLG which has previously been approved by the committee by e-mail

Discussions followed in relation to the proposed pooling arrangements.



45 **CITY AND COUNTY OF SWANSEA PENSION FUND BUSINESS PLAN 2016/17.**

The Chief Treasury and Technical Officer presented the City & County of Swansea Pension Fund Business Plan 2016/17. The report provided a working framework for the Pension Fund's programme of work and the business plan for 2016/17 was included at Appendix 1.

The Pension Fund Risk Register 2016/17 was provided at Appendix 2 and the Pension Fund Budget 2016/17 was provided at Appendix 3.

The Committee discussed how external factors had influenced matters.

**RESOLVED** that: -

- 1) The contents of the report be noted and approved;
- 2) A training plan be proposed for the pension fund committee

46 **EXCLUSION OF THE PUBLIC.**

The Committee was requested to exclude the public from the meeting during consideration of the item(s) of business identified in the recommendation(s) to the report on the grounds that it/they involve(s) the likely disclosure of exempt information as set out in the exclusion paragraph of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007 relevant to the item(s) of business set out in the report.

The Committee considered the Public Interest Test in deciding whether to exclude the public from the meeting for the items of business where the Public Interest Test was relevant as set out in the report.

**RESOLVED** that the public be excluded for the following items of business.

**(CLOSED SESSION)**

47 **INDEPENDENT INVESTMENT CO-ADVISORS REPORT.**

The report presented the economic update and market commentary from the perspective of the appointed Independent Investment Advisors. Mr N Mills provided an economic and market update and Mr V Furniss provided an investment report for the quarter ended 31<sup>st</sup> December 2015.

The content of each report was noted by the Committee and the Independent Advisors were thanked for their reports.

48 **INVESTMENT SUMMARY. (FOR INFORMATION)**

The Chief Treasury and Technical Officer provided a “for information” report which presented the investment performance for the quarter year ended 31<sup>st</sup> December 2015. Attached at Appendix 1 of the report were the Quarterly Investment Summaries for the Pension Fund for the quarter ended 31<sup>st</sup> December 2015.

49 **PRESENTATIONS - FUND MANAGERS.**

(1) A joint presentation was provided by Simon Betteley, Brendan Galloway and John Ware on behalf of Blackrock.

(2) A joint presentation was provided by Terry Purcell, Christoph Englisch and Tim Haston on behalf of Permal / Entrust.

Questions in relation to the content of the presentations were asked at the end of each presentation by the Committee and responses were provided by the respective Fund Managers.

The contents of the presentations were noted and the Chair thanked each of the Fund Managers for attending the meeting.

**Meeting ended at 12.45 p.m.**

**CHAIR**

## **CITY AND COUNTY OF SWANSEA**

### **MINUTES OF THE PENSION FUND COMMITTEE**

**HELD AT COMMITTEE ROOM 1, CIVIC CENTRE, SWANSEA ON  
THURSDAY, 14 JULY 2016 AT 10.00 AM**

**PRESENT:** Councillor P Downing (Vice Chair) Presided

**Councillor(s)**

P Downing  
M Thomas

**Councillor(s)**

C E Lloyd

**Councillor(s)**

J Newbury

**Officer(s)**

Jeffrey Dong  
Debbie Smith  
Jeremy Parkhouse

Chief Treasury & Technical Officer  
Directorate Lawyer  
Democratic Services Officer

**ALSO PRESENT:**

N Mills                      Independent Investment Advisor  
V Furniss                  Independent Investment Advisor

**Apologies for Absence**

Councillor(s): P Rees, R C Stewart and D G Sullivan

**5      DISCLOSURES OF PERSONAL AND PREJUDICIAL INTERESTS.**

In accordance with the Code of Conduct adopted by the City and County of Swansea, the following interests were declared: -

Councillor P Downing - agenda as a whole - my brother works for the Council and contributes to the Pension Fund.

**NOTED** that Councillor P Downing had received dispensation from the Standards Committee in this respect.

Councillor C E Lloyd – agenda as a whole – my father is a member of the Local Government Pension Scheme – personal.

Councillor J Newbury - I am in receipt of a Council pension that was passed to me upon my wife's death - personal.

Councillor M Thomas - agenda as a whole - I and my wife are members of the Local Government Pension Scheme - personal.

**NOTED** that Councillor M Thomas had received dispensation from the Standards Committee in respect of his wife.

6 **MINUTES.**

**RESOLVED** that the Minutes of the Pension Fund Committee held on 10 March 2016 be approved as correct record

7 **PENSION FUND COMMITTEE TRAINING.**

The Chief Treasury and Technical Officer presented a report to determine an annual training programme for Trustees and Officers of the Pension Fund. The training would ensure compliance with the CIPFA Public Sector Pensions Finance Knowledge & Skills Code of Practice.

**RESOLVED** that the Training identified for Members and Officers outlined be approved.

8 **INFRASTRUCTURE ALLOCATION - AN UPDATE.**

The Chief Treasury and Technical Officer presented a 'for information' report which presented an update on the Infrastructure Investment Manager appointment approved by the Pension Fund Committee on 3<sup>rd</sup> December 2014.

9 **REPORT ON THE CESSATION OF AN ADMITTED BODY - COLIN LAVER. (FOR INFORMATION)**

The Chief Treasury and Technical Officer presented a 'for information' report regarding the cessation of Colin Laver Heating Ltd. as an Admitted Body in the City and County of Swansea Pension Fund.

10 **INTERNAL CONTROLS REPORT(S).**

The Chief Treasury and Technical Officer presented a 'for information' report which informed the Pension Fund Committee of reportable items contained within the internal controls reports of appointed fund managers.

11 **EXCLUSION OF THE PUBLIC.**

The Committee was requested to exclude the public from the meeting during consideration of the item(s) of business identified in the recommendation(s) to the report on the grounds that it/they involve(s) the likely disclosure of exempt information as set out in the exclusion paragraph of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007 relevant to the item(s) of business set out in the report.

The Committee considered the Public Interest Test in deciding whether to exclude the public from the meeting for the items of business where the Public Interest Test was relevant as set out in the report.

**RESOLVED** that the public be excluded for the following items of business.

## **(CLOSED SESSION)**

### **12 REPORT(S) OF THE INDEPENDENT ADVISORS.**

The report presented the economic update and market commentary from the perspective of the appointed Independent Investment Advisors. Mr N Mills provided an economic and market update and Mr V Furniss provided an investment report for the quarter ended 31<sup>st</sup> March 2016. He also provided the exchange rates and index returns for the period from 31<sup>st</sup> March to the 7<sup>th</sup> July 2016 and some essential detail in the aftermath of the Brexit Referendum.

The content of each report was noted by the Committee and the Independent Advisors were thanked for their reports.

### **13 INVESTMENT SUMMARY.**

The Chief Treasury and Technical Officer provided a “for information” report which presented the investment performance for the quarter year ended 31<sup>st</sup> March 2016. Attached at Appendix 1 of the report were the Quarterly Investment Summaries for the Pension Fund for the quarter ended 31<sup>st</sup> March 2016.

### **14 SUBMISSION BY THE WALES POOL TO THE DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT (DCLG) IN RESPONSE TO THE PUBLICATION IN NOVEMBER 2015 OF LGPS: INVESTMENT REFORM CRITERIA AND GUIDANCE.**

The Chief Treasury and Technical Officer presented for approval the joint submission in respect of the 8 Welsh Pension Funds in response to the Government’s Investment Reform Criteria and Guidance. The final submission was provided at Appendix 1 of the report.

**RESOLVED** that the formal submission in respect of the 8 Welsh Pension Funds be approved on behalf of the City & County of Swansea Pension Fund Committee.

### **15 PRESENTATIONS - FUND MANAGERS.**

- (1) A presentation was provided by Richard Dyson on behalf of Aberdeen Asset Management – Global Equities and Frontier Markets;
- (2) A joint presentation was provided by Lyndon Bolton and Andy Simpson on behalf of Schroders Asset Management – UK Equities;
- (3) A joint presentation was provided by Adrian Brown and Monique Stephens on behalf of JP Morgan Asset Management – Global Equities.

Questions in relation to the content of the presentations were asked at the end of each presentation by the Committee and responses were provided by the respective Fund Managers.

The contents of the presentations were noted and the Chair thanked each of the Fund Managers for attending the meeting.

The meeting ended at 12.45 pm

**CHAIR**

# Agenda Item 6

## Report of the Head of Democratic Services

Local Pension Board – 21 July 2016

### EXCLUSION OF THE PUBLIC

<b>Purpose:</b>		To consider whether the Public should be excluded from the following items of business.
<b>Policy Framework:</b>		None.
<b>Reason for Decision:</b>		To comply with legislation.
<b>Consultation:</b>		Legal.
<b>Recommendation(s):</b>		It is recommended that:
1)	The public be excluded from the meeting during consideration of the following item(s) of business on the grounds that it / they involve(s) the likely disclosure of exempt information as set out in the Paragraphs listed below of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007 subject to the Public Interest Test (where appropriate) being applied.	
	<b>Item No's.</b>	<b>Relevant Paragraphs in Schedule 12A</b>
	7	14
<b>Report Author:</b>		Democratic Services
<b>Finance Officer:</b>		Not Applicable
<b>Legal Officer:</b>		Tracey Meredith – Deputy Head of Legal & Democratic Services (Deputy Monitoring Officer)

## 1. Introduction

- 1.1 Section 100A (4) of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007, allows a Principal Council to pass a resolution excluding the public from a meeting during an item of business.
- 1.2 Such a resolution is dependant on whether it is likely, in view of the nature of the business to be transacted or the nature of the proceedings that if members of the public were present during that item there would be disclosure to them of exempt information, as defined in section 100I of the Local Government Act 1972.

## 2. Exclusion of the Public / Public Interest Test

- 2.1 In order to comply with the above mentioned legislation, Cabinet will be requested to exclude the public from the meeting during consideration of the item(s) of business identified in the recommendation(s) to the report on the grounds that it / they involve(s) the likely disclosure of exempt information as set out in the Exclusion Paragraphs of Schedule 12A of the Local Government

Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007.

- 2.2 Information which falls within paragraphs 12 to 15, 17 and 18 of Schedule 12A of the Local Government Act 1972 as amended is exempt information if and so long as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
- 2.3 The specific Exclusion Paragraphs and the Public Interest Tests to be applied are listed in **Appendix A**.
- 2.4 Where paragraph 16 of the Schedule 12A applies there is no public interest test. Councillors are able to consider whether they wish to waive their legal privilege in the information, however, given that this may place the Council in a position of risk, it is not something that should be done as a matter of routine.

### **3. Financial Implications**

- 3.1 There are no financial implications associated with this report.

### **4. Legal Implications**

- 4.1 The legislative provisions are set out in the report.
- 4.2 Councillors must consider with regard to each item of business set out in paragraph 2 of this report the following matters:
  - 4.2.1 Whether in relation to that item of business the information is capable of being exempt information, because it falls into one of the paragraphs set out in Schedule 12A of the Local Government Act 1972 as amended and reproduced in Appendix A to this report.
  - 4.2.2 If the information does fall within one or more of paragraphs 12 to 15, 17 and 18 of Schedule 12A of the Local Government Act 1972 as amended, the public interest test as set out in paragraph 2.2 of this report.
  - 4.2.3 If the information falls within paragraph 16 of Schedule 12A of the Local Government Act 1972 in considering whether to exclude the public members are not required to apply the public interest test but must consider whether they wish to waive their privilege in relation to that item for any reason.

**Background Papers:** None.

**Appendices:** Appendix A – Public Interest Test.



## Public Interest Test

No.	Relevant Paragraphs in Schedule 12A
<b>12</b>	<b>Information relating to a particular individual.</b>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 12 should apply. His view on the public interest test was that to make this information public would disclose personal data relating to an individual in contravention of the principles of the Data Protection Act. Because of this and since there did not appear to be an overwhelming public interest in requiring the disclosure of personal data he felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>
<b>13</b>	<b>Information which is likely to reveal the identity of an individual.</b>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 13 should apply. His view on the public interest test was that the individual involved was entitled to privacy and that there was no overriding public interest which required the disclosure of the individual's identity. On that basis he felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>
<b>14</b>	<b>Information relating to the financial or business affairs of any particular person (including the authority holding that information).</b>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 14 should apply. His view on the public interest test was that:</p> <ul style="list-style-type: none"> <li><b>a)</b> Whilst he was mindful of the need to ensure the transparency and accountability of public authority for decisions taken by them in relation to the spending of public money, the right of a third party to the privacy of their financial / business affairs outweighed the need for that information to be made public; or</li> <li><b>b)</b> Disclosure of the information would give an unfair advantage to tenderers for commercial contracts.</li> </ul> <p>This information is not affected by any other statutory provision which requires the information to be publicly registered.</p> <p>On that basis he felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>

No.	Relevant Paragraphs in Schedule 12A
<b>15</b>	<b>Information relating to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office holders under, the authority.</b>
	The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 15 should apply. His view on the public interest test was that whilst he is mindful of the need to ensure that transparency and accountability of public authority for decisions taken by them he was satisfied that in this case disclosure of the information would prejudice the discussion in relation to labour relations to the disadvantage of the authority and inhabitants of its area. On that basis he felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.
<b>16</b>	<b>Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.</b>
	No public interest test.
<b>17</b>	<b>Information which reveals that the authority proposes:</b> <b>(a) To give under any enactment a notice under or by virtue of which requirements are imposed on a person; or</b> <b>(b) To make an order or direction under any enactment.</b>
	The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 17 should apply. His view on the public interest test was that the authority's statutory powers could be rendered ineffective or less effective were there to be advanced knowledge of its intention/the proper exercise of the Council's statutory power could be prejudiced by the public discussion or speculation on the matter to the detriment of the authority and the inhabitants of its area. On that basis he felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.
<b>18</b>	<b>Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime</b>
	The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 18 should apply. His view on the public interest test was that the authority's statutory powers could be rendered ineffective or less effective were there to be advanced knowledge of its intention/the proper exercise of the Council's statutory power could be prejudiced by public discussion or speculation on the matter to the detriment of the authority and the inhabitants of its area. On that basis he felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.

# Agenda Item 7

Yn rhinwedd paragraff(au) 14 Atodlen 12A

o Ddeddf Llywodraeth Leol 1972

fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at Wybodaeth) (Amrywiad) (Cymru) 2007.

Document is Restricted

Yn rhinwedd paragraff(au) 14 Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972  
fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at  
Wybodaeth) (Amrywiad) (Cymru) 2007.

Document is Restricted