



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Head of Audit and Inspection

Contact: Duncan Black Ext: 74053

Item 7(a)

24th November 2021

INTERNAL AUDIT – Review of Board Governance

Purpose of Report:

To present the results of the Internal Audit review of the Strathclyde Pension Fund Board Governance.

Note:

In most cases one of four opinions is expressed:

1. The control environment is satisfactory i.e. audit testing found no concerns with the control environment.
2. A reasonable level of assurance can be placed upon the control environment i.e. audit testing found no major weaknesses in the control environment but some improvements could be made.
3. A limited level of assurance can be placed upon the control environment i.e. improvements are necessary to ensure the control environment is fit for purpose.
4. The control environment is unsatisfactory i.e. significant improvements are required before any reliance can be placed upon the control environment.

Recommendations:

The Committee is asked to note the contents of this report and **AGREE** the audit recommendation that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the Action Plan.

Ward No(s):

Citywide: ✓

Local member(s) advised: Yes No consulted: Yes No

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GLASGOW CITY COUNCIL INTERNAL AUDIT SECTION COMMITTEE SUMMARY

Title of the Audit: Strathclyde Pension Fund – Board Governance

1. Introduction

- 1.1 As part of the agreed Internal Audit plan we have carried out a review of the effectiveness of the Board governance arrangements within the Strathclyde Pension Fund (SPF).
- 1.2 The current Pension Board was established in 2017 under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015. The Board is not a decision making body and was created to assist with ensuring compliance with scheme regulations and the requirements of the Pensions Regulator. The Board is comprised of four Trade Union members and four employer members (three local authority representatives and one representative from the Fund's other employers). To facilitate the smooth running of the SPF Committee meetings, the Board meets in advance of the Committee (normally one week in advance) and discusses the same upcoming agenda. The SPF Board's Constitution defines the remit of the Board which outlines responsibilities, membership, the Chair, interaction with Committee and Training.
- 1.3 The review was conducted by undertaking a health check of some of the "hard" elements of the operation of the Board including the Constitution, minutes, reports, issue of papers, and membership. We then also reviewed "softer" aspects with a self-assessment

questionnaire issued to all Board members. Five Board members completed the questionnaire. In addition the Director of the SPF also completed the questionnaire as lead officer. Board Member's views were considered as part of the review of the "soft" elements of the operation of the Board including understanding of roles and responsibilities and leadership.

2. Overall Conclusion of Review

- 2.1 In the main, the outcome of the assessment indicates that generally the SPF Board is operating effectively and in accordance with the relevant sections of the Regulations. However there are some opportunities for improvement that should be considered to strengthen the current governance arrangements of the Board.
- 2.2 An action plan is provided at section five outlining our observations and opportunities for improvement. We have highlighted four opportunities for improvement.

3. Key Messages from the Internal Audit review of hard elements of Board Operations

- 3.1 Overall governance arrangements for the Board are in place and operating effectively, including:
 - There is a clear structure to the Board which complies with statutory requirements;
 - A Constitution is in place which clearly defines the

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remit of the Board;

- There is an agreed programme of works that outlines any items that require Board consideration throughout the year;
- Board papers are issued in advance of meetings and minutes from the previous meetings are submitted and noted; and
- From review of the recent Board papers, we were satisfied that the reports presented included a sufficient level of detail on the core issues affecting the SPF.

3.2 Although there are no specific succession planning arrangements documented within the Constitution, we recognise that the relevant Trade Unions and Employers are responsible for ensuring that there are appropriate representatives appointed to the Board.

3.3 However we did note some areas where overall governance could be strengthened and four opportunities for improvement:

- There was a mixed level of attendance at the last five Board meetings that took place in 2020/21. Five of the eight Board members had an attendance rate of 60% or below (*opportunity for improvement 1*). The table below details attendance rates:

	27/08/ 2 0	18/11/ 2 0	23/02/ 2 1	26/05/ 2 1	01/09/ 2 1	Attendance Rate
1	✓	✓	✗	✓	✓	80%
2	✗	✓	✗	✓	✓	60%
3	✓	✗	✗	✗	✗	20%
4	✓	✓	✗	✗	✓	60%
5	✓	✓	✓	✓	✓	100%
6	✗	✓	✗	✓	✓	60%
7	✓	✓	✓	✓	✓	100%
8	✗	✓	✓	✗	✓	60%

- Despite a knowledge and skills matrix being in place, the Board members are not assessed against this to ensure that any gaps in knowledge and skills are identified and addressed. Induction Training has also only been provided to some Board members and the attendance records held for other training/development events showed low attendance (*opportunity for improvement 2*); and
- There is no schedule of review of the effectiveness of the Board (*opportunity for improvement 4*).

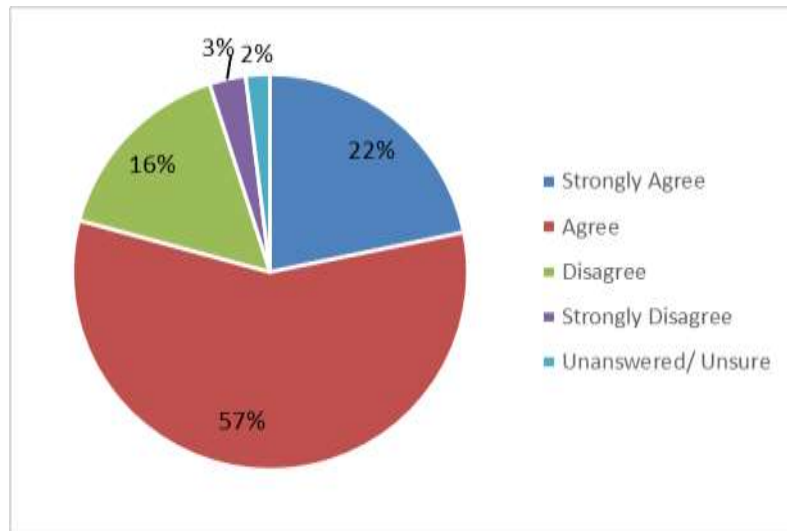
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4. Key Messages from the self-assessment questionnaire responses relating to the soft elements of Board Operations

4.1 The majority of Board members either agreed or strongly agreed with the good practice statements made. The overall findings of the questionnaire are outlined in Chart One.

Chart One – Summary of questionnaire responses



The role, remit and composition of the Board

4.2 Board members are satisfied that they understand their role and responsibilities as outlined in the Board's Constitution.

4.3 Board members are also satisfied that the Board is of sufficient size that the requirements of the Pension Fund can be met.

4.4 However, some Board members feel that they did not receive a proper induction on appointment and that ongoing training is not available to meet their development needs (*opportunity for improvement 2*).

4.5 Some Board members feel that the make-up of the Board could be more diverse (*opportunity for improvement 3*).

Information presented to the Board

4.6 Board members were in general satisfied that the information they receive is timely and in sufficient detail.

4.7 All Board members who responded agreed that the Board receives appropriate information to enable them to monitor the performance of the Fund and that the

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Board has a clear overview of the core business and strategic direction.

Leadership

4.8 The Board members feel that the Chair provides effective leadership of the Board.

4.9 Board members feel that they are confident to scrutinise management and ask challenging questions where required. Board members also feel that they have an effective working relationship with the Pension Fund Management Team.

Performance

4.10 The majority of Board members do not feel that the Board regularly evaluates its performance (*opportunity for improvement 4*).

4.11 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.

4.12 We would like to thank officers involved in this audit for their cooperation and assistance and the members of the Board for completing this questionnaire.

4.13 It is recommended that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the attached Action Plan.

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5. Action Plan

No.	Observation	Opportunity for Improvement	Management Response
Key Control: The structure, composition and dynamics of the Board are clear and Board members have received appropriate training.			
1	<p>Whilst it is recognised that there are sometimes circumstances which prevent a Board Member from attending all meetings, expected attendance requirements are not formally documented and there are no monitoring arrangements in place surrounding this.</p> <p>From review of meeting attendance for the last five meetings, five of the eight Board members had an attendance rate of 60% or below.</p>	<p>The Board should ensure that attendance is monitored going forward, and any formal requirements documented.</p> <p>The Chair should consider if any action should be taken when attendance falls below an acceptable level.</p>	<p>Response: Accepted</p> <p>Will discuss with current Board with a view to introducing monitoring arrangements when new Board is convened during 2022.</p> <p>Officer Responsible for Implementation:</p> <p>Director, SPF.</p> <p>Timescale for Implementation:</p> <p>30 June 2022</p>

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No.	Observation	Opportunity for Improvement	Management Response
2	<p>Despite a knowledge and skills matrix being in place, the Board members are not assessed against this to ensure that any gaps in knowledge and skills are identified and addressed.</p> <p>Based on records provided, Induction Training has only been provided to four current Board members since 2017. We were advised that other members may have received training previously. Some Board members also expressed that the induction process and ongoing training arrangements could be improved.</p> <p>Although members have been advised of the availability of other relevant training/development events, based on records held, the attendance at these events are low.</p>	<p>The Director of the SPF in conjunction with the Chair of the Board should ensure Board members are assessed against the knowledge and skills matrix to identify any gaps in knowledge and skills. Thereafter, appropriate training should be provided to address any gaps identified.</p> <p>The Director of the SPF should also identify those Board members who have not undergone Induction Training and arrange for this to be provided.</p> <p>Board members' views should be collated and considered when identifying ongoing training and development events to ensure that the development needs of the Board members are being met. A record of all training, including Induction Training should be maintained for future reference.</p>	<p>Response: Accepted.</p> <p>Board members are encouraged to assess their own requirements against the matrix. Members should advise the Director of any specific training needs and these will be addressed either individually or collectively.</p> <p>Induction training will be provided to all members when new Board is convened during 2022.</p> <p>A training log is maintained.</p> <p>Officer Responsible for Implementation:</p> <p>Director, SPF.</p> <p>Timescale for Implementation:</p> <p>30 June 2022</p>

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No.	Observation	Opportunity for Improvement	Management Response
3	From review of the questionnaire responses, some Board members feel that the make-up of the Board could be more diverse.	The Director of the SPF should discuss with the Chair of the Board how the comments from respondents in relation to diversity could be addressed.	<p>Response: Accepted.</p> <p>Will discuss with current Board with a view to improving diversity when new Board is convened during 2022.</p> <p>Officer Responsible for Implementation:</p> <p>Director, SPF.</p> <p>Timescale for Implementation:</p> <p>30 June 2022</p>

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No.	Observation	Opportunity for Improvement	Management Response
Key Control: There is on-going performance management of the Board, including the Chair performance, member participation and engagement.			
4	<p>There are currently no arrangements in place to undertake a formal and regular review of the performance of the Board both collectively and the individuals that make up the Board.</p> <p>In addition, a majority of Board members do not feel that the Board regularly evaluates its performance.</p>	<p>The Director of the SPF and Chair of the Board should arrange for a scheduled formal review of the effectiveness of the Board, to take place every 1-2 years. The process and findings should be documented and reported back to the SPF Board and Committee.</p>	<p>Response: Accepted.</p> <p>Officer Responsible for Implementation: Director, SPF.</p> <p>Timescale for Implementation: 30 June 2022</p>

5 Policy and Resource Implications

Resource Implications:

Financial: Internal Audit services are included within the Central Support Services cost.

Legal: None

Personnel: None

Procurement: None

Council Strategic Plan: A well governed city. A review of Board governance was part of the approved Internal Audit plan.

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2021-25? Please specify. Not applicable

What are the potential equality impacts as a result of this report? No significant impact

Please highlight if the policy/proposal will help address socio-economic disadvantage. None

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify: Not applicable

What are the potential climate impacts as a result of this proposal? Not applicable

Will the proposal contribute to Glasgow's net zero carbon target? Not applicable

Privacy and Data Protection Impacts: None

6 Recommendation

- 6.1 The Committee is asked to note the contents of this report and **AGREE** the audit recommendation that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the Action Plan.