

Annual Internal Audit Report 2017/18 and the proposed Internal Audit Plan 2018/19

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.
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Recommendations:

- (a) the Committee formally accepts the Annual Internal Audit Report for 2017/18.**
- (b) the Committee formally approves the Internal Audit Plan for 2018/19.**
- (c) members authorise the Assistant County Treasurer Investments to execute the Service Level Agreement relating to the Internal Audit Plan.**

1. Annual Internal Audit Report – 2017/18

- 1.1. The Head of Devon Audit Partnership is required to provide the Authority with an assurance on the system of internal control of the Fund. This is set out in the Annual Report at Appendix 1.
- 1.2. Overall, and based on work performed during 2017/18, Internal Audit's Opinion is of 'Significant Assurance' on the adequacy and effectiveness of the Fund's internal control environment. Further explanation of this is provided in the Annual Report.

2. Internal Audit Plan 2018/19 and the Service Level Agreement

- 2.1. Under the Local Government Act 1972 the Authority, and specifically the Chief Financial Officer (the County Treasurer), has a statutory duty to "make arrangements for the proper administration of their financial affairs". Assurance that this is the case is given through the reporting of Internal Audit. The audits are carried out in accordance with the Accounts and Audit Regulations 2015 and in accordance with the Public Sector Internal Audit Standards.
- 2.2. The Internal Auditors for the Pension Fund are responsible for providing assurance that financial and other systems are operating effectively and in line with legislation and the Authority's financial regulations. This is achieved through two audit plans: one for the Devon Pension Fund and one for Peninsula Pensions.
- 2.3. The Internal Audit Service for the Pension Fund is delivered by the Devon Audit Partnership. This is a shared service arrangement between Devon, Torbay, Plymouth, Torridge and Mid Devon councils constituted under section 20 of the Local Government Act 2000

- 2.4. The audit plans for the financial year 2018/19 allow for up to 40 days of internal audit support for the Pension Fund and 45 days of internal audit support for Peninsula Pensions. Further detail is set out in Appendix 1

3. Other relevant information

- 3.1 The Devon Pension Board has previously considered the above issues (i.e. the Internal Audit Report for 2017/18 and proposed Internal Audit plan for 2018/19) and agreed both reports with no amendment or additions.
- 3.2 The format of the annual internal audit report will be reviewed for future years with a view to providing better information regarding recommendations made, actions taken by management and outcomes achieved.

Mary Davis

Electoral Divisions: All

Local Government Act 1972
Accounts and Audit Regulations 2015

List of Background Papers - Nil

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DEVON PENSION FUND
ANNUAL INTERNAL AUDIT REPORT 2017/18
and
PROPOSED INTERNAL AUDIT PLAN 2018/19

Section 1 - ANNUAL INTERNAL AUDIT REPORT 2017/18

1 INTRODUCTION

- 1.1 The following report sets out the background to the internal audit service provision, reviews work undertaken in 2017/18, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.
- 1.2 This report will support the organisation in complying with the Accounts and Audit Regulations 2015 which requires all authorities to carry out a review, at least once in a year, of the effectiveness of its system of internal control, and to incorporate the results of that review into their Annual Governance Statement (AGS). The AGS must then be published with the Annual Statement of Accounts.

2 BACKGROUND

2.1 Service Provision

- 2.1.1 The Internal Audit Service for the Devon Pension Fund (the Fund) is delivered by the Devon Audit Partnership.

2.2 Regulatory Role

- 2.2.1 There are two principal pieces of legislation that impact upon internal audit in local authorities:
- **Section 6 of the Accounts and Audit Regulations (England) Regulations 2015** which states that ".....a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control"
 - ".....a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit"
 - **Section 151 of the Local Government Act 1972**, which requires every local authority to make arrangements for the proper administration of its financial affairs.
- 2.2.2 There are also professional guidelines which govern the scope, standards and conduct of Internal Audit, including the Public Sector Internal Audit Standards (PSIAS).

2.2.3 In addition, Internal Audit is governed by policies, procedures, rules and regulations established by the Authority. These include standing orders, schemes of delegation, financial regulations, conditions of service, anti-fraud and corruption strategies, fraud prevention procedures and codes of conduct, amongst others.

3 OBJECTIVES AND SCOPE

3.1 This report presents a summary of the audit work undertaken and provides an opinion on the adequacy and effectiveness of the Fund's internal control environment. The report outlines the level of assurance that we are able to provide, based on the internal audit work completed during this, and previous, years.

3.2. The Head of Devon Audit Partnership is required to provide the Authority with an assurance on the system of internal control of the Fund, based on risk-based reviews and sample testing, that there are no major weaknesses in the system of control. In assessing the level of assurance to be given the following have been taken into account:

- all audits undertaken during 2017/18, and prior years
- any significant recommendations not accepted by management and the consequent risks
- internal audit's performance
- any limitations that may have been placed on the scope of internal audit.

3.3 Definitions of annual assurance opinions are shown in **Appendix B**

4 INTERNAL AUDIT COVERAGE 2017/18

4.1 Financial management arrangements within the Authority are well established and staff have many years of experience giving them a good understanding and knowledge of the financial controls and requirements of regulations and policies.

4.2 Our work in 2017/18 has included completion of 8 audits. The individual assurance opinions issued in respect of our assignment work and, where applicable, the status of the audits is set out in the following table. We have also provided in-year audit advice to management, including in relation to quality check processes.



Key – DPF = Pension fund PP = Peninsula Pensions

Areas Covered		Stage	PF or PP	Level of Assurance
1	New Investment Strategy Statement - post project review	Final	DPF	Good Standard*
2	Preparations for MiFIDII (Market in Financial Instruments Directive 2)	Final	DPF	High Standard
3	Process for Induction of new Board / Committee Members	Final	DPF	High Standard
4	Follow up of Pool and Transition Arrangements	Final	DPF	High Standard
5	Pension Transfers	Final	PP	Good Standard
6	Deferred Benefits	Final	PP	Good Standard
7	Altair Contract Review	Final	PP	Good Standard
8	Refunds of Member / Employee Contributions	Final	PP	Good Standard
9	Audit advice provided to management, on request, including in relation to internal quality check processes.	Complete	PP	Not Applicable

*It is noted that the audit recommendations made in relation to the Investment Strategy Statement have been implemented by management.

4.3 Our reviews this year and in prior years provide sufficient evidence that the Devon Pension Fund and Peninsula Pensions have suitable governance arrangements in place to mitigate exposure to identified risks. Good working practices are in place to meet statutory requirements. The Investment and Pension Fund Committee are kept well informed, concerning the Fund's value and the allocation of assets, and are updated regarding the LGPS Governance scheme.

4.4 We identified some areas where controls could be improved and actions were agreed with management. Executive summaries from our work are shown in **Appendix A**.

5 INTERNAL AUDIT OPINION

5.1 In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report.

5.2 Our final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process.

- 5.3 Management are provided with details of Internal Audit's opinion on each audit review carried out in 2017/18 to assist them with compilation of their individual annual governance assurance statements. No significant weaknesses were identified in these reviews.
- 5.4 Overall, and based on work performed during 2017/18, Internal Audit's Opinion is of 'Significant Assurance' on the adequacy and effectiveness of the Fund's internal control framework.

Section 2 - INTERNAL AUDIT PLANS 2018/19

1 INTRODUCTION

- 1.1 Under the Local Government Act 1972, the Chief Financial Officer has a statutory duty to make arrangements for the proper administration of the Authority's financial affairs. Assurance that this is the case is given through the reporting of Internal Audit. Audits will be carried out under the terms of Accountancy and Audit Regulations 2015.
- 1.2 As the Internal Auditors for the Pension Fund it is our responsibility to ensure that key systems, both financial and non-financial, are operating effectively and in line with the Authority's financial regulations and for Peninsula Pensions it is our responsibility to ensure that we provide an independent, objective assurance service, designed to add value and improve the organisations operations. We help the Pension Fund accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. We achieve this through the two audit plans: one for the Devon Pension Fund and one for Peninsula Pensions.

2 THE AIM OF THE PLANS

- 2.1 The audit plans are reviewed and agreed on an annual basis, incorporating the key risks identified through the Fund's risk register and areas identified by Internal Audit in consultation with management. However recent good practice also recognises that it is advisable for plans to remain flexible, to enable them to be amended according to prevailing risks and changes to the control environment in the organisation, so whilst the annual plan should be approved at an appropriate level, it should also be capable of being flexed as necessary. Our plan will be shared with external audit colleagues to prevent duplication of work, and to minimise audit coverage across systems, including financial systems.
- 2.2 The main objectives of the plan are to provide assurance to the Chief Financial Officer and the external auditors that key systems are: -
- Secure
 - Effective
 - Efficient
 - Accurate
 - Complete
 - Compliant
- 2.3 In order to confirm this risk-based reviews; system reviews and compliance testing are completed at the Fund's administrative office and at Peninsula Pensions offices.

3 THE PLANS

- 3.1 The audit plans for the financial year 2018/19 allows for up to 40 days of internal audit support for the Pension Fund and 45 days of internal audit support for Peninsula Pensions.
- 3.2 We have worked with senior management to determine the key risks to the Fund and from this have developed a plan for the coming year. The plan considers both financial and non-finance based systems, and our work will provide assurance to the County Treasurer and Members on the effectiveness of arrangements. Our working papers are available to external audit colleagues for their consideration in planning their work.
- 3.3 We liaise with the Fund's external auditors to discuss the testing planned to ensure this supports their requirements. The remainder of the planned days incorporates reviews of specific systems as identified through an audit risk assessment process, the Authority's risk register and discussion with management.
- 3.4 Any significant findings from the previous year's audit work will be reviewed to ensure that agreed recommendations have been implemented and are effective.
- 3.5 As part of the audit plan we will also provide assistance and advice, and be a central contact point for senior management.

4 TIMETABLE

- 4.1 The audits will be completed at specified times of the year through consultation and prior agreement with senior management. This will also take into account the timetable of external audit where applicable.
- 4.2 All findings will be reviewed with senior management at the end of each audit programme and prior to the issue of any draft reports.
- 4.3 A copy of all final reports will be made available to External Auditor for their information.

5 2018/19 PLANS

- 5.1 The following table sets out the planned internal audit work for 2018/19. Other issues and systems are sometimes identified during the course of the audits and, if found, will be discussed with senior management. These issues may be incorporated into future audit plans dependent upon priority and risk assessment.

Devon Pension Fund Plan 2018/19

Audit risk areas	Days
1. Communication with Stakeholders (joint audit, 16 days in total)	8
2. Effectiveness of the Devon Pension Board	10
3. Custodian Arrangements	7
4. Responsible Investment	7
5. Audit Planning and Reporting	5
6. Contingency	3
Total days	40

5.2 The cost of these days will be £11,440. Additional support will be provided as and when required. Our standard daily rate for this work will be £286, although specialist support may be at a different rate.

Peninsula Pension Plan 2018/19

Audit risk areas	Days
1. Communication with Stakeholders (joint audit, 16 days in total)	8
2. General Data Protection Regulations (GDPR) compliance	8
3. Immediate Payment System (Altair) (lump sums)	10
4. Death in Service / Death of Pensioners	8
5. Audit Planning, Advice and Reporting	5
6. Contingency	6
Including audit review/walkthrough in relation to the Service's: <ul style="list-style-type: none"> • Implementation of internal Quality Check processes • Implementation of structured training plans and logs 	
Total days	45

5.3 The cost of these days will be £12,870. Additional support will be provided as and when required. Our standard daily rate for this work will be £286, although specialist support may be at a different rate

Robert Hutchins
Head of Devon Audit Partnership
May 2018

Executive Summaries for audits undertaken in 2017/18

DPF: New Investment Strategy Statement - post project review

Devon County Council's Pension Fund Investment Strategy Statement was found to encompass most of the required elements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016*, and all of those required by the relevant Local Government Pension Scheme Guidance on Preparing and Maintaining an Investment Strategy Statement.

The Statement had been adequately developed and consulted on, including evidence of appropriate external advice having been taken and consultation with members, prior to the deadline for producing the Investment Strategy Statement of 1 April 2017.

Furthermore, the Statement was found to have been adequately approved by the Investment and Pension Fund Committee and endorsed by the Devon Pension Board; and had been effectively published and communicated, including plans for review at least every three years, or more frequently should any significant change occur.

Post report update: *It is noted that the audit recommendations made in relation to the Investment Strategy Statement have been implemented by management.

DPF: Preparations for MiFIDII (Market in Financial Instruments Directive 2)

The Pension and Investment Fund Committee considered the implications of DPF being reclassified as a retail client, and in September 2017 authorised the Authority to pursue arrangements to 'opt up' to professional client status.

The Authority has subsequently written to all relevant institutions, with a formal request to be treated as a professional investor in accordance with MiFIDII. Requests have been made using LGPS Advisory Board templates, and the accompanying self-assessment demonstrates how DPF meets the relevant qualitative and quantitative criteria as set out within the Directive, and in accordance with guidance supplied by the Financial Conduct Authority.

DPF officers are currently [at the time of audit], monitoring responses received and plan to take appropriate action should responses or approvals not be received prior to the deadline of 3 January 2018, and to take relevant updates to members, including an update to the DPF Risk Register, in due course. We note that, to date [at the time of audit], responses received have all been approvals.

Note ** Prior to implementation of MiFIDII administering local authorities, investing on behalf of Local Government Pension Scheme (LGPS), were regarded as professional clients. Implementation of MiFIDII, results in administering local authorities investing on behalf of LGPS being reclassified as retail clients unless they have met the relevant criteria to 'opt up' to be treated as professional rather than retail clients.



DPF: Process for Induction of new Board / Committee Members

The Devon Pension Fund develops and publishes an annual training plan, which we understand has been aligned to the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills. The training plan is provided for Devon Pension Board and IPFC members to ensure that they have the skills and understanding required to carry out their stewardship role.

The DPF Training Plan for 2017-18 was adopted by the Devon Pension Board and the IPFC in June 2017, and published in the public domain. It includes reference to induction training provided to new members, which for 2017-18 has taken the form of individual briefing sessions with senior officers.

The DPF has recently recommended that Board and IPFC members, including new members, complete the Pensions Regulator public service pension schemes on-line toolkit and related investment modules within the Pensions Regulator Trustee Toolkit by the end of the year. Additional training and engagement events, informal training opportunities and support from DPF officers is also provided.

The DPF now may wish to consider adopting the Pensions Regulator Code of Practice no. 14 – 'Governance and administration of public service pension schemes' and consider compliance with this code in relation to the 2018-19 training plan.

There is accountability in relation to member attendance at meetings and formal training events, the latter being reported annually to members and published within the DPF Annual Report. A formal feedback mechanism in relation to DPF training would strengthen the overall framework.

DPF: Follow up of Pool and Transition Arrangements

The South West Pension Pool Project continues to be well managed by Devon County Council with regard to DPF interests and requirements.

The Project remains in line with the original business case and project plan. DPF transfer of custody of assets is due to take place on 3 April 2018, and we have no concerns in this regard.

Related risk management arrangements remain in place and risks are being adequately monitored by senior management.

Relevant members have been provided with regular project updates, and necessary approvals have been sought in a timely manner.

PP: Pension Transfers

Pension transfer data was found to be accurately calculated based on source information, and processes include a secondary checking and authorisation. Related payments were processed in line with usual practice in relation to creditor payments and transaction recording on the Main Accounting System.

Regular reconciliation or checking of pension transfer values 'in' and 'out' is established for both Pension Funds.



Access to the Altair system used for pension processing is appropriately managed, including regular user reviews. Processing is controlled through system task workflow and supported by documented process documents that are kept current.

Recommendations have been made in relation to internal working practices linked to performance in specific areas of processing and communication with members.

PP: Deferred Benefits

The current deferred benefit process is controlled through system task workflow on Altair and supported by documented process documents that are kept current.

Deferred benefit data was found to be accurately calculated based on source information in relation to the majority of the sample of Devon and Somerset LGPS deferred benefit cases reviewed; however there is no secondary checking and authorisation process.

It is noted that management are considering introducing a retrospective sample checking quality assurance process in the near future as an alternative control to checking each individual calculation made.

Recommendations have been made in relation to internal working practices linked to performance in specific areas of processing and communication with members.

PP: Altair Contract Review

Service provision received from the provider is considered to be satisfactory with the only exceptions identified as being in relation to Guaranteed Minimum Pension provision and Task Manager improvement. Appropriate contract management and liaison arrangements are established.

The change of the contract to an annually rolling agreement in February 2018 is an opportunity to consider future options, and although we understand that the market is limited, it is important that procurement requirements are considered and addressed.

Payments made to the provider and recharges made to pension partners were found to be accurate and in accordance with Financial Regulations.

PP: Refunds of Member / Employee Contributions

The refund of employee/member contributions process is controlled through system task workflow on Altair and supported by documented process documents that are kept up to date.

Refunds were found to be accurately calculated and the secondary check and authorisation process was operating as prescribed.

Practice is not to pursue 'frozen refund' cases; however the level is increasing despite refund entitlement being established in legislation. As such, we have made a recommendation for management to review the implications of current practice.

Other recommendations have been made in relation to internal working practices linked to performance in specific areas of processing and communication with members and in relation to controls for the reconciliation processes.

Annual Assurance Opinion definitions

Opinion	Definitions
Full Assurance	Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed.
Significant Assurance	Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.
Limited Assurance	Inadequate risk management arrangements and weaknesses in design, and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in a number of areas reviewed.
No Assurance	Risks are not mitigated and weaknesses in control, and /or consistent non-compliance with controls could result / has resulted in failure to achieve the organisation's objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected.