

## **Annual Internal Audit Report 2015/16 and the proposed Internal Audit Plan 2016/17**

### **Report of the County Treasurer**

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

It is recommended that:

- (a) the Committee formally accepts the Annual Internal Audit Report for 2015/16.**
- (b) the Committee formally approves the Internal Audit Plan for 2016/17.**
- (c) members authorise the Assistant County Treasurer Investments to execute the Service Level Agreement relating to the Internal Audit Plan.**

#### **1. Annual Internal Report – 2015/16**

- 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. It should be noted, however, that this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance, 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 2015/16;
  - 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.
- 1.2. 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.
- 1.3. The final audit reports also 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.
- 1.4. Management are provided with details of Internal Audit's opinion on each audit review carried out in 2015/16 to assist them with compilation of their individual annual governance assurance statements. If significant weaknesses have been identified in specific areas, these have been considered by the Authority in preparing its Annual Governance Statement which will be included with its published Statement of Accounts for 2015/16.
- 1.5. Overall, and based on work performed during 2015/16, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Fund's internal control environment.

## **2. Internal Audit Plan 2016/17 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 have been carried out under the terms of Accountancy 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 ensuring that all financial systems are operating effectively and in line with the Authority’s financial regulations. This is achieved through the 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 County Council, Torbay Council and Plymouth City Council constituted under section 20 of the Local Government Act 2000

### **The Aim of the Plans**

- 2.4. The plans are reviewed and agreed on an annual basis, incorporating the key risks identified through the risk registers, discussions with senior managers and areas identified by Internal Audit. The plan also incorporates any requirements of the External Auditors in reviewing finance systems.
- 2.5. The main objectives of the plan are to provide assurance to the County Treasurer and the external auditors that all financial systems are:
  - Secure
  - Effective
  - Efficient
  - Accurate
  - Complete
  - Compliant
- 2.6. In order to confirm this risk based reviews, system reviews and compliance testing are completed at the Fund’s administrative offices and at Peninsula Pensions’ offices.

### **The Plan**

- 2.7. The audit plans for the financial year 2016/17 allows for up to 40 days of internal audit support for the Pension Fund and 45 days of internal audit support for Peninsula Pensions and will be delivered by Devon Audit Partnership (DAP), the internal audit provider for the Council.
- 2.8. This covers the financial audit reviews required as part of Internal Audit responsibilities in reporting to the County Treasurer, and also provides a level of assurance to External Auditors on the security and effectiveness of the financial systems. DAP will provide the documentation required by external audit to ensure they are satisfied with operations.
- 2.9. DAP will liaise with the Fund’s external auditors to discuss the testing planned to ensure this satisfies their requirements and reduces their need for review of these financial systems. 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 liaison with management.

- 2.10. Any major findings (if applicable) from the previous year's audit plan will be reviewed to ensure that agreed recommendations have been implemented and are effective.

### **Timetable**

- 2.11. The audits will be completed at specified times of the year through consultation and prior agreement of the Assistant County Treasurer (Investment & Treasury Management) and the Peninsula Pensions management. This will also take into account the timetable of external audit where applicable.
- 2.12. All findings will be reviewed with senior management at the end of each audit programme and prior to the issue of reports.
- 2.13. A copy of all final reports will be forwarded to the External Auditors, Grant Thornton, for their information.

### **3. Other relevant information**

- 3.1. The Devon Pension Board has previously considered the above issues (i.e. the Internal Audit Report for 2015/16 and proposed Internal Audit plan for 2016/17) and agreed both reports with no amendment or additions.

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 2015/16**

**and**

## **PROPOSED INTERNAL AUDIT PLANS 2016/17**

### **Section 1 - ANNUAL INTERNAL AUDIT REPORT 2015/16**

#### **1 INTRODUCTION**

1.1 The following report sets out the background to audit service provision, review work undertaken in 2015/16, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

1.3 This supports 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 (IA) Service for the Devon Pension Fund (the Fund) is delivered by the Devon Audit Partnership. This is a shared service arrangement between Devon County Council, Torbay Council and Plymouth City Council constituted under section 20 of the Local Government Act 2000.

##### **2.2 Regulatory Role**

2.2.1 There are two principal pieces of legislation that impact upon internal audit in local authorities:

- **Section 3, 5 and 6 of the Accounts and Audit Regulations (England) Regulations 2015** which state that “....A relevant authority must ensure that it has a sound system of internal control which—
  - (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
  - (b) ensures that the financial and operational management of the authority is effective; and
  - (c) includes effective arrangements for the management of risk...”
- “.....A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance...”



- “.....conduct a review of the effectiveness of the system of internal control required by regulation 3; and prepare an annual governance statement.....”
- **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; includes 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 the year.

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. It should be noted, however, that this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance, 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 2015/16
- 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.

### **4 INTERNAL AUDIT COVERAGE 2015/16**

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. The audits have been undertaken in the last quarter of the year with all the audit testing completed before year end, however at the time of writing most are at the draft report stage. The opinions are however not expected to be changed as they are based on the testing completed as set out in the audit programmes agreed with management. The individual assurance opinions issued in respect of our assignment work were as follows:

Key – PF = Pension fund PP = Peninsula Pensions

Areas Covered		PF or PP	Level of Assurance
1	Governance arrangements for the Pensions Board comply with new regulations	PF	Good Standard
2	The Investment and Pension Fund Committee are unable to fulfil their responsibilities effectively resulting in: <ul style="list-style-type: none"> <li>• Non-compliance with legislation or best practice</li> <li>• Inability to determine policy, make effective decisions and / or deliver service</li> <li>• Risk to reputation</li> </ul>	PF	High Standard
3	Treasury management	PF	High Standard
4	Accounting standards	PF	High Standard
5	Communication with Stakeholders	PF & PP	Good Standard
6	Member Self Service	PP	Good Standard
7	Retirements	PP	Good Standard
8	Career Average Revalued Earnings (CARE) scheme	PP	Good Standard
9	Compliance with the new Code of Practice	PP	Improvements Required*

\* Management are continuing to address the issues with regard to quality and integrity of Somerset pensioner data which in the main will have been resolved via migrating the payroll to Altair and Peninsula Pensions. An initial data quality check was undertaken in accordance with the Code of Practice which was prior to the Payroll migration project commencing for Somerset data. The data quality checks are to be re-run for Somerset data now that the Payroll migration is complete. (Audit Note: For information the Devon data quality was compliant with the Code of Practice). A backlog of amalgamation cases exist caused by delay in the LGPS regulations though additional temporary staff are being used to address this.



4.2 Our reviews provided 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.

4.3 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 also 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 2015/16 to assist them with compilation of their individual annual governance assurance statements. No significant weaknesses were identified in these reviews, however if any significant weaknesses had been identified in specific areas, these would have been considered by the Authority in preparing its Annual Governance Statement which is included with its published Statement of Accounts for 2015/16.

5.4 Overall, and based on work performed during 2015/16, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Fund's internal control environment.

## **Section 2 - INTERNAL AUDIT PLANS 2016/17**

### **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 2011.

1.2 As the Internal Auditors for the Pension Fund it is our responsibility to ensure that all financial systems 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. The plan also incorporates the requirements of the external auditors in reviewing finance systems. The plan is also shared with the external auditors.

2.2 The main objectives of the plan are to provide assurance to the Chief Financial Officer and the external auditors that all financial 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 2016/17 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 These include the financial audit reviews required as part of the Internal Audit service's responsibilities in reporting to the Chief Financial Officer, but also satisfy external auditors of the security and effectiveness of the financial systems.





3.3 We liaise with the Fund's external auditors to discuss the testing planned to ensure they can place reliance on the work of internal audit. 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 plan 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 forwarded to your External Auditors for their information.

#### **5 2016/17 PLANS**

5.1 The following table sets out the planned internal audit work for 2016/17. 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 2016/17**

<b>Audit risk areas</b>	<b>Days</b>
1. Effectiveness of the transition arrangements for the new South West pensions 'Pool'	10
2. Actuarial Valuation - mitigation of risks arising from the forthcoming actuarial valuation	5
3. Knowledge and skills of the Pensions Board & Investment & Pensions Committee	10
4. Performance Management	5
5. Contribution payments from employers	5
6. Planning and contingency	5
<b>Total days</b>	<b>40</b>

5.2 The cost of these days will be £10,600. Additional support will be provided as and when required. Our standard daily rate for this work will be £265, although specialist support may be at a different rate.

## Peninsula Pension Plan 2016/17

<b>Audit risk areas</b>	<b>Days</b>
1. Actuarial Valuation - mitigation of risks arising from the forthcoming actuarial valuation (including Peninsula Pensions data)	5
2. Amalgamation of pensions	15
3. Annual benefit statements: effectiveness of the project	7
4. Performance Management (including: data quality of existing performance indicators - i.e. complete, timely, accurate, relevant, authorised/ compliant with definition and reliable; Are they the right PIs; Is time well spent monitoring and managing these PIs	5
5. Audit planning and contingency	13
<b>Total days</b>	<b>45</b>

5.3 The cost of these days will be £11,925. Additional support will be provided as and when required. Our standard daily rate for this work will be £265, although specialist support may be at a different rate

Robert Hutchins  
Head of Devon Audit Partnership  
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