

DEVON PENSION FUND
ANNUAL INTERNAL AUDIT REPORT 2016/17
and
PROPOSED INTERNAL AUDIT PLANS 2017/18

Section 1 - ANNUAL INTERNAL AUDIT REPORT 2016/17

1 INTRODUCTION

1.1 The following report sets out the background to audit service provision, review work undertaken in 2016/17, 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 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; 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 2016/17, 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.

4 INTERNAL AUDIT COVERAGE 2016/17

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 2016/17 has included completion of the 2015/16 audits that were largely all at draft report stage when we last reported to the Pension Board and the Pensions & Investment Committee. The individual assurance opinions and executive summaries were not changed from that previously reported.

4.3 The majority of audits have been undertaken in the last quarter of the year with a number still ongoing at the time of writing this report. 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 will provide a verbal update in relation to those audits to the Pension Board and Pensions & Investment Committee at their respective meetings.

Key – PF = Pension fund PP = Peninsula Pensions

Areas Covered		Stage	PF or PP	Level of Assurance
1	Actuarial Valuation - mitigation of risks arising from the forthcoming actuarial valuation	Final	PF	High Standard
2	Treasury Management	Final	PF	Good Standard
3	Reconciliation of Pension records on Altair	Complete	PP	Not Applicable *
4	Amalgamation of Pensions	Draft	PP	Good Standard
5	Contribution Payments from employers	Ongoing	PF	Update on status and level of assurance to be provided at the meeting
6	Performance Management	Ongoing	PF & PP	
7	Effectiveness of the transition arrangements for the new South West pensions 'pool'	Ongoing	PF	
8	Actuarial Valuation – collation and submission of data to the Actuary	Ongoing	PP	
9	Annual Benefit Statements	Ongoing	PP	

* Following an additional request for Internal Audit input into the reconciliation of member records, we undertook a data matching exercise using specialist software to identify active members without contributions. This identified a potential number of such instances and the arising output was provided to Peninsula Pensions to resolve. We recommended further review of the data output by Peninsula Pensions to identify any 'false positives' to reduce the number identified and then address any actual instances.

4.2 Our reviews this year and in prior years provide sufficient evidence that the Devon Pension Fund and Peninsular 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 2016/17 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 2016/17.

5.4 Overall, and based on work performed during 2016/17, Internal Audit is able to provide significant assurance on the adequacy and effectiveness of the Fund's internal control environment.

Section 2 - INTERNAL AUDIT PLANS 2017/18

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 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 Peninsular 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 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 Peninsular Pensions offices.

3 THE PLANS

3.1 The audit plans for the financial year 2017/18 allows for up to 40 days of internal audit support for the Pension Fund and 45 days of internal audit support for Peninsular 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 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 2017/18 PLANS

5.1 The following table sets out the planned internal audit work for 2017/18. 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 2017/18

Audit risk areas	Days
1. New Investment Strategy Statement (effective 1 st April 2017) – post project review	10
2. Follow up of Pool and Transition processes	10
3. Preparations for MIFID (Market in Financial Instruments Directive (2))	5
4. Process for Induction of any new Committee / Board Members	7
5. Audit Planning and reporting	3
6. Contingency	5
Total days	40



5.2 The cost of these days will be £11,200. Additional support will be provided as and when required. Our standard daily rate for this work will be £280, although specialist support may be at a different rate.

Peninsular Pension Plan 2017/18

Audit risk areas	Days
1. Altair – mid contract review	10
2. Pensions Transfers	7
3. Deferred Benefits	10
4. Refunds	7
5. Audit planning, Advice and Guidance	5
6. Contingency	6
Total days	45

5.3 The cost of these days will be £12,600. Additional support will be provided as and when required. Our standard daily rate for this work will be £280, although specialist support may be at a different rate

Robert Hutchins
Head of Devon Audit Partnership
April 2017

Executive Summaries for audits undertaken in 2016/17

PF: Treasury Management:

For the current year a walkthrough of the processes and controls within Treasury Management was undertaken. Based on this limited testing, it was found that the control environment for both the Council's funds and the Pension Fund remains sufficiently robust in relation to the inherent risks present, and only a small number of minor recommendations have been made.

Approved procedures are in place, and our review found that these had been adhered to in terms of both placing an investment, and taking out short term borrowing.

Reconciliations between Logotech and the main accounting system for both the Council's funds and the Pension Fund are undertaken monthly and were found to be effective.

Performance targets are monitored appropriately, and the latest reported information shows no areas of concern.

PF: Actuarial Valuation:

The Actuarial Valuation process is well managed by a dedicated member of the Investment & Treasury Management Team. The key risks have been identified and mitigating controls established which effectively manage these risks.

Processes were found to be well documented and adhered to, and communications with employers were found to be comprehensive and regular enough to ensure that during the valuation the risks associated with it remain a priority for all employers.

PP: Amalgamation of Pensions:

DRAFT REPORT

At the time of the audit, Peninsula Pension currently has a backlog in pension fund amalgamations of 7,655 cases across both Devon & Somerset. A designated team was established in April 2015 on a temporary basis, whose role was to clear the backlog. Whilst there has been much work done to clear backlogs, there have been a number of mitigating circumstances as to why a backlog still remains, albeit is slightly reduced. This includes the team being allocated other tasks, and also new requests also being assigned to this team. A recent managers meeting however, has reviewed this and it is understood that once all relevant staff have been trained in amalgamations any future new requests will be assigned to the other teams. This is supported by Audit.

Analysis of the 7,655 cases identified that for over 10% of these, the member was over the age of 54, and these present the highest risk to Peninsula Pensions, as there is an increased likelihood of redundancy, ill health retirement or death in service. Failure to amalgamate could result in incorrect pension calculations, strain payments or death grant benefits. These needed to be given the highest priority, and cleared as soon as possible.

Peninsula Pensions are in the process of streamlining processes in order to provide for improved efficiencies, enabling them to process cases more promptly. The revised processes remain compliant with the regulations, and are considered fit for purpose, although recommendations have been offered to further streamline processes, the main one being improving the utilisation of the website, which was felt could result in significant efficiency savings.

Sample checks of completed interfund transfers identified sound controls, although the speed at which some transfers had been processed has resulted in interest payments having to be made.