

DEVON PENSION FUND

ANNUAL INTERNAL AUDIT REPORT 2013/14 and PROPOSED INTERNAL AUDIT PLAN 2014/15

Section 1 - ANNUAL INTERNAL AUDIT REPORT 2013/14

1 INTRODUCTION

1.1 The following report sets out the background to audit service provision, reviews work undertaken in 2013/14, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

1.3 The Accounts and Audit (Amendment) (England) Regulations 2003 (amended 2011) introduced the requirement that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), 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 2011** 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 completed during 2013/14,
- 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 2013/14

4.1 Financial management arrangements within the Authority are well established and staff have many years experience giving them a good understanding and knowledge of the financial controls and requirements of regulations and policies. The individual assurance opinions issued in respect of our assignment work were as follows; currently reports for the audits itemised below are in draft :-

Areas Covered		Level of Assurance
1	Governance arrangements	Good Standard
2	Investment Strategy	High standard

4.2 Our review provided sufficient evidence that the Devon Pension Fund has 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; a communication strategy is established which considers all key stakeholders.

We identified a couple of areas where controls could be improved both of which the Investment team are aware of and have plans in place to address; these relate to the following:

- The Risk Register has not been seen and approved by the Investment and Pension Fund Committee members. We were informed of the intention to amalgamate the Pension Fund risk register with that of Peninsula Pensions; once this has been completed the Risk Register will be presented to the committee.
- A number of joint training sessions, with the Cornwall Investment Committee, have been arranged, however, there is no formal policy on the training of members for the Investment and Pension Fund Committee. The minutes of the February 2014 meeting show the committee has agreed to formally adopt the CIPFA code of practice regarding knowledge and skills for training members responsible for the Pension Fund Governance; this will shortly be implemented.

4.3 The Devon LGPS is managed by Devon County Council as the administering authority, in accordance with regulations approved by Parliament. Devon County Council, as the administering authority, pays benefits from a dedicated pension fund, which is separate from the County Council's budget for delivering services.

As of 31st March 2013, the net assets of the Devon County Council Pension Fund were valued at £3,007 million. To mitigate the impact of poor performance from any particular account and to optimise the value of the Fund, the assets are invested in a variety of bonds and shares by the Investment management team; performance management processes in are in place to address poor performance.

There is a documented Investment strategy, which is detailed in the "Devon Pension Fund Statement of Investment Principles" updated September 2013. A qualified investment specialist has been engaged as an independent advisor; the Fund is subject to an Actuarial Valuation triennially, this was performed in March 2013. The accounts were audited for 2012/13 and the external auditors confirmed the accounts were prepared in accordance with the CIPFA/LASAAC Code of Practice and gave a true and fair of the financial transactions of the pension fund.

This review identified that robust financial procedures were in place and compliant with DCC's Financial Regulations; the Investment and Pension Fund Committee were kept informed of all relevant information regarding the Funds' performance.

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 have been provided with details of Internal Audit's opinion on each audit review carried out in 2013/14 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 2013/14.

5.4 Overall, and based on work performed during 2013/14, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Fund's internal control environment.

Section 2 - INTERNAL AUDIT PLAN 2014/15

1 INTRODUCTION

1.1 Under the Local Government Act 1972, the Chief Financial Officer has a statutory duty to ensure that all financial systems in the Authority are secure. 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.

2 THE AIM OF THE PLAN

2.1 The plan is reviewed and agreed on an annual basis, incorporating the key risks identified through the Fund's risk register and areas identified by Internal Audit. The plan also incorporates the requirements of the External Auditors in reviewing finance systems.

2.2 The main objectives of the plan are to provide assurance to the Section 151 Officer and the external auditors that all financial systems are: -

- Secure;
- Effective;
- Efficient;
- Accurate;
- Complete;
- Compliant.

2.3 In order to confirm this, system reviews and compliance testing are completed at the Fund's administrative office based in County Hall.

3 THE PLAN

3.1 The audit plan for the financial year 2014/15 allows for up to 50 days of internal audit support.

3.2 This covers the financial audit reviews required as part of Internal Audit responsibilities in reporting to the Section 151 Officer, but also satisfies external auditors, of the security and effectiveness of the financial systems. As your Internal Auditors we will provide the documentation required by external audit to ensure they are satisfied with operations.

3.3 We 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.

3.4 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.

3.5 As part of the audit plan we will also provide assistance and advice, and be a central contact point for the Assistant County Treasurer, Investments.

4 TIMETABLE

4.1 The audits will be completed at specified times of the year through consultation and prior agreement of the Assistant County Treasurer, Investments. This will also take into account the timetable of external audit where applicable.

4.2 All findings will be reviewed with the Assistant County Treasurer, Investments 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 2014/15 PLAN

5.1 The following table sets out the planned internal audit work for 2014/15. Other issues and systems are sometimes identified during the course of the audits and if found will be discussed with the Assistant County Treasurer, Investments. These issues may be incorporated into future audit plans dependent upon priority and risk assessment.

Audit	Days
1. Treasury Management	5
2. Performance of Fund managers and External Investment Advisor- Administrative processes and procedures	5
3. Review of contingency arrangements / Transition management arrangements - in the event of the collapse of a fund manager, or negligence or wilful default.	10
4. Custodian services - these exist and performance is regularly monitored.	5
5. Admission and departure of employers to the fund. Administrative processes and procedures. Impact on Fund liabilities.	5
6. Accounting regulations.	5
7. Pension Fund systems may not be secure and appropriately maintained.	5
8. Concentration of knowledge in a small number of officers- risks of departures and ill health.	5
9. Planning	5
Total days	50

It should be noted that item 5. will be undertaken in conjunction with a similar audit for Peninsula Pensions. Please find details of the proposed Audit Plan for Peninsula Pensions in Appendix A.

5.2 The cost of these days will be £15,000 (this includes costs for work in 2013-14) (plus VAT). Additional support will be provided as and when required. Our standard daily rate for this work will be £250, although specialist support may be at a different rate.

Robert Hutchins
Head of Devon Audit Partnership
May 2014

Appendix A

Audit Plan for Peninsula Pensions – 2014-15

Audit	Days
1. Strain Payments	5
2. Organisational Review	10
3. Refunds – with reference to new regulations	5
4. Admission and Departure of Employers to the Devon Pension Fund – to include Admitted Body Status.	10
5. Other Operational Risks to be determined.	5
6. Audit Planning	5
Total days	40

Devon Pension Fund

PROVISION of INTERNAL AUDIT SERVICES

Service Level Agreement

To cover the period 1 March 2014 to 31 March 2015

Service Provider

For the purposes of this service level agreement (SLA), the service provider shall be Devon Audit Partnership (DAP), an internal audit partnership hosted by Devon County Council.

General

The client in respect of this SLA will be the Devon Pension Fund (DPF). The Assistant County Treasurer is responsible for ensuring the provision of an effective and appropriate internal audit service.

The Assistant County Treasurer requires an internal audit plan to be prepared for each financial year, for approval by the Investment & Pension Fund Committee. For the financial years 2013/14 and 2014/15 the Assistant County Treasurer will commission work from DAP to aid the completion of the approved annual audit plan. It is expected that this input will involve 60 days of work and will cover the following areas:

Audit	Days
A review of Governance arrangements, pending April 2014 legislative changes.	5
Investment Strategy - Appropriateness	5
Treasury Management	5
Performance of Fund Managers and External Investment Advisor	5
Review of Contingency and Transition Management Arrangements	10
Custodian Services	5
Admission and departure of employers	5
Accounting Regulations - compliance	5
Data security and access to supporting IT systems	5
Resourcing risks – contingency arrangements	5
Planning	5
Total	60

This may be subject to reasonable amendment during the year, depending upon the requirements of the service.

Remuneration shall be in accordance with the details set out below. Any anticipated variations between actual and planned delivery should be notified to the Assistant County Treasurer in advance for agreement. Charges are to be raised quarterly in arrears.

The Assistant County Treasurer may require the attendance of appropriate DAP officers at appropriate committee meetings as required. Meeting dates will be notified to DAP at least one month in advance.

DAP are to report to the Assistant County Treasurer, or his/her agent, without delay, any serious weaknesses, frauds and major accounting or other control breakdowns.

Standards and Approach

DAP's work shall be performed in accordance with the Public Sector Internal Audit Standards.

DAP shall be expected to take on board any legislative or regulatory changes and to keep abreast of developments in audit matters generally, and particularly in their application to the Service.

DAP will work with the Assistant County Treasurer when agreeing with the External Auditor joint working arrangements.

The audit objectives should be to:

- Ascertain the extent to which the whole system of internal control ensures compliance with established procedures.
- Assist the service in identifying and analysing the risks associated with the processes and activities that may be subject to audit review.
- Identify all systems and controls on which management proposes to rely and advise on cyclical coverage.
- Evaluate such systems and controls in accordance with the annual plan, highlight inappropriate or inadequate controls and recommend improvements in practices and procedures.
- Ascertain that systems and controls have been established and are working to achieve the most economic, efficient and effective use of resources.
- Draw attention to any apparently uneconomical or otherwise unsatisfactory results flowing from management's decisions, practices or policies.
- Ascertain the extent to which assets and other interests are properly controlled and safeguarded from losses of all kinds.
- Ascertain the integrity and reliability of information provided to management.
- Conduct any value for money studies or other specific reviews as commissioned by the Assistant County Treasurer.
- Have regard to Best Value requirements.
- Provide a report on the level of assurance that can be given to the internal control environment in support of the Devon Pension Fund's requirement to produce an Annual Governance Statement.

Access

DAP officers shall be provided with appropriate access to relevant personnel, premises, documents, records, information and assets and shall be authorised to obtain such information and explanations considered necessary to fulfil the audit responsibility. A number of documents may be sensitive and confidential and these are required to be treated confidentially and in accordance with the Data Protection Act as regards protection against unlawful or unauthorised use of, or accidental loss or destruction of personal data. In certain instances data may be held

that is not applicable for DAP to view due to the nature of the service involved. DAP should seek advice from the Assistant County Treasurer regarding any disputes over access to documents.

Both parties agree;

To keep confidential all confidential information (whether written or oral) which they have obtained or received as a result of the discussions leading up to or the entering into, or obtain or receive in performance of their respective obligations under this agreement.

When accessing DPF's computer systems, DAP officers must observe the DPF's Computer Security Policies.

Audit Briefs and Reports

Prior to commencing an audit, an audit brief, which sets out the audit and control objectives to be covered, will be produced. This shall be agreed with the Assistant County Treasurer or the relevant Devon Pension Fund's manager.

Upon completion of the audit DAP will informally debrief the manager and subsequently issue a draft report which will be reviewed by the DAP Audit Manager prior to being passed to the manager for their review. This report should state the areas reviewed, provide an audit opinion and make prioritised recommendations where appropriate.

Managers (or appropriate person) will be required to respond to the audit report and should state, against each recommendation, their proposed action, the person responsible and an implementation date.

Upon receipt of the response, the DAP Audit Manager will review the response and finalise the report. If, however, the manager has any queries which necessitate additional information from DAP, then it is beholden to DAP to resolve the points with the manager.

The following reporting deadlines are to be adhered to:

- Draft reports (other than interim reports) are to be issued within 10 working days of the completion of the audit.
- Final reports are to be issued within 10 working days following receipt of the manager's response.

Material recommendations will usually be followed up six months after the issue of the final report.

DAP are to make the necessary information available to enable these requirements to be monitored effectively.

Rights to material: reports and working papers will be the property of the Devon Pension Fund and shall not be passed to third parties except where permission from the Devon Pension Fund has been agreed, or where DAP are required to disclose it by law.

Audit Fee

Our audit fee will be charged to the Devon Pension Fund on a day rate basis; the agreed daily rate for 2013/14 / 2014/15 is £250 per day (excluding VAT). A standard day is expected to be 7 hours 24 minutes.

It is expected that our work will involve 60 days of input, resulting in an expected charge of £15,000 + VAT. There will be no liability on behalf of the Devon Pension Fund if the expected work varies from the days involved stated in this agreement.

This rate is an inclusive rate and applies to all staff used on the assignment. Travel costs for staff will be borne by DAP and will not be charged to the client.

Specialist staff are available to assist the Devon Pension Fund should the need arise. Specialist staff include:-

- Fraud and forensic examination
- Contract and procurement
- Business process re-engineering

We will be pleased to provide indicative day rates for specialist staff as requested by the Service.

Force Majeure

Either party shall be entitled to suspend performance of its obligations under this Agreement to the extent that such performance is impeded, dangerous or made unreasonably difficult or costly by any of the following circumstances: industrial disputes and other circumstances beyond the control of the parties such as fire, war, terrorist activities, restrictions in the use of power and delays in deliveries by sub-suppliers caused by any circumstances as mentioned in this clause.

The party claiming to be effected by Force Majeure from fulfilling its obligations shall notify the other party in writing without delay as soon as such circumstances interfere or cede.

Either party shall be entitled to terminate this Agreement by notice in writing if performance is suspended under this clause for more than six months.

Termination

If the Service Provider (acting reasonably) shall be unable to provide the Services it will give the Devon Pension Fund a minimum of three months written notice to terminate, giving reasons.

In any event the Devon Pension Fund shall be able to terminate the contract by giving the Service Provider a minimum of three months written notice.

Termination is by way of written notice to the officers named at the head of this agreement.

Arbitration

Any dispute arising out of this Agreement shall be settled amicably between the parties. In the absence of an agreement to that effect any remaining dispute shall be finally settled by arbitration by a single arbitrator to be agreed upon by the parties or in default of agreement to be nominated by the President for the time being of the Chartered Institution of Arbitrators in accordance with the Arbitration Act 1996 or any statutory modification or re-enactment of it for the time being in force.

Agreed..... Date.....

For Devon Audit Partnership (Devon County Council)

Agreed..... Date.....

For Devon Pension Fund