

DEVON PENSION FUND
ANNUAL INTERNAL AUDIT REPORT 2014/15
and
PROPOSED INTERNAL AUDIT PLANS 2015/16

Section 1 - ANNUAL INTERNAL AUDIT REPORT 2014/15

1 INTRODUCTION

1.1 The following report sets out the background to audit service provision, review work undertaken in 2014/15, 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 2011 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 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 2014/15
- 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 2014/15

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:

| Areas Covered | | PF or PP | Level of Assurance |
|---------------|---|----------|------------------------------|
| 1 | Treasury Management | DCC & PF | Good standard |
| 2 | Performance of Fund managers and External Investment Advisor- Administrative processes and procedures | PF | High Standard |
| 3 | Review of contingency arrangements / Transition management arrangements - in the event of the collapse of a fund manager, or negligence or wilful default | PF | Good Standard |
| 4 | Custodian services - these exist and performance is regularly monitored | PF | Good Standard |
| 5 | Admission and departure of employers to the fund. Administrative processes and procedures. Impact on Fund liabilities. Admitted Bodies Status. | PF & PP | To be finalised in Quarter 1 |
| 6 | Accounting regulations | PF | High Standard |

| Areas Covered | | PF or PP | Level of Assurance |
|---------------|--|----------|--------------------|
| 7 | Pension Fund systems may not be secure and appropriately maintained | PF | N/A* |
| 8 | Concentration of knowledge in a small number of officers- risks of departures and ill health | PF | Good Standard |
| 9 | Strain Payments | PP | High Standard |
| 10 | Organisational Review | PP | N/A* |
| 11 | Refunds – with reference to new regulations | PP | Good Standard |

*Pension Fund Security: There was no output for this audit as during the initial testing stages it was identified that there was considerable overlap with other audit work as there was only the one bespoke system for the Custodian Services (which was audited at the end of the financial year) and the other systems used are DCC's general ones and we were able to rely upon work undertaken during the DCC Material Systems audits.

*Organisational Review – this was a piece of consultancy audit work designed to support the progress of the new processes and procedures rather than assurance work designed to provide an opinion.

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. A more detailed report will be provided to the Pensions Board meeting.

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 2014/15 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 2014/15.

5.4 Overall, and based on work performed during 2014/15, 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 2015/16

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 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 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 2015/16 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 effectiveness of the control, risk and governance arrangements established by management.

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 2015/16 PLANS

5.1 The following table sets out the planned internal audit work for 2015/16. 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 2015/16

| Audit risk areas | Days |
|---|-------------|
| 1. Governance arrangements appropriate to the new legislation to be introduced in April 2015 | 15 |
| 2. The Investment and Pension Fund Committee are unable to fulfil their responsibilities effectively resulting in: <ul style="list-style-type: none"> • Non-compliance with legislation or best practice • Inability to determine policy, make effective decisions and / or deliver service • Risk to reputation | 10 |
| 3. Treasury management (reconciliation of loans / deposits and returns) | 2 |
| 4. Accounting regulations | 5 |
| 5. Communication - insufficient communication and engagement with the Pension Fund Stakeholders | 5 |
| 6. Planning | 3 |
| Total days | 40 |

Peninsula Pension Plan 2015/16

| Audit risk areas | Days |
|---|-------------|
| 1. Member self service | 10 |
| 2. Retirements | 15 |
| 3. New style pensions – career averages | 5 |
| 4. New code of conduct from Pension Regulator | 10 |
| 5. Audit planning | 5 |
| Total days | 45 |

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