



# Final Internal Audit Report

## Effectiveness of the Devon Pension Board

### Devon Pension Fund

*September 2018*

Official



Support, Assurance & Innovation

## **Devon Audit Partnership**

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Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon, Torridge and Mid-Devon councils and we aim to be recognised as a high quality public sector service provider.

We work with our partners by providing professional internal audit and assurance services that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards (PSIAS) along with other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at [robert.hutchins@devonaudit.gov.uk](mailto:robert.hutchins@devonaudit.gov.uk).

## **Confidentiality and Disclosure Clause**

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This report is protectively marked in accordance with the National Protective Marking Scheme. Its contents are confidential and, whilst it is accepted that issues raised may well need to be discussed with other officers within the organisation, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.

This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

## 1 Introduction

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The Public Sector Pensions Act 2013 introduced a requirement for Local Government Pension Scheme (LGPS) Administering Authorities to establish a Pension Board. The purpose of the Pension Board is to assist the Administering Authority in securing:

- compliance with LGPS and any other relevant legislation;
- compliance with requirements imposed by the Pensions Regulator in relation to the LGPS;
- the effective and efficient governance and administration of the LGPS.

The Devon Pension Board consists of nine persons; four persons representing Devon Pension Fund employers, including two elected Members of Devon County Council (as the administering authority), four persons representing Devon Pension Fund members, and one independent person.

## 2 Audit Opinion

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Good Standard - The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.

## 3 Executive Summary

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The Devon Pension Fund Board governance arrangements are compliant with legislation and regulation, and the risk register includes related risks and mitigations.

Instances of consecutive non-attendance at Board meetings and training events in the period preceding the audit were identified.

An Annual Training Plan is in place and approved by Members; delivery against the plan is similarly reported annually.

The Devon Pension Board forward plan provides for effective planning and decision making by the Board. A satisfactory level of information is provided to Members to support this process, and where not restricted, this information along with meeting minutes is publicly published.

Some Members provided their view in relation to the effectiveness of the Board, and whilst largely positive, there are areas where existing practice could be enhanced to increase the overall effectiveness.

The detailed findings and recommendations regarding these issues and less important matters are described in the Appendices. Recommendations have been categorised to aid prioritisation. Definitions of the priority categories and the assurance opinion ratings are also given in the Appendices to this report.

## 4 Added Value

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Internal Audit aimed to provide added value, in relation to consideration of the robustness of the Devon Pension Board governance and reporting arrangements, and consideration of identified best practice in this area.

In addition, we followed-up the agreed recommendations of the 2017-18 'Induction Process for Board and Committee Members' internal audit report, as applicable to the Devon Pension Board, and reported progress in this area.

## 5 Assurance Opinion on Specific Sections

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The following table summarises our assurance opinions on each of the areas covered during the audit. These combine to provide the overall assurance opinion at Section 2. Definitions of the assurance opinion ratings can be found in the Appendices.

Risk Areas Covered		Level of Assurance
1	Non-compliance with Legislation, Regulation and Guidance in respect of requirements for a Pension Board	High Standard
2	Pension Board Members are unable to fulfil their responsibilities effectively due to insufficient knowledge and skills	Good standard
3	Pension Board Members are unable to fulfil their responsibilities effectively due to insufficient or inaccurate information / reporting	Good Standard

The findings and recommendations in relation to each of these areas are discussed in the "Detailed Audit Observations and Action Plan" appendix. This appendix records the action plan agreed by management to enhance the internal control framework and mitigate identified risks where agreed.

## 6 Issues for the Annual Governance Statement

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The evidence obtained in internal audit reviews can identify issues in respect of risk management, systems and controls that may be relevant to the Annual Governance Statement.

Based on the evidence we have found in this audit there are no issues arising from the risk management, systems and controls examined that would warrant inclusion in the Annual Governance Statement.

## **7 Scope and Objectives**

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The objective of this audit was to provide the client with an audit opinion on the control framework concerning the effectiveness of the Devon Pension Board.

Including in relation to: -

- a) The current governance arrangements in place for Devon Pension Fund in respect of the requirement for a Pension Board; and in relation to Pension Pooling governance arrangements applicable to Devon Pension Fund.
- b) The means by which Devon Pension Board members fulfil their responsibilities, including in relation to completion of required training and attendance at training events and meetings.
- c) Review of the effectiveness of the Devon Pension Board decision making process, including in consideration of advice received from external parties e.g. External Investment Advisor and Legal and Actuarial advice sought.

The above areas were considered in relation to applicable Legislation, Regulation and Guidance, including the relevant elements of the 'Pensions Regulator Code of Practice 14 – Governance and Administration of Public Service Pension Schemes'.

## **8 Inherent Limitations**

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The opinions and recommendations contained within this report are based on our examination of restricted samples of transactions / records and our discussions with officers responsible for the processes reviewed.

## **9 Acknowledgements**

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We would like to express our thanks and appreciation to all those who provided support and assistance during the course of this audit.

**Robert Hutchins**  
**Head of Partnership**

## Appendix A

## Detailed Audit Observations and Action Plan

1. Risk Area Covered: Non-compliance with Legislation, Regulation and Guidance in respect of requirements for a Pension Board		Level of Assurance	
<p><b>Opinion Statement:</b> Applicable legislation and regulation was found to have been taken into account by Devon Pension Fund, in relation to Devon Pension Board governance arrangements, as confirmed within the Devon Pension Board Terms of Reference and Governance Policy and Compliance Statement.</p> <p>The Devon Pension Fund (DPF) Risk Register refers to the risks of non-compliance with legislation, regulation and guidance, in relation to the requirements of a local pension board, and mitigating controls are identified, including in relation to Member training provision.</p> <p>The DPF Governance Policy and Compliance Statement does not at present refer to Pensions Pooling arrangements (Brunel). We note that reference is made within some partner Pension Fund's Governance documentation to Brunel and/or Pension Fund representation on the governance arrangements for Brunel Pension Partnership (e.g. by Avon, Gloucestershire and Wiltshire Pension Funds), and as such we note that DPF may wish to refer to governance arrangements in respect of Brunel in future revisions of the Governance Policy and Compliance Statement where applicable.</p> <p>We noted the differing approach to publication of member contact details on the various related websites.</p>		<b>High Standard</b>	
No.	Observation and implications	Priority	Management response and action plan including responsible officer
1.1	An earlier dated version of the DPF Governance Policy and Compliance Statement is located on the Peninsula Pensions - Devon Pension Board webpages. A recommendation is made for the document to be updated accordingly.		
	Recommendation		
1.1.1	It is recommended that the Devon Pension Fund, Pension Board, webpage at <a href="https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/pension-board/">https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/pension-board/</a> is updated to include the most recent version of the Devon Pension Fund Governance Policy and Compliance Statement (the version currently at this location is marked as approved in 2015). A later version (marked as approved in 2017) is located at <a href="https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/">https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/</a> .	Low	Agreed. Investment Manager, in liaison with the Head of Peninsula Pensions. (By 31 March 2019)

No.	Observation and implications		
1.2	<p>We noted that the Peninsula Pensions Devon Pension Fund Representatives webpage includes details of Fund representatives and reference to the Devon Pension Board, for which the user is referred to the Pension Board page.</p> <p>The Pension Board webpage provides names of Devon Pension Board members which are hyperlinked to provide member contact email addresses through Microsoft outlook, a link to Devon Pension Board Terms of Reference and link to Devon Pension Fund Governance Policy November 2015 (not current version, refer to 1.1.1).</p> <p>The Peninsula Pensions Devon Pension Board webpage, above, refers users to the DCC Democracy in Devon, Devon Pension Board webpages, for <i>'agenda and minutes from meetings of the Pension Board'</i>. There is an inconsistency identified between the two websites identified in relation to provision of Board member email addresses, for which an address for all members is included on the Peninsula Pensions webpage but for Councillors only on the Democracy in Devon webpage.</p>		
	Recommendation	Priority	Management response and action plan including responsible officer
1.2.1	<p>Management to consider the difference in approach regarding provision of Devon Pension Board member contact details.</p> <p>If the reason is that DCC publish only DCC email addresses (Councillor email addresses being @devon.gov.uk; whereas other email addresses given as per the Peninsula Pensions webpages include external email addresses such as gmail.com and blueyonder.co.uk), consideration should be given to whether DCC email addresses should be provided/allocated to Devon Pension Board members.</p> <p>And in relation to Board member changes, it is recommended that any updates are made in both locations concurrently.</p>	Medium	<p>Agreed. It will be considered whether there is a way of referring users from the Democracy in Devon - Devon Pension Board member webpages to the Peninsula Pensions Devon Pension Board webpage for further information including contact details. Investment Manager / Assistant County Treasurer - Investments, in liaison with the Democracy in Devon Team. (By 31 March 2019). Management felt however that would not however be appropriate for Devon Pension Board members who are not Devon County Councillors or DCC employees to be provided with a devon.gov.uk email address.</p>

<p><b>2. Risk Area Covered:</b> Pension Board Members are unable to fulfil their responsibilities effectively due to insufficient knowledge and skills</p>	<p><b>Level of Assurance</b></p>
<p><b>Opinion Statement:</b>                  Member attendance at Devon Pension Board meetings is published on the Democracy in Devon webpages. There were instances of consecutive non-attendance at Board meetings and training events in the period preceding the audit.</p> <p>The DPF - Annual Training Plan is approved annually by members and a report on the previous year's training provision is reported annually alongside this; we noted engagement and interest from Members in terms of training provision and recording. Member attendance at training events is reported to the Board and is also published within the Fund's annual report and accounts.</p> <p>We identified some other approaches relating to member training provision at other Funds and have provided information separately to management for their consideration. We note that in relation to Risk F1, as per Devon Pension Fund Risk Register report CT/18/66 taken to the September 2018 Investment and Pension Fund Committee meeting, that 'Following discussion at the Investment and Pension Fund Committee in June 2018, officers will review best practice at other LGPS funds with a view to enhancing future training plans for the Pension Board and Investment and Pension Fund Committee'</p> <p>We note that as per Pension Board Membership report CT/18/67, taken to the above meeting, the appointment process to fill places on the Pension Board has been communicated to the IPFC and the report will be taken to the Pension Board October 2018 meeting. We understand that management seek feedback from members in relation to training and a related question was included within the survey as part of this audit. Additionally members have opportunity to consider and agree the annual training plan.</p> <p>Progress has been made regarding the agreed recommendations from the 2017-18 Induction Process for New Board and Committee Members audit. As such these recommendations are not repeated here. However, it is recommended, collectively, that all on-going recommendations from the 2017-18 continue to be progressed in 2018-19 and as such an overarching recommendation is included here for the purposes of annual audit follow-up review.</p>	<p><b>Good standard</b></p>
<p>No.      Observation and implications</p>	
<p>2.1</p>	<p>The DPF - Annual Training Plan is approved annually by members and a report on the previous year's training provision is reported annually alongside this. Member attendance at training events is reported to the Board and is also published within the Fund's annual report and accounts. Member attendance at Devon Pension Board meetings is published on the Democracy in Devon webpages. There were instances of consecutive non-attendance at Board meetings and training events in the period preceding the audit.</p> <p>We noted that Members were actively engaged in relation to these reports resulting in arising actions to enhance existing training arrangements. Additionally, the Investment Team are involved in the recruitment and induction process.</p>



	Recommendation	Priority	Management response and action plan including responsible officer
2.1.1	It is recommended that management continue to review Devon Pension Board member attendance at Board meetings and training events, and bring to the Board's attention accordingly consecutive non-attendance at two meetings or two training events, in accordance with the Devon Pension Board Terms of Reference.	Medium	Agreed. Consideration will be given to attaching the attendance log to Board reports. Investment Manager / Assistant County Treasurer - Investments. (By 31 March 2019)
2.1.2	It is suggested, that to reduce instances of two or more consecutive non-attendances by Board members where non-attendance results from other diary commitments, that Board meeting and training event dates are communicated or consulted on at the earliest opportunities, to allow Members to schedule the dates.	Opportunity	Board meeting dates are agreed for a number of years ahead. Investment Manager will enquire with the Board Clerk whether these dates have been communicated to all Devon Pension Board members. (By 31 March 2019)  Devon Pension Fund management do currently canvas Board members regarding training dates.
No.	Observation and implications		
2.2	Progress has been made regarding the agreed recommendations from the 2017-18 Induction Process for New Board and Committee Members audit. As such these recommendations are not repeated here. However, it is recommended, collectively, that all on-going recommendations from the 2017-18 audit be completed in 2018-19 and as such an overarching recommendation is included here for the purposes of annual audit follow-up review.		
	Recommendation	Priority	Management response and action plan including responsible officer
2.2.1	It is recommended that all the on-going actions agreed by management relating to recommendations within the 2017-18 Induction Process for New Board and Committee members audit continue to be progressed and completed in 2018-19.	Medium	Agreed.

<b>3. Risk Area Covered:</b> Pension Board Members are unable to fulfil their responsibilities effectively due to insufficient or inaccurate information / reporting		<b>Level of Assurance</b>	
<p><b>Opinion Statement:</b></p> <p>The Devon Pension Board forward plan provides for effective planning and decision making by the Board. Board meeting agendas, papers and minutes, where not restricted, are published on the Democracy in Devon website, and were found to be easily located.</p> <p>Sample testing of recent decisions by the Devon Pension Board found a satisfactory level of detail provided within timely reports provided to the Board. The record of Board member observations and decisions were found to be transparent, and appropriate information published in the public domain.</p> <p>The DPF Governance Compliance Statement within the 'DPF Governance Policy and Compliance Statement' published document provides for DPB self-assessment against 'the latest guidance issued by the Secretary of State for Communities and Local Government'. This identified full compliance in all areas deemed applicable to DPF, except in one area relating to Representation of scheme members (including deferred and pensioner members) on the main or secondary committee structure, which was given partial compliance. The self-assessment noted that representatives of scheme members are members of the Investment and Pension Fund Committee, but without voting rights. We acknowledge that this not specific to the Pension Board but is noted as a wider point in relation to governance.</p> <p>We sought the views of Devon Pension Board Members in relation to this risk area and a summary analysis of Member responses is attached as an appendix C to this report. This includes in relation to key themes and where there are some limitations to the current effectiveness of the Devon Pension Board. Although few received, the responses provide opportunity to enhance existing arrangements.</p>		<b>Good Standard</b>	
<b>No.</b>	<b>Observation and implications</b>	<b>Priority</b>	<b>Management response and action plan including responsible officer</b>
3.1	<p>The views of Devon Pension Board members were sought via audit questionnaire for which four completed responses were received.</p> <p>A summary analysis of Member responses from Devon Pension Board members to the audit questionnaire is attached as an appendix C to this report, for management review and consideration. This includes in relation to key themes where it is identified that there are some limitations to the current effectiveness of the Devon Pension Board. It should be noted however that they reflect the views of only some Board members and may not be representative of the views of other or all Devon Pension Board members, and as such these responses should be treated accordingly and with due respect given to Board members' points of view.</p>		
	<b>Recommendation</b>	<b>Priority</b>	<b>Management response and action plan including responsible officer</b>
3.1.1	The responses to the survey as shown in Appendix C should be reviewed and taken forward as appropriate by management.	Medium	Agreed. The survey responses will be considered. Investment Manager / Assistant County Treasurer - Investments. (By 31 March 2019)

## Definitions of Audit Assurance Opinion Levels

Assurance	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

## Definition of Recommendation Priority

Priority	Definitions
High	A significant finding. A key control is absent or is being compromised; if not acted upon this could result in high exposure to risk. Failure to address could result in internal or external responsibilities and obligations not being met.
Medium	Control arrangements not operating as required resulting in a moderate exposure to risk. This could result in minor disruption of service, undetected errors or inefficiencies in service provision. Important recommendations made to improve internal control arrangements and manage identified risks.
Low	Low risk issues, minor system compliance concerns or process inefficiencies where benefit would be gained from improving arrangements. Management should review, make changes if considered necessary or formally agree to accept the risks. These issues may be dealt with outside of the formal report during the course of the audit.
Opportunity	A recommendation to drive operational improvement which may enable efficiency savings to be realised, capacity to be created, support opportunity for commercialisation / income generation or improve customer experience. These recommendations do not feed into the assurance control environment.

## Confidentiality under the National Protective Marking Scheme

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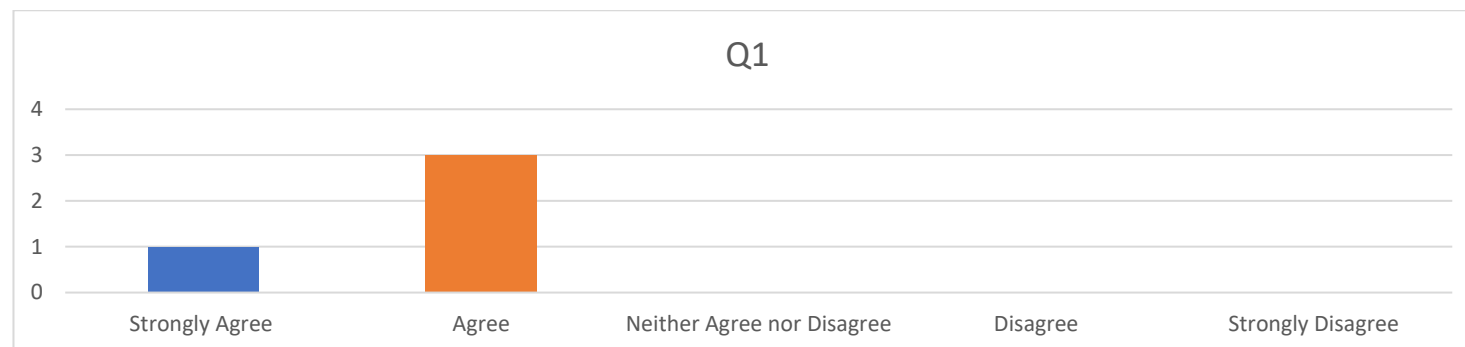
Marking	Definitions
Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Secret	Very sensitive information that justifies heightened protective measures to defend against determined and highly capable threat actors. For example, where compromise could seriously damage military capabilities, international relations or the investigation of serious organised crime.
Top Secret	The most sensitive information requiring the highest levels of protection from the most serious threats. For example, where compromise could cause widespread loss of life or else threaten the security or economic wellbeing of the country or friendly nations.

## Summary Analysis of Member responses to Devon Pension Board internal audit questionnaire

For the multiple-choice questions asked the number of responses for each answer provided are shown within the bar chart diagrams below.

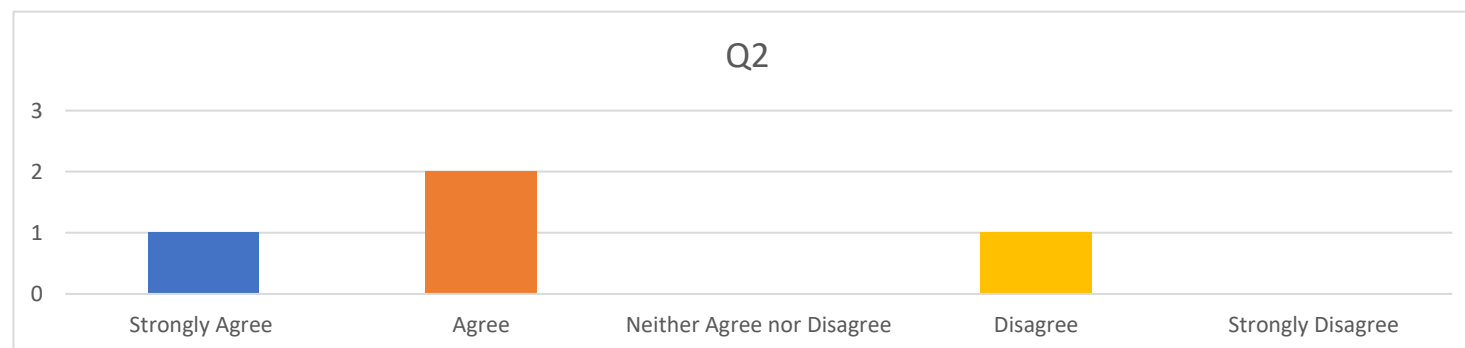
### Appointment to the Devon Pension Board

1. The appointment process provided me with a sufficient level of information in relation to the expectations and requirements of the role of member of the Devon Pension Board.

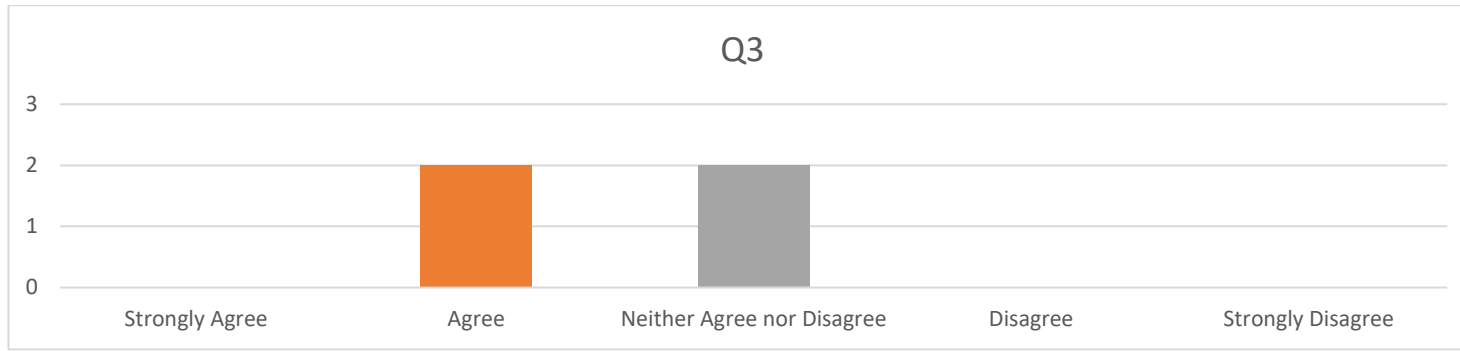


### Training provided to you as a member of the Devon Pension Board

2. The level of training provided to me on appointment as a member of the Devon Pension Board was sufficient for me to effectively conduct my role as Devon Pension Board member, including in relation to i) the application of law relating to local government pension schemes and ii) Devon Pension Fund scheme rules and administration policies.

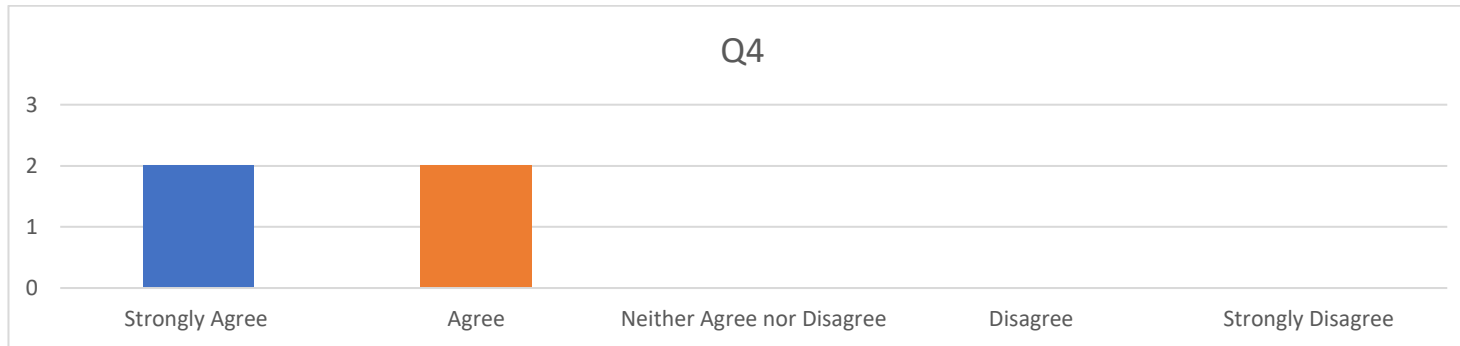


3. The level of on-going training and support, including in relation to i) requirements of applicable legislation, regulation and guidance, and ii) any amendments to Devon Pension Fund scheme rules and administration policies, is sufficient for me to effectively conduct my role as Devon Pension Board member.

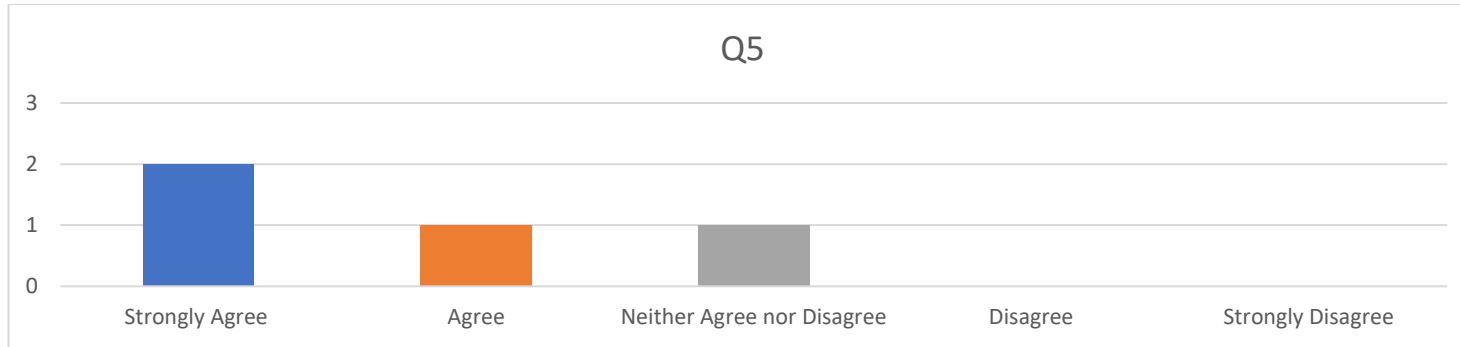


#### Devon Pension Board business, meetings, and provision of information

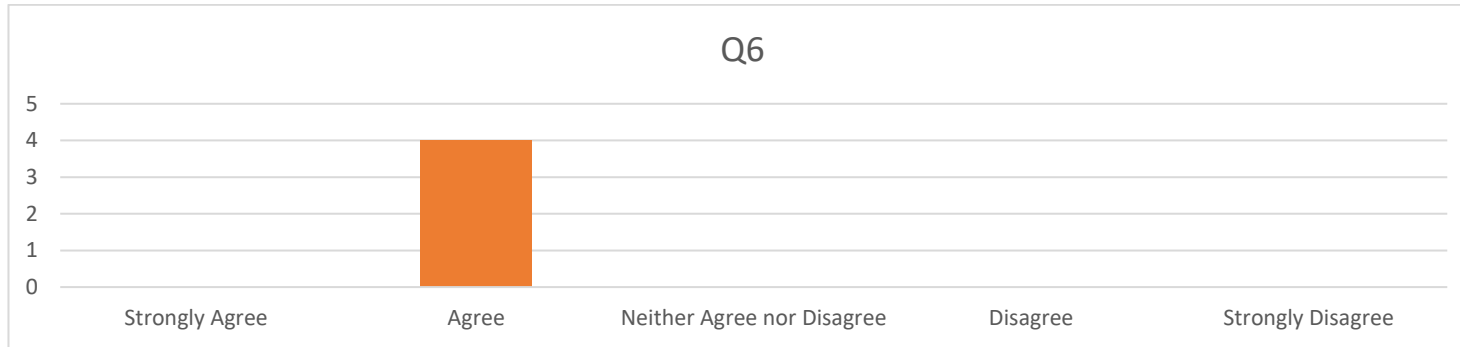
4. Papers and additional supporting documents are provided to me in a timely manner in advance of Devon Pension Board meetings. And these are provided in a suitable format.



5. The level and depth of information provided within Devon Pension Board papers and additional supporting documentation is sufficient for me to effectively conduct my role as Devon Pension Board member.

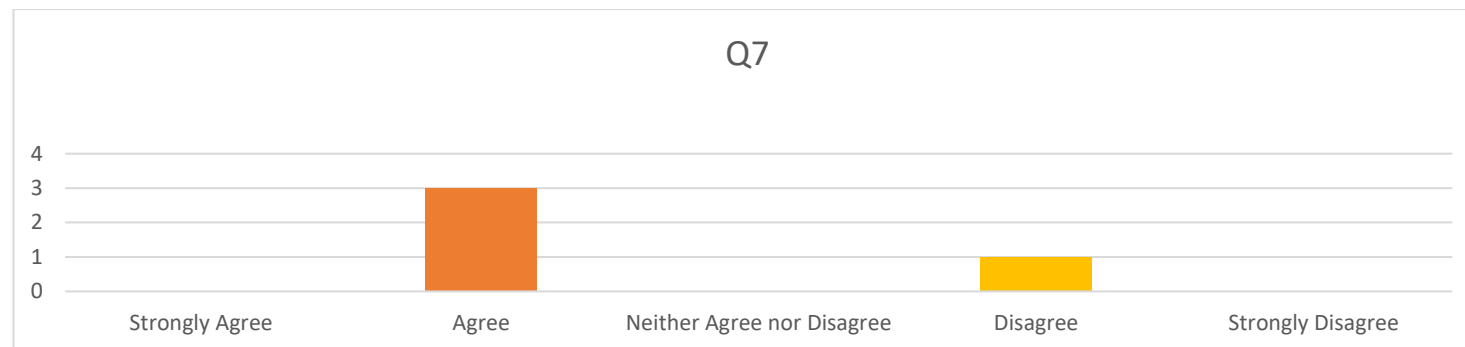


6. There is adequate opportunity for me to provide question and challenge at Devon Pension Board meetings.

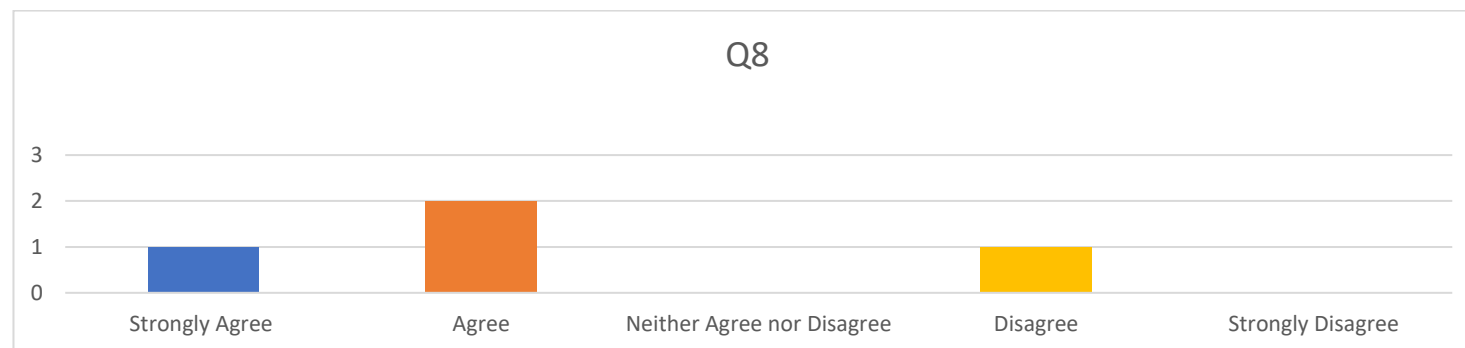


## Devon Pension Board effectiveness

7. I feel that the Devon Pension Board is currently operating effectively.



8. I feel that there are at present limitations that impact the effectiveness of the Devon Pension Board.



Members were asked, if they answered Agree or Strongly Agree to question 8, to provide an indication of what these limitations concern. The responses provided can broadly be categorised under the general headings of 'Pension Board governance, meetings and business' and 'Devon Pension Board training and events'. Members were also asked for any further comments, or detail that they would like to provide, relating to matters concerning the effectiveness of the Devon Pension Board, for which a summary of anonymised responses have been provided to Devon Pension Board management for consideration.

Complimentary comments noted included: "*The administrative support to the Board is very good and dates of meetings and background reading is circulated in good time. The meetings are inclusive and all contributions are welcomed*". In relation to Peninsula Pensions teams administration "*...The pensions team do an excellent job given resources and challenges they have faced e.g. new system, merger*" and in relation to wider Devon Pension Fund management of pensions pooling arrangements (Brunel) "*The Brunel Partnership was managed very well*". In regard to Board Member training "*The 'away days' have been excellent*".