

Annual Internal Audit Report 2018/19 and the proposed Internal Audit Plan 2019/20

Report of the County Treasurer

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

Recommendations:

- (a) the Committee formally accepts the Annual Internal Audit Report for 2018/19.**
- (b) the Committee formally approves the Internal Audit Plan for 2019/20.**
- (c) members authorise the Assistant County Treasurer Investments to execute the Service Level Agreement relating to the Internal Audit Plan.**

1. Annual Internal Audit Report – 2018/19

- 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. This is set out in the Annual Report at Appendix 1.
- 1.2 Overall, and based on work performed during 2018/19, Internal Audit can provide substantial assurance on the adequacy and effectiveness of the Fund's internal control environment. Further explanation of this is provided in the Annual Report.

2. Internal Audit Plan 2019/20 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 are carried out in accordance with the Accounts 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 providing assurance that financial and other systems are operating effectively and in line with legislation and the Authority's financial regulations. This is achieved through two audit plans: one for the Devon Pension Fund and one for Peninsula Pensions. At client request, a number of joint audits will be undertaken in 2019/20.
- 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, Torbay, Plymouth, Torridge and Mid Devon councils constituted under section 20 of the Local Government Act 2000.

- 2.4. The audit plans for the financial year 2019/20 allow for up to 40 days of internal audit support for the Pension Fund and 45 days of internal audit support for Peninsula Pensions. Further detail is set out in Appendix 1

3. Other relevant information

- 3.1. The Devon Pension Board has previously considered the above issues (i.e. the Internal Audit Report for 2018/19 and proposed Internal Audit plan for 2019/20) and agreed both reports subject to a recommendation to the Investment and Pension Fund Committee that the audit plans reference internal audit recommendation monitoring/tracking arrangements.
- 3.2. Reference to internal audit recommendation monitoring/tracking arrangements is included within the updated 2019/20 internal audit plan.

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 2018/19
and
PROPOSED INTERNAL AUDIT PLAN 2019/20

Section 1 - ANNUAL INTERNAL AUDIT REPORT 2018/19

1 INTRODUCTION

- 1.1 The following report sets out the background to the internal audit service provision, reviews work undertaken in 2018/19, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.
- 1.2 This report will support 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 Service for the Devon Pension Fund (the Fund) is delivered by the Devon Audit Partnership.

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 and provides an opinion on the adequacy and effectiveness of the Fund's internal control environment. The report outlines the level of assurance that we can provide, based on the internal audit work completed during this 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, 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 2018/19, 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.
- 3.3 Definitions of annual assurance opinions are shown in **Appendix B**.

4 INTERNAL AUDIT COVERAGE 2018/19

- 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 2018/19 has included completion of 6 audits (one of which was a joint audit with DPF and PP) and two audit advice briefing notes. 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 have also provided in-year audit advice to management including in relation to members self-service bank changes and employer contribution forms.



Key – DPF = Devon Pension Fund PP = Peninsula Pensions

Areas Covered		Stage	PF or PP	Level of Assurance
1	Communication with Stakeholders (joint audit)	Final	DPF	Good Standard
2	Effectiveness of the Devon Pension Board	Final	DPF	Good Standard
3	Custodian Arrangements	Final	DPF	High Standard
4	Responsible Investment	Final	DPF	High Standard
5	Communication with Stakeholders (as above for DPF)	Final	PP	Good Standard
6	GDPR Compliance	Final	PP	Good Standard
7	Death in Service / Death of Pensioners	Final	PP	Good Standard
8	Audit advice provided to management in relation to audit review of new training plan processes	N/A	PP	N/A
9	Audit advice provided to management in relation to audit review of new internal quality check processes	N/A	PP	N/A

- 4.3 Our reviews this year and in prior years provide 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.
- 4.4 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**.
- 4.5 We note that Devon Pension Fund management take regular reports to the Devon Pension Board (February and April 2019), with an Audit Action Log created to track progress and completion of audit actions including a log of actions requested by the Board. We note that Members have commended this approach in helping ensure execution of identified actions.
- 4.6 Devon Audit Partnership also maintain records of progress against agreed actions.
- 4.7 Definitions of assignment assurance opinions are shown in **Appendix C**.

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 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 2018/19 to assist them with compilation of their individual annual governance assurance statements. No significant weaknesses were identified in these reviews.
- 5.4 Overall, and based on work performed during 2018/19, Internal Audit can provide **substantial assurance** on the adequacy and effectiveness of the Fund's internal control framework.

Wider Assurance Received

- 5.5 The Devon Audit Partnership 2018-19 Annual Audit Report to Devon County Council, provided an overall assurance opinion of 'Substantial Assurance' on the adequacy and effectiveness of the Authority's internal control framework based on work performed during 2018/19 and audit experience from previous years. This included review of DCC Corporate key financial systems and controls, including areas of Finance, HR, Digital Transformation and Business Support.
- 5.6 External Audit (Grant Thornton UK LLP) annual audit letter to Devon County Council year ending 31 March 2018, stated that Grant Thornton gave an unqualified opinion on the pension fund accounts of Devon Pension Fund on 31 July 2018. Grant Thornton reported the key issues from audit of the Pension Fund accounts to the Audit Committee in July 2018.
- 5.7 Brunel Pension Partnership Limited (BPP), Annual Report and Financial Statements for the year ended 30 September 2018, includes the independent Auditor's (Grant Thornton UK LLP) report to the members of the BPP. Areas reviewed included the financial statements of BPP and the strategic report and the directors' report.

Section 2 - INTERNAL AUDIT PLANS 2019/20

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 key systems, both financial and non-financial, 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. 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 key 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 2019/20 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 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 Any significant findings from the previous year's audit work will be reviewed to ensure that agreed recommendations have been implemented and are effective.
- 3.4 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.
- 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 made available to the External Auditor for their information.

5 2019/20 PLANS

- 5.1 The following table sets out the planned internal audit work for 2019/20. 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.
- 5.2 The plans for both the Devon Pension Fund and Peninsula Pensions include following up of recommendations made previously at the next audit of that function or as part of other audits where there are links between functions / recommendations. This activity is shown within 'Audit Planning, Advice and Reporting' in the audit plan tables below, and briefly described at 4.6 in Section 1 of this report.
- 5.3 As detailed at 4.5 in Section 1 of this report, management track progress and completion of audit actions and report to the Devon Pension Board

Devon Pension Fund Plan 2019/20

Audit risk areas	Days
1. Admission and Departure of Employers to the Fund (DPF/PP)*	5
2. Employer Contributions (DPF)	8
3. Governance Arrangements - Effectiveness of the Devon Pension Board (2018/19 audit follow-up) and Effectiveness of the Investment & Pension Fund Committee (DPF)	10
4. Pensions Regulator Code of Practice 14 Compliance, including validation of completed self-assessment (DPF/PP)*	6
5. Actuarial Valuation (DPF/PP)*	5
6. Audit Planning, Advice and Reporting, to include internal audit recommendation tracking and monitoring.	6
Total days	40

- 5.4 The cost of these days will be £11,680. Additional support will be provided as and when required. Our standard daily rate for this work will be £292, although specialist support may be at a different rate.

Peninsula Pensions Plan 2019/20

Audit risk areas	Days
1. Admission and Departure of Employers to the Fund (DPF/PP)*	5
2. Annual Reporting Compliance (PP)	7
3. Payroll and Immediate Payment System (PP) (brought forward at client request from 2018/19)	10
4. Interfacing of submission of employer data with the Pensions administration system and use of Employer Self-Service (PP)	6
5. Pensions Regulator Code of Practice 14 Compliance, including validation of completed Self-Assessment (DPF/PP)*	6
6. Actuarial Valuation (DPF/PP)*	5
7. Audit Planning, Advice and Reporting, to include internal audit recommendation tracking and monitoring.	6
Total days	45

* Denotes joint DPF/PP audit and for which DPF and PP days will be combined in total.

- 5.5 The cost of these days will be £13,140. Additional support will be provided as and when required. Our standard daily rate for this work will be £292, although specialist support may be at a different rate.

Robert Hutchins
 Head of Devon Audit Partnership
 June 2019

Executive Summaries for audits undertaken in 2018/19

DPF & PP: Communication with Stakeholders

The Devon Pension Fund Communications Policy was found to be written in accordance with the applicable sections of the LGPS Regulations 2013. We have recommended inclusion of references to the General Data Protection Regulations and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, along with clearer reference to the availability of the document in other formats.

The Policy is supported by internal strategy and planning documents, which were found to be current, identified key stakeholders and prioritised communication.

Communications and engagement were found to be sufficient and effective although we did note that the annual employers' consultative meeting did not take place in 2017 due to prioritising Brunel engagement.

A number of recommendations have been made to enhance the existing policy and strategy documents, support further future engagement and increase the benefits from the websites.

DPF: Effectiveness of the Devon Pension Board

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.

DPF: Custodian Arrangements

Devon Pension Fund (DPF) transfer of the custody of investment assets from Northern Trust to State Street took effect on 3 April 2018. Assurances regarding the credit worthiness of State Street were provided by Brunel and the procurement framework required that the Fund assets would be protected in the event of insolvency of the Custodian.

We understand that the Custodian is subject to regular review and oversight as part of Brunel Pension Partnership obligations under FCA handbook requirements, including on-site due diligence, relationship management meetings and regular KPI monitoring.

The timing of transition was selected by DPF, to minimise impact on the production of the Fund's annual report and accounts. We have received management assurance that the transition of custody arrangements to State Street took effect as planned.

There are sufficient mechanisms in place for Devon Pension Fund scrutiny of Custodian arrangements and performance, and these include regular and timely reporting in relation to the transfer of the custody arrangements and performance reporting in relation to the Fund.

The DPF Risk Register incorporates risks in relation to the Custodian and is subject to regular review and update by management and members.

DPF: Responsible Investment

The Devon Pension Fund (DPF) Investment Strategy Statement (ISS) reflects the requirements of the LGPS Management and Investment of Funds Regulations 2016 and makes provision for responsible investment.

Expectations in relation to external investment managers considering Environmental, Social and Governance (ESG) risks in making investment decisions and engaging with invested companies is set out in the ISS and reported in the Annual Report and Accounts.

Controls are seen to be in place to mitigate against failure of the fund to comply with Responsible Investment requirements. Whilst voting records show that Local Authority Pension Fund Forum (LAPFF) recommendations are not always followed, including in relation to ESG matters, DPF work with investment managers to explore the reasons for this.

It is noted that DPF plan to work with Brunel to further develop reports on stewardship and to measure the carbon footprint DPF investments.

Brunel has Responsible Investment and Stewardship policies in place, and we note that the DPF has now received confirmation from the FRC that the Fund's statement to the UK Stewardship Code meets the reporting requirements of tier 1 signatory status; DPF management will want to review the revised Code when published

PP: GDPR Compliance

The GDPR Project Plan was found to have been developed and implemented taking into account relevant legislation, regulation and guidance. The project was managed at a senior level and was adequately resourced.

We found that the Plan had been largely delivered with remaining tasks in relation to historic hard copy and electronic data, population of the risk register, and completion of data protection impact assessments. Identification of and required actions resulting from third party responses to surveys and consideration of the implications for data held outside of the EEA in relation to pension payments also needs to be taken forward.

Management have provided assurances that they are adequately resourced to maintain ongoing compliance now that the new requirements are embedded as business as usual, with a caveat in relation to addressing the historic records.

PP: Death In Service / Death of Pensioners

System workflow processes are effectively used to manage the process following notification/identification of the death of an LGPS scheme member or employee, and these processes include secondary review and approval prior to data being processed for payment.

Our testing confirmed that death notifications are processed timely and accurately, and payments are subject to approval in line with the usual Finest system controls.

We did, however, find that at the time of audit there were no benefits team procedure notes to support the workflow process and that training may improve performance. We note that the intention of implement internal QC processes in early 2019 and acknowledge that this will also support improved performance.

We also noted further opportunities to facilitate prompter action in relation to deaths thereby reducing the risk of overpayments to members / pensions; these are use of the National Insurance database to ensure that members do not have other benefits in other schemes (Regulation 40 (5)), regular NFI matching / screening, and widening on line notification of deaths for other areas outside of the DCC Tell Us Once service.

Definitions of Annual Assurance Opinions

Assurance Opinion	Definition
Full Assurance	Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed.
Substantial Assurance	Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.
Limited Assurance	Inadequate risk management arrangements and weaknesses in design, and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in a number of areas reviewed.
No Assurance	Risks are not mitigated and weaknesses in control, and /or consistent non-compliance with controls could result / has resulted in failure to achieve the organisation's objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected.

Definitions of Audit Assignment Assurance Opinions

Assurance Opinion	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.