

## **INTERNAL AUDIT REPORT – INVESTMENT & PENSION FUND COMMITTEE GOVERNANCE ARRANGEMENTS**

### **Report of the County Treasurer**

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.
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**Recommendation: That members note the internal audit opinion that the Investment & Pension Fund Committee Governance Arrangements contain a good standard of internal control.**

### **1. Introduction**

- 1.1 As part of the agreed annual internal audit plan, a review of the Investment & Pension Fund Committee governance arrangements was undertaken. Devon Audit Partnership would like to thank Committee members for taking part in the survey.
- 1.2 The review included a follow-up to the 2018-19 Devon Pension Board Governance Arrangements audit review, as requested by the Pension Board in February 2019.

### **2. Audit findings**

- 2.1 The overall conclusion from our work was that a **Good Standard** of control was in place. The detailed audit report, showing all our findings, is attached.
- 2.2 We found the Devon Pension Board and Investment & Pension Fund Committee have been set up and can be seen to be operating in accordance with applicable legislation, regulation and guidance. A satisfactory level of information is provided to Members, and where not restricted, this information along with meeting minutes is publicly published.
- 2.3 Some Members provided their view in relation to the effectiveness of the Committee, and whilst largely positive, there are areas where existing practice could be enhanced to increase the overall effectiveness. The responses to survey questions are provided in Appendix C of the attached report.

### **3. Conclusion**

- 3.1. The Committee is asked to note the audit report attached at Appendix 1.
- 3.2. The audit report will be provided to Devon Pension Board members alongside the Internal Audit annual outturn report.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers Nil

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There are no equality issues associated with this report



# Appendix 1



devon**audit**partnership

Internal Audit

## Final Internal Audit Report

Effectiveness of Devon  
Pension Board follow-up,  
and Effectiveness of  
Investment and Pension  
Fund Committee

Devon Pension Fund

*January 2020*

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## **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 September 2018 internal audit review of Devon Pension Board governance arrangements was reported to the Devon Pension Board in February 2019. That review provided an audit opinion of 'Good Standard' in relation to Devon Pension Board governance arrangements.

This 2019-20 audit review includes a follow-up to the agreed actions from the Devon Pension Board 2018-19 review and provides for a review of Investment and Pension Fund Committee governance arrangements.

The Investment and Pension Fund Committee oversees the operation of the Devon Pension Fund on behalf of Devon County Council. The County Council's Constitution sets out the delegated role of the Investment and Pension Fund Committee as follows:

*"To discharge the duties of the Council as Administering Authority of the Pension Fund and to review and approve the annual statement of accounts of the Devon Pension Fund, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from any audit that need to be brought to the attention of the Council. To review and approve the annual statement of the Pension Fund accounts."*

## 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 audit recommendations from the 2018-19 Effectiveness of the Devon Pension Board audit have been progressed by management. Completion of the Pensions Regulator on-line training toolkit remains to be completed by some Pension Board and Investment and Pension Fund Committee members.

We consider that the Devon Pension Board and Investment and Pension Fund Committee have been set up and can be seen to be operating in accordance with applicable legislation, regulation and guidance. Confirmation of process is required regarding declaration of interests in relation to membership of the Investment and Pension Fund Committee.

The remit and function of the Investment and Pension Fund is established in the Council's Constitution, and is contained in the DPF Governance Policy and Compliance statement.

Some Members provided their view in relation to the effectiveness of the Committee, and whilst largely positive, there were areas noted 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 aim to provide added value, in relation to consideration of the robustness of the Devon Pension Fund governance and reporting arrangements.

## 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	Effectiveness of Devon Pension Board management action plan not progressed	Good Standard
2	Non-compliance with Legislation, Regulation and Guidance	Good Standard
3	Inability to determine policy or make effective decisions	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 an updated audit opinion on the governance control framework concerning the effectiveness of the Devon Pension Board, and an audit opinion on the governance control framework concerning the effectiveness Investment and Pension Fund Committee.

## **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: Effectiveness of Devon Pension Board management action plan not progressed	Level of Assurance
<p><b>Opinion Statement:</b> The audit recommendations from the 2018-19 Effectiveness of the Devon Pension Board audit have been progressed by management. Completion of the Pensions Regulator on-line training toolkit remains to be completed by some Pension Board and Investment and Pension Fund Committee members.</p> <p>The Pension Board now meets quarterly, and review of attendance is now a standing item of Devon Pension Board meeting agendas, as is the Board's future work programme. Devon Pension Fund management take regular updates to the Board detailing the progress of audit recommendation actions, and other actions requested by the Board.</p> <p>We note that a member training and handbook document is currently being drafted by Devon Pension Fund management. This will include reference to the Pensions Regulator Code of Practice 14, and the knowledge and understanding requirements of Pension Board members. The handbook will be of use to Board and Committee members.</p>	<p><b>Good Standard</b></p>	
No.	Observation and implications	
1.1	<p>Following Member feedback on the level of training/support around the application of pensions law, scheme rules and administration policies, and to address training requirements in general, we understand that Devon Pension fund management undertook a training needs analysis in February 2019 to inform future training provision.</p> <p>We understand that Board and Committee members are canvassed regarding provisional training dates.</p> <p>As noted within the DPF 2018/19 Training Report and 2019/20 Training Plan, members have completed, or are in the process of completing The Pension Regulator on-line training toolkit.</p> <p>The toolkit includes a series of online learning modules and resources which have been developed to help members meet the minimum level of knowledge and understanding introduced in the Pensions Act 2004.</p>	

	Recommendation	Priority	Management response and action plan including responsible officer
1.1.1	It is recommended that management continue to monitor, and support, Devon Pension Board and Investment and Pension Fund Committee member completion of the Pensions Regulator on-line training toolkit; and confirm to Board and Committee members which toolkits should be completed i.e. whether this is the Pensions Regulator public service pension scheme on-line toolkit (7 learning modules) and relevant modules of the Pensions Regulator trustee toolkit ( i.e. which of the 11 available learning modules members are required to complete, it would appear 9 are applicable to Defined Benefit schemes).	Medium	Agreed. This can be actioned and possibly alongside the scheduled annual training needs analysis exercise to be undertaken. The Pensions Regulator Public Service Pension Scheme on-line toolkit is recommended for completion and certain elements (relating to Investments) of the Pensions Regulator Trustee on-line toolkit, the latter being of particular relevance to members of the Investment & Pension Fund Committee. Investment Manager (by 31 March 2020).
1.1.2	Once the Member training and handbook document is completed and disseminated to Members, it is recommended that Member feedback is requested.	Opportunity	Agreed, any feedback on the initial document, when complete, will be taken into account in future updates. Investment Manager.



2. Risk Area Covered: Non-compliance with Legislation, Regulation and Guidance	Level of Assurance
<p><b>Opinion Statement:</b></p> <p>We consider that the Devon Pension Board and Investment and Pension Fund Committee have been set up and can be seen to be operating in accordance with applicable legislation, regulation and guidance.</p> <p>The Public Sector Pensions Act 2013 introduced a requirement for Local Government Pension Scheme (LGPS) Administering Authorities to establish a Pension Board which is in place.</p> <p>The Pensions Act 2004 requires that Pension Board members have knowledge and understanding of the law relating to pensions and trusts, and the principles relating to the funding of, and investment of the assets of, occupational pension schemes. The degree of knowledge must be appropriate for the purposes of enabling the individual to properly exercise the function in question. This area is also covered by the Code of Practice 14 (see below) and our previous audit in relation to the Effectiveness of the Devon Pension Board, which was followed up in Risk 1.</p> <p>The DPF Governance Policy &amp; Compliance Statement refers to applicable legislation and regulation and sets out governance arrangements for the Devon Pension Fund, as required by regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).</p> <p>The same statement sets out DPF compliance with guidance from the Secretary of State for Communities and Local Government. All applicable areas are noted as 'Fully Compliant' except for 'that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure', which is noted as partially compliant due to representatives of scheme members not having voting rights.</p> <p>We have separately audited and reported on compliance with the Code of Practice 14. For completeness, we note here that the PP self-assessment of areas relevant to this review found 86% full compliance for 'Scheme Governance - Knowledge and understanding required by pension board members' and 'Conflicts of interest and representation', where the former is being addressed through the training analysis, training plan and completion of the Pensions Regulator on-line training toolkit as mentioned in Risk 1 to this report.</p> <p>The self-assessment found 80% full compliance in relation to 'Publishing information about schemes' and notes other information that should be published.</p>	<p><b>Good Standard</b></p>

3. Risk Area Covered: Inability to determine policy or make effective decisions	Level of Assurance
<p><b>Opinion Statement:</b></p> <p>As mentioned in Risk 1 and 2, arrangements have been established to ensure Investment and Pension Fund Committee Members have appropriate knowledge and skills to carry out their role, and we have made a related recommendation at Risk 1.</p> <p>Register of interest forms are published by DCC for DCC Councillors. For non-DCC Councillors, register of interest forms as published on their council webpages will apply, but do not necessarily note Investment and Pension fund Committee membership.</p> <p>For non-Councillor members of the Investment and Pension Fund Committee we understand that Democratic Services hold but do not publish a declaration of interest form for these members.</p> <p>We noted that there is not currently a future work programme for the Investment and Pension Fund Committee, as there is for the Devon Pension Board, this is however in line with other Council Regulatory Committees.</p> <p>Investment and Pension Fund Committee meeting agenda, reports and minutes are published in advance of relevant meetings and appear to provide sufficient level of detail to allow the Committee to note the information provided or to make decisions. This was also confirmed in our survey of Members.</p> <p>The role and remit of the Investment and Pension Fund Committee is established in the Council's Constitution, and is contained within the DPF Governance Policy and Compliance Statement. Confirmation of expectations for attendance at Committee meetings and training events is something that the Committee might like to consider going forward, in terms of possible alignment with the Pension Board, however noting that governance and appointment arrangements for the Committee differ from those of the Board.</p> <p>Investment and Pension Fund Committee meeting agenda, reports and minutes are published on the Democracy in Devon webpages. These are published in advance of relevant meetings and appear to provide sufficient level of detail to allow the Committee to note the information provided or to make decisions on matters as required.</p> <p>Investment and Pension Fund Committee Members completed an audit survey in relation to the effectiveness of the Committee. All respondents agreed that the Committee is operating effectively.</p> <p>Whilst the responses were largely positive, there were some examples provided of areas where limitations may exist and where existing practice could be enhanced to increase the overall effectiveness of the Committee. A summary of responses is provided for management review at Appendix C.</p>	<p><b>Good Standard</b></p>

No.	Observation and implications		Priority	Management response and action plan including responsible officer
3.1	<p>In line with the requirements of the Members' Code of Conduct, register of interest forms are published on the Democracy in Devon webpages for DCC Councillors. For non-DCC Councillors, register of interest forms as published on their council webpages will apply, but do not necessarily note Investment and Pension fund Committee membership.</p> <p>For non-Councillor members of the Investment and Pension Fund Committee we understand that Democratic Services hold but do not publish a declaration of interest form for these members. This has not been evidenced by Devon Audit Partnership.</p> <p>There is not currently a future work programme for the Investment and Pension Fund Committee, this is however in line with other Council Regulatory Committees.</p>		Medium	<p>Democratic Services view is that register of interest forms for other local authority reps on the Committee should not be published by DCC, as they should be covered by the register of interest forms published on their host authority's website.</p> <p>However, forms for the non-DCC non-local authority members should be published by DCC. Democratic Services will pursue this issue.</p>
3.1.1	<p>Devon Pension Fund management should raise with Democratic Services whether Investment and Pension Fund Committee membership should be listed, for non-DCC Councillors, on Councillor register of interest forms held on other Councils' websites, or whether declaration of interest forms for non-DCC Councillors should be published on the Investment and Pension Fund Committee Democracy in Devon webpage.</p> <p>All register of interest forms should be completed, or confirmed, annually.</p>			
3.2	<p>We sought the views of Investment and Pension Fund Committee members in relation to this risk area and a summary analysis of member responses is attached at Appendix C to this report.</p> <p>All respondees agreed that the Committee is operating effectively. Members also agreed that the level of on-going training and support, and the information provided in advance of Committee meetings were all sufficient.</p> <p>The areas where the potential for improvement were indicated by some respondees related to the sufficiency of induction training and opportunity to provide question and challenge at Committee meetings.</p>			

	<p>A comment was made, in relation to the effectiveness of the Committee, that the process of transferring assets to Brunel brings a change in the orientation of the Committee, but it was acknowledged that in the longer term the resulting impact may be a better way of making use of Committee time and effort. It was noted however that the Committee is well-run.</p> <p>Additional comments were also made in relation to the effectiveness of the Committee, as below:</p> <ul style="list-style-type: none"> <li>- Consideration of voting arrangements for Pension Fund member representatives</li> <li>- Whether the Committee is committed to addressing or playing its part in tackling climate change</li> <li>- That a member's preparedness to fulfil their role on the Committee will depend in part on their knowledge prior to membership of the Committee</li> <li>- Member training ideally will be progressive and develop depth of knowledge over time, however this is complicated by changes in membership</li> </ul> <p>Although only a small number of 'limitations' and 'concerns' are identified, the responses provide opportunity to enhance existing arrangements.</p>		<p>Management response and action plan including responsible officer</p> <p>Agreed. Investment Manager / Assistant County Treasurer - Investments. (By 30 June 2020)</p> <p>It is noted that action is being taken by DCC, and also by Brunel Pension Partnership, in relation to actions being taken to tackle climate change.</p> <p>Furthermore, the constitution of the Committee with regard to voting rights has been discussed in the past with the Committee.</p>
<p>3.2.1</p>	<p>The responses to the survey as shown in Appendix C should be reviewed and taken forward as appropriate by management.</p>	<p>Priority</p> <p>Medium</p>	

## 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.
Official: Sensitive	A limited subset of OFFICIAL information could have more damaging consequences if it were lost, stolen or published in the media. This subset of information should still be managed within the 'OFFICIAL' classification tier, but may attract additional measures to reinforce the 'need to know'. In such cases where there is a clear and justifiable requirement to reinforce the 'need to know', assets should be conspicuously marked: 'OFFICIAL-SENSITIVE'. All documents marked OFFICIAL: SENSITIVE must be handled appropriately and with extra care, to ensure the information is not accessed by unauthorised people.

## Summary Analysis of Member responses to Investment & Pension Fund Committee internal audit questionnaire

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

For questions 1 and 2, 7 responses were received.

### Appointment to the Investment and Pension Fund Committee

Q1. The appointment process, including where appointment was made by political group leaders, provided me with a sufficient level of information in relation to the expectations and requirements of the role of member of the Investment and Pension Fund Committee.

● Strongly Agree	0
● Agree	5
● Neither Agree nor Disagree	2
● Disagree	0
● Strongly Disagree	0



### Training provided to you as a member of the Investment and Pension Fund Committee

Q2. The induction training provided to me by Devon Pension Fund officers, on appointment as a member of the Investment and Pension Fund Committee, was sufficient for me to effectively conduct my role as Investment and Pension Fund Committee member, including in relation to required knowledge of Devon Pension Fund scheme rules, and investment and administration policies.

● Strongly Agree	4
● Agree	2
● Neither Agree nor Disagree	0
● Disagree	1
● Strongly Disagree	0



Q3. The level of on-going training and support, including in relation to i) the requirements of applicable legislation, regulation and guidance, and ii) the application of any amendments to Devon Pension Fund scheme rules, and investment and administration policies, is sufficient for me to effectively conduct my role as Investment and Pension Fund Committee member.

Strongly Agree	5
Agree	3
Neither Agree nor Disagree	0
Disagree	0
Strongly Disagree	0



### Investment and Pension Fund Committee business, meetings, and provision of information

Q4. Papers and additional supporting documents are provided to me in a timely manner in advance of Investment and Pension Fund Committee meetings. And these are provided in a suitable format.

Strongly Agree	6
Agree	2
Neither Agree nor Disagree	0
Disagree	0
Strongly Disagree	0



Q5. The level and depth of information provided within Investment and Pension Fund Committee papers and additional supporting documentation is sufficient for me to effectively conduct my role as Investment and Pension Fund Committee member, including in relation to setting Devon Pension Fund policies, in line with law and regulation, and review and approval of the Investment Strategy Statement and the Devon Pension Fund annual statement of accounts.

Strongly Agree	5
Agree	3
Neither Agree nor Disagree	0
Disagree	0
Strongly Disagree	0





Q6. There is adequate opportunity for me to provide question and challenge at Investment and Pension Fund Committee meetings.

Strongly Agree	4
Agree	3
Neither Agree nor Disagree	0
Disagree	1
Strongly Disagree	0



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### Investment and Pension Fund Committee effectiveness

Q7. I feel that the Investment and Pension Fund Committee is currently operating effectively.

Strongly Agree	3
Agree	5
Neither Agree nor Disagree	0
Disagree	0
Strongly Disagree	0



Q8. I feel that there are at present limitations that impact the effectiveness of the Investment and Pension Fund Committee.

Strongly Agree	0
Agree	2
Neither Agree nor Disagree	0
Disagree	5
Strongly Disagree	1



Members were asked, if they answered Agree or Strongly Agree to Q8, to provide an indication of what these limitations concern.

Comments provided in relation to the two instances of agreement that there are at present limitations, relate to

- i) Committee members could be given more opportunity to raise concerns and
- ii) The process of transferring assets to Brunel brings a change in the orientation of the Committee, but where it was acknowledged that in the longer term the resulting impact may be a better way of making use of Committee time and effort.

Members were also asked for any further comments, or detail that they would like to provide, relating to matters concerning the effectiveness of the Committee. A summary of anonymised responses is included below for management consideration.

- Pension Fund member representatives to take on responsibility to vote on issues so that all Committee members have a vote.
- Concern that the Committee is not committed to addressing or playing its part in tackling climate change.
- A member's preparedness to fulfil their role on the Committee will depend in part on their knowledge of investments and pensions prior to membership of the Committee.
- Member training needs to equip each member with a basic understanding of their responsibilities, the legislative framework, administration and the nature of investment assets. Ideally this will be progressive and develop depth of knowledge over time, however this is complicated by changes in membership of the Committee. Revision is good, access to more detailed knowledge of the operation of the financial world in the city and globally will be appreciated.

It was noted that the Committee is well-run, and a positive comment was made in relation to training and briefing provided. It was also noted by a Committee member who attends non-Devon Pension fund training sessions, that they feel able to share experience with the Committee.