

Annual Internal Audit Report 2019/20 and the proposed Internal Audit Plan 2020/21

Report of the County Treasurer

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

- (a) the Committee formally accepts the Annual Internal Audit Report for 2019/20.**
- (b) the Committee formally approves the Internal Audit Plan for 2020/21.**
- (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 – 2019/20

- 1.1 The Head of Devon Audit Partnership is required to provide the Authority with an assurance opinion 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 2019/20, Internal Audit can provide **significant 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 2020/21 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.
- 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, Mid Devon, South Hams, West Devon and North Devon councils constituted under section 20 of the Local Government Act 2000.

- 2.4. The audit plans for the financial year 2020/21 allow for up to 31 days of internal audit support for the Pension Fund and 54 days of internal audit support for Peninsula Pensions, as with agreement from both Devon Pension Fund and Peninsula Pensions management the 85 days internal audit provision has been flexed between the areas to ensure our work is targeted by risk and business need. Further detail is set out in Appendix 1.
- 2.5 We note the ongoing situation with Covid-19 and its potential impact to resources within the Devon Pension Fund, Peninsula Pensions and the Devon Audit Partnership. We will liaise directly with management regarding audit prioritisation and any impacts on the audit timetable as the situation unfolds

3. Other relevant information

- 3.1. The Devon Pension Board meeting of 16th April 2020 was cancelled, due to the coronavirus (Covid-19) situation, and as such the Internal Audit Report for 2019/20 and proposed Internal Audit plan for 2020/21 has been shared with Devon Pension Board members, for comment, by email. Details of comments received are summarised at 3.2 and 3.3 below.
- 3.2 A Devon Pension Board member requested information on the progress of audits. It has been agreed that this information will be prepared, by the Investment Manager, for the next meeting of the Board.
- 3.3. Some Board members also commented on the Governance Arrangement final audit report 2019/20, which was presented to the February Investment & Pension Fund Committee meeting and circulated to Devon Pension Board members by email. Comments and observations received related to progress regarding completion of The Pensions Regulator on-line training toolkit by Pension Board and Investment & Pension Fund Committee members and publication of Declarations of Interest for all Board and Committee members.

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 2019/20
and
PROPOSED INTERNAL AUDIT PLAN 2020/21

Section 1 - ANNUAL INTERNAL AUDIT REPORT 2019/20

1 INTRODUCTION

- 1.1 The following report sets out the background to the internal audit service provision, reviews work undertaken in 2019/20, 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 2019/20, 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 2019/20

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 2019/20 has included completion of 7 audits (3 of which were joint audits across both Devon Pension Fund and Peninsula Pensions). 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 approaches to quality assurance and quality control.



Key – DPF = Devon Pension Fund PP = Peninsula Pensions

Areas Covered		Stage	PF or PP	Level of Assurance
1	Admission and Departure of Employers to the Devon Pension Fund (joint audit)	Final	DPF/PP	Good Standard
2	Annual Reporting Compliance	Final	PP	Good Standard
3	Employer Contributions	Final	DPF	Good Standard
4	The Pensions Regulator Code of Practice 14 Compliance (joint audit)	Final	DPF/PP	Good Standard
5	Governance Arrangements - Effectiveness of the Devon Pension Board (2018-19 audit follow-up) and Effectiveness of the Investment and Pension Fund Committee	Final	DPF	Good Standard
6	Interfacing and Submission of Employer Data and Use of Employer Self-service	Final	PP	Good Standard
7	Actuarial Valuation (joint audit)	Final	DPF/PP	Good Standard

- 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 with an Audit Action Log created to track progress and completion of audit actions including a log of actions requested by the Board.
- 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 2019/20 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 2019/20, Internal Audit can provide **significant assurance** on the adequacy and effectiveness of the Fund's internal control framework.

Wider Assurance Received

- 5.5 The Devon Audit Partnership 2019/20 Half Year Internal Audit Report to Devon County Council, provided an overall assurance opinion of 'Significant Assurance' on the adequacy and effectiveness of the Authority's internal control framework based on work performed during 2019/20 at that time and audit experience from previous years. This included review of Corporate key financial systems and controls, including areas of Finance, HR, Digital Transformation and Business Support. The Annual Internal Audit Report will be presented to the July 2020 Audit Committee meeting.
- 5.6 External Audit (Grant Thornton UK LLP) annual audit letter to Devon County Council year ending 31 March 2019, stated that Grant Thornton gave an unqualified opinion on the pension fund accounts of Devon Pension Fund on 30 July 2019. Grant Thornton reported the key issues from audit of the Pension Fund accounts to the Audit Committee in July 2019.
- 5.7 Brunel Pension Partnership Limited (BPP), Annual Report and Financial Statements for the year ended 30 September 2019, 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 2020/21

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 2020/21 allows for up to 31 days of internal audit support for the Pension Fund and 54 days of internal audit support for Peninsula Pensions, as with agreement from both Devon Pension Fund and Peninsula Pensions management the 85 days internal audit provision has been flexed between the areas to ensure our work is targeted by risk and business need.
- 3.2 We note the on-going situation with Covid-19 and its potential impact to resources within the Devon Pension Fund, Peninsula Pensions and the Devon Audit Partnership. We will continue to liaise directly with management regarding audit prioritisation and any impacts on the audit timetable.
- 3.3 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.
- 3.4 Any significant findings from the previous year's audit work will be reviewed to ensure that agreed recommendations have been implemented and are effective.
- 3.5 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.
- 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 2002/21 PLANS

- 5.1 The following table sets out the planned internal audit work for 2020/21. 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 2020/21

Audit risk areas	Days
1. Investment Strategy Statement	8
2. Performance Management	10
3. Risk Management and Reporting – to include review of Peninsula Pensions risks applicable to Devon Pension Fund	8
4. Audit Planning, Advice and Reporting	5
Total days	31

- 5.4 The cost of these days will be £9,238. Additional support will be provided as and when required. Our standard daily rate for this work will be £298, although specialist support may be at a different rate.

Peninsula Pensions Plan 2020/21

Audit risk areas	Days
1. First Response Team	7
2. Payroll and Immediate Payroll System	10
3. New Website review (to include Devon Pension Fund pages)	7
4. Member Self-Service	10
5. Employer Self-Service (to include follow-up to 2019-20 Interfacing and Submission of Employer Data and Use of Employer Self-Service review)	10
6. QC Processes post-implementation review	5
7. Audit Planning, Advice and Reporting	5
Total days	54

- 5.5 The cost of these days will be £16,092. Additional support will be provided as and when required. Our standard daily rate for this work will be £298, although specialist support may be at a different rate

Robert Hutchins
Head of Devon Audit Partnership
June 2020

Executive Summaries for audits undertaken in 2019/20

DPF/PP: Admission and Departure of Employers to the Devon Pension Fund

Sample testing of admissions and departures from the Fund found that internal processes had been followed and supporting documents and records of communications were largely in place.

Fund Actuary reports were present in relation to the new and departing employers tested and the figures provided were accurately reflected in admission and departure processes. Where there is a delay in joining the Fund, there is a need to clearly establish the date when a new Fund Actuary report will be required.

Whilst we found that several process documents and templates are in place, there is no single overarching document that brings together all the elements and maps the workflow between the service areas involved.

New employer admissions are generally reported to the Devon Pension Board and Investment and Pension Fund Committee, but this is not the case for academy admissions and employer departures from the Fund.

PP: Annual Reporting Compliance

Sample testing of annual reporting processes found them to be accurate and timely.

However, whilst the annual reporting processes are completed by experienced officers who were found to be familiar with the required tasks and reporting timescales, we found that there are not comprehensive process documents in place for all the annual reporting requirements.

We also identified that the requirement for internal sign-off is inconsistent, which could result in unidentified errors in annual reporting.

Linked to our findings, we have made a recommendation for the Service to consider the use and retention of checklists that would provide an audit trail for management that required tasks have been completed including internal sign off requirements as applicable.

DPF: Employer Contributions to the Devon Pension Fund

Employer contributions are collected timely, accurately recorded and correctly allocated. Monitoring of collection is in place with variances and deficits identified and notified to employers. Regular reconciliation is also established. Subsequent employer funding deficit contribution collection is also monitored, however we identified differences in approach to deficit collection and have recommended standardisation.

Additionally, we have made opportunity recommendations in relation to increasing automation of processes, annual testing of the integrity of the Pensions Contribution database and streamlining current practices for the benefit of both the Devon Pension Fund and Peninsula Pensions.

DPF/PP: The Pensions Regulator Code of Practice 14 Compliance

Peninsula Pensions and Devon Pension Fund working practices have been designed to comply with COP14, and the Service has developed an in-house recording and reporting tool for assessment against the Code requirements.

Audit review of the most recently completed self-assessment for the areas of 'Managing Risks', 'Administration' and 'Resolving Issues', found all of the required elements of the Code to be accurately included.

Sample testing found adequate supporting evidence in line with self-assessment outcomes, and there were no areas of non-compliance. For all partially compliant areas there is reference to actions planned or currently being taken, however it is currently unclear how progress against such actions, specifically in relation to the accuracy of scheme records, as set out with the Service's Data Improvement Plan and Employers' Development Plan, is being monitored.

In addition, we have recommended that an additional narrative is prepared to help demonstrate how each of the required elements of the self-assessment are being met. This is currently difficult to see without having to peruse the evidence linked to each area.

We also note that overall Code compliance has yet to be reported to the Board.

TPR has recently completed an engagement exercise with ten LGPS Funds including the Devon Pension Fund. The outcomes from the engagement have been published in a combined engagement report which is publicly available. TPR provided feedback on good practice and suggested improvements that could be made, which management will want to consider and address. The outcome has been reported to the Board.

DPF Governance Arrangements - Effectiveness of the Devon Pension Board (2018-19 audit follow-up) and Effectiveness of the Investment and Pension Fund Committee

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 Governance Arrangements 2019-20 review audit report was reported to the Investment & Pension Fund Committee in February 2020 and was due to be presented to the Devon Pension Board in April 2020, however this meeting was cancelled due to the Covid-19 situation. Alternative arrangements have therefore been made to share the report with Board members, by email.

PP: Interfacing and Submission of Employer Data and Use of Employer Self-service

The introduction of Employer Self-Service (ESS) provides processing efficiency advantages for Peninsula Pensions, however, given it will not be rolled out to large employers direct upload for these employers should be pursued, along with roll out of ESS to non LGPS clients, which will require development by the software provider.

We confirmed that access to Altair is appropriately controlled following the introduction of ESS.

It is the employers' responsibility to provide accurate data regardless of the method used, and we note the Service is taking steps to improve data through their Data Improvement Plan and via the implementation of an auto-alert to employers where data input is outside of expected parameters. However, in addition, we have made a recommendation for consideration in relation to requiring an annual data quality declaration from employers.

The 'interface' upload process is established, but we have identified opportunities for improvement in the related records maintained by the Service.

DPF/PP: Actuarial Valuation

The 2019 Actuarial Valuation is underway and nearing completion at the time of audit. As reported to the Devon Pension Board in January 2020, the Fund Actuary, Barnett Waddingham, has determined that the Fund has a funding level of 91%, up from 84% at the 2016 Valuation. The indicative results had been communicated to most Employers at the time of the audit, and final Employer contributions are due to be confirmed by the end of March 2020. The Devon Pension Fund Funding Strategy Statement was under review at the time of audit in relation to the 2019 Actuarial Valuation; and it is noted that the revised Funding Strategy Statement has since been approved.

Whilst the Actuarial Valuation process takes a project management approach that is subject to oversight by the DCC Pensions Management Group and we note that the Actuary's target for data submission was met, we have made recommendations in relation to improvements in the approach adopted particularly in relation to the related work of Peninsular Pensions.

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.
Significant 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.