

Internal Audit Report - Draft

Devon Pension Fund

Investments Team

Covid-19 Change in Working Practice

August 2021

Official



Service Objective	
To provide pension benefits for its members. The Fund's investments will be managed to achieve a return that will ensure the solvency of the Fund and provide for members' benefits in a way that achieves long term cost efficiency and effectively manages risk.	
Audit Opinion	Direction of travel
Reasonable Assurance - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	

Assurance Opinion on Risks or Areas Covered - key concerns or unmitigated risks	Level of Assurance	Direction of travel
Risk 1 Poor governance of change	Substantial Assurance	
Risk 2 Ineffective change management	Reasonable Assurance	
Risk 3 Inadequate business continuity planning	Reasonable Assurance	
These areas / risks combine to provide the overall audit assurance opinion. Definitions of the assurance opinion ratings can be found in the Appendices. The observations and findings in relation to each of these areas has been discussed with management, see the "Detailed Audit Observations and Action Plan" appendix A. This appendix records the action plan agreed by management to enhance the internal control framework and mitigate identified risks where agreed		

Introduction

Devon County Council is the administering Authority for the Devon Pension Fund. The Fund is part of the Local Government Pension Scheme and is a multi-employer defined benefit scheme. The Devon Pension Fund's primary purpose is to provide pension benefits to its members. The Fund's investments are managed to achieve a return that will ensure the solvency of the fund and provide for members' benefits in a way that achieves long term cost efficiency and effectively manages risk.

Devon Pension Fund oversees the following core areas of the fund administration (Employer Contributions, Actuarial Valuation, Investment of Surplus Funds to maximise the return, Employer & Communications, Technical & Training).

Following the Government measures put in place from March 2020 to contain and reduce the impact of Coronavirus (Covid-19) in England, The Investments Team implemented changes to enable on-going provision of services to pension scheme employers, scheme members and other stakeholders.

Executive Summary

Effective governance and strategic decision-making processes are in place in relation to the Investment team response to the Covid-19 pandemic.

Risks and mitigating actions were identified at the outset. Business Continuity arrangements were effectively put in place in March 2020 and were found to be sufficient. We would advise that the Peninsula Pensions Business Continuity Plan should be updated to include any lessons learnt from the pandemic which can benefit any future health pandemic / emergency.

With most of the Investments Team business processes being electronic, the transition to working from home, has had minimal impact, and has resulted in only minor changes needing to be made to processes and procedures. There has been no requirement to make formal changes where strategic decisions needed to be made, therefore individual members of staff have adapted any procedures as required to aid in their day-to-day practices. Formal review of these changes, however, now need to take place, and this could incorporate wider learning from Covid-19 that could in turn inform the review of the Business Continuity Plan.

We note that overall investment performance, which dipped at the beginning of the pandemic, has recovered, and continues to grow.

Staff have confirmed that any changes in working practice has not compromised delivery to business functions and deadlines have continued to be met throughout the pandemic.

The detailed findings and recommendations regarding these issues and less important matters are described in Appendix A. 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.

Management are required to agree an action plan, ideally within three weeks of receiving the draft internal audit report. Written responses should be returned to Alexis Saffin (alexis.saffin@devon.gov.uk). Alternatively, a meeting to discuss the report and agree the action plan should be arranged with the named auditors.

Issues for the Annual Governance Statement

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.

Acknowledgements

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

Detailed Audit Observations and Action Plan

1. Risk Area: Poor governance of change				Level of Assurance
				Substantial Assurance
<p>Opinion Statement:</p> <p>The DCC Covid-19 response has been managed by the Pandemic Incident Management Team (PIMT). PIMT met daily at the outset of the pandemic and any decisions, funding approval or significant policy changes need to go through PIMT to be escalated to LG8 (Leadership Group). The Finance Leadership Group (FLG) also met daily at the outset of the pandemic, with any issues or significant policy changes being taken to FLG for escalation to PIMT and LG8 if needed. The Assistant County Treasurer, Investments is part of The Finance Leadership Group (FLG).</p> <p>The Investments Senior Management Team put measures in place at the outset / emergence of the pandemic when it became known that measures would be put in place by UK Government to address Covid-19. This included completion of the Preparedness for Pandemic Risk Assessment and review of the Business Continuity Plan (BCP).</p> <p>In relation to overall changes, most staff have been working from home since March 2020 to date as was directed by DCC corporately. Several members of the Investments Team have attended the office on occasions, and a couple of colleagues have been going into the office once a week, with social distancing measures being complied with throughout. As a result of this change to staff working location, staff communications, team meetings, 1-2-1's and any performance development review meetings have had to be completed on-line. Furthermore, the annual LPGS Employers meeting has moved to online, as has Investment and Pension Fund Committee and Devon Pension Board meetings and training.</p> <p>The other main change has been the daily cash process, which has moved away from being a paper based to electronic audit trail. But overall, the impact of the pandemic on the business areas within Investments has been minimal. This is due to processes primarily being electronic, and the ongoing transfer of pension assets to Brunel has meant that there has been a reduction in the number of Fund Managers meetings needing to be held prior to and during the pandemic.</p>				
No.	Observation and Implications	Impact / Priority	Recommendation	Management Response
	No observations and recommendations recorded			

2. Risk Area: Ineffective change management				Level of Assurance
				Reasonable Assurance
<p>Opinion Statement: The Investments team has always primarily been electronically based in its activities and therefore, apart from staff having to work from home, the impact of Covid on day-to-day operational practice has been minimal. There have been no formal changes to systems, and team members have been allowed to adapt their working practice to enable processes to continue from home. It has not been necessary to implement formal change management processes. A recommendation has been made relating to producing process notes for all processes, which would provide improved business continuity and succession planning.</p> <p>Communications and support both internally to employees during the pandemic around working from home and safer working practices, and externally to employers, fund managers and other key stakeholders in relation to organisational impacts of Covid-19 was found to be sound.</p> <p>Additional measures have been put in place in support of staff wellbeing, including contact with individual staff members, regular team meetings, and setting up a team's WhatsApp group where colleagues can share social experiences / provide well-being support for each other. Investments Team colleagues have been encouraged to take part in the DCC / Devon Finance Services Health & Wellbeing Surveys and provide feedback to management in relation to any areas of concern. However, with the ongoing direction from the Chief Executive for staff to continue to work from home, the Investments Team may wish to consider undertaking a short in-house well-being survey for the team, especially where members are finding the ongoing isolation challenging.</p> <p>Regular reporting to the Devon Pension Board and Investment & Pension Fund Committee Members has continued. Service requirements have continued to be met and overall investment performance levels, which dipped at the beginning of the pandemic have recovered and are continuing to grow.</p>				
No.	Observation and Implications	Impact / Priority	Recommendation	Management Response
2.1	The Investments Team were well placed to adapt to any change in practice, with most processes already being electronic. Therefore, there has been no formal changes to business processes, and team members have been allowed to adapt their working practice to enable processes to continue from home. Therefore, to undertake formal change management processes has not been necessary for Investment Team colleagues in relation to their working practices. However, with the exception of daily cash processes, which is where the biggest change has been made, there are no procedures notes in place for business practices.	Medium	Each member of the Investments Team is advised to compile and / or update process notes for the areas of business operation they undertake, including any change in practice as a result of the pandemic.	Agreed, target date for completion 31.12.2022
2.2	Prior to the pandemic the bank reconciliation was printed off and submitted to Investments Manager for signing. However, since the pandemic reconciliations are only being recorded on an excel spreadsheets which is saved on the network. The reconciliation is no longer printed to PDF, and as a result there is no authorisation evidence of the bank reconciliation process.	Medium	Management need to re-consider whether the bank reconciliation audit trail is sufficient to provide assurance that the key control has taken place, and whether the PDF needs to be re-instated and electronically signed as authorised.	Management to send email confirmation of sign off in addition to signing spreadsheet, to act as an audit trail.

No.	Observation and Implications	Impact / Priority	Recommendation	Management Response
2.3	The processing of foreign currency journals has changed, and there is currently only one member of staff within the Investments Team who knows the process. During a period of sickness, this caused a backlog in processing the journals as there was no-one to provide the necessary cover.	Medium	Management needs to consider training up another member of the team to undertake the foreign currency journals, and therefore, provide cover in the event of absence.	Agreed Training & knowledge sharing has commenced.
2.4	<p>Investments colleagues have been encouraged to take part in the DCC / Devon Finance Services Health & Wellbeing Surveys. In addition, an in-house survey relating to working from home has been conducted by the Service, and the results from which will be reviewed by the Senior Management Team.</p> <p>However, discussions with staff, has found that some members have found the isolation from working from home challenging, and with the ongoing direction from the Chief Executive for staff to continue to work from home, the Investments Team may wish to consider undertaking a short in-house well-being survey for the team.</p>	Low	Management may want to consider undertaking a short in-house wellbeing survey for investments team members and use this to inform future direction.	Wellbeing discussions held with staff during 1-2-1s.

3. Risk Area: Inadequate business continuity planning

Level of Assurance

Reasonable Assurance

Opinion Statement:

Service Business Continuity arrangements were effectively put in place in March 2020. Business Continuity Plans and remote access to IT systems were found to be sufficient. The Service has put measures in place to ensure staff members have suitable IT access and equipment in support of remote working, including provision of a dongle for one member of staff who does not have Wi-Fi connectivity at home. A couple of colleagues have continued to access the office throughout the pandemic. The business continuity plan was reviewed and updated prior to the pandemic taking hold, however, we would advise management to update the Business Continuity Plan again to include recording any 'lessons learnt' from the Covid-19 pandemic across all business areas. Given the on-going nature of the Covid-19 pandemic, we do not recommend that management wait for the 'end' of the pandemic before reviewing and assessing changed working practices and associated risks/'opportunities', and controls.

No.	Observation and Implications	Impact / Priority	Recommendation	Management Response
3.1	Previously it might have been expected for business continuity arrangements to be a temporary measure, however, with the Covid-19 pandemic they can become long-term, or in some instances could result in a permanent change e.g., flexible working arrangements / hybrid approach to office working, reduction in travel time and travel costs, environmental benefits, efficiencies realised from the provision of on-line meetings and training, acceptance of electronic documents and signatures. There has not yet been a post-implementation review of changes made to business continuity plans.	Medium	It is recommended that a Business Continuity Plan review is completed, as soon as possible including review, and recording of, 'lessons learnt' by the Service from the experiences of the Covid-19 pandemic.	Agreed, target 31.03.2022

Scope and Objectives

The objective of this audit is to provide the client with an audit opinion on the control framework concerning Devon Pension Fund – Investments Team changed working practices resulting from the Covid-19 pandemic.

Including in relation to:

- Review of Investments Team response to the Covid-19 pandemic.
- Consideration of the adjustments made to working practices in light of Covid-19 and related governance, change management and business continuity arrangements.

For both of the areas above, consideration will be given to the service provided to Investments Team key stakeholders, and the support provided internally to Investments Team employees.

The detailed audit programme that supports the audit scope and objectives is provided alongside this document.

Internal Audit aim to provide added value by identifying areas for future learning improvement, in particular to inform any future responses to health related pandemics or long-term business continuity events

Inherent Limitations

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.

Confidentiality under the National Protective Marking Scheme

This report is protectively marked in accordance with the National Protective Marking Scheme. It is accepted that issues raised may well need to be discussed with other officers within the Council, 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.

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.

Definitions of Audit Assurance Opinion Levels

Assurance	Definition
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.




Definition of Recommendation Priority

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.

Devon Audit Partnership

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Direction of Travel Indicators

Indicator	Definitions
	No Progress has been made. The action plan is not being progressed at this time; actions remain outstanding.
	Progress has been made but further work is required. The action plan is being progressed though some actions are outside of agreed timescales or have stalled.
	Good Progress has/is being made. Good Progress has continued.