




# Internal Audit Report

## Devon Pension Fund

### Funding Strategy Statement

November 2021

Service Objective		Assurance Opinion on Risks or Areas Covered	Level of Assurance	Direction of travel
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.		<b>Risk 1 Non-compliance with relevant Legislation, Regulation and Guidance due to not having a comprehensive Funding Strategy Statement in place?</b>	Substantial Assurance	
<b>Audit Opinion</b>	Direction of travel	<b>Risk 2 Funding Strategy Statement is inadequately developed and consulted on</b>	Substantial Assurance	
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.		<p><i>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</i></p>		
				

## Introduction

The Local Government Pension Scheme (LGPS) Regulations 2013 require all LGPS Administering Authorities to prepare a Funding Strategy Statement (FSS) in consultation with all employers participating in their respective Fund. The purpose of the FSS is to explain the funding objectives of the Fund and how the cost of the benefits provided under the Local Government Pension Scheme are met through the Fund. It also defines the objectives in setting employer contribution rates and the funding strategy that is adopted to meet these objectives.

In September 2020, the Government amended the Local Government Pension Scheme (LGPS) Regulations 2013, introducing new powers for administering authorities to review employer contributions, spread exit payments, and set up Deferred Debt Agreements (DDA). In March 2021 statutory guidance was issued to assist administering authorities who wish to use the new powers. The guidance sets out high level principles and points which the government believes should be considered by administering authorities.

As a result of the new regulations and guidance, the Devon Pension Fund's Funding Strategy was revised in June 2021.

## **Executive Summary**

We found that the revised Devon Pension Fund Funding Strategy Statement (FSS) and the supporting Contributions Review, and DDA / DSA Policies were prepared in accordance with regulations and guidance. The development of the FSS also had regard to the advice of the Fund's Actuary, Barnett Waddingham LLP and this was referenced in the strategy.

The revised FSS and supporting policies were subject to appropriate consultation with stakeholders including with the Fund Employers and Devon Pension Board as well as the Fund Actuary and following its approval at the Investment & Pension Fund Committee in June 2021, it was published on the Devon Pension Fund website.

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.

## **Value Added**

Internal Audit aimed to provide added value in relation to consideration of the robustness of the processes followed for the revised Funding Strategy Statement.

## **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

Risk 1: Non-compliance with relevant Legislation, Regulation and Guidance due to not having a comprehensive Funding Strategy Statement in place.				Level of Assurance
				Substantial Assurance
<p><b>Opinion Statement:</b></p> <p>The Devon Pension Fund (DPF) Funding Strategy Statement was approved by the Investment &amp; Pension Fund Committee in April 2021. It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and describes Devon County Council's strategy, in its capacity as administering authority, for the funding of the Devon County Council Pension Fund.</p> <p>The Funding Strategy Statement is supported by two new policies, one in relation to contribution reviews and one in relation to Deferred Debt Arrangements (DDAs) and Debt Spreading Agreements (DSAs).</p> <p>We found that the Strategy and supporting policies had been prepared with reference to and in compliance with CIPFA - Preparing and Maintaining a Funding Strategy Statement in the LGPS" 2016 Guidance, and The Local Government Pension Scheme (Amendment) (No.2) Regulations 2020. A low priority recommendation is offered below to further enhance the risk section of the Funding Strategy Statement.</p> <p>The DPF risk register identifies a number of funding and investment risks, including risks F11 and F16 for which certain mitigating controls are met through the Funding Strategy Statement and the supporting policies, including in relation to the impact of "McCloud and Sargeant" legal cases and potential increase in employer contributions, and where an employer ceases to exist with insufficient funding available to settle any outstanding debts, or refuses to pay the cessation value.</p>				
No.	Observation and Implications	Impact / Priority	Recommendation	Management Response
1.1	The CIPFA guidance states that "Administering authorities should ensure that funding risks are included within their overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate. This should include defining a role for the local pension board within this framework." Whilst our audit review of the Funding Strategy Statement included current pension risks, it did not link back to Devon Pension Fund's overarching risk management framework as indicated in Guidance.	Low	Consideration should be given to revising the Funding Strategy Statement to include link back / cross reference to the Devon Pension Fund overarching risk management framework, strategy, and risk register.	Will be considered as part of the next review of the document.

2. Risk Area: Risk 2 Funding Strategy Statement is inadequately developed and consulted on				Level of Assurance
				Substantial Assurance
<p><b>Opinion Statement:</b>  The Funding Strategy Statement was prepared by the DPF Investment Manager in consultation with The Fund Actuary, Barnett Waddingham LLP. The audit also confirmed that employers, being the other key stakeholder, were also consulted as part of the Strategy preparation as the LGPS regulations requires.</p> <p>The revised FSS and the supporting Contributions Review and DDA/DSA policies were considered by the Devon Pension Board at their meeting on 26th April 2021, prior to presentation to and approval by the Investment &amp; Pension Fund Committee on 18th June 2021. The revised Statement and supporting policies have been adopted and published on the Devon Pension Fund's webpages, although the hyperlinks to the policy downloads were found not to work in all cases, resulting in a minor recommendation being made below.</p>				
No.	Observation and Implications	Impact / Priority	Recommendation	Management Response
2.1	The Funding Strategy Statement and supporting policies are published on the Devon Pension Fund website, however, within each of the policies published on the Funding Strategy Statement section of the webpage, hyperlinks are provided to download/print a PDF copies of the policies. However, the link within the Funding Strategy Statement and the Contributions Review Policy do not work. When you click on the link, the following message comes up "This item might not exist or is no longer available."	Low	The hyperlinks referred to need to be updated to enable PDF copies to be downloaded as needed by the user.	Agreed, to be actioned by 31.12.2021

Scope and Objectives

The objective of this audit is to provide the client with an audit opinion relating to the Devon Pension Fund Revised Funding Strategy.

Including in relation to review of:

- 1. Compliance with:
  - Regulation 58 of the Local Government Pension Scheme (LGPS) 2013, and 2020 revised regulations.
  - 2016 guidance issued by CIPFA.
- 2. Application of the Devon Pension Fund Risk Register in relation to relevant applicable mitigating controls which are intended to be addressed through the Funding Strategy Statement, including:
  - Deferred debt and debt spreading
  - Employer exits / pension liabilities.

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

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon, Mid Devon, South Hams & West Devon, Torridge, and North Devon councils. We aim to be recognised as a high-quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service 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 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@devon.gov.uk](mailto:robert.hutchins@devon.gov.uk)

## 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.