

Annual Internal Audit Report 2021/22 and the proposed Internal Audit Plan 2022/23

Report of the Director of Finance and Public Value

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

Recommendation:

- i. The Board note the Internal Audit Report for 2021/22**
- ii. consider the proposed Internal Audit plan for 2022/23**
- iii. consider whether it wishes to make any comments to the Investment and Pension Fund Committee.**

1. Annual Internal Audit Report – 2021/22

- 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 2021/22, Internal Audit can provide **substantial assurance** on the adequacy and effectiveness of the Fund's internal control environment. Further explanation of this is provided in the Annual Report.

2. Internal Audit Plan 2022/23 and the Service Level Agreement

- 2.1. Under the Local Government Act 1972 the Authority, and specifically the Chief Financial Officer (the Director of Finance and Public Value), 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 (PSIAS).
- 2.2. Public Sector Internal Audit Standards (PSIAS) require the purpose, authority, and responsibility of Internal Audit activity to be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

- 2.3. The Internal Audit Charter and Strategy 2021/22 for Devon County Council was approved at the 25th February 2021 Audit Committee meeting. The document can be viewed at [Democracy Devon Audit Committee](#)
- 2.4. The Internal Audit Charter and Strategy is applied in relation to Devon Pension Fund and Peninsula Pensions Internal Audit activity, with associated reporting provided to the Devon Pension Board and Investment & Pension Fund Committee.
- 2.5. 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
- 2.6. The Internal Audit Service for the Pension Fund is delivered by the Devon Audit Partnership. This is a shared service arrangement between Devon, Plymouth, Torbay, Mid Devon, North Devon, South Hams and West Devon and Torridge councils constituted under section 20 of the Local Government Act 2000.
- 2.7. The audit plans for the financial year 2022/23 allow for up to 40 days of internal audit support for the Pension Fund and 45 days of internal audit support for Peninsula Pensions, providing 85 days of internal audit provision overall. Further detail is set out in Appendix 1.
- 2.8. We note the ongoing disruption 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. Conclusion

- 3.1 The Board is asked to note the Internal Audit Report for 2021/22 and consider the proposed Internal Audit plan for 2022/23 and consider whether it wishes to make any comments to the Investment and Pension Fund Committee.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972:
List of Background Papers: Nil
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DEVON PENSION FUND

ANNUAL INTERNAL AUDIT REPORT 2021/22

and

PROPOSED INTERNAL AUDIT PLAN 2022/23

Section 1 - ANNUAL INTERNAL AUDIT REPORT 2021/22

1 INTRODUCTION

- 1.1 The following report sets out the background to the internal audit service provision, reviews work undertaken in 2021/22 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 2021/22, 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 2021/22

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 2021/22 has included completion of 8 audits for 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.

Key – DPF = Devon Pension Fund PP = Peninsula Pensions

Areas Covered		Stage	DPF or PP	Level of Assurance
1	Investment Team changed working practices resulting from Covid-19	Final	DPF	Reasonable Assurance
2	Communications Policy Review (Pre Review)	Draft	DPF	Substantial Assurance
3	Funding Strategy Statement Review	Final	DPF	Substantial Assurance
4	Member Training and Induction	Draft	PP	Substantial Assurance
5	Member Self-Service	Final	PP	Reasonable Assurance
6	First Response Team	Final	PP	Substantial Assurance
7	Use of FINEST Review	Draft	PP/DPF	n/a
8	Risk Register - Risks & Mitigation Review	Draft	PP/DPF	Substantial Assurance

- 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 B**.

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 2021/22 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 2021/22, Internal Audit can provide '**substantial assurance**' on the adequacy and effectiveness of the Fund's internal control framework.

Wider Assurance Received

- 5.5 The Devon Audit Partnership 2020/21 Internal Audit Report to Devon County Council, provided an overall assurance opinion of 'Reasonable Assurance' on the adequacy and effectiveness of the Authority's internal control framework based on work performed during 2020/21 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 Devon Audit Partnership 2021/22 Internal Audit Report to Devon County Council will be presented to Audit Committee on 7th June 2022
- 5.6 External Audit (Grant Thornton UK LLP) annual audit letter to Devon County Council for the year ending 31 March 2021, stated that Grant Thornton gave an unqualified opinion on the pension fund accounts of Devon Pension Fund on 11 February 2022. Grant Thornton reported the key issues from audit of the Pension Fund accounts to the Audit Committee in February 2022.
- 5.7 Brunel Pension Partnership Limited (BPP), Annual Report and Financial Statements for the year ended 30 September 2021, includes the independent Auditor's (Grant Thornton UK LLP) report to member of the BPP, for which no areas of concern are identified. The Report from the Chair of the Audit, Risk & Compliance Committee, which makes reference to internal audit reviews of Compliance, Governance and Oversight; IT Governance; Investment Management; and Client and Relationship Management where useful areas for improvement were highlighted but the overall standard of control was found to be good; and review of Brunel's response to Covid-19, which provided assurance that virtual working arrangements had been implemented without jeopardising the risk management framework.

Section 2 - INTERNAL AUDIT PLANS 2022/23

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 2022/23 allows for up to 40 days of internal audit support for the Pension Fund and 45 days of internal audit support for Peninsula Pensions, providing 85 days internal audit provision overall.

- 3.2 We note the on-going disruption 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 2022/23 PLANS

- 5.1 The following table sets out the planned internal audit work for 2022/23. 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 2022/23

Audit risk areas	Days
1. Employer covenant risk and bond requirements	7
2. Cyber Security	10
3. Brunel Performance Management Reporting	5
4. The Pensions Regulator Code of Practice 14 / consolidated Codes of Practice compliance* (joint audit, also referred to below).	5
5. Climate Risk and Environmental Social Governance Reporting (incorporating the New Stewardship Code)	10
6. Audit Planning, Advice and Reporting	3
Total days	40

- 5.4 The cost of these days will be £12,400. Additional support will be provided as and when required. Our standard daily rate for this work will be £310, although specialist support may be at a different rate.

Peninsula Pensions Plan 2022/23

Audit risk areas	Days
1. Readiness for McCloud & Sergeant	7
2. Cyber Security	10
3. Payroll and Immediate Payment System	10
4. Transfers Out – Fraud Prevention Controls	10
5. The Pensions Regulator Code of Practice 14 / consolidated Codes of Practice compliance (joint audit, also referred to above).	5
6. Audit Planning, Advice and Reporting	3
Total days	45

- 5.5 The cost of these days will be £13,950. Additional support will be provided as and when required. Our standard daily rate for this work will be £310, although specialist support may be at a different rate.

Robert Hutchins
 Head of Devon Audit Partnership
 June 2022

Executive Summaries for audits undertaken in 2021/22

DPF: Covid-19 Change in Working Practice (Reasonable Assurance)

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.

DPF: Funding Strategy Statement (Substantial Assurance)

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.

DPF: Communication Policy (Substantial Assurance)

This review found that the 2018 DPF Communication Policy was broadly compliant with the LGPS Regulations, although the Policy did not include information on how the Fund promotes the Scheme to prospective employers.

The benchmarking exercise found the DPF policy comprehensive, fit for purpose and primarily consistent with the other Pension Fund communication policies reviewed. A number of minor advisory actions have been made below to improve consistency and accessibility.

DPF: Member Training and Induction (Substantial Assurance)

This audit has focussed on the control framework in relation to member training for Devon Pension Board (DPB) and Investment and Pension Fund Committee (IPFC) members. Training requirements / needs are identified each year and the Investment Manager captures this in an annual training plan.

The 2021/22 Devon Pension Fund's member training plan was found to be compliant with the requirements and guidance laid down in the Pension Regulator Code of Practice 14, and CIPFA Local Pension Board Knowledge and Skills Framework. The Auditor, in carrying out some benchmarking, has also confirmed that Devon Pension Fund has taken a consistent approach to that of other Local Authorities.

The plan has been developed in a way that targets the need of the Board and Committee members, with additional training being delivered when there is an upcoming decision that needs background information. The focus of the 2021/22 and the 2022/23 training has and will be ensuring there is a baseline fundamental knowledge throughout the Board and Committee members, with the changes in membership following the Council elections in May 2021, the delivery to which has been impacted by the Covid pandemic. It is understood that a more targeted training approach including the re-introduction of the self-assessment process to identify any knowledge or skills gaps, will be adopted for the 2023/24 training plan.

The process to publish the plan allows for critique and any amendments to be suggested, which adds a layer of depth to the creation of the plan. To keep ahead of upcoming guidance (Good Governance paper), it would be advised that all IPFC members complete the same training as the board members to help solidify their knowledge to ensure they keep making informed decisions.

PP: First Response Team (Substantial Assurance)

Through a variety of tests, The First Response Team have shown their understanding of the General Data Protection Regulation (GDPR), and the importance of adhering to it, alongside the importance of ensuring compliance with the Disclosure Regulation (2013). Measures to ensure compliance to both regulations are embedded within the initial training, throughout ongoing training, and the procedural notes which are distributed throughout the team. Further guidance is in the midst of being created and distributed throughout the team.

Recommendations have been made regarding clarity of the notes, ongoing annual GDPR training, and creating a main log of incoming post, as ways of enhancing the control frameworks currently in place. Issues raised are considered low risk overall, with the majority of recommendations being opportunities for enhancement, hence substantial assurance being given.

PP: Member Self Service (Reasonable Assurance)

There is suitable guidance for Members on how to register for and use a Member Self Service account, including video tutorial. Internally there is also suitable guidance for Peninsula Pensions staff. We reported in 2020-21 regarding the temporary change of practice to accept electronic signatures in line with national guidance and have again recommended here that management formally record whether this practice will continue post Covid-19 restrictions.

Member Self Service provides a secure and efficient means of communicating with Members. We note the increase in sign up to the use of Member Self- Service in the period to April 2021. There are areas of Member Self Service not currently utilised by Peninsula Pensions and we have recommended that these now be taken forward to support reducing the risk of error or delay in processing and providing a customer centric digital approach throughout the life cycle of Member contact with Peninsula Pensions. In this regard, we commend the new developments being considered by Peninsula Pensions and acknowledge that these improvements would require development by the software provider. We have made recommendations to potentially increase the uptake, reduce communications by direct email and support Member Self Service being the primary means of communication with Members.

Whilst system account registration, deactivation and account re-sets are automated processes, we have recommended taking forward the Pensions Administration Standards Association guidance 'Covid-19 guidance: The Road Ahead' (August 2020) and The Pensions Regulator Guidance 'Cyber Security Principles for Pension Schemes' in order to strengthen user verification controls and compliance with Cyber security principles.

PP / DPF (Joint): Risk Register – Risk and Mitigation Review (Substantial Assurance)

We have been able to confirm from this audit review that the risk mitigations reported as "green" in the latest risk report presented to the Pension Board dated 02/02/2022, considering the number of high risk areas across the Pension Service, are as expected, and the control framework in place across both Peninsula Pensions and Devon Pension Fund are sound.

Since 2008, Devon Pension Fund and Peninsula Pensions have had 87 risk based audits completed, with 85 being at a Good Standard / Reasonable Assurance, or higher. In addition, recommendations made by Internal Audit are being considered in decisions being made.

There is scope for a consolidation exercise that could be undertaken with the assistance of Devon Audit Partnership's Risk Management Team, whilst developing some risks which aren't currently on the DPF register as well as looking at archiving some mitigating controls or turning them into an annual review task.

PP / DPF (Joint): Use of FINEST (Assurance – N/A)

The objective of this audit is to identify how FINEST (the Local Authority's main accounting system) is being used within Peninsula Pensions and Devon Pension Fund and what functionality is considered critical within any replacement accounting package. The audit is not a risk-based review and therefore does not provide any assurance on risk and mitigation. The purpose of this review is to provide a summary for Management as to what FINEST is currently used for, identify any issues with replacing the main accounting system that could potentially be eliminated and report on any opportunities for the Service. The report will be shared with the Finance Transformation Team (FTT) to inform the FINEST replacement project.

There were a number of functions were deemed essential requirements for the new finance system for business continuity and ongoing compliance with the requirements of the Local Government Pension Scheme Regulations 2013, and the Pension Regulator which have been reported back to Pension Management and the FTT.

Organisation Assurance Opinion definitions

Opinion	Definitions
Substantial Assurance	A sound system of governance, risk management and control exist across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.
Reasonable Assurance	There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified across the organisation. Improvement is required to the system of governance, risk management and control to effectively manage risks and ensure that strategic and operational objectives can be achieved.
No Assurance	Immediate action is required to address fundamental control gaps, weaknesses or issues of non-compliance identified across the organisation. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of strategic and operational objectives.

Individual Assignment Assurance Opinions definitions

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.