

## ACTIONS AND RECOMMENTATIONS TRACKERS

### Report of the Director of Finance and Public Value

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

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#### 1) Recommendation

That the Board be asked to note the progress made on completing actions arising from internal audits and Pension Board recommendations and requests.

#### 2) Introduction

2.1 As part of an agreed actions from previous board meetings an Audit action log has been created to track progress and completion of audit actions and recommendations. In addition, officers have also produced a log of actions and requests raised by the Pension Board.

#### 3) Trackers

3.1 The Actions and Recommendations tracker (Appendix 1) compiles a list of actions, recommendations and requests raised by the Devon Pension Board. Previously completed actions have been removed.

3.2 Below is a summary of outstanding audit actions

Audit	Year	Actions outstanding
DPF Stewardship Code	2022/23	1 low
DPF Employer Covenant	2022/23	3 medium

#### 4) Internal Audit Programme

4.1 Progress against this year's audit plan is summarised in the table below. A member of the audit team will attend the board meeting in October to update a verbal update to the board.

<b>Devon Pension Fund Audit risk areas</b>	
Employer covenant risk and bond requirements	Final report issued
Cyber Security	Audit undertaken, draft report stage
Brunel Performance Management Reporting	Q4 – commence late February/early March
The Pensions Regulator Code of Practice 14/consolidated Codes of Practice compliance (joint audit)	Awaiting new code – rescheduled for 2024/25 *
Climate Risk and Environment Social Governance Reporting	Re scheduled to 2023/24 **
**New Stewardship Code	Final report issued
*Actuarial Valuation 2022	Q4 in progress
<b>Peninsula Pensions Audit risk areas</b>	
Readiness for McCloud	In progress
Cyber Security	Audit undertaken, draft report stage
Payroll and immediate payment system	Re Scheduled to 2023/24 Q1*
Transfers out – fraud protection control	Final report
The Pensions Regulator Code of Practice 14/consolidated Codes of Practice compliance (joint audit)	Awaiting new code – rescheduled for 2024/25**
*Employer interface data quality review	Q4 start February 2023
** Escrow bank account (member refunds)	Q4 start February 2023

4.2 Final audit reports issued since the last pensions board

- Employer covenant
- New Stewardship Code
- Transfers Out – fraud protection

The above reports are attached to this report.

5) Conclusion

- 4.1 The Board is asked to review the attendance log in accordance with the Terms of reference.

**Angie Sinclair**

Director of Finance and Public Value

**Electoral Divisions:** All

**Local Government Act 1972: List of background papers**

Nil

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# Appendix 1

## DEVON PENSION BOARD ACTIONS AND RECOMMENATIONS TRACKER

The actions tracker allows Board members to monitor responses, actions and outcomes against their recommendations or requests. The tracker will be updated following each board. Once an action has been completed, it will be shaded out to indicate that it will be removed from the tracker at the next meeting.

Date	Recommendations / Actions	Response	Progress
04/05/2022	46 - further info/signposting to climate change policy in risk register		
18/10/2022	76 - PP reporting, consideration to include historic 12 months figures		
18/10/2022	79 - breaches as a standing item even if there are none to report		

# Internal Audit Report

## Devon Pension Fund

### Employer Covenant and Bond Requirements

November 2022

#### Service Objective

To enable the Administering Authority to the Pension Fund to assess the strength of the employer covenant to enable them to decide the appropriate level of risk when setting their investment and funding strategies.

#### Audit Opinion

**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

**1. The Fund's approach to monitoring and managing the financial risk of employers in the fund isn't robust and effective.**

**2. Actions being taken to manage employer risk are ineffective.**

- Incomplete / missing copies of Admission Agreements and Bond evidence

*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*

Level of Assurance

Substantial Assurance

Reasonable Assurance

#### Introduction

Devon Pension Fund (DPF) participates in the Local Government Pension Scheme (LGPS) (defined pensions benefit scheme) which is a statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013, as amended. LGPS benefits are essentially guaranteed by statute, however, if a Fund employer were to cease and be unable to pay their cessation deficit then, depending on the employer, this deficit could be passed on to all other employers in the Fund. As part of the funding approach for its defined benefit pension scheme, Devon's Administering Authority should understand the current strength of the employer covenant and how it could change in the future.

The covenant is the employer's legal obligation and financial ability to support their defined benefit (DB) scheme now and in the future. Assessing and regularly monitoring the covenant will help Devon's Administering Authority to decide the appropriate level of risk when setting its investment strategy, funding target and, where necessary, recovery plan.

DPF has an obligation to monitor and manage the employer risk to the Fund, and to assist with this, has engaged its Actuary, Barnett Waddingham to undertake an Employer Risk Analysis which took place in March 2022. This provided a means by which to identify the employers who pose the biggest risk to the Fund.

Barnett Waddingham produced a report which presented information to help Devon to consider the financial strength of the Fund's employers and their potential financial risk to the Fund. The report also set out an overview of the steps the Administering Authority could take to manage the employer risks.

New "admitted bodies" joining the LGPS are required to have a bond in place as part of their admission requirements due to them posing a higher risk to the Fund. The level of contribution and bond level is set by the Actuary who undertakes an employer risk analysis as part of the admission process. A bond review takes place every three years, following the latest actuarial valuation (2022 actuarial valuation is currently taking place), and the levels of employer contributions and bond requirements may alter following this.

## **Executive Summary**

The Fund's approach to monitoring and managing financial risks of employers in the Fund were found to be sound and well demonstrated. The outcomes and suggested action to manage employer risk from of the 2019 actuarial valuation, and subsequent bond review and Employer Risk Analysis carried out in 2020 and 2022 respectively have been used to inform the latest revisions to the Fund's Investment and Funding Strategies.

In relation to the application of the actions and management of employer risk, in particular in relation to recovery of secondary contributions, setting up of bonds and guarantors for the admitted bodies, and those higher risk employers, the DPF was found to be following these. The level of assurance given has been reduced overall however due to two factors:

- 1) Key employer documents not being held centrally, to enable both Peninsula Pensions and DPF to be able to access the records. There were gaps in the documentation provided by DPF as a result, where admission agreements were missing or incomplete for 9 of the 20 employers.
- 2) For transferred admitted bodies in which Devon County Council, who hold the deficit liability, require the employers to hold bonds, evidence of bonds being in place were not held.

It should be noted, however that the overall risk to the fund of non-payment of any cessation employer deficit is considered low due to the recent change in Pension Regulations around debt spreading and deferred employer status, which provides a greater level of protection and provides better mechanism to recover the deficit.

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. The audit review did not identify any issues that need to be included 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.

**Tony Rose**  
**Head of Partnership**

Detailed Audit Observations and Action Plan

1. The Fund's approach to monitoring and managing the financial risk of employers in the fund isn't robust and effective	Level of Assurance Substantial Assurance										
<p><b>Opinion Statement:</b>                      Every three years the DPF undergoes an actuary valuation (AV) as required by The Pension Regulator (TPR). Actuarial valuations are necessary to assess the long-term sustainability of a defined benefit pension plan and can serve as a decision-making tool for plan sponsors and administrators. It reviews the financial position of the Fund and sets appropriate contribution rates for each active employer in the Fund for the period for the next three years as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013, together with any secondary contributions to cover the repayment of any projected fund deficit over a period of time. The latest triennial AV has just been concluded, and the DPF and the results have been published. This will set the employer contribution rates for the next three years between April 2023 and March 2026.</p> <p>Following the completion of the AV, a bond review takes place, which considers the level of bond / guarantor that is needed to secure / minimise the financial risk to the Fund, and in reviewing the bond arrangements, this was based on the bond review of 2020. A new bond review is due to take place in 2023, following the 2022 AV.</p> <p>Also, within the three year AV cycle, DPF commission their Actuary to undertake an "Employer Risk Analysis" exercise, which looks at how risky the employers are. The analysis reviews the financial stability / status for each employer within the fund and its ability to recover any losses should they cease trading and suggests what mitigation could be put in place.</p> <p>The outcome of the AV, bond review and employer risk analysis informs any revisions to the Fund's Investment and Funding Strategies. Both strategies have been reviewed within the last 18 months and reflect the outcomes of the independent reviews referred to above.</p> <p>The Fund's approach to monitoring and managing financial risks of employers in the Fund were found to be sound and well demonstrated. No issues were identified in relation to this risk, enabling substantial assurance to be given in this area.</p>											
<table border="1"> <thead> <tr> <th data-bbox="986 1384 1023 2188">No.</th> <th data-bbox="986 1032 1023 1384">Observation and Implications</th> <th data-bbox="986 703 1023 1032">Impact / Priority</th> <th data-bbox="986 51 1023 703">Recommendation</th> <th data-bbox="986 421 1023 51">Management Response</th> </tr> </thead> <tbody> <tr> <td data-bbox="1023 1384 1053 2188"></td> <td data-bbox="1023 1032 1053 1384">No observations and recommendations recorded</td> <td data-bbox="1023 703 1053 1032"></td> <td data-bbox="1023 51 1053 703"></td> <td data-bbox="1023 421 1053 51"></td> </tr> </tbody> </table>	No.	Observation and Implications	Impact / Priority	Recommendation	Management Response		No observations and recommendations recorded				
No.	Observation and Implications	Impact / Priority	Recommendation	Management Response							
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<b>2. Actions being taken to manage employer risk are ineffective</b>				<b>Level of Assurance</b>
				<b>Reasonable Assurance</b>
<b>Opinion Statement:</b>				
<p>The Devon Pension Fund (DPF) have a number of measures in place to manage employer risk to the fund, including valuations carried out by the Actuary for new employers admitted to the Fund to ascertain contribution rate, requirement for all community admitted (CAB) employers to have either a bond or guarantor in place as a condition within the admission agreement, and the setting up of secondary employer contributions with employers for recovery of deficit in line with the contribution rate set in the actuary valuation. There was a breakdown in the audit trail for some employers where there was missing or incomplete documentation, e.g., admission agreements, and current bonds, thereby reducing the level of assurance that all the above mitigating measures have been fully applied.</p> <p>In relation to employer secondary contributions, testing of primary records confirmed that these were being effectively monitored, contributions were up to date, and rates were in line with the AV valuation employer summaries.</p> <p>Furthermore, there was evidence of good engagement and communications with employers, and in respect of one employer identified as the highest risk to the fund, there has been ongoing dialogue with the employer and the Trustees regarding the repayment of the deficit. DPF did confirm that there hasn't been any communication since 2021 with one of the other higher risk employers, and that they need to re-engage with them.</p> <p>The risk of non-recovery of any fund deficit on the cessation of an employer is considered low overall, due to the recent changes in the Pension Regulations around debt spreading and deferred employer status, which increases the likelihood of any deficit being recovered. Prior to this, following the cessation valuation of an employer, the DPF would raise a debtor invoice for the whole deficit value, which employers would struggle to pay. Now there are better mechanisms in place to be able to recover debt, therefore reducing the overall risk. This has been taken into account when providing an overall level of assurance in this area.</p>				
<b>No.</b>	<b>Observation and Implications</b>	<b>Impact / Priority</b>	<b>Recommendation</b>	<b>Management Response</b>
2.1	Copies of admission agreements, bond documentation and guarantor agreements provided during the audit was found to be incomplete, e.g., there were four missing admission agreements and a further five, where the copies held were not the final signed, dated, and sealed copies. There were also bond agreements / guarantor agreements not located / provided. The review of these documents was based on what information was held by DPF. It is understood that the documentation could possibly be held within Peninsula Pensions. These are legal documents which need to be accessible to both DPF and Peninsula Pensions for different reasons.	Medium	Legal agreements of Fund employers including admission agreements, bonds and guarantor agreements need to be held centrally and accessible to both DPF and Peninsula Pensions.	Agreed to working on a SharePoint site with Peninsula Pensions
2.2	A bond monitoring spreadsheet is maintained by the DPF, and work is going on this to bring bond information up to date, ensuring that all relevant employers have up to date bonds in place. In respect of the sample of "Devon" employers tested during the audit, copies of current bonds were not held, and it was therefore difficult to confirm whether or not bonds were up to date	Medium	The review of bond arrangements being carried out within DPF needs to be concluded and kept maintained moving forward, ensuring that DPF hold copies of all current bonds to confirm requirements are being met.	Agreed  Bond review due to be undertaken by Fund Actuary early 2023.



<b>No.</b>	<b>Observation and Implications</b>	<b>Impact / Priority</b>	<b>Recommendation</b>	<b>Management Response</b>
2.3	<p>In relation to the two “community admitted bodies” deemed by the Actuary to pose a higher risk to the DPF, the level of ongoing engagement with them varied. Whilst there was ongoing dialogue and engagement with one of the employers and their Trustees, which was clearly evidenced, there has been little engagement with the second employer since 2021.</p>	Medium	<p>DPF management need to re-engage with the second employer in relation to their pension deficit, who were identified as a risky employee in the latest Employer Risk Analysis by Barnett Waddington</p>	<p>We have had dialogue with them over the last 6 months in relation to their current funding position, and discussions are ongoing with this employer.</p>

### Scope and Objectives

This objective of the audit is to review the monitoring and management of employers' potential financial risks to the Fund and provide assurance on the Administering Authority's approach to assessing the strength of the employer covenant is robust and effective, to enable them to decide the appropriate level of risk when setting their investment strategy, funding assumptions and, where necessary, recovery plan.

### 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

Official

### Definitions

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.

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**Definitions of Audit Assurance Opinion Levels**

**Definition of Recommendation Priority**

**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.	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.
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.	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.
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.	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.
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.	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 collaborate 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 conducting 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 [tony.d.rose@devon.gov.uk](mailto:tony.d.rose@devon.gov.uk)

# Internal Audit Report

## Devon Pension Fund

### UK Stewardship Code 2020

November 2022

#### Service Objective

To maintain effective stewardship over the Devon Pension Fund, to ensure the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

#### Audit Opinion

**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.

#### Assurance Opinion on Risks or Areas Covered

- key concerns or unmitigated risks

Non-compliance with the Stewardship Code resulting in the removal of the signatory to the UK Stewardship Code by the Financial Reporting Council and reputational damage to the Devon Pension Fund.

#### Level of Assurance

Substantial

#### Introduction

Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

The Financial Reporting Council's (FRC) UK Stewardship Code 2020 (the Code) sets high stewardship standards for asset owners and asset managers, and for service providers that support them. The Code comprises a set of 'apply and explain' Principles for asset managers and asset owners, and a separate set of Principles for service providers. The Code is voluntary and does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy.

The investment market has changed significantly since the publication of the first UK Stewardship Code. Environmental, particularly climate change, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship. The Code also recognises that asset owners and asset managers play an important role as guardians of market integrity and in working to minimise systemic risks as well as being stewards of the investments in their portfolios. Signatories to the Code are expected to consider corporate governance, environmental and social issues when applying the Code's Principles. Furthermore, Principle 7 requires signatories to: systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

There are 12 principles (57 sub-principles) for asset managers / owners in the following areas:

- Purpose and Governance
- Investment Approach
- Engagement
- Exercising Rights and Responsibilities

Devon County Council Pension Fund were previously signatories under the old code, and in March 2022, were successful in their Stewardship application and were deemed to have met the expected standard of reporting in 2021 and have been listed as a signatory to the 2020 UK Stewardship Code ('the Code'). The FRC did however highlight areas where improvements could be made.

### **Executive Summary**

Devon Pension Fund (DPF) has an up to date Stewardship Policy which is included within the DPF Investment Strategy Statement, which was found to be aligned with both Brunel's Stewardship Policy and consistent with the Stewardship Statement in the DPF Annual Report and Accounts 2021/22 and there was good evidence of policy compliance.

Of the 12 principles (57 sub principles), the FRC report within the outcome letter dated March 2022 identified that improvements were needed in 15 areas in order to remain a signatory for 2022/23. The additional information included in the updated Stewardship Statement in the DPF Annual Report and Accounts 2021/22 would suggest that all but two of the sub-principles have been addressed (see recommendation in Appendix A below).

We would not however, be in a position to provide any judgement as to the quality or effectiveness of the information provided or whether this meets the expectations of the Code requirements. This would need to be confirmed by the FRC when they review the 2021/22 Annual Report and Accounts.

The detailed findings and recommendations regarding these issues 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](mailto: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. There are no issues identified during the audit that needs to be included 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.

**Tony Rose**  
**Head of Partnership**

## Detailed Audit Observations and Action Plan

Non-compliance with the Stewardship Code resulting in the removal of the signatory to the UK Stewardship Code by the Financial Reporting Council and reputational damage to the Devon Pension Fund		Level of Assurance		
Opinion Statement:		Substantial Assurance		
<p>Devon Pension Fund (DPF) has an up to date Stewardship Policy which is included within the DPF Investment Strategy Statement, which was found to be aligned with both Brunel's Stewardship Policy and consistent with the Stewardship Statement in the DPF Annual Report and Accounts 2021/22. There was good evidence in place to confirm that the Stewardship Policy was being followed with regular stewardship, engagement and voting activity being reported quarterly to the Investments and Pension Fund Committee (IPFC), and the Stewardship section of the DPF website was found to have been updated with the latest stewardship &amp; engagement activities which were in line with what's been published in the DPF Annual Report and Accounts 2021/22.</p> <p>In accrediting DPF as a signatory to the new UK Stewardship Code 2020, the Financial Reporting Council (FRC) acknowledged that the DPF demonstrated promising reporting, however, it was on the borderline of successful reporting and in order to remain a signatory, the DPF would need to submit the 2021/22 Annual Report by 31 October 2022, having addressed the areas identified in the FRC's feedback. The conclusions of this audit review has confirmed that of the 15 out of 57 sub-principles areas identified for improvement, the additional information included in the updated Stewardship Statement in the DPF Annual Report and Accounts 2021/22 would suggest that all but two of them have been addressed (as identified below).</p>				
No.	Observation and Implications	Impact / Priority	Recommendation	Management Response
1.1	<p>Of the 15 Stewardship Code 2020 principles, the audit has identified two areas where the 2021/22 Stewardship Statement in the DPF Annual Report and Accounts may still not have addressed as follows:</p> <p><b>4.3:</b> Signatories should explain the role they played in any relevant industry initiatives in which they have participated, the extent of their contribution and an assessment of their effectiveness, with examples.</p> <p><b>6.4:</b> Signatories should disclose the length of the investment time horizon they have considered appropriate to deliver to the needs of clients and / or beneficiaries and why.</p>	Low	Consideration should be given to expanding the Stewardship Statement further in future DPF Annual Reports and Accounts to provide more clarity in relation to principles 4.3 and 6.4 of the Stewardship Code 2020.	Agreed that this will be considered in future reports

### Scope and Objectives

The objective of the audit was to undertake a review of the Financial Reporting Council's (FRC)'s UK Stewardship Code 2020 action plan issued in March 2022 and ascertain what progress has been made against the Code and the implementation of the actions.

### 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

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**Definitions of Audit Assurance Opinion Levels**

**Definition of Recommendation Priority**

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.	High
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.	Medium
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.	Low
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.	Opportunity

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.

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 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.

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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# Internal Audit Report

## Peninsula Pensions

### Transfers Out - Fraud Risk

November 2022

Official



#### Service Objective

To respond to and action requests made by LGPS members who have left the LGPS scheme and wish to transfer their pension benefits to another scheme, whilst safeguarding the members pensions from pension scams.

#### Audit Opinion

**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.

#### Assurance Opinion on Risks or Areas Covered

- key concerns or unmitigated risks

**Compliance with TPR / Pensions Scam Industry Guidance to minimise fraud risk, thus protecting both members' pensions and the fund**

**Level of Assurance**

**Substantial 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

Anyone can be the victim of a pension scam, no matter how financially savvy they think they are. It's important that everyone can spot the warning signs. Scammers can be articulate and financially knowledgeable with credible websites, testimonials and materials that are hard to distinguish from the real thing. They try to persuade pension savers to transfer their entire pension savings, or release funds from it, by making attractive sounding promises they have no intention of keeping. Fraudsters promise high returns and low risk. In reality, pension savers that are scammed are usually left with nothing, with many losing their life savings.

The Government has identified common pension scam risks associated with transfers which, if present, may place the member in danger of being scammed. The Government refer to these as "red and amber flags". If a member elects to transfer their pension rights out of LGPS, the Pension Administrator needs to identify whether there are any "red or amber scam flags" present in the transfer request and take the necessary steps to help protect the member's pension from scammers.

#### Executive Summary

The mitigating controls in place for processing pension benefit transfer requests and minimising the risk of fraud and members falling victim to pension scams was found to be robust and there was a clear audit trail in place to support the due diligence process. This is much to the credit of the management and staff within Peninsula Pensions who have worked hard to tighten controls in this area, to ensure that, they are fully compliant with their statutory obligations in this area.

The key fraud and pension scam due diligence checks carried out to detect "red" and / or "amber" flags, were found to be well evidenced, and where any flags / concerns were identified during the process, there was clear evidence of these being followed up. Furthermore, the "Transfer Out Training Notes" produced for pension staff who administer the transfer process were found to be comprehensive and adhered to both The Pension Regulator and the Pension Scam Industry Guidance Good Practice Codes.

During my review, there was no evidence of any incidents of fraud or where any members had fallen victim to pension scams.

The detailed findings of this review are described in Appendix A. There are no recommendations and therefore, there is no requirement for management to agree an action plan on receipt of the draft internal audit report.

### **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. There are no issues arising from this audit review that needs to be included 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.

**Tony Rose**  
**Head of Partnership**

**Detailed Audit Observations and Action Plan**

Compliance with TPR / Pensions Scam Industry Guidance to minimise fraud risk, thus protecting both members' pensions and the fund:	Level of Assurance
<p><b>Opinion Statement:</b>                      The control framework implemented from March 2022 to mitigate the risk of fraud and members falling victim to pension scams was found to be robust and testing of a sample of pension transfer requests confirmed full compliance of The Pension Regulator (TPR) Code, and the Pensions Scams Industry Group (PSIG) Code of Good Practice. It was evident from our review, that, regardless of when the transfer out process commenced, due diligence checks were being carried out. When running a comparison of our sample against the decision tree in Appendix 1 of the training notes, all cases followed the correct stages with supporting documentation reviewed in line with requirements when an amber flag was raised.</p> <p>Due diligence checks are further supported with documented evidence retained in individual cases where further information has been requested prior to the transfer being paid. Examples of this include emails to members, referrals to "Money Helper", Independent Financial Adviser checks and communications and pre-payment checklists. From communications we have reviewed within our sample we are confident that all cases had adequate follow up information requests when deemed necessary.</p> <p>There are comprehensive process / procedure notes in place regarding pension transfers, which links to TPR Code, Action Fraud, and The PSIG Code of Good Practice, and details the best practice that should be followed when processing transfers out enquiries, quotes, and the due diligence fraud / pension scam checks that need to be carried out, including TPR's Transfer Process decision tree and the provision of document templates to use.</p> <p>Furthermore, the audit has confirmed that staff handling pension transfers have been trained and are fully aware of the fraud risks and the red &amp; amber pension scam "flags."</p> <p>No concerns have been raised from this review, enabling substantial assurance to be given.</p>	<p><b>Substantial Assurance</b></p>
<p><b>No.</b>   <b>Observation and Implications</b></p> <p>No observations and recommendations recorded</p>	<p><b>Impact / Priority</b>   <b>Recommendation</b>   <b>Management Response</b></p>

### Scope and Objectives

The objective of the audit was to provide assurance on the appropriateness and efficiency of current processes, checks, and management practices in place within Peninsula Pensions to protect members from becoming victim of fraud where they elect to transfer their pension rights out of LGPS.

### 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

Official

### Definitions

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**

**Definition of Recommendation Priority**

**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.	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.
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.	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.
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.	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.
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.	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 collaborate 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 conducting 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 [tony.d.rose@devon.gov.uk](mailto:tony.d.rose@devon.gov.uk)