

## ANNUAL INTERNAL AUDIT REPORT 2023/24

### 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 Committee be asked to:

- (a) Note the internal Audit Report for 2023/24

#### 2) Introduction

- 2.1 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.
- 2.2 The Internal Auditors for the Pension Fund are responsible for providing assurance that financial and other systems are operating effectively and in line with legislation and the Authority's financial regulations. This is achieved through two audit plans: one for the Devon Pension Fund and one for Peninsula Pensions

#### 3) Review of 2023/24

- 3.1 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.
- 3.2 Overall, and based on work performed during 2023/24, Internal Audit can provide **reasonable assurance** on the adequacy and effectiveness of the Fund's internal control environment. This is based on five assurance based audit reviews undertaken (3 completed and 2 on progress). There have been a further three consultative reviews completed during the year. Further explanation of this is provided in the Annual Report.

## **4) Conclusion**

4.1 The Committee is asked to note the Internal Audit Report for 2023/24.

### **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 2023/24

#### Section 1 - ANNUAL INTERNAL AUDIT REPORT 2023/24

#### 1 INTRODUCTION

- 1.1 The following report sets out the background to the internal audit service provision, reviews work undertaken in 2023/24 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 (DAP).

##### 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 2023/24, 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 2023/24

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 2023/24 has included completion of five risk based assurance audits for Devon Pension Fund and Peninsula Pensions, with two audits where the review has commenced in 2023/24 and are in progress. 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	Immediate Payments	Final	PP	Reasonable Assurance
2	Inflation Risk	Final	DPF	Substantial Assurance
3	McCloud	Ongoing	PP	n/a
4	Good Governance Review	Final	DPF	Reasonable Assurance

5	Cyber Security Follow-Up	Ongoing	PP/DPF	n/a
6	Succession Planning	Final	DPF	n/a - consultative
7	Future Finance Project (FINEST replacement)	Ongoing	PP/DPF	n/a - consultative
8	Employer Interface Data Quality / Employer Performance Reports	Ongoing and throughout 24/25	PP	n/a - consultative

- 4.3 Our reviews this year and in prior years provide sufficient evidence that overall, 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 strengthened. 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 2023/24 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 2022/23, Internal Audit can provide '**Reasonable Assurance**' on the adequacy and effectiveness of the Fund's internal control framework.

### **Wider Assurance Received**

- 5.5 The Devon Audit Partnership 2022/23 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 2022/23 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 2023/24 Internal Audit Report to Devon County Council will be presented to Audit Committee on 26<sup>th</sup> June 2024.
  
- 5.6 External Audit (Grant Thornton UK LLP) annual audit letter to Devon County Council for the year ending 31 March 2023, stated that Grant Thornton gave an unqualified opinion on the pension fund accounts of Devon Pension Fund on 24 November 2023. Grant Thornton reported the key issues from audit of the Pension Fund accounts to the Audit Committee in November 2023.
  
- 5.7 Brunel Pension Partnership Limited (BPP), Annual Report and Financial Statements for the year ended 30 September 2023, includes the independent Auditor's (Grant Thornton UK LLP) report to member of the BPP, for which no areas of concern were identified.

## **Executive Summaries for audits undertaken in 2023/24**

### **PP - Immediate Payments (Reasonable Assurance)**

The audit review has confirmed that immediate payments process for both Devon Pension Fund and Somerset Pension Fund are suitably controlled, and the risk of error or fraudulent payments being made are considered to be low. The level of assurance given was reasonable, rather than substantial due mainly to the inconsistent and / or incomplete audit trail for some Somerset Pension Fund immediate payments, which, whilst the process being followed was the same for both Devon and Somerset Pension Funds, the information for Somerset wasn't being consistently stored in the corresponding "P" folders on the network.

### **DPF: Inflation Risk (Substantial Assurance)**

Management of inflation risk was found to be effective, with Devon Pension Fund (DPF) having a number of mitigating controls to minimise the risk of adverse impact on the rate of investment return on the pension fund due to high inflation. These are identified in the related risk in their risk register [https://risks.devon.gov.uk/post\\_type/funding-and-investments-7/](https://risks.devon.gov.uk/post_type/funding-and-investments-7/), as follows:

- The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases.
- Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer serving employees.
- The Fund is increasing its target allocation to investments in infrastructure funds with inflation linked returns, to act as a hedge against inflation increases.
- Inflation risk was addressed in the strategic reviewed undertaken by Mercer which was presented to the Investment and Pension Fund Committee in February 2022.

The latest triennial valuation of 2022 recognised and adjusted for the higher inflation in its longer-term valuation assumptions and employer contribution rates, and the DPF latest funding strategy has been updated in line with this.

DPF's Investment Strategy has been updated to reflect the recommendations made following the strategic review carried out by Mercer LLC, and review of the quarterly investment performance reports does show that the recommended changes in asset class percentage holdings that have the biggest inflationary impact, these are being implemented over time.

Risk identification and management / mitigation thereof was evident throughout the respective strategies, policies, external reviews and investment performance monitoring and that risk management is clearly embedded, enabling substantial assurance to be given.

**DPF: Good Governance** (Reasonable Assurance)

The existing governance framework in place for Devon Pension Fund is considered sound and is well placed to implement any new governance arrangements or changes in requirements that are introduced following the enactment of the outcomes of the good governance review carried out by Hymans Robertson. The audit review has confirmed that of the six areas of "good governance", DPF is deemed to be fully prepared and would already meet the new arrangements on three areas, that of General, Conflicts of Interest and Representation. In relation to the other three areas, there have been a few observations made and management actions suggested for implementation, that may be required in order to ensure that DPF can fully meet the new governance arrangements once regulated.

Of the 16 recommendations made in the good governance review report, suggested management actions have been offered in relation to nine of them, ranging from introduction of an Annual Governance and Compliance Statement into the annual accounts, to making potential changes to future training plans to accommodate the new proposed training requirements for the S151 Officer and committee members, appointment of a statutory "LGPS senior officer" and implementation of a business planning process.

The auditor has produced a GAP analysis, which is appended to this report (see Appendix D), which identifies the areas where there may be management action needed in order to fully meet the new governance arrangements once regulated. This compliments the management actions included in this report.

**DPF: Succession Planning** (n/a - Consultative)

**DPF / PP: Future Finance Project (FINEST replacement)** (n/a – consultative)

**PP – Employer Interface Data Quality** (Ongoing)

**Audit Scope**

Devon Audit Partnership have been commissioned to continue to support Peninsula Pensions with:

1. providing assurance on the accuracy of the monthly care pay information submitted through the interfaces by the scheme employers, to ensure it looks reasonable, tracking of trends, and comparing FTE data provided against set parameters.
2. Production of Performance Management Information for both Devon and Somerset Pension Boards relating to the performance of employers, through the creation of a dashboard viewable at both Fund and Employer level from which Fund / Employer report card summary sheets can be produced as PDFs.

**Progress as at March 2024**

This work is ongoing. An employer performance dashboard has been produced, using Power BI, and will be used to monitor quality and timeliness of pension data being provided by employers in line with the requirements of the Admin Strategy. The employer performance reports produced also addresses the wider issue of sharing performance data for management, Devon Pension Board and the Investments and Pension Fund Committee.

This assignment commenced in March 2023, continued throughout 2023/24, and will roll into 2024/25 when this will be rolled out for all employers across both the Devon and Somerset Pension Funds.



**Organisation Assurance Opinion definitions :**

<b>Opinion</b>	<b>Definitions</b>
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.