

## **Annual Internal Audit Report 2016/17 and the proposed Internal Audit Plan 2017/18**

### **Report of the County Treasurer**

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

#### **Recommendations:**

- (a) the Committee formally accepts the Annual Internal Audit Report for 2016/17.**
- (b) the Committee formally approves the Internal Audit Plan for 2017/18.**
- (c) members authorise the Assistant County Treasurer Investments to execute the Service Level Agreement relating to the Internal Audit Plan.**

#### **1. Annual Internal Report – 2016/17**

- 1.1. The Head of Devon Audit Partnership is required to provide the Authority with an assurance 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 2016/17, Internal Audit is able to provide reasonable 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 2017/18 and the Service Level Agreement**

- 2.1. Under the Local Government Act 1972 the Authority, and specifically the Chief Financial Officer (the County Treasurer), 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.
- 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.
- 2.3. The Internal Audit Service for the Pension Fund is delivered by the Devon Audit Partnership. This is a shared service arrangement between Devon County Council, Torbay Council and Plymouth City Council constituted under section 20 of the Local Government Act 2000
- 2.4. The audit plans for the financial year 2017/18 allow for up to 40 days of internal audit support for the Pension Fund and 45 days of internal audit support for Peninsula Pensions. Further detail is set out in Appendix 1

### **3. Other relevant information**

- 3.1. The Devon Pension Board has previously considered the above issues (i.e. the Internal Audit Report for 2016/17 and proposed Internal Audit plan for 2017/18) and agreed both reports with no amendment or additions.

Mary Davis

Electoral Divisions: All

Local Government Act 1972  
Accounts and Audit Regulations 2015

List of Background Papers - Nil

Contact for Enquiries: Robert Hutchins

Tel No: (01392) 383000 - Dart Suite, Larkbeare House

**DEVON PENSION FUND**  
**ANNUAL INTERNAL AUDIT REPORT 2016/17**  
**and**  
**PROPOSED INTERNAL AUDIT PLANS 2017/18**

**Section 1 - ANNUAL INTERNAL AUDIT REPORT 2016/17**

**1 INTRODUCTION**

1.1 The following report sets out the background to audit service provision, review work undertaken in 2016/17, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

1.3 This supports the organisation in complying with the Accounts and Audit Regulations 2015 which require 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 (IA) Service for the Devon Pension Fund (the Fund) is delivered by the Devon Audit Partnership. This is a shared service arrangement between Devon County Council, Torbay Council and Plymouth City Council constituted under section 20 of the Local Government Act 2000.

**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; includes an opinion on the adequacy and effectiveness of the Fund's internal control environment. The report outlines the level of assurance that we are able to provide, based on the internal audit work completed during the 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. It should be noted, however, that this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance, 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 2016/17, 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.

### **4 INTERNAL AUDIT COVERAGE 2016/17**

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 2016/17 has included completion of the 2015/16 audits that were largely all at draft report stage when we last reported to the Pension Board and the Pensions & Investment Committee. The individual assurance opinions and executive summaries were not changed from that previously reported.

4.3 The majority of audits were undertaken in the last quarter of the year and are now all complete to final report stage at the time of writing this report. 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 – PF = Pension fund PP = Peninsula Pensions

Areas Covered		Stage	PF or PP	Level of Assurance
1	Actuarial Valuation - mitigation of risks arising from the forthcoming actuarial valuation	Final	PF	High Standard
2	Treasury Management	Final	PF	Good Standard
3	Reconciliation of Pension records on Altair *	Complete	PP	Not Applicable *
4	Amalgamation of Pensions	Final	PP	Good Standard
5	Contribution Payments from employers	Final	PF	Good Standard
6	Performance Management – monitoring of the fund itself, performance of fund managers, and the Custodian	Final	PF	High Standard
7	Performance Management – monitoring of the Administration Strategy performance expectations	Final	PP	Good Standard
8	Effectiveness of the transition arrangements for the new South West pensions 'pool'	Final	PF	High Standard
9	Actuarial Valuation – collation and submission of data to the Actuary	Final	PP	Good Standard
10	Annual Benefit Statements	Final	PP	Good Standard

\* Following an additional request for Internal Audit input into the reconciliation of member records, we undertook a data matching exercise using specialist software to identify active members without contributions. This identified a potential number of such instances and the arising output was provided to Peninsula Pensions to resolve. We recommended further review of the data output by Peninsula Pensions to identify any 'false positives' to reduce the number identified and then address any actual instances.

4.2 Our reviews this year and in prior years provide sufficient evidence that the Devon Pension Fund and Peninsular 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.

4.3 We identified some areas where controls could be improved and actions were agreed with management.

## **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 also 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 2016/17 to assist them with compilation of their individual annual governance assurance statements. No significant weaknesses were identified in these reviews, however if any significant weaknesses had been identified in specific areas, these would have been considered by the Authority in preparing its Annual Governance Statement which is included with its published Statement of Accounts for 2016/17.

5.4 Overall, and based on work performed during 2016/17, Internal Audit is able to provide significant assurance on the adequacy and effectiveness of the Fund's internal control environment.

## **Section 2 - INTERNAL AUDIT PLANS 2016/17**

### **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 all financial systems 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 organisation's 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 Peninsular 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 all financial 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 Peninsular Pensions offices.

### **3 THE PLANS**

3.1 The audit plans for the financial year 2017/18 allows for up to 40 days of internal audit support for the Pension Fund and 45 days of internal audit support for Peninsular Pensions.



3.2 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.

3.3 We liaise with the Fund's external auditors to discuss the testing planned to ensure this supports their requirements. The remainder of the planned days incorporates reviews of specific systems as identified through an audit risk assessment process, the Authority's risk register and discussion with management.

3.4 Any significant findings from the previous year's audit plan 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. This will also take into account the timetable of external audit where applicable.

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 forwarded to your External Auditors for their information.

#### **5 2017/18 PLANS**

5.1 The following table sets out the planned internal audit work for 2017/18. 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.

#### **Devon Pension Fund Plan 2017/18**

<b>Audit risk areas</b>	<b>Days</b>
1. New Investment Strategy Statement (effective 1 <sup>st</sup> April 2017) – post project review	10
2. Follow up of Pool and Transition processes	10
3. Preparations for MIFID (Market in Financial Instruments Directive (2))	5
4. Process for Induction of any new Committee / Board Members	7
5. Audit Planning and reporting	3
6. Contingency	5
<b>Total days</b>	<b>40</b>





5.2 The cost of these days will be £11,200. Additional support will be provided as and when required. Our standard daily rate for this work will be £280, although specialist support may be at a different rate.

### Peninsular Pension Plan 2017/18

<b>Audit risk areas</b>	<b>Days</b>
1. Altair – mid contract review	10
2. Pensions Transfers	7
3. Deferred Benefits	10
4. Refunds	7
5. Audit planning, Advice and Guidance	5
6. Contingency	6
<b>Total days</b>	<b>45</b>

5.3 The cost of these days will be £12,600. Additional support will be provided as and when required. Our standard daily rate for this work will be £280, although specialist support may be at a different rate

Robert Hutchins  
Head of Devon Audit Partnership  
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