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Internal Audit

Draft Internal Audit Report

Pension Board
Governance
Arrangements 2018-19

Devon and Somerset Fire and
Rescue Service

January 2019

Official

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Devon Audit Partnership

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We work with our partners by providing professional internal audit and assurance services that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards (PSIAS) along with other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at robert.hutchins@devonaudit.gov.uk.

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This report is protectively marked in accordance with the National Protective Marking Scheme. Its contents are confidential and, whilst it is accepted that issues raised may well need to be discussed with other officers within the organisation, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.

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1 Introduction

The Public Service Pensions Act 2013 require pension boards to be established for Public Service Pension Schemes, including the Firefighters' Pension Schemes.

The Devon and Somerset Fire and Rescue Authority Local Pensions Board concerns the Firefighters' Pension Schemes, for which the Fire Authority is the Scheme Manager and West Yorkshire Pension Fund is the Scheme Administrator.

The Local Pensions Board is responsible for assisting the Scheme Manager in securing compliance with the Scheme Regulations and other legislation relating to the Governance and Administration of the Scheme.

The role of the Board is to assist the Scheme Manager (i.e. the Fire Authority) in securing compliance with the Firefighters' Pension Schemes regulations and other legislation relating to the Governance and Administration of the Schemes

The Pensions Regulator and the Firefighters' Pensions (England) Scheme Advisory Board regulate, monitor standards and provide advice to Scheme Managers and Pension Boards.

This review concerns the control framework concerning Devon and Somerset Fire and Rescue Authority Pensions Board governance arrangements.

2 Audit Opinion

Good Standard - The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.

3 Executive Summary

The Devon and Somerset Fire and Rescue Authority Local Pensions Board has been established in compliance with relevant legislation.

Local Pensions Board documents were largely found to be in place, including in relation to published terms of reference, policies and declarations. It is noted that meeting papers are not published as Local Pension Board meetings are not public. The local pensions dispute process was not found to be clearly published.

The Governance arrangements in place were found to be robust and supported by officer-led processes and self-assessment. The cancellation of some recent meetings, due to non-availability of Members, is noted as an area that the Authority will wish to address in 2019. In addition, documenting the review of member declaration of interests will evidence proper consideration of any potential conflicts in line with guidance. Further, establishing appropriate cover and contingency arrangements for the Scheme Manager should ensure that the effective governance arrangements can be maintained.

A number of opportunity recommendations are made for management consideration, including in relation to access to information considerations, the further development of the Local Pensions Board Risk Register, progression of Board member training needs analysis and consideration of a joint Pensions Board.

The detailed findings and recommendations regarding these issues and less important matters are described in the Appendices. 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.

4 Added Value

Internal Audit aimed to provide added value in relation to consideration of the robustness of the Authority's Pension Board governance arrangements

5 Assurance Opinion on Specific Sections

The following table summarises our assurance opinions on each of the areas covered during the audit. These combine to provide the overall assurance opinion at Section 2. Definitions of the assurance opinion ratings can be found in the Appendices.

Risk Areas Covered		Level of Assurance
1	Non-compliance with Legislation, Regulation and Guidance in respect of requirements for a Pension Board	Good Standard
2	Ineffective policy determination and decision	Good Standard

The findings and recommendations in relation to each of these areas are discussed in the "Detailed Audit Observations and Action Plan" appendix. This appendix records the action plan agreed by management to enhance the internal control framework and mitigate identified risks where agreed. 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 Lynda Sharp-Woods (lynda.sharp-woods@devonaudit.gov.uk) or Kate MacDowall (kate.macdowall@devonaudit.gov.uk). Alternatively, a meeting to discuss the report and agree the action plan should be arranged with the named auditors.

6 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.

In terms of this review, we are able to report that there are no issues that are arising for the examination of systems and controls that warrant inclusion in the Annual Governance Statement

7 Scope and Objectives

The objective of this audit was to provide the client with an audit opinion on the control framework concerning Devon and Somerset Fire and Rescue Authority Pensions Board governance arrangements.

The audit for 2018-19 was undertaken based on key risks based on discussions with the department and Internal Audit's view on risk within the function. The key risks are:

- Non-compliance with Legislation, Regulations and Guidance;
- Ineffective policy determination and decision making.

At client request a weighting of 25% was applicable to Risk 1 of the audit work programme, and a weighting of 75% applicable to Risk 2. DSFRS Self-assessment results were referred to but was not subject to audit testing or verification.

To note, we have not tested application of the breaches' procedures, with reference to any reported breaches, and neither have we tested communication to members and member data integrity. We cannot therefore provide assurance in relation to these areas, being outside of the scope of this audit.

8 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.

9 Acknowledgements

We would like to express our thanks and appreciation to all those who provided support and assistance during the course of this audit.

Robert Hutchins
Head of Partnership

Detailed Audit Observations and Action Plan

1. Risk Area Covered: Non-compliance with Legislation, Regulation and Guidance in respect of requirements for a Pension Board	Level of Assurance
<p>Opinion Statement:</p> <p>The Devon and Somerset Fire and Rescue Authority Local Pensions Board has been established to comply with the requirement of the Public Services Pensions Act 2013 for a Local Pensions Board to be put in place to assist the Authority, as a scheme manager of the Firefighters' Pension Schemes, to comply with the requirements of regulation and legislation, and of the Pensions Regulator, relating to the governance and administration of the Scheme.</p> <p>The required elements of applicable legislation, regulation and guidance appear to have been suitability considered by DSFRA in relation to the set-up of the Local Pensions Board, including in relation to Board composition, publication of Board member information and information detailing the role of the Board. However, there is a potential conflict of interest issue that was notified, but it is not evidenced how this has been considered by the scheme manager.</p> <p>At the time of audit Pension Board agendas, papers, minutes, decisions are not published by DSFRS for the reason understood to be that the Pension Board is not an open (public meeting).</p> <p>Whilst there is reference on the Pensions Board webpage to contact details for the Pensions Advisory Service and the Pensions Ombudsman, there does not appear to be clear reference made to the local process to be followed relating to pensions disputes, which is something that could be included.</p> <p>Details relating to the Board member appointment process should be published, and this will apply as the first term of office nears completion.</p> <p>The Firefighters' Pension Scheme (Amendment) (Governance) Regulations 2015, make provision for the establishment of joint local pension boards, where <i>the administration and management of the scheme is wholly or mainly shared by two or more scheme managers, and subject to approval from the Secretary of State</i>. Given the change in pension administrator to West Yorkshire Pension Fund (WYPF), which is understood to provide administration for 9 other Fire and Rescue Services, management may wish to consider this option in consultation with other Scheme Managers.</p> <p>Pensions Regulator self-assessment is regularly completed, and progress records are maintained by management, including mitigating actions and progress. Of the areas considered, at the time of last assessment eighteen areas are assessed as rating green, and four areas are assessed as amber. These areas relate to individual training needs analysis, managing and reporting on risk, and development of a data quality improvement plan.</p>	<p>Good Standard</p>

No.	Observation and implications		
1.1	<p>Whilst the required elements of applicable legislation, regulation and guidance appear to have been suitability considered by DSFRA, we noted a potential conflict of interest issue as per the Pensions Regulator Code of Practice 14 (s72) and the Public Service Pensions, England - The Firefighters' Pension Scheme (Amendment) (Governance) Regulations 2015.</p> <p>As per s72 of the COP 14 '...A finance officer might not be prevented from being a member of a pension board, but the scheme manager must be satisfied that their dual interests are not likely to prejudice the pension board member in the exercise of any particular function'.</p> <p>In addition, per s97 '<i>Schemes should also consider publishing information about pension board business, for example board papers, agendas and minutes of meetings (redacted to the extent that they contain confidential information and/or data covered by the Data Protection Act 1998). They should consider any requests for additional information to be published, to encourage scheme member engagement and promote a culture of transparency.</i>' Currently this information is not published for the reason understood to be that the Pension Board is not an open (public meeting).</p> <p>In s213, '<i>Scheme managers must make and implement dispute resolution arrangements that comply with the requirements of the law and help resolve pensions disputes between the scheme manager and a person with an interest in the scheme.</i>' We noted that there is reference on the Pensions Board webpage to contact details for the Pensions Advisory Service and the Pensions Ombudsman, but no reference to the local process to be followed.</p> <p>The Public Service Pensions, England - The Firefighters' Pension Scheme (Amendment) (Governance) Regulations 2015, provide that '<i>Where the administration and management of this scheme is wholly or mainly shared by two or more scheme managers, those scheme managers may establish a joint local pension board if approval in writing has been obtained from the Secretary of State.</i>' Given the change in pension administrator to WYPF, which is understood to provide administration for 9 other Fire and Rescue Services, including Dorset and Wiltshire Fire and Rescue Service, management might want to give consideration to this option and potential efficiency saving in consultation with other Scheme Managers.</p>		
	Recommendation	Priority	Management response and action plan including responsible officer
1.1.1	The scheme manager should consider the potential conflict of interest issue of any Board Members and satisfy himself regarding any potential prejudice; we suggest that this consideration should be documented, possibly by inclusion of additional field within the conflict of interests form.	Medium	The recommendation will be progressed via the employer's pension board representatives and the scheme manager.
1.1.2	In relation to promoting a culture of transparency, there is opportunity Pension Board agendas, papers, minutes and decisions (and other related documentation) to be published by DSFRS.	Opportunity	Agenda, papers and minutes are now prepared using ModernGov so will be published from April 2019
1.1.3	Whilst there is reference on the Pensions Board webpage to contact details for the Pensions Advisory Service and the Pensions Ombudsman, there does not appear to be clear reference made to the local process to be followed relating to pensions disputes. This is something that could be considered for inclusion.	Opportunity	To be actioned by Scheme Manager

	Recommendation	Priority	Management response and action plan including responsible officer
1.1.4	As detailed above, the Firefighters' Pension Scheme (Amendment) (Governance) Regulations 2015, provide opportunity for a joint pension board and management may wish to give consideration to this option in consultation with other Scheme Managers.	Opportunity	The recommendation will be considered for practicality alongside the guidance produced by the LGA. Michael Prior (Chair of Welsh SAB) is attending our LPB on 31 Jan 2019 to discuss this subject and potential partners have been identified.

2. Risk Area Covered: Ineffective policy determination and decision	Level of Assurance
<p>Opinion Statement:</p> <p>Local Pensions Board terms of reference is in place, which includes a Standard of Conduct Board for Members. The Terms of reference have been recently updated to reflect the change in Pension administrator. The Board statement of purpose and duties are set out within the Terms of Reference. The first meeting of the Board took place in July 2015.</p> <p>Local Pension Board Members complete the Pensions Regulator Public Service on-line training, in-house training is provided to Board Members and all Board Members are invited to attend the annual LGA Firefighters' Pension Conference. Broadening the use of the Pensions Regulator on-line toolkit for the identification of individual training needs and self-assessment is being investigated by the Scheme Manager. In addition, there is opportunity for consultation with Board members to request information in relation to training needs and feedback on training completed, which could lead to the development of individual training plans; all of which could be reported via an annual training plan and report on prior year training completed in conjunction with review of the requirements of the Pensions Regulator Code of Practice 14 ' - Knowledge and understanding required by pension board members.'</p> <p>No discrepancies have been identified between the Board Terms of Reference and operation in practice, and we found the areas reviewed by the Board to be in line with expectations and the Board Terms of Reference. However, we did note that the information in the 2017-18 annual report of the Pension Board did not include all the expected areas as outlined in the Terms of Reference.</p> <p>Review of meeting minutes and agendas suggests that sufficient time is given in meetings for review of reports and to allow for Board member discussion, although this could be further explored with members. There is evidence that information on emerging issues is taken to Pension Board meetings and that items are brought forward to future meetings as required. The forward meeting plan template document could be further populated for DSFRA and to take account of items brought forward relating to the cancelled meetings July and October 2018.</p> <p>Scheme manager updates and self-assessment updates are taken to Pension Board meetings. A Pension Board Actions Log is maintained and taken to Pension Board meetings, which provides evidence of monitoring of performance against agreed actions</p> <p>A monthly Pensions Administrator performance report to management is received from WYPF which includes reference to matters to be brought to management attention, and it is also noted that a representative from WYPF has attended at Pension Board meeting.</p> <p>The Pensions Regulator (TPR) guidance (code of practice) in relation to governance, record-keeping, internal controls and member communications is reviewed by the by the DSFRA Pension Board and management, however we noted that some areas remain as 'Amber'.</p> <p>A draft risk register Pension Board risk register is in place and is to be further populated following initial review.</p>	<p>Good Standard</p>

No.	Observation and implications		
2.1	<p>Local Pension Board terms of reference is in place, which includes a Standard of Conduct Board for Members.</p> <p>There is not a formal training plan in place for Local Pension Board Members, however the Pensions Regulator Public Service on-line training is utilised, in-house training is provided to Board Members and all Board Members are invited to attend the annual LGA Firefighters' Pension Conference.</p> <p>As per self-assessment progress records, the Scheme Manager delegate is investigating how the Pensions Regulator on-line toolkit might be used in relation to identification of individual training needs analysis in line with COP14 (s57) 'Pension board members should undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses. They should use a personalised training plan to document and address these promptly.'</p>		
	Recommendation	Priority	Management response and action plan including responsible officer
2.1.1	Management could consult Board members (for example, via individual meetings or Board member survey) to request information in relation to training needs and feedback on training completed i.e. whether Board members feel that there are areas where the Board, or themselves as individuals, would benefit from additional training provision. This could lead to the development of individual training plans.	Opportunity	<p>Development and training plans should be proportionate to the role and purpose of the Local Pension Board. Where training is undertaken, records will be maintained and made available.</p> <p>LPB Administrator</p>
2.1.2	An annual training plan and report on prior year training completed is something that could be prepared in future and this could be completed in conjunction with review of the requirements of the Pensions Regulator Code of Practice 14 ' - Knowledge and understanding required by Pension Board Members'.	Opportunity	<p>An annual training plan will be considered but again must be proportionate.</p> <p>LPB Chair</p>
No.	Observation and implications		
2.2	<p>The first meeting of the DSFRA Local Pension Board took place in July 2015. The Pension Board Terms of reference are in place and have been recently updated to reflect the change in Pension administrator. The Board statement of purpose and duties are set out within the Terms of Reference.</p> <p>No discrepancies have been identified between the Board Terms of Reference and operation in practice. However, it is noted that the 2017-18 annual report of the Pension Board, as seen by audit, did not provide detail on the number of retirements, new starters, membership numbers and 'opt out' numbers. The report also does not make specific reference to statutory breaches (even if nil) or areas of good practice, all of which are referred to in</p>		

	<p>the Board terms of reference.</p> <p>Whilst meetings are arranged to take place quarterly, it is noted that the most recent two meetings (July and October 2018) have been cancelled. We understand that this was for the reason that the meeting would not have been quorate.</p> <p>Review of a sample of meeting papers and outcomes found the areas reviewed by the Board to be in line with expectations and the Board Terms of Reference. The Board, whilst not a decision making body, can make recommendations, as required, to the Fire Authority.</p> <p>Review of meeting minutes and agendas suggests that sufficient time is given in meetings for review of reports and to allow for Board member discussion. However, this is an area that could be raised with Board members in relation to the previous opportunity recommendation made in respect of seeking Board member feedback i.e. to ask Board members whether they feel that adequate time is given for items on the Board agenda, and this could also include question as to whether the appropriate level of detail is provided and/or whether appropriate items are considered at Board meetings.</p>		
	Recommendation	Priority	Management response and action plan including responsible officer
2.2.1	Future iterations of the Pension Board annual report could include detail on the number of retirements, new starters, membership numbers and 'opt out' numbers, as well as reference to statutory breaches (even if nil) and areas of identified good practice, as referred to within the Board terms of reference.	Opportunity	Information on scheme administration will be included in the annual report. LPB Chair and scheme manager
2.2.2	Management could seek Board members views in relation to whether sufficient time is given in meetings for review of reports and to allow for Board member discussion, and this could also include question as to whether the appropriate level of detail is provided and/or whether appropriate items are considered at Board meetings.	Opportunity	Feedback on level of detail and review time will be sought by April 2019. LPB Chair
2.2.3	Linked to 2.2.2, items for inclusion could include audit reports and follow up of agreed recommendations in the subsequent year.	Opportunity	Audit reports will be taken to the Board agreed actions will be incorporated in to the existing LPB actions log.
2.2.4	Attendance at meetings is something that the authority will need to consider in 2019, in relation to the effectiveness of the Board and the impact of cancelled meetings on Board business.	Medium	The issue of meeting attendance has already been identified internally and is therefore an agenda item Board meeting on 31 January.

No.	Observation and implications		
2.3	<p>There is evidence that information on emerging issues is taken to Pension Board meetings and that items are brought forward to future meetings as required. We have suggested areas for inclusion in the forward meeting plan.</p> <p>A monthly Pensions Administrator performance report to management is received from WYPF which includes reference to matters to be brought to management attention including for example Pensions Regulator return figures, number of web registrations, KPI reporting and membership numbers; and reference to remedial actions e.g. in relation to data quality and reference to development of a data improvement plan. The report appears comprehensive and is of use to the Scheme manager. It is noted that a representative from WYPF has attended a Pension Board meeting.</p> <p>Scheme manager updates and self-assessment updates are taken to Pension Board meetings. A Pension Board Actions Log is maintained and taken to Pension Board meetings, this provides evidence of monitoring of performance against agreed actions.</p> <p>It is noted from discussion with officers that deputisation arrangements within HR is being reviewed by the Head of HR and that this might include deputisation and for contingency purposes, in relation to the support to the Pensions Board and liaison with WYPF, as required.</p> <p>We note from our work in relation to the annual KFS audit, that processes relating to Pensions involve finance and HR colleagues, and we would suggest that a process is maintained to ensure that relevant updates are fed to and from both DSFRS support areas, to ensure the Scheme Manager remains suitably informed.</p>		
	Recommendation	Priority	Management response and action plan including responsible officer
2.3.1	<p>The Pension Board forward meeting plan template document could be further populated for DSFRA and to take account of items brought forward relating to the cancelled meetings July and October 2018. And consideration of whether there are any matters that should be brought to the Board's attention prior to the next scheduled meeting, should this be required (given the last meeting of the Board was understood to have taken place in May 2018).</p>	Opportunity	<p>The forward plan will be included as a standing item on Board agenda.</p> <p>LPB Chair and Administrator</p>
2.3.2	<p>Given the involvement of Finance and HR colleagues, we recommend that a process is maintained to ensure that relevant updates are fed to and from both DSFRS support areas, to ensure the Scheme Manager remains suitably informed.</p>	Low	<p>The employer representatives (one of whom is Finance) and the scheme manager meet regularly to discuss updates and emerging issues. Consideration will be given to how other communication channels can be utilised between Finance and HR.</p>
2.3.3	<p>Appropriate cover and contingency arrangements should be established for the Scheme manager.</p>	Medium	<p>As well as providing resilience, additional capacity could be created. The employer reps and scheme manager will</p>

			consider cover arrangements in their regular meetings and work plan for 2019. Scheme Manager
No.	Observation and implications		
2.4	<p>TPR guidance (code of practice) in relation to governance, record-keeping, internal controls and member communications is subject to review by the Pension Board, although we noted that not all areas are 'Green', as referred to in the Pensions Regulator public service internal controls resources and checklist (published at https://www.tpr.gov.uk/en/public-service-pension-schemes/scheme-management/internal-controls-and-managing-risks).</p> <p>We understand that the Pension Board Risk Register is currently being revised and further populated.</p>		
	Recommendation	Priority	Management response and action plan including responsible officer
2.4.1	TPR guidance (code of practice) in relation to governance, record-keeping, internal controls and member communications should continue to be reviewed by the DSFRA Pension Board and management, and actions agreed with a view to bringing all self-assessed TPR areas to 'Green'.	Opportunity	<p>TPR Guidance is considered regularly and monitored via the population of surveys and monitoring. Clear records will be maintained.</p> <p>LPB Chair</p>
2.4.2	It is recommended that the Pension Board risk register be further populated, as planned, and be subject to review by the Board on a regular basis. This could include development of written procedures for assessing and managing risks.	Opportunity	<p>The risk register is in development.</p> <p>Scheme Manager</p>

Definitions of Audit Assurance Opinion Levels

Assurance	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

Definition of Recommendation Priority

Priority	Definitions
High	A significant finding. A key control is absent or is being compromised; if not acted upon this could result in high exposure to risk. Failure to address could result in internal or external responsibilities and obligations not being met.
Medium	Control arrangements not operating as required resulting in a moderate exposure to risk. This could result in minor disruption of service, undetected errors or inefficiencies in service provision. Important recommendations made to improve internal control arrangements and manage identified risks.
Low	Low risk issues, minor system compliance concerns or process inefficiencies where benefit would be gained from improving arrangements. Management should review, make changes if considered necessary or formally agree to accept the risks. These issues may be dealt with outside of the formal report during the course of the audit.
Opportunity	A recommendation to drive operational improvement which may enable efficiency savings to be realised, capacity to be created, support opportunity for commercialisation / income generation or improve customer experience. These recommendations do not feed into the assurance control environment.

Confidentiality under the National Protective Marking Scheme

Marking	Definitions
Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Secret	Very sensitive information that justifies heightened protective measures to defend against determined and highly capable threat actors. For example, where compromise could seriously damage military capabilities, international relations or the investigation of serious organised crime.
Top Secret	The most sensitive information requiring the highest levels of protection from the most serious threats. For example, where compromise could cause widespread loss of life or else threaten the security or economic wellbeing of the country or friendly nations.