

Internal Audit Report

Confidential

**Avon Pension Fund
Scheme of Delegation – Financial
Authorisations**

August 2020

Executive Summary

Audit Opinion:

| Assurance Rating | Opinion |
|------------------|--|
| Level 5 | The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary |
| Level 4 | The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary |
| Level 3 | The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan |
| Level 2 | The systems of internal controls are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure |
| Level 1 | The systems of internal controls are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee |

Assurance Summary:

| Assessment | Area Reviewed |
|------------|--|
| Good | Ensure that delegations enable APF to administer the fund efficiently, effectively and safeguards assets. |
| Good | Ensure that delegations / authorities have been scrutinised and approved by the responsible Officer / Board / Committee. |
| Good | Ensure that the formal record of delegations is available to Officers. |

Detailed Report

Opinion

We have assessed the framework of internal control to be at 'Level 4 - Good'. A total of 1 audit recommendation is detailed in the Action Plan section of this report.

Scope and Objectives

The audit is intended to provide management with independent assurance that the proposed Scheme of Delegation for officers able to authorise financial transactions is fit for purpose and ensures reasonable control over the Fund's assets. The officers in question are those directly employed by Bath and North East Somerset Council (BANES) administering the Avon Pension Fund (APF) or working in areas such as Treasury Management. The review is not therefore intended to cover the Fund's investment portfolio, which as at 30 September 2019 was valued at just under £5 billion, as this is handled by external fund managers.

The scope of the audit, as originally agreed with management in the separate Audit Brief, is reproduced in the Assurance Summary section above, along with our assessment of each area as at the time of testing.

Background

Avon Pension Fund (APF) is responsible for ensuring the safe custody of its financial assets. During its day to day administrative operations, there are significant financial transactions that occur, such as the payment of pension benefits to retired members, the transfer of pension benefits where a member wishes to switch schemes, the movement of funds for cashflow purposes and the authorisation of expenditure from APF budgets. These transactions vary in amount but can exceed £10m. Suitable authorisation processes are necessary in each case and it is to this end that APF have developed and will maintain a central record of authorisations.

Context & Audit Comment

The review forms part of the 2019-20 risk based Internal Audit Plan.

To arrive at our conclusions, we have engaged with key officers including the Pensions Manager and Governance and Risk Advisor to discuss the rationale behind the development of the new Scheme. We sought to provide input at an early stage by conducting some initial research in order to be able to share good practice with APF during the Scheme's development. Further discussions were held once the draft Scheme had been prepared and feedback provided on the proposed limits, their reasonableness and whether they enable sufficient control over the Fund's assets. A further secondary consideration was that delegations should enable workflow as opposed to creating undue delays. Sample testing against the new Scheme was also carried out in order to validate current compliance.

Background Research by Devon Audit Partnership

We sought in this instance to determine whether other similar funds had published their own Schemes of Delegation in order to provide APF with a starting point from which to build their own document. We used internet searches for this and also contacted another nearby Fund to determine whether they had conducted any similar work in this area.

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Internet searches found little evidence of publicly available schemes, with the exception of a document from Oxfordshire County Council which had included some financial transaction types and details of officers and their authorisation limits. Details were then passed to relevant APF Officers.

The other nearby Fund with whom we enquired was found to be in a similar position to APF in that they had a number of separate governance documents such as the Administering Authority's Constitution and a Governance Compliance Statement establishing mostly high-level delegations but did not have a centralised list of financial transaction types, limits or the officers able to authorise. This information was also shared with APF.

Development of the Scheme of Officer Authorisations

We discussed with the Governance and Risk Advisor the methodology applied in producing the new Scheme and reviewed supporting evidence gathered during its compilation. Information from a number of sources had clearly been considered during the Scheme's compilation and this included existing delegations established within the BANES Council Constitution, limits already established by way of APF internal procedures, feedback from other managers within APF and some input from ourselves.

Consideration of the Scheme of Officer Authorisations

The newly produced summary document is considered fit for purpose and will provide reasonable control over the Fund's assets without compromising workflow. In order to achieve this, consideration has been given to adjusting the authorisation limits for certain transactions. The proposed adjustments, which apply in relation to member benefits, appear reasonable and should help to prevent possible delays that may otherwise occur.

The Scheme contains the key financial transaction types that are carried out on a day to day basis by APF Officers. This includes budget expenditure, the movement of funds for cashflow purposes, approval of pensioner payroll runs and calculations relating to member benefits.

In most cases, the transactions are stratified such that higher values will require increasing levels of scrutiny or seniority in signing off. This should help mitigate risk whilst ensuring officers at suitable levels are accountable for decision making.

BACS payment runs are used for paying pension benefits to members and also for transferring pension benefits to other funds. The payroll team are responsible for creating the BACS run, whilst APF managers are then required to check the details and authorise the payment, which is actioned within the software application itself. As such the final authorisation can only be done by users that have been granted access to the payments system by a System Administrator. We reviewed a system report listing current authorisers and confirmed that the overall number was not excessive and consisted of current managers within either APF or BANES.

We reviewed the list of APF cost centres and associated officers who may authorise expenditure from them. Here again we found evidence of a stratified approach to authorisation, with most cost centres having a cut-off point at around £25k, beyond which a more senior officer was required to authorise. All cost centre expenditure authorisers were managers. We noted one cost centre which had only a single authorising officer. This was discussed with the Finance Manager who confirmed that budget holders are able to assign their authorisation privileges to a delegate in the event of absence such as annual leave or sickness. This should mitigate the risk of delays in authorising expenditure during such times. For most other cost centres, there were at least two authorising officers able to approve expenditure up to £25k.

For the approval of member benefits, which may include transfers out, lump sum payments and death grants, APF have found that the existing level of sign off was not always practical and could cause delays in processing. As such the proposed scheme seeks to relax the limit at which sign off by the Pensions Manager or Head of Service is required from £100k to £150k, with the Member Services Team Leader now able to sign off transactions below this value. We note that this type of transaction carries a relatively low risk of fraud and is further compensated for by other existing controls such as separation of duty which prevents a single officer from carrying out all steps required in making a payment and also the fact that payment run reports would be independently reviewed by an officer other than the one authorising the amount to be paid.

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Investment decisions and the management of the Fund's £4billion assets are managed by external fund managers and the Brunel Pension Partnership. Treasury management activity for cashflow purposes, where money is moved between BANES current account and APF money market fund accounts, is however still managed within the organisation. These transactions occur relatively frequently and can reach values approaching £10m. Under the proposed Scheme of Delegation these transactions are initiated and authorised by the BANES Treasury Management Team and in particular those officers authorised to conduct deals on behalf of the Authority. This seems appropriate and is a continuation of existing practices.

Approval of the Scheme of Delegation

To ensure that the proposed Scheme of Delegation is reviewed and approved at a suitable level, the intention was for this to be carried out by the Pension Committee. As part of the audit work we reviewed past Committee minutes where we noted similar documents being discussed such as the Pensions Committee Terms of Reference (which also includes a number of delegations to officers) and the Governance Compliance Statement. It was concluded that it was reasonable and appropriate for the Committee to formally approve the new Scheme of Delegations. Since the issue of the draft version of this report, the Committee was consulted on the Scheme of Delegations developed and the minutes of the meeting record its approval on the 26th June 2020.

Sample Testing

For each transaction type, we carried out limited sample testing to determine who the authorising officers were and therefore the levels of compliance. In most instances the proposed Scheme mirrors current practice so issues were not expected. This proved to be the case and the large majority of our sample were indeed authorised in accordance with the Scheme and adequately evidenced.

We noted one transaction dating back to September 2019 in respect of member benefits which had not been authorised as required. From discussion it was determined that this may have been due to the necessary officers being absent during the period in question; however, on further investigation it seemed that there was some confusion regarding the level of authorisation required. This provides a good example of why the proposed Scheme is necessary as it will provide a central and accessible reference point for officers across the Service.

A further relatively minor issue identified pertained to background information held by APF on which BANES officers are authorised to conduct Treasury Management deals, as these officers are responsible for the movement of funds between APF money market fund accounts and the BANES current account. It was identified from a transaction examined that the TM Officer carrying out the transfer was not recorded on the list held by APF. Enquiries were made and it was identified that the list of Officers was not up to date and that the TM Officer was included in the current list maintained by the Corporate Finance Team that administers the Treasury Management function. The issue was therefore that the APF was not being kept informed of changes of personnel and their role and responsibilities.

Summary

Overall, it is our opinion that the new Scheme compliments the framework of internal control and provides a useful and accessible reference point for officers during day to day activities helping to ensure than financial transactions are authorised in line with the approved scheme and framework of control. The delegations were considered reasonable and not reliant on a single point of authorisation which would impact on efficiency and effectiveness. As such the Scheme represents a good starting point which can be expanded and refined as necessary going forward.

No findings were deemed to constitute a high-risk level. Medium risk findings are set out later in this report. Low risk findings, for example where controls had generally been effective but an isolated lapse with limited impact was found, have not been reproduced within this report but have been discussed and agreed separately with the Pensions Manager.

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Audit Summary Findings

We identified the following strengths:

- In developing the Scheme, APF have taken into consideration information made available by other Schemes
- The Scheme covers all key financial transactions that occur during day to day administration of the Fund
- In most instances, stratified limits have been applied, ensuring accountability at a suitable level
- The Scheme provides a good balance between control and operational efficiency and effectiveness
- Over reliance on a single point of authorisation has been minimised wherever possible

We identified the following weakness:

- A large payment processed in 2019 had not been fully authorised in accordance with delegations in place at the time. This was due in part to a misunderstanding of the authorisations required.

Audit & Risk Personnel:

Lead Auditor: Gary Spratley

Acknowledgements:

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ACTION PLAN

| MEDIUM RISK EXPOSURE | | | | |
|----------------------|--|---|--|--|
| | Weakness Found | Implication or Potential Risk | Recommendation(s) | Responsible Officer Management Comments Implementation Date |
| M1 | <p><u>Testing identified a payment of Member Benefits which did not comply with the new proposed Scheme of Officer Authorisation or the limits which were in place at the time the transaction occurred.</u></p> <p>Benefits for member GD, valued at £332k, were processed in the 'immediate' payroll run of 27 September 2019. The benefits were authorised by the Technical and Compliance Advisor. Under the current arrangements this should also have been authorised by either the Head of Service or Pensions Manager, however neither were involved in this transaction.</p> <p>From discussion we determined that the two designated authorising officers were absent at the time the authorisation took place, but that there also appeared to be some misunderstanding with officers around who the designated officers were.</p> | <p>Transactions may not be authorised appropriately, reducing accountability and increasing the risk of error or fraud.</p> | <ol style="list-style-type: none"> All transactions should be authorised in accordance with the Scheme of Officer Authorisations. APF should ensure all relevant officers have ready access to the Scheme of Officer Authorisations and are clear on its requirements. | <p>The case identified by IA was due to an oversight in the approval process.</p> <p>The Scheme of Delegations is now in place and operational having been formally approved by the Pensions Committee in June 2020.</p> <p>Pensions Manager – July 2020</p> |