



## Surrey Local Pension Board 27 July 2017

### Administration internal audit report 2016/17

#### Recommendations:

The Board is asked to **note** the content of this report.

The Board is invited to **consider** rating of internal audit recommendations as they apply to the Pension Fund and the appropriateness of additional actions identified to be **recommended** to the Pension Fund Committee and agree the final form of a Local Pension Board Progress Report

The Board **recommends** that the pension administration team produce a further update report for the next Local Pension Board meeting.

#### Detail:

1. The 2016/17 internal audit review of pension administration was completed in March 2017 and is included as Annex 1 (restricted by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972).
2. The terms of reference of the audit sought to obtain an overview of arrangements in place in pensions administration for:
  - Data quality and security;
  - Equality and diversity;
  - Value for money;
  - Business continuity, and
  - Risk management.
3. A specific review of the pensions administration functions was undertaken to ensure the following:
  - Up-to-date data of members of the LGPS are maintained;
  - Pension contributions are accurate and collected in a timely manner;
  - Pension payments are accurate and disbursed in a timely manner;
  - Contributions received and payments made are accurately shown in the general ledger (SAP) and the Pensions Administration system (Altair);
  - Senior management and members of the Pension Fund Committee receive regular reports on the performance of the Fund using key performance indicators.

4. The audit review found a number of specific control weaknesses and the overall audit opinion was that significant improvement is needed
5. Audit recommendations are contained in the Financial Management Action Plan, included as Annex 2.
6. In the Action Plan, the audit identified high priority, major control weaknesses that require immediate implementation of recommendations in the following areas:
  - Senior management should ensure that changes to pensions regulations impacting on its administration are managed promptly and effectively;
  - The various changes that are required for the operations of the pensions administration team to be stable should be prioritised and addressed in a coordinated manner so that staff will feel supported and empowered;
  - The work done by the Pensions Help Desk should be developed and reported to senior management on a regular basis, including the members of the Pension Fund Committee and the Local Pension Board as required;
  - Procedure notes should be developed using the 'As-is' process maps and formal training should be provided so that new and experienced staff can deliver the administrative function more effectively;
  - There should be an appropriate central system to capture all complaints to the team. There should also be a formal process detailing how each complaint is dealt with, the timescale within which it should be resolved, who is assigned responsibility for addressing the complaint and the escalation routes;
  - The KPIs should be redefined to include additional pertinent KPIs such as the transfers-in and transfers-out for members of the LGPS, as these are not currently reported. It is acknowledged that KPIs have been developed for all of the funds administered by SCC pensions administration team but the auditor did not verify these as it was outside the scope of the audit. All comparable KPIs between funds should be compared by senior management to determine the impact that the overall workload has on the performance of each KPI reported, as it is currently not transparent. Based on this, the Pension Fund Committee and the Local Pension Board should be able to seek assurance from the Pensions Service;
  - A separate risk register to highlight the risks of the Pensions Administration Team should be developed, maintained and reported to the Pension Fund Committee and Local Pension Board.
7. The auditor also identified medium priority, existing procedures that have a negative impact on internal control of the efficient use of resources in the following areas:
  - Taking on further work to administer pensions of other authorities should be reviewed in the short term until all the changes to the team have been implemented and the stability of working arrangements have been maintained, A template document detailing a clear business plan and related processes as well as risk assessments should be drawn up to include the step by step process that should be followed when considering taking on additional work. There should be an approval process in place to assess the new work and its impact. This should be communicated to the Pension Fund Committee and Local Pension Board to enable the impact of the new work and copying mechanisms to be fully scrutinised and understood so that actions taken is transparent to Councillors and members and employers of

the Surrey Pension Fund;

- In addition to adequate team resources and support via technology, an annual programme of planned work for the team must be formulated so that the team can respond to changes more quickly and seamlessly;
- All of the member details should be correctly migrated when the data is transferred from SAP to Altair when Altair becomes the single system for Pensions Administration later this year and maintained thereafter;
- The need for improved communication and to provide responses to requests in a timely manner by the Pensions Administration Team should be emphasised. This will not only enable external reporting to be met in a timely manner but will also improve working relationships with internal and external customers.

### **Remedial action**

8. The Pensions Services Team has outlined its response to the recommendations in the 'Management Action Proposed' section of the Financial Management Action Plan, included as Annex 2. This provides a detailed response, timescales for action and a responsible officer.
9. In addition to the recommendations included in the audit report, officers have previously designed processes by which the performance of the pensions administration function can be monitored and continually improved. These include the introduction of a separate pensions administration risk register and the review of the Pensions Administration Strategy and the design of a new Service Specification between the Pensions Administration Service and the Surrey Pension Fund.
10. These new policy documents were on the Forward Plan for the Pension Fund Committee prior to the audit report and due for presentation at the 15 September 2017 Pension Fund Committee meeting. Officers will ensure that these policy documents complement internal audit recommendations.
11. In its meeting of 2 June 2017, the Pension Committee raised serious concerns were in respect of the Internal Audit report and the performance of pension administration in general.
12. An update report on the management response to Internal Audit recommendations and the general performance of pension administration to the Local Pension Board meeting of 27 July 2017.
13. The Pension Committee commissioned the Board to monitor improvement progress of the pension administration function.

### **The Local Pension Board Progress Report**

14. The recommendations of internal audit have been rated by officers according to the specific risk to the Pension Fund. The ratings are based on a Red, Amber and Green (RAG) formula. The Board is asked to consider the appropriateness of this risk rating.
15. In addition to the recommendations by the Internal Auditor, officers have identified additional risks to the Pension Fund and the accompanying mitigation recommendations. The Board is asked to consider the appropriateness of these additional risks identified and mitigation recommendations.

16. The risk rating of internal audit recommendations and the additional identified recommendations are shown in Annex 3; the **Local Pension Board Progress Report**. This includes a progress report from the Pension Administration Service on the response to the internal audit recommendations.

#### **Next steps**

17. The Board will agree on the form of the Local Pension Board Progress Report.
18. The Local Pension Board Progress Report will be taken to the next Pension Committee meeting on 15 September 2017.
19. Further updates to the Local Pension Board Progress Report will be addressed to future Board meetings.

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#### **Sources/background papers:**

#### **Annexes:**

1. Review of Pension Administration (Restricted by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972).
2. Final Management Action Plan
3. The Local Pension Board Progress Report