



# Internal Audit Report

## Review of Surrey Pension Fund Administration 2018/19

### Final

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Prepared for: Surrey County Council  
Date: April 2019

OFFICIAL-SENSITIVE



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### 1. Introduction

- 1.1. Surrey County Council (SCC) is the statutory body responsible for administering the Surrey Pension Fund (SPF) on behalf of its constituent scheduled and admitted bodies and carries out this function as per the Local Government Pension Scheme (LGPS).
- 1.2. The SPF member details are held in Altair, which is hosted on the council's platform and supported by the system provider, Heywoods.
- 1.3. As at 30 September 2018, the Fund had 402 employers and nearly 66k members. Just over half (34k) were active members and the remainder (32k) were deferred members. The triennial valuation of the Fund from March 2016 reported an improvement to the funding level of >10% compared to 2013 from 3.2bn (72.3%) to £3.9bn (82.6%), which reduced the funding deficit to £300m. The next valuation is due as at 31 March 2019.
- 1.4. The Surrey Pension Fund Committee (SPFC) and the Surrey Local Pension Board (SLPB) oversee that adequate governance and administration arrangements of the Fund are in place. The SPF investments are managed by the Pensions Team in Corporate Finance but the day to day administration of SPF including five other funds (4 London Boroughs and East Sussex County Council) are the responsibility of the Orbis Pension Administration Service (PAS). This audit covers the administration of SPF only.
- 1.5. This review is part of the agreed Internal Audit Plan for 2018/19.
- 1.6. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the main body of the report.

### 2. Scope

- 2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
  - Controls in the system are effective and all transactions, data and outputs from the system are complete and accurate; and
  - Clear governance processes are in place to ensure the efficient running of the service and the effective monitoring of performance.

### 3. Audit opinion

**Minimal Assurance** is provided in respect of the Administration of the Surrey Pension Fund. This opinion means that controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

*Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.*

### 4. Basis of Opinion

- 4.1. We have been able to provide only **Minimal Assurance** over the controls operating within the administration of SPF due to a number of reasons set out below:
- 4.2. The previous audit completed in March 2017 concluded an audit opinion of **Significant Improvement Needed** (equivalent to the current **Partial Assurance**). However, very little effort was made by the then management to implement the recommendations as agreed. Only 4 of the 11 previous recommendations have been either fully (1) or partially (3) implemented. Of the remaining 7 we have, where appropriate, reported findings again as part of this audit to agree updated actions with management.
- 4.3. The audit fieldwork was conducted from October to December 2018 and a verbal update of findings was provided to management before Christmas 2018. After a brief pause to review the Modified Fire Pension Scheme, further areas in PAS requiring review were completed in March 2019. In that time the PAS had made some progress which is reflected in the actions agreed with the service in the 'Findings' section of this report.
- 4.4. At least three (two former and a recently appointed) managers in the team have left SCC employment between April and December 2018. The scale of changes required to improve the day to day operations and overall performance are challenging.
- 4.5. Key documents such as the Pension Administration Strategy, Business Plan, and Service Level Agreement enable the staff to be compliant in their practices while enabling management to monitor and manage effective service delivery. These were approved by the SPFC in September 2017 and were due to be reviewed and updated annually. This has not happened. As a result, any changes made to how the service now operates are not accurately reflected in them.
- 4.6. There are significant levels of backlog in tasks (circa 57k across all funds with circa 22k for SPF) and in data quality issues in Altair system relating to SPF members. Although a plan to cleanse the data and clear the backlog is in place, its achievement is only partial due to the need to have substantial additional resources (staff and time) to complete the work.
- 4.7. A culture that maintains inefficient ways of working (paper based information, a lack of accountability, absence of performance management etc.) is embedded within the PAS. This needs to be changed to smarter ways of working by introducing streamlined procedures using technological solutions, and ensure that staff are responsible and accountable for their work. In short, a root and branch review of the whole PAS operation is needed.
- 4.8. Since our previous audit, requests from other London Boroughs and their external auditors have been referred to us requesting to see our last audit report and the council's Controls Assurance Report i.e. ISAE 3402 report. Our audit report was not shared, and currently the PAS does not commission an ISAE 3402 report. We have encouraged management for such an assurance statement to be commissioned.
- 4.9. The audit also identified that PAS are failing to meet more than 60% of their Key Performance Indicators (KPIs); that performance statistics presented to the SPFC/SLPB are not validated; that delays in employer contributions are not tracked and their reconciliations are not completed in a timely manner; that the completion of Guaranteed

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Minimum Pension (GMP) reconciliations have been delayed; and that data breaches and non-compliance with GDPR routinely continue to happen.

4.10. We have been informed that the Pension Payroll in Altair went live in November 2017 before the user acceptance tests (UAT) were completed and despite concerns being raised by IT&D and Corporate Finance. The implementation has not been fully completed as more work is planned for Summer 2019. An audit of Altair Pension Payroll is scheduled in the 2019/20 Annual Audit Plan to review the control environment.

4.11. Other key findings of the audit included:

- The Fund failing to submit its annual accounts to the Ministry of Housing, Communities and Local Government by the statutory deadline of 17 August 2018.
- Following the County Council elections in in May 2017, none of the re-elected Councillors in Surrey re-joined their LGPS. Whilst Altair correctly showed them as inactive members of deferred status, the calculation of their accrued benefits to date remains to be completed;
- The Pension Regulator (tPR) has stipulated 11 mandatory common data items to identify scheme members. But our testing found that 3 of these: (National Insurance Number (NINO), address and postcode) are not held in Altair; and
- Evidence of quality assurance checks performed on transactions is not consistently retained.

### 5. Action Summary

Risk Priority	Definition	No	Ref
High	Major control weakness requiring immediate implementation	4	2, 4, 7, 11
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	7	1, 3, 5, 6, 8, 9, 10
Low	Represents good practice but its implementation is not fundamental to internal control	1	12
<b>Total number of agreed actions</b>		<b>12</b>	

5.1 As part of our quarterly progress reports to Audit Committee we track and report progress made in implementing all high priority actions agreed. Medium and low priority actions will be monitored and re-assessed by Internal Audit at the next audit review or through random sample checks.

### 6. Acknowledgement

6.1 We would like to thank all staff that provided assistance during the course of this audit.

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
1	<p><b>Review of key documents</b></p> <p>The Strategy, Business Plan, and Service Level Agreements are key documents that set out PAS operations.</p> <p>These were last approved by the SPFC in September 2017 on the basis of being reviewed annually. However, this review did not happen in 2018 and as such the documents do not reflect the current position.</p> <p>It is important for these underpinning documents to be updated and kept up to date in order for effective governance and management oversight to be embedded.</p>	<p>Absence of up to date key documents, may lead to confusion among staff, lack of direction for the service and ineffective change management practices.</p>	Medium	<p>The Strategy and Service Level Agreement documents are being actively worked upon as at 24 April 2019. Plan for all documents to be updated by 30 June 2019.</p> <p>Documents will be reviewed regularly and updated annually or whenever major change occurs, whichever is sooner.</p> <p>Management of change will be tracked via monthly meetings between PAS and the Pension Fund Team.</p>
<b>Responsible Officer:</b>		Andrew Marson, Lead Pensions Manager	<b>Target Implementation Date:</b>	30 June 2019

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
2	<p><b>Changes to PAS procedures</b></p> <p>Efforts are being made by management to secure additional investment to improve the performance of PAS and to address known issue, some of which are reported on in this audit and in our previous audit.</p> <p>We understand that an application for close to £0.5m is being made to fund the changes, although the source of this funding is not currently known to us.</p> <p>At the date of audit, however, we have yet to see a clear business case that sets out what areas will be identified for remedial action, a timetable for action, and detailed plans that provide robust assurance that the current weaknesses will be adequately addressed.</p>	<p>Without a clear and robust business plan for change, any additional investment in PAS may not be correctly focused or achieve the anticipated improvements in administration and service.</p>	High	<p>The new PAS management team is in place with a new Lead Pensions Manager (joined in Feb 2019), Service Delivery Manager (day to day operational services to members and employers) and Support and Development Manager (key Fund and internal projects delivery)</p> <p>Staff now have Personal Development Plans.</p> <p>Team has been restructured aligned to skills with focus on ownership and accountability.</p> <p>A new trainee team has been established, bringing fresh ideas and energy into the existing team.</p> <p>Each key project now has clear governance and plans for delivery. The projects are managed under a program of work.</p> <p>Internal Audit will carry out a follow-up audit to review progress, once key deliverables are achieved over the Summer of 2019.</p>
Responsible Officer:		Andrew Marson, Lead Pensions Manager	Target Implementation Date:	30 September 2019

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
3	<p><b>ISAE 3402 assurance statement</b></p> <p>PAS has not taken on any additional external work since November 2016.</p> <p>However a number of requests have been referred to us by PAS from both their external London Borough customers and their external auditors to seek access to both our audit report and the council’s assurance report (ISAE 3402 report) on the PAS control environment.</p> <p>It would not be appropriate for us to share our audit report, given we do not audit the administration of funds of external customers.</p> <p>We do, however, endorse the position that PAS should commission an independent ISAE 3402 assurance statement for the benefit of all of its customers, current and future.</p>	<p>An ISEA 3402 report may identify control weaknesses that leads to external customers wanting to review their current business arrangements with the council for pension administration.</p>	Medium	<p>Plan to commission ISEA 3402 work to be carried out in liaison with S151 Officer.</p>
<b>Responsible Officer:</b>		Andrew Marson, Lead Pensions Manager	<b>Target Implementation Date:</b>	31 October 2019

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
4	<p><b>Procedure Notes</b></p> <p>PAS procedures require numerous manual calculations to be checked and verified for accuracy and completeness before being paid. This includes payments relating to lump sums, transfer values, and death grants.</p> <p>However, 9 transactions tested from a sample of 30 (29%) found no evidence to confirm this and Altair’s configuration does not compel the checking officer to perform a walkthrough of the transactions so that the relevant checks are fully completed.</p> <p>The current procedures need to be redesigned to identify and embed appropriate controls before being documented and implemented as standard across the team.</p>	<p>The absence of inbuilt mandatory checks in Altair for some calculations or the non-compliance with any existing mandatory checks may cause undetected errors.</p> <p>The service’s current drive of planned recruitment of junior and untrained staff may not yield the full benefit if staff do not have the relevant procedure notes.</p>	High	<p>PAS is currently in a period of stabilisation with focus on business as usual and delivery of key projects such as backlog, GMP, ABS, data cleansing, Modified Fire Pension Scheme and Triennial Valuation.</p> <p>With the current team restructure, staff understand their responsibilities for checking and evidence can be found by either signatures on paperwork or tasks completed in Altair.</p> <p>It is planned for PAS to move into a period of enhancement of the service, through continuous improvement from September 2019. This will include improvements to process efficiency, preventing the build-up of backlogs, implementing I Connect, the digital platform for employers to submit their data and a system review and improvement plan.</p>
<b>Responsible Officer:</b>		Andrew Marson, Lead Pensions Manager	<b>Target Implementation Date:</b>	From 30 September 2019

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
5	<p><b>Key Performance Indicators (KPIs)</b></p> <p>The 2018/19 Quarter 2 Performance Report to the SPFC and SLPB indicated that there were 37 KPIs for which 12 (32%) had no timescales for meeting them.</p> <p>The remaining 25 KPIs were reported as 8 green, 2 amber and 15 red performance ratings. This indicates that 68% of the KPIs are not being met when they were reported to the SLPB and SPFC.</p> <p>No evidence was available to show that the KPIs are validated by management prior to reporting to the SLPB and SPFC. The performance figures for caseload were overstated due to data quality issues in Altair.</p> <p>These issues need to be addressed in order that KPI's are both meaningful and drive improvement.</p>	<p>If the KPIs are not accurately reported, it may inadvertently mislead the SPFC and SLPB and the performance of the team also cannot be effectively improved.</p>	Medium	<p>To clarify, the 2018/19 Q2 Performance Report intentionally had 25 KPIs with timescales as a measure. The balancing 12 are numeric indicators only showing an overview of movement e.g. new starters, opt outs, employer changes.</p> <ol style="list-style-type: none"> <li>1. KPIs will be produced by the Service Delivery Manager and reviewed by the Lead Pensions Manager with effect from May 2019 for April performance.</li> <li>2. The KPI measures are currently being reviewed between PAS and the Pension Fund Team.</li> <li>3. PAS KPI performance will be managed as part of monthly Administration meetings between PAS and the Pension Fund Team and reported to SPFC and SLPB on a quarterly basis.</li> </ol>
<p><b>Responsible Officer:</b></p>		<p>Andrew Marson, Lead Pensions Manager</p>	<p><b>Target Implementation Date:</b></p>	<p>Management to monitor from May 2019 onwards on an ongoing basis and report on a quarterly basis.</p>

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
6	<p><b>Complaints handling</b></p> <p>A total of 80 complaints about the PAS were recorded on a locally maintained spreadsheet between Jan and Oct 2018 of which 42 were from SPF members. 22 outcomes were on time as per the SLA, 13 were outside the SLA timescale and the 7 remaining were overdue but included a breach.</p> <p>These 80 complaints do not, however, include the numerous complaints live in PAS identified during the previous audit, and no evidence has been provided to us to show how this previous cohort of complaints were resolved.</p> <p>Currently, no information about PAS complaints is reported to Audit and Governance Committee, which is the case for all other corporate complaint data.</p>	<p>Ineffective complaints procedures may lead to complaints being lost in the system, or not being responded to in accordance within the required time limits.</p>	Medium	<p>The log and tracking of complaints will be extended to include a summary note of resolution. Complaint correspondence is routinely scanned and uploaded to the member document record on Altair.</p> <p>The Complaints process and procedure will be reviewed to ensure clarity of escalation e.g. if a complaint moves to IDR, the Pension Fund Team becomes responsible.</p> <ol style="list-style-type: none"> <li>1. The monthly Administration review between PAS and the Pension Fund Team will include the review of complaints as well.</li> <li>2. Statistics on PAS complaints will be shared with Corporate Customer Relations and Service Improvement Manager on a monthly basis to be included in her Annual Complaints Performance Report to the Audit and Governance Committee.</li> </ol>
<p><b>Responsible Officer:</b></p>		<p>Andrew Marson, Lead Pensions Manager and Sarah Bogunovic, Customer Relations and Service Improvement Manager</p>	<p><b>Target Implementation Date:</b></p>	<p>From May 2019 onwards</p>

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7	<p><b>Data Cleansing</b></p> <p>We have seen a plan to clean the data in Altair. However, our fieldwork showed a number of consequences resulting from poor quality of data still evident in the system. These included:</p> <ul style="list-style-type: none"> <li>- A backlog of 57,000 tasks identified in November 2018;</li> <li>- Altair not being configured to hold all 11 common mandatory data items stipulated by tPR; and</li> <li>- Annual benefit statements (ABS) not issued to 5% (1,614) of active members and 37% (11,874) of deferred members by 31/8/18 requiring a breach report to be sent.</li> </ul>	<p>Poor quality data inhibits the provision of a good service, which negatively impacts on pensioners across all of the schemes administered.</p>	<p>High</p>	<p>Funding to remove the backlog has been secured and an external supplier, JLT has been appointed as at 17 April 2019.</p> <p>Altair has fields to hold all common and mandatory member data. Staff will be reminded to use them until Heywoods is able to provide better field validation.</p> <p>Not issuing active ABS was due to absence of, or poor quality of employer data. Not issuing deferred ABS was due to missing or out of date addresses of “gone aways”.</p> <ol style="list-style-type: none"> <li>1. The business case for rolling out I Connect, with comprehensive validation checks is being developed at present to be completed by 30 September 2019 and aim to start implementation from September.</li> <li>2. Tracing deferred members is a costly exercise. We will initially start with members nearing retirement age as previously suggested by the SLPB. If this proves to be value for money, we can progress it further.</li> </ol>
<p><b>Responsible Officer:</b></p>		<p>Andrew Marson, Lead Pensions Manager</p>	<p><b>Target Implementation Date:</b></p>	<ol style="list-style-type: none"> <li>1. 30 Sept 2019</li> <li>2. 30 June 2019</li> </ol>

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
8	<p><b>Data Breaches</b></p> <p>It is understood that 39 breaches were reported to tPR in the 3 months to Dec 2018 compared to just 2 in the previous 12 months. They were reported by the new Pensions Lead Manager who joined SCC in October 2018, and included the failure of PAS to complete the Options Exercise for the Retained Firefighters under the Modified Fire Pension Scheme 2006 (this has been the subject of a separate audit).</p> <p>This shift suggests that data breaches reporting in previous periods may have been underreported.</p>	<p>SCC may be damaged both financially and reputationally for not reporting breaches in a timely manner.</p>	<p>Medium</p>	<p>The Modified Fire Pension Scheme breach is out of scope for this audit but it is understood how this event creates an impression of performance and control in the wider context.</p> <p>The plans and actions already mentioned will bring benefit to this finding.</p> <p>As at 24 April 2019, an offer has been accepted for the vacant assurance and compliance role. One of the responsibilities will be to capture and implement changes in policy and legislation.</p> <p>The monthly Administration meetings between PAS and Pensions Team will also have compliance as a standing agenda item.</p>
<p><b>Responsible Officer:</b></p>		<p>Andrew Marson, Lead Pensions Manager</p>	<p><b>Target Implementation Date:</b></p>	<p>From May 2019 onwards the breaches will be monitored on a regular basis in conjunction with actions mentioned in previous sections.</p>

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
9	<p><b>Reconciliation of Pension Contributions</b></p> <p>The current strategy requires employers to pay pension contributions by the 21<sup>st</sup> of each month following their deductions and that a late payment will incur a charge by SCC. Similarly, the end of year returns are due 30 days after the end of the financial year. Our testing found that some employers do not comply and the Pension Fund Team does not follow these up.</p> <p>A test of 5 employers over a period of 3 months found that 2 did not regularly pay their employee contributions on time and did not meet their required minimum contribution rate. They are not material for reporting as a breach to tPR as they are under 90 days.</p> <p>We also found that member contributions are not regularly reconciled to individual members in Altair, except at year-end.</p>	<p>The non-compliance with paying the amount due on the due date can lead to fund deficits accumulating. There is no need for such administration delays which should be resolved promptly.</p>	Medium	<p>Reconciliation of pension contributions is a responsibility of the Pension Fund Team and in 2019/20 this will be done on a quarterly basis and shared with PAS.</p> <p>Robust plans are in place for End of Year (EOY) returns for 31 March 2019. A series of communications have been issued in the run up to 31 March and reminder communications during April. A tally of returns and data quality is being kept and a clear escalation process is in place in order to meet the EOY submission deadline of 31 May 2019.</p> <p>The previously mentioned implementation of I Connect will address the reconciliation of member contributions as returns will be monthly rather than annual. The consequential benefit will reduce the effort needed at end of year and vastly improve delivery of benefit statements and accounts information.</p>
<b>Responsible Officer:</b>		Andrew Marson, Lead Pensions Manager	<b>Target Implementation Date:</b>	For 2018/19 by 31 May 2019; For 2019/20 - quarterly basis.

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10	<p><b>Guaranteed Minimum Pension (GMP)</b></p> <p>The 2-tier state pension scheme changed in April 2016 and the difference between them was the amount of NI contributions paid. The higher (A) rate payers were in the State Earnings Related Pension Scheme (SERPS) and the lower (D) rate payers were entitled to a basic pension. The LGPS was contracted out of SERPS, hence employers and employees paid at the lower D rate.</p> <p>The SERPS were required to pay a GMP and the State met the index-linked GMP and increases &gt;3%. The mismatches between the data held by LGPS and HMRC required a GMP reconciliation to identify any under and over payments and resolve them. The council appointed two providers to resolve this but this work has yet to be completed and the timetable to finish the work is unclear.</p>	<p>The existing issues of data quality and backlog may further delay the completion of GMP reconciliation work and consequently delay the determination of over and under payments to members. The Fund’s liability if any cannot be determined in a timely manner.</p>	Medium	<p>The project to complete reconciliation of GMP with HMRC records is well progressed. HMRC responses to queries experience long turnaround times, protracting the project timeline.</p> <p>An external supplier, JLT has been processing the project work and monthly steering meetings are now in place to manage the supplier and progress of the project towards reconciliation.</p> <p>The current plan shows that SPF will be in a position to know the under/over payments and the funding impact in September 2019. This will allow SPF to consider options and make decisions on rectification work.</p> <ol style="list-style-type: none"> <li>1. Reconciliation to be completed by 30 September 2019.</li> <li>2. Rectification work depending on the size of liability – completed by the end of this financial year.</li> </ol>
<b>Responsible Officer:</b>		Andrew Marson, Lead Pensions Manager	<b>Target Implementation Date:</b>	<ol style="list-style-type: none"> <li>1. 30 September 2019</li> <li>2. 31 March 2020</li> </ol>

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
11	<p><b>Pension Payroll Implementation in Altair</b></p> <p>A project to implement pensions to be paid from Altair rather than through SAP ran in late 2017. Our review of project documents indicates that the limited time allocated for implementation was too ambitious for the project.</p> <p>It is also understood that there was a significant amount of pressure from the former Lead Pensions Manager for Altair Pension Payroll to 'go-live' before the user acceptance testing could be completed. This was despite concerns being raised by staff in IT&amp;D and Corporate Finance who were members of the Project Team. These concerns were also around the interface between SAP and Altair not being fully functional, and the potential for additional work to be created as a result, including manual intervention to correct errors.</p>	<p>A poorly implemented Altair project could affect the ability of PAS to correctly make payments to the existing pensioners of the SPF.</p>	High	<p>A review of the project and related paperwork and a review of current working practices will be carried out to identify if there are risks remaining and where treatment may be required.</p>
<p><b>Responsible Officer:</b></p>		<p>Andrew Marson, Lead Pensions Manager</p>	<p><b>Target Implementation Date:</b></p>	<p>30 September 2019</p>

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
12	<p><b>Removing councillors from LGPS</b></p> <p>The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 removed access to the LGPS for councillors in England with effect from 1 April 2014 (with the exception of those who were members of the LGPS on 31 March 2014). This latter group retained their access up to the end of their term of office only (or to age 75 if earlier) and were permitted to re-enter the scheme if they were re-elected. Following the County Council elections in Surrey in May 2017, none of the re-elected Councillors re-joined the scheme. Whilst Altair correctly showed them as inactive members of deferred status, the calculation of their accrued benefits to date remains to be completed.</p>	<p>Failure to remove access to LGPS for elected Councillors may result in financial loss to the fund and a breach of the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014.</p>	Low	<p>Outstanding calculations relate to incomplete data being provided. Reminders and follow ups have not been fully answered.</p> <p>Priority will be given to resolve the remaining queries, seeking escalation where appropriate, from 1 May. We wish to complete this work by 30 June 2019, but it will depend on full and final information being provided to resolve outstanding issues.</p>
<p><b>Responsible Officer:</b></p>		<p>Andrew Marson, Lead Pensions Manager</p>	<p><b>Target Implementation Date:</b></p>	<p>30 June 2019</p>

# Appendix A

## Audit Opinions and Definitions

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
<b>Minimal Assurance</b>	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

## Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.