

**SURREY COUNTY COUNCIL****LOCAL PENSION BOARD****DATE:** 18 FEBRUARY 2022**LEAD OFFICER:** ANNA D'ALESSANDRO, DIRECTOR OF FINANCE,  
CORPORATE AND COMMERCIAL**SUBJECT:** PROGRESS OF 2021/22 INTERNAL AUDIT PLAN**SUMMARY OF ISSUE:**

This report considers the progress made on the completed audits in the 2021/22 Internal Audit Plan since 5 August 2021.

**RECOMMENDATIONS:**

It is recommended that the Board:

Note the content of this report and make recommendations to the Surrey Pension Fund Committee (the Committee) if appropriate.

**REASON FOR RECOMMENDATIONS:**

The Public Sector Pensions Act 2013 requires Local Pension Boards to assist the Scheme Manager in securing compliance with the Local Government Pension Scheme (LGPS) Regulations and requirements imposed by the Pensions Regulator. This report provides the Board with insight into the activities of the Surrey pension function and furthers the successful collaboration of the Committee and Board in managing risk and compliance and promoting effective governance.

**DETAILS:****Introduction**

1. The Surrey Pension Fund has regular internal audits of its investment and administration functions. With the integration of investments and administration functions into a single pensions team, the 2021/22 internal audit will look at a combined audit of pension functions.

**Background**

2. As agreed by the Board on 5 August 2021, this report provides an update of the completed audits from the following audits in the 2021/22 Internal Audit Plan and the purpose of these audits will be to provide assurance that controls are in place and operating satisfactorily:
  - a) Altair Application Controls

- b) Key Administrative Processes including those identified by the Pensions Regulator including, but not limited to, retirements, deaths and immediate payments.
- c) Banking controls.
- d) Pension Fund investments.
- e) Follow up of the 2020/21 Administration Review.

### **Altair Application Controls**

3. The final audit report was issued in November 2021.
4. The purpose of the audit is to provide assurance that controls are in place to meet the following objectives:
  - a) There is a clear system owner in place to oversee application controls, patching and access.
  - b) System access controls and permissions prevent unauthorised users from accessing confidential information, reducing the risk of fraud and malicious damage to data.
  - c) Roles and responsibilities for system ownership, data input and processing are clearly defined, resulting in reduced control.
  - d) Outputs produced by the system are complete, accurate, reliable, distributed on time and with confidentiality where appropriate.
  - e) System updates and enhancements are performed in a consistent manner and are subject to sufficient testing and authorisation before implementation.
  - f) Appropriate support arrangements are in place to manage changes within the system.
  - g) Personal and / or sensitive information is only extracted from the system or released where there is a legitimate business need, and appropriate authorisation has been granted.
  - h) There is a clearly defined data controller in place to manage the collection, use and release of data.
  - i) There are sufficient business continuity arrangements in place to mitigate against the risk of data loss and the impacts of system down-time.
  - j) Exit arrangements are well controlled and completed in a timely manner.
5. The audit opinion is **Reasonable Assurance**. This opinion means that most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
6. The audit report has 8 findings (6 medium and 2 low priority) and agreed actions and include the following:
  - a) Password controls are in place to reduce the risk of unauthorised access, with a limited number of access attempts permitted before accounts are locked.
  - b) Users are informed of updates to the system in advance and supported through the use of release guides, webinars and training where appropriate with system downtime is communicated effectively.

- c) The arrangements for customer pension funds exiting the Surrey Pension Fund are generally well controlled and completed in a timely manner. However, the findings identified in (e) below, particularly in terms of user access management and reconciliation of outputs should be applied to these arrangements in future.
  - d) Regular backups of data are taken and stored on a disaster recovery server to reduce the risk of data loss should a system failure occur.
  - e) The following areas require improvements to strengthen the control environment and the Support and Development Manager has agreed actions which are currently being tracked to be implemented between January and April 2022:
    - i- Access permissions are not subject to sufficient control, with a number of generic user accounts with the highest access permissions having been assigned to the system provider, reducing oversight, and an officer holding an account linked to their personal email address, as opposed to a corporate account.
    - ii- There are currently no regular checks in place to ensure that the access levels assigned to users remain appropriate, increasing the risk of unauthorised access to system elements. It was agreed to review
    - iii- A number of users were noted to have multiple accounts on the system. It is understood that this is for efficiency purposes, however, this does create a risk that workflow controls can be bypassed. Management are aware of and actively monitor this risk as the issue has previously been reported.
    - iv- At the time of testing, 17 users had been assigned the highest levels of access permission. No reviews are conducted to verify the actions undertaken by those with such access, which includes the ability to add and remove user accounts, as well as altering the permissions of existing users, thus increasing the risk of unauthorised or inappropriate access.
    - v- User acceptance testing for previous updates was not complete, with a number of user acceptance tests lacking narrative or conclusions, which may result in untested errors occurring on the live system.
    - vi- The actions agreed include the following:
      - o Maintain a register of external user access with key information of the user and undertake monthly checks to monitor unusual activity,
      - o Regular review of all user accounts to ensure use of corporate email accounts only and terminate personal email accounts,
      - o Introduce user access in line with the implementation of new structure,
      - o The service to provide UAT scripts for the upgrades 21.3 and 21.4 to provide further assurance of testing carried out in full and signed off, and
      - o Security assurance to be sought from the system supplier with a request for the necessary security certification made on 19.11.2021.
7. Board will receive a further update at its next meeting in May 2022 by when the agreed actions are expected to be completed.

## **Key Administrative Processes including those identified by the Pensions Regulator**

8. The Terms of Reference for the audit is currently being drafted.
9. Board will receive an update at its next meeting in May 2022.

## **Pension Fund Banking Controls**

10. The draft audit report was issued in January 2022 and Pension Management are in the process of responding to the findings and agreeing actions for implementation.
11. The control objectives of the audit included the following:
  - a) Roles and responsibilities in respect of the pension fund bank account and allied accounting arrangements are clearly defined.
  - b) The fund suspense account is subject to regular review with balances cleared in a timely manner.
  - c) Income is processed in a timely manner with both scheme member, and fund records, updated accordingly.
  - d) Expenditure is subject to necessary checks with balances processed in a timely manner and, both scheme member and fund records, updated accordingly.
12. The Board will receive a progress update at its next meeting in May 2022 by when the final audit report will have been published.

## **Pension Fund Investment**

13. The audit review is currently in progress.
14. The control objectives associated with this audit include the following:
  - a) To ensure monitoring arrangements over the fund and fund managers are sufficiently robust.
  - b) To gain assurance that the fund has a suitable statement of objectives which is linked to measurable targets and performance indicators.
  - c) To ensure that the fund's investment strategy is robust and strategic decisions are implemented correctly and in a timely manner.
  - d) To provide assurance over the internal control environment of the fund managers and custodians.
15. The Board will receive a progress update at its next meeting in May 2022.

## **Follow up audit of the 2020/21 Administration**

16. As previously reported on 5 August 2021, the 2020/21 Administration audit report was issued in July 2021 with a **Partial Assurance** audit opinion. This opinion means that 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.
17. The audit report has 10 findings (4 high and 6 medium priority) and agreed actions.
18. While the progress is being tracked against the agreed actions by the Pension Service Delivery Manager, the Terms of Reference for the follow-up audit is currently being drafted.
19. The Board will receive a progress update at its next meeting in May 2022.

### **CONSULTATION:**

20. The Chairman of the Local Pension Board has been consulted on this report.

### **RISK MANAGEMENT AND IMPLICATIONS:**

21. Risk related issues have been discussed and are contained within the report.

### **FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

22. The performance of the pensions function does present potential financial and value for money implications to the Pension Fund. The Turnaround Programme seeks to address this.

### **DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL COMMENTARY**

23. The Director of Finance, Corporate and Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

### **LEGAL IMPLICATIONS – MONITORING OFFICER**

24. There are no legal implications or legislative requirements.

### **EQUALITIES AND DIVERSITY**

25. Equality or diversity issues are addressed in this report.

### **OTHER IMPLICATIONS**

26. There are no other implications.

### **WHAT HAPPENS NEXT**

27. The following next steps are planned:

Regular progress reports on the agreed actions from the completed audits will be brought to the Local Pension Board.

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**Contact Officer:**

Paul Titcomb, Head of Accounting and Governance

**Consulted:**

Local Pension Board Chairman

**Sources/background papers:**