

SURREY COUNTY COUNCIL**LOCAL PENSION BOARD****DATE:** 29 JULY 2022**LEAD OFFICER:** ANNA D'ALESSANDRO, DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL**SUBJECT:** Progress Update of 2021/22 Internal Audit Plan**SUMMARY OF ISSUE:**

This report considers the completed audits in the 2021/22 Internal Audit Plan and the progress made on agreed actions since the previous update provided to the Board meeting on 26 May 2022.

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 plan looks at combined audits 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. As previously reported, the final audit report was issued in November 2021 with an audit opinion of **Reasonable Assurance**.
4. The audit report had 8 findings (6 medium and 2 low priority) and it was previously reported that 4 medium priority, and one low priority agreed actions had been completed.
5. The current position of the remaining 3 agreed actions are as follows:
 - a) Allocation of access levels (medium) – Pre-requisite work on the system structure cleansing is underway which will support this action. It is anticipated this will be in place by the end of the Autumn 2022.
 - b) Review of User Access Attempts for unusual activity (medium) – A monthly report has been designed and implemented to provide a full overview of user access attempts. The parameters have been set to highlight where users have accessed the system between 8pm and 5am, on weekends and specifically where the system supplier has logged in. There are guidance notes available to carry out this task. The report is shared with System and Data Snr Manager to review and discuss any areas of concern with the management team. This action was completed by 31st March 2022 in line with the audit target date.
 - c) Review of User Permissions (low) – The review has been completed and a single comprehensive list is available showing those who have access to Altair and the permissions they hold. This will form the baseline for which allocation of access levels can be reviewed, with support from the system provider. This action was completed by 31st March 2022 in line with the audit target date.
6. The Board will receive a further update on a) above at its next meeting in November 2022 on its progress as b) and c) above have now been completed.

Key Administrative Processes including those identified by the Pensions Regulator

7. The audit is in progress at present.

8. The Board will receive an update at its next meeting in November 2022.

Pension Fund Banking Controls

9. As previously reported, the final audit report was issued in March 2022 with an audit opinion of **Minimal Assurance**.
10. There were seven high priority findings and work is in progress in each area. However, it is agreed that in the medium to long term, the more permanent solution to address the control weaknesses identified in the audit will require the Pension Team to take control of managing the Surrey Pension Fund Bank account. This has been agreed to coincide with Unit 4 implementation and preparatory work is currently underway.
11. A summary of the progress made so far is given below:

- a) Centralising of Key Responsibilities

Work is in progress in conjunction with the Unit 4 Implementation Team.

- b) Pension Fund Recharges to scheme employers – update on the three areas:

- (i) Compensatory Added Years (CAYs) – More than 90 per cent of arrears have been recovered up to and including 31 March 2022. Various options to recover remaining amounts from a few small employers are being considered as part of the 2022 Pension Fund Valuation. Invoices to recover the CAYs due for Quarter 1 (April to June) of 2022/23 will be raised in July 2022.
- (ii) Legal and Actuarial Costs – Most charges to 31 March 2022 have been recharged and recharges since April 2022 to be completed in due course.
- (iii) Pension Strain costs – All recharges to 31 March 2022 have been completed and these are raised on a quarterly basis.

- c) Administration of SPF Bank Account and Control Account

Work is currently underway engaging with the Unit 4 Project Implementation Team to align the requirements and processes of the Surrey Pension Fund. The transition has been absorbed into the Pensions Turnaround Programme and officers from the Pensions Team and Business Operations are working collaboratively to process map banking functions.

- d) Data Quality and Data Protection

This work is being addressed and is expected to be fully rectified once the SPF bank account is managed by the Pension Team. The Pension Team have consulted the Council's Information Governance Team and, as the risk has been identified and remedial action is underway, have been advised that there is no reportable breach.

12. The Board will receive a progress update at its next meeting in November 2022 about the implementation of agreed actions.

Pension Fund Investment

13. The final audit report of the Pension Fund Investments review was issued in May 2022.
14. The control objectives associated with this audit included the following:
- a) To ensure operational controls and 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 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.
16. The audit reported 2 medium priority and one low priority agreed actions as follows and are expected to be completed between November 2022 and March 2023:
- a) Completion of training by Members of Pension Fund Committee and Local Pension Board as stipulated in the Pension Regulator (TPR) Toolkit (medium),
 - b) The reconciliation of Northern Trust Reports to SAP (medium), and
 - c) The review of Investment Strategy targets (low).

The Board will receive a progress update at its next meeting in November 2022.

Follow up audit of the 2020/21 Administration

17. 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.
18. The audit report had 10 findings (4 high and 6 medium priority) and agreed actions.

19. Progress has been tracked against the agreed actions by the Head of Service Delivery. The fieldwork on the follow-up audit is currently underway.

20. The Board will receive a progress update at its next meeting in November 2022.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

23. 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

24. 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

25. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

26. There are no equality or diversity issues to be addressed.

OTHER IMPLICATIONS

27. There are no other implications.

WHAT HAPPENS NEXT

28. 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.

Contact Officers:

Siva Sanmugarajah

Risk & Compliance Manager

Paul Titcomb

Head of Accounting and Governance

Consulted:

Local Pension Board Chairman

Sources/background papers:

None

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