



## **The Surrey Local Pension Board 5 August 2021**

### **Summary of the 2020/21 Internal Audit reviews of Investments and Administration and details of the 2021/22 Internal Audit plan**

#### **Recommendations:**

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

#### **Detail:**

##### **Introduction**

2. The Surrey Pension Fund has regular internal audits of its investment and administration functions. This report provides details of the most recent audits in these areas. It also provides information of the planned internal audit approach for the 2021/22 audit.

##### **Investment audit**

3. The most recent Investment Audit was completed in March 2021.
4. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
  - a) A lack of operational controls in place over fund & fund managers can expose authority to risk of fraud, losses and reduced return of investments.
  - 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; and provide assurance over the internal control environment of the fund managers and custodians.

5. The Internal 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. This report includes three findings and associated agreed actions, one of which has been assessed as medium priority and two as low priority actions. These are as follows:
  - a) Reconciliation of Northern Trust Reports to SAP (Medium).
  - b) Investment Manager Agreements (Low).
  - c) Diversification of Asset Mix (Low).
7. Further details of the findings and actions are shown in the Investment internal audit report included as Annexe 1.

#### **Administration audit**

8. The most recent Administration Audit was completed in July 2021.
9. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
  - a) Appropriate controls are in place to ensure that the pensions service can meet the requirements of the LGPS in the effective administration and management of the pensions service and stewardship of the Surrey Pension Fund. This audit will also review progress made against previously agreed actions from past audits.
10. The Internal Audit opinion is **Partial Assurance**. 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.
11. This report includes 10 findings and associated agreed actions, four of which has been assessed as high priority and six as medium priority actions. These are as follows:
  - a) Performance levels (High).
  - b) Data scores (High).
  - c) New Starters Notification of Membership (High).
  - d) Governance – Pension Board (High).
  - e) KPI Trend analysis (Medium).
  - f) User Management (Medium).
  - g) Privacy notices (Medium).
  - h) ABS Missing CARE Data (Medium).
  - i) AVC Member Records.
  - j) iConnect Exception Reporting.

12. The audit acknowledges that Orbis Pension administration faced a number of challenges, including historical bespoke charging solutions which led to Surrey facing a disproportionate level of administration costs, increased emphasis on governance, service delivery failings and a legacy of the non-standardisation of service standards. This culminated in a **Minimal Assurance** opinion in the last full internal audit.
13. These challenges resulted in the decision, in June 2020, to dissolve the partnership between Surrey and East Sussex Councils in delivering pension administration. Pensions administration has now moved under the management of the Surrey Pension Fund in finance and a Turnaround Programme has been established in order to reorganise the team to serve the sovereign Surrey fund.
14. Whilst good progress has been made in addressing some of the fundamental issues, it is clear that there are structural weaknesses in culture, process and technology. In addition to this, the service is currently reporting non-conformance with target performance levels for a number of key administrative procedures such as the processing of transfers in and out of the Fund. This also continues to be a period of significant change, with the East Sussex Pension Fund returning to sovereign control at the end of 2020/21 and three remaining London Boroughs (Kensington and Chelsea having already left) and Surrey Fire and Rescue Service Funds also due to leave during 2021/22.
15. It acknowledges that this is being addressed by an organisational re-design with a single focus on service delivery to support the vision for the future and putting the customer at the heart of the business.
16. Further details of the findings and actions are shown in the administration internal audit report included as Annexe 2.

#### **Internal audit plan for 2021/22**

17. 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.
18. The 2021/22 audit of pensions administration will comprise 90 days of audit work, with specific targeted reviews taking place between quarters 2 and 4, including following up on the agreed actions from this latest audits.
19. The purpose of the audit will be to provide assurance that controls are in place to meet the following objectives:
  - a) Key administrative processes (as identified by the Pensions Regulator).
  - b) Banking controls.
  - c) Pension Fund investments.
  - d) Altair system application review.
  - e) Follow up of the 2020/21 Administration Review.

20. Further details of the findings and actions are shown in the Internal Audit Strategy and Plan included as Annexe 3.

### **Next steps**

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

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**Sources/background papers:**

**Annexes:**

1. 2020/21 Investment audit
2. 2020/21 Administration audit
3. 2021/22 Internal Audit Strategy and Plan