

**SURREY COUNTY COUNCIL****LOCAL PENSION BOARD****DATE: 11 NOVEMBER 2022****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL****SUBJECT: INTERNAL AUDIT UPDATE****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 29 July 2022. It includes the 2022/23 Internal Audit Programme as an annexe.

**RECOMMENDATIONS:**

It is recommended that the Board note the content of this report and make recommendations to the Surrey Pension Fund 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, Internal Audit reviews a range of combined audits of pension functions.

**Background**

2. This report includes completed audits and the progress update of agreed actions since the last update provided to the Board on 29 July 2022. A glossary of audit opinions is provided at the end of this report.
  - a) Altair Application Controls
  - b) Key Administrative Processes
  - c) Banking Controls.

- d) Pension Fund Investments.
- e) Follow up of the 2020/21 Pension Administration – Two final audit reports have been issued following this review and include (i) Pension Administration Follow-Up (2021-22) and (ii) LGPS Performance Management.

### **Altair Application Controls**

- 3. As previously reported, the final audit report was issued in November 2021 with an audit opinion of **Reasonable Assurance**.
- 4. There is one agreed action outstanding regarding the allocation of user access levels (medium finding). Completion of this action is reliant on the migration of the pension administration database to a hosted server with our system supplier. As part of this migration the Surrey Pension Team (SPT) are working with the system supplier to cleanse the database; ensuring areas such as documentation, workflows and employer codes are reduced. The user access levels will be reviewed and introduced at the point of go live. The expected timescale to complete is end of December 2022.

### **Key Administrative Processes**

- 5. The final audit report was issued in August 2022 with an audit opinion of **Reasonable Assurance**.
- 6. The audit provided assurance of adequate controls of the following objectives:
  - (a) Clearly defined policy and procedural documents that reflect the requirements of scheme legislation.
  - (b) Refunds, retirement and death benefits are processed only upon receipt of sufficient documentation from the scheme member or related party.
  - (c) Calculations and payments are subject to secondary review, reconciled and are only made through corporate systems.
- 7. The audit reported the following 3 findings (2 medium priority and 1 low priority) and agreed actions:
  - (a) Supporting documents are requested to enable the processing of benefit entitlements in accordance with the scheme regulations. For 4 out of 15 active retirement cases documents in respect of the respective member's contingent partner/spouse were missing. In response the service agreed to consider whether there is a requirement to provide partner/spouse documents at the time of members' retirements; examine how the GDPR data minimisation applies; and issue a revised process note (Medium priority – completion date 31 January 2023).
  - (b) The LGPS Regulations (2013) permit members with less than 2 years active membership to receive a refund of their contributions. Refunds are processed

through Altair and checked by a second officer prior to being paid. In one instance the actual refund paid did not match the calculation. The payment had been returned by the bank and on re-issue two figures were transposed. The service has agreed to review, revise, and issue a new process note to stress the need to check manual payments carefully. It will also investigate the possibility of automating the re-issue of returned payments. (Medium priority – completion date 31 January 2023).

(c) Data quality issues were identified relating to mis-spelt names, missing information, and tense in letters. The service agreed to remind staff of the need to check input and any correspondence produced carefully; and to explore the Altair document production capability to address correct use of tense in letters. (Low priority – completion date 31 October 2022).

8. The Board will receive an update on the progress of agreed actions at its next meeting in February 2023.

### **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 was agreed to coincide with Unit 4 implementation which has been delayed so preparatory work is underway for a possible earlier transition.

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.
- (ii) Invoices to recover the CAYs due for Quarter 1 (April to June) of 2022/23 for most employers were raised in August 2022. Similarly, the quarter 2 invoices are expected to be raised in November 2022.
- (iii) Legal and Actuarial Costs – Recharges to May 2022 have now been made and progress is being made on those to August 2022. The process for recharging is under review to ensure that recharges are made promptly going forward.

- (iv) Pension Strain costs – All recharges to July 2022 have been completed. The process for these is also under review to ensure appropriate treatment.

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.

12. The Board will receive a progress update at its next meeting in February 2023 as the agreed actions are implemented.

### **Pension Fund Investment**

13. As previously reported the final audit report of the Pension Fund Investments review was issued in May 2022 with an audit opinion of **Reasonable Assurance**.
14. The audit reported 2 medium priority and one low priority agreed actions as follows and these 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 priority).
  - b) The reconciliation of Northern Trust Reports to SAP (Medium priority).
  - c) The review of Investment Strategy targets (Low priority).
15. The Board will receive a progress update at its next meeting in February 2023.

### **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. A follow -up review was undertaken in the Spring/Summer of 2022 leading to audit reports issued in August 2022 as follows:
- (i) Pension Administration Follow-Up - **Reasonable Assurance**.
  - (ii) LGPS Performance Management - **Partial Assurance**.
17. The findings and agreed actions of these audits are given below:

## Pension Administration Follow-Up

18. Although the primary purpose of this audit was to further follow-up the previously agreed actions, it was completed with regard to the control objective from the original audit: that appropriate controls are in place to ensure that the pension 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. The audit opinion was concluded as **Reasonable Assurance**. The report had 2 medium priority findings and agreed actions with completion dates of 30 September 2022 as follows:

- (a) The previous audit in 2021 identified that a number of new scheme members had not received the statutory notification of membership correspondence. A new process and guidance notes were developed to compare system outputs of new member records vs number of communications issued. This was tested over four months and whilst it was acknowledged that the new process was working well, the reconciliation was not formally documented. The service will put in place a process that documents and checks that the input and output of this process reconciles.
- (b) The previous audit in 2021 identified the management of additional voluntary contributions (AVC) cases was inconsistent. The service sought to undertake a full review of AVC scheme members however this was hindered by delays in a key AVC provider making the necessary information available. The importance of correctly recording and processing AVC contracts has been reiterated to the Service Delivery Team with timely reminders to be issued twice yearly in future. All AVC holder records with Prudential and Utmost have been or are being reviewed and yearly requests of unprocessed AVC cases will be referred to the AVC providers. The process for handling leaving and retiring members is also being reviewed for prompt action in the future.

## LGPS Performance Management

19. The audit opinion was concluded as **Partial Assurance**. There are 4 findings (3 high priority and 1 low priority) and agreed actions all with a completion date of 31 March 2023 in the report as follows:

- (a) Monthly performance reports for the period between October 2021 and January 2022 and the published quarter 3 performance report covering October to December 2021 presented to the Local Pension Board contained discrepancies: the opening balance of an indicator for a particular month did not match the closing balance of the previous month which had the potential to affect the reported service performance either favourably or negatively. The service while acknowledging the variances is investigating the reasons for them both internally and with the software provider. The service also agreed to adopt any changes needed to the process of recording and collating performance data and report progress in outcomes regularly to the Senior Leadership Team (SLT) of Surrey Pension Team (SPT) first and then to the Local Pension Board (LPB) (High priority).

- (b) The audit found that monthly service performance was calculated using completed cases during that month, excluding cases in backlog and the percentage of cases completed within SLA takes prominence in position and presentation in the report. Overdue cases are referenced elsewhere in the performance report. The performance report has the potential to be misleading and lack transparency. The service agreed to review the method of calculating and reporting KPIs, adopt any changes needed to the process of calculating performance, recording and collating performance data and report progress in outcomes regularly to the SLT of SPT first and then to the LPB (High priority).
- (c) The audit of 2020/21 Pension Administration highlighted that 22 KPIs were reported to the LPB with a RAG rating 'red' (11 KPIs), 'amber' (3 KPIs) and 'green' (8 KPIs). It was agreed that Internal Audit review progress in the interim on specific KPI processes (refunds, retirement and death cases) and findings of this audit were reported in May 2022. The findings identified that performance issues remain across elements of each of these areas. The service agreed to use Altair Insights to regularly monitor progress of cases due for completion and where possible adjust team resource accordingly. The service will aim to consistently meet (using staggered dates) the benchmark of service KPIs by examining the reasons when these are not met to determine the impact of external factors (High priority).
- (d) The expected performance turnaround timeframes for communications received are documented in both the Communications Policy and in the performance reports presented to the Surrey Local Pension Board. However, they are not included in documents that are routinely accessed by scheme members or related parties and therefore are not easily accessible or visible. The service will review documentation accordingly (Low priority).
20. The Board will receive a progress update of the agreed actions at its next meeting in February 2023.

### **2022/23 Internal Audit Programme**

21. The Annexe to this report includes the proposed programme of work for 2022/23.
22. The schedule includes work in the following areas (with approximate fieldwork timings).

LGPS Performance Management	Q1 ( <i>complete</i> )
Compensatory Added Years (CAYs)	Q2 ( <i>being finalised</i> )
Administration Review (Transfers Out)	Q3
Pension Investments	Q3
SPF Governance Arrangements	Q3/4
Follow up of the Banking Controls Review	Q4

23. Terms of Reference are drafted and agreed for each piece of work.

**CONSULTATION:**

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

**RISK MANAGEMENT AND IMPLICATIONS:**

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

**FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

26. 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**

27. 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**

28. There are no legal implications or legislative requirements.

**EQUALITIES AND DIVERSITY**

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

**OTHER IMPLICATIONS**

30. There are no other implications.

**WHAT HAPPENS NEXT**

31. 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 Officers:**

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Paul Titcomb

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**Consulted:**

Local Pension Board Chairman

**Annexes:**

Annex 1: 2022/23 Internal Audit Programme

## Glossary

### 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.