

SURREY COUNTY COUNCIL**LOCAL PENSION BOARD****DATE: 17 FEBRUARY 2023****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL****SUBJECT: INTERNAL AUDIT UPDATE****SUMMARY OF ISSUE:**

This report considers the progress made on agreed actions on the completed audits in the 2021/22 Internal Audit Plan and the progress of audits (completed and work in progress) from the 2022/23 Internal Audit Programme. This follows the previous update provided to the Board meeting on 11 November 2022.

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 from the 2021-22 and 2022-23 Internal Audit Plans and since the last update provided to the Board on 11 November 2022. A glossary of audit opinions is provided at the end of this report.

2021-22 Audit Programme included the following audits:

- 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 which is now complete. 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 which is expected to be 31 March 2023.
- 5. A further update will be provided to the Board in May 2023.

Key Administrative Processes

- 6. The final audit report was issued in August 2022 with an audit opinion of **Reasonable Assurance**.
- 7. 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.
- 8. The audit reported the following 3 findings (2 medium priority and 1 low priority) and agreed actions:
 - a) Supporting documents requested to process benefit entitlements in accordance with the scheme regulations for 4 of the active retirement cases were missing. The timing and reasons for the request of information were considered by the service and the actions to obtain best practice guidance from LGA and Technical Groups as well as consult with other networks

(SAPOG – Southern Area Pension Officers Group) are currently underway before issuing a revised process note (Medium priority – completion date 31 January 2023).

- b) The service confirmed that the process of re-issuing refunds to members cannot be completed via Altair. As such a revised process to include a checking procedure for re-issuing refunds manually has been completed. This will be followed in a couple of months to ensure compliance with the revised process. (Medium priority – completion date 31 January 2023).
 - c) To resolve the data quality issues identified during the audit, the Service Delivery Team issued reminders to staff emphasising the importance of checking and Benefits Managers reviewed and made changes to the system generated correspondence as well as to continually improve. (Low priority – completed in December 2022).
9. The Board will receive a further update on (a) and (b) above at its next meeting in May 2023.

Pension Fund Banking Controls

10. As previously reported, the final audit report was issued in March 2022 with an audit opinion of **Minimal Assurance**.
11. 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 continues to be underway for a possible earlier transition.
12. 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 Quarters 1 to 3 (April to December) of 2022/23 for most employers have been completed with the remaining work to be completed in February 2023. In conjunction with the Change Management Team, work is also underway to transition into monthly CAYs invoicing for all employers (including SCC) from April 2023.

- (iii) Legal and Actuarial Costs – Recharges to August 2022 have been made. The process for recharging remains under review to ensure that recharges are made appropriately going forward.
- (iv) Pension Strain costs – All recharges to September 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.

13. A follow-up audit review of the Banking Controls is scheduled to be undertaken later in this quarter and the Board will receive an update at its next meeting in May 2023.

Pension Fund Investment

14. 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**.

15. 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). In addition to Members being reminded via Assistant Director's (LGPS Senior Officer) weekly email, the completed National Knowledge Assessment will be used as the baseline for developing ongoing training programme. This is expected to be completed by 31 March 2023.
- b) The reconciliation of Northern Trust (NT) Reports to SAP (Medium priority). The original timeline set for Nov 2022 was delayed with the new Finance Manager joining Pensions in October 2022. Meeting with NT held in December 2022 to engage on information requirements and provision of data. Anticipated revised milestone for implementation is 31 March 2023.
- c) The review of Investment Strategy targets (Low priority). New asset allocation within equities was agreed at the Pension Fund Committee in December 2022. Transactions to align the Fund's position to the new targets will take place in Q4 2022/3. Further work as required will continue in 2023/24.

16. The Board will receive a progress update at its next meeting in May 2023.

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. 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**.

18. The findings and agreed actions of these audits are given below:

Pension Administration Follow-Up

19. 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 has since put in place a documented reconciliation process and provided evidence of reconciled records for May, July and October 2022.
- 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 re-iterated 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 continuing to be reviewed and yearly requests of unprocessed AVC cases will be referred to the AVC providers. New processing instructions and notes have been issued for processing of AVC cases for leaving and retiring members for prompt action in the future.

LGPS Performance Management

20. The audit opinion was concluded as **Partial Assurance**. There were 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. As agreed, the service managers have reviewed the workflows and processes involved in recording and collating performance data and made amendments where necessary. The review of a special report of the “terminated in period cases” was undertaken to understand the reasons for terminating workflows and the work is ongoing. (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 has investigated (and continues to do so) on how the KPI data was collated and presented for 6 months. The initial outcomes were presented to the previous meetings of the Board and Committee with a view to incorporating Members’ comments in the future. (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. Service managers monitor workloads via Insights and subsequently organise the workloads of their teams accordingly. Managers also provide exception comments on KPI underperformance. (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 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).

21. The Board will receive a progress update of the agreed actions at its next meeting in May 2023.

Progress of 2022/23 Internal Audit Programme

22. The 2022-23 Internal Audit Programme was presented to the Board in November 2022 as an Annexe to the report with approximate fieldwork timings and included the following audits:

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. The progress of the above audits is detailed below:

LGPS Performance Management

24. This audit arose as a result of the Pension Administration Follow-Up audit in 2021-22 (from the 2020/21 Pension Administration Audit) and was completed in 2022-23. Please see paragraphs 17 to 21 of this report for the progress update.

Compensatory Added Years (CAYs)

25. The Banking Controls audit completed in 2021-22 (see paragraphs 10 to 13 of this report) reviewed the recovery of CAYs for employers in the Surrey Pension Fund.
26. This audit was undertaken in 2022-23 to provide assurance to SCC as the largest employer in the Fund and Administering Authority for LGPS administration on the following:
- a) There were robust processes in place to ensure CAYs were only awarded to those that were eligible to receive them.
 - b) Proof of entitlement, or grant of award, were in place prior to payments being made and has been retained to file.
 - c) Recharging processes are in place to ensure correct allocation of costs.
 - d) There were effective reporting arrangements in place to promote an awareness of the future impact of ongoing CAY liabilities.
27. The final audit report was issued in November 2022 and the audit opinion was concluded as **Reasonable Assurance**. There were 3 findings (2 medium priority and 1 low priority) and agreed actions with completion dates from December 2022 to 31 March 2023 for full adoption from 2023/24 as follows:

- a) Whilst payments are identified and recharged for the Council's CAY liability, all other scheme employers receive an invoice, whereas a journal transaction is processed for the Council. This gives the impression that this is an internal transaction when in reality the Council and the Pension Fund are separate legal entities. This also does not align with the Pension Fund's ambition to have control over its own banking and financial transactions. It would be best practice for the Council to be treated in the same manner as all other scheme employers and therefore be invoiced for CAY costs. This would bring the process in line with invoicing practices within the Council. The Surrey Pension Team agreed with the Surrey Finance Team to transition (led by Change Management Team) the administration of the recharging of CAYs for the Council into the Pensions team (Medium priority; completion by 31 March 2023 for full adoption in 2023/24).
 - b) CAY (and additional pension) are discretionary employer benefits. Audit identified that there is no current mechanism in place within the Council for reporting the number or value of CAY, or any other additional pension costs. The council is currently relying upon the Pension Fund having access to this data, which as identified above, is a separate entity to the council. In addition, CAY costs are currently bundled together within a budget line for exit packages with an annual forecast based upon the previous year, with the addition of the pension percentage increase. This method of amalgamation may have led to the lack of awareness of on-going CAY liabilities and whilst the number of payments will not increase, annual pension increases do apply to CAY benefit. Surrey Finance Team agreed that as part of the process for invoicing the Council for CAY costs the pension team will provide supporting evidence thus giving the Council appropriate visibility of these liabilities. The unbundling of CAYs will provide transparency of CAY costs to the Council. This will also simplify forecasting annual CAYs liabilities in line with annual percentage pension increase. Additionally, the Council will also work with the pension team to identify the processes used for other bundled recharges and invoice in the same way (Medium priority; completion by 31 March 2023 for full adoption in 2023/24).
 - c) The Statement of Policy is a Council rather than Pension Team matter and is being progressed.
28. The Board will receive a progress update of the agreed actions at its next meeting in May 2023.
 29. Of the four remaining 2022-23 audits in the plan, two reviews (**Administration Review (Transfers Out) and Pension Investments**) are work in progress while the other two audits (**SPF Governance Arrangements and Follow up of the Banking Controls**) are being prepared to commence.
 30. The Board will receive a progress update on the above audits at its next meeting in May 2023.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

33. 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

34. 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

35. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

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

OTHER IMPLICATIONS

37. There are no other implications.

WHAT HAPPENS NEXT

38. 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:

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Risk & Compliance Manager
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Consulted:

Local Pension Board Chairman

Sources/background papers:

None

Glossary

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	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.
Minimal Assurance	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.