

**SURREY COUNTY COUNCIL**

**LOCAL PENSION BOARD**

**DATE: 19 MAY 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 from the completed audits in the 2021/22 and 2022/23 Internal Audit Programmes.

**RECOMMENDATIONS:**

It is recommended that the Board note the content of this report.

**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, governance, and administration functions. These are summarised below with additional detail on the following pages.

## Summary

### 2021-22 Audits

Ref	Topic	Assurance Rating	Actions			Notes	
			H	M	L		
1	<b>Altair Controls</b>	Reasonable	-	6	2	Actions complete	
2	<b>Admin Processes</b>	Reasonable	-	2	1	Remedial actions in train (complete 2/3)	
3	<b>Banking Controls</b>	Minimal	7	-	-	Work underway in each area	
4	<b>Investment</b>	Reasonable	-	2	1	Remedial actions in train (complete 1/3)	
5	<b>Administration follow up</b>	Pension Admin	Reasonable	-	2	-	Actions complete
6		Performance Management	Partial	3	-	1	Remedial actions in train

### 2022-23 Audits

Ref	Topic	Assurance Rating	Actions			Notes
			H	M	L	
7	<b>Compensatory Added Years (CAYs)</b>	Reasonable	-	2	1	Remedial actions in train
8	<b>Administration Review (Transfers Out)</b>	Reasonable	-	2	1	Remedial actions in train (complete 2/3)
9	<b>SPF Governance Arrangements</b>	Reasonable	-	2	-	Remedial actions in train
10	<b>Pension Investments</b>	<i>tba</i>				<i>Draft report in preparation</i>
11	<b>Banking Controls follow up</b>	<i>tba</i>				<i>Draft report in preparation</i>

Note: Definitions of assurance ratings

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

## 2021-22 Internal Audit Programme

### Altair Application Controls [1]

2. The one remaining action on the allocation of user access levels (medium finding) is now complete.

### Key Administrative Processes [2]

3. One of the 2 medium priority agreed action on refund calculations has been completed. The remaining action on the extent of supporting information to be obtained is expected to be completed by 31 May 2023.

### Pension Fund Banking Controls [3]

4. The final audit report of March 2022 had 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. Actions in connection with this were agreed to coincide with Unit 4 implementation which has been delayed with the current implementation date being June 2023.
5. A summary of the progress made so far is given below:
  - a) Centralising of Key Responsibilities

This is work is in progress pending Unit 4 Implementation.
  - b) Pension Fund Recharges to scheme employers
    - (i) Compensatory Added Years (CAYs) – Invoices for CAYs recharges have been raised up to and including 31 March 2023 (aggregate value c.£21m) for all but 6 employers for a total value of < £0.5m. Around £20m has been paid to date with a further £1m to be recovered. In conjunction with the Change Management Team, this work will be transitioned to the Finance Team to raise monthly invoices to all employers from April 2023.
    - (ii) Legal and Actuarial Costs – Recharges for quarters 3 and 4 of 2022-23 have been made. The process for recharging remains under review to ensure that recharges are made appropriately going forward.
    - (iii) Pension Strain costs – Recharges from October 2022 to March 2023 are in line for processing. The process for these is also under review to ensure appropriate treatment.

c) Administration of SPF Bank Account and Control Account

Having transferred processing of some of the receivables work into the Finance team, work is currently underway to assess the ongoing requirements and processes of the Surrey Pension Fund in connection with banking administration. The transition to Unit 4 will provide a catalyst for further action in this area.

6. The draft audit report [11] of the follow-up audit review of the Banking Controls is being finalised at present. An update will be provided to the Board in July 2023.

**Pension Fund Investment [4]**

7. The final audit report of May 2022 had 2 medium priority agreed actions, one of which on member training has been completed with the other expected to be fully reconciled as part of 2022-23 year-end work. The configuration to update the ledger has been deferred until Unit 4 implementation to avoid duplication.
8. The draft audit report [10] of the review of Pension Investments is being finalised at present. An update will be provided to the Board in July 2023.

**Follow up audit of the 2020/21 Administration audit [5][6]**

9. As 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 2022 leading to 2 audit reports issued in August 2022 as follows:
- (i) Pension Administration Follow-Up - **Reasonable Assurance**.
  - (ii) LGPS Performance Management - **Partial Assurance**.

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

**Pension Administration Follow-Up [5]**

11. The 2 medium priority agreed actions were completed in January 2023.

**LGPS Performance Management [6]**

12. The audit opinion was concluded as **Partial Assurance**. There were 4 findings (3 high priority and 1 low priority) and agreed actions in the report.
13. The Service Delivery Team have arranged to meet with Internal Audit to finalise the completion of agreed actions with evidence.

## 2022/23 Internal Audit Programme

14. The three completed audits from 2022/23 are reviewed below. The remaining 2 audits (see paragraphs 6 and 8 above) in the 2022-23 audit plan (**Pension Investments [10]** and **Follow-up audit of the Banking Controls [11]**) are being finalised.

### Compensatory Added Years (CAYs) [7]

15. As reported in February 2023, there were 3 findings (2 medium priority and 1 low priority) and agreed actions as follows:
- a) The CAY payment mechanism is being changed to invoicing all employers monthly including Surrey County Council from April 2023 as the Council and the Pension Fund are separate legal entities. This will align with the Pension Fund's ambition to have control over its own banking and financial transactions. (Medium priority; will be completed by first monthly invoices being issued in May 2023).
  - b) As a result of the above, the CAY reporting mechanism will also improve for the council without relying on the Pension Team while addressing the audit finding of improving clarity and transparency for reporting and forecasting purposes. It can also be used for other bundled recharges in Pensions. (Medium priority; will be completed by first monthly invoices being issued in May 2023).
  - c) The Statement of Policy is a Council rather than Pension Team matter.

### Administration Review (Transfers Out) [8]

16. The audit report was issued in February 2023 with a **Reasonable Assurance** audit opinion and had 3 findings (2 medium priority and 1 low priority).
17. One of the medium priority agreed actions of completing process maps has been delayed until 31 May 2023 due to the changes HM Treasury are proposing to make (as advised by the LGA) which will affect the GAD factors.
18. The remaining two agreed actions on data quality and 'known error list' have been completed.

## **SPF Governance Arrangements [9]**

19. The audit report was issued in April 2023 with **Reasonable Assurance** with 2 Medium priority agreed actions as follows:
- a) The review of training records identified that members of the Local Pension Board (LPB) and the Pension Fund Committee (PFC) had completed training many years ago with no evidence of refresher training and none of the members had completed all the necessary training. To complete the mandatory training, numerous resources have been made available such as access to LGPS Online Learning Academy (LOLA) provided by Hymans Robertson, training policy approved by the PFC on 10 March 2023, data from the National Knowledge Assessment (NKA) completed by the members of LPB and PFC used to benchmark and implement a tailored training plan and training provided before a meeting to approve a recommendation (Medium priority, Completion date 31 Mar 2024).
  - b) The governance of Surrey Pension Fund involves 4 committees – 2 are specific to LGPS, namely LPB and PFC and 2 belonging to Surrey County Council as the administering authority i.e. People, Performance and Development Committee and Audit & Governance Committee. The council has a dual role as the employer and administering authority and hence managing potential conflicts of interest is a key objective of the good governance review. Five actions were agreed by the service, namely developing a comprehensive matrix of roles and responsibilities; and clarify delegations and decision making powers; complete discovery work in the areas of relationships with the council, staff, information technology, cyber security, and accommodation; amended scheme of delegation for approval by full council; and creation of a Conflict of Interest Policy (Medium priority, Completion date Mar 2024).

## **2023/24 Internal Audit Programme**

20. The audit programme for 2023/24 is included as Annex 1.

**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.

**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.

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**Contact Officers:**

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**Consulted:**

Local Pension Board Chairman

**Sources/background papers:**

Annexe 1

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