

Internal Audit Report

Surrey Pension Fund Governance Arrangements

Final Report

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Assignment Manager: David John, Audit Manager
Prepared for: Surrey County Council
Date: April 2023

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This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

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1. Introduction

- 1.1. Surrey County Council (the Council) is the designated statutory administering authority for the Surrey Pension Fund (the Fund). As of 31 March 2022, the fund comprised of 327 scheme employers with circa 114k members of which circa 41k are active, and 43k deferred. The remaining 30k members are comprised of pensioners and dependants. The fund annually collects circa £194m in contributions from members and their employers and makes pension payments of circa £171m per annum to scheme members.
- 1.2. Responsibility for the Fund's governance is currently shared between the Surrey Local Pension Board, Surrey Local Pension Committee, the People Performance and Development Committee and the Audit and Governance Committee with the latter two holding responsibility for approving the Fund's discretions and annual accounts respectively.
- 1.3. The Local Government Pension Scheme (LGPS) Scheme Advisory Board appointed Hymans Robertson in January 2019 to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance going forward. Known as the 'Good Governance Project' the latest report was published in February 2021 detailing a number of areas where practices could be improved including; service delivery, representation, skills, and training. Whilst, at the time of this review, the findings included in the February 2021 report have not yet been written into legislation they do represent opportunities for Funds to proactively assess and improve on local governance arrangements.
- 1.4. The purpose of this review was to determine the extent and effectiveness of the Fund's current governance arrangements.
- 1.5. This review formed part of the agreed Surrey Pension Fund Internal Audit Plan for 2022/23.
- 1.6. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the detailed findings section of the report.

2. Scope

- 2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 - The Fund act in compliance with the governance requirements of the LGPS Regulations.
 - Fund management monitor the effectiveness of governance arrangements and take action where standards fall below those expected.
 - Fund management undertake regular horizon scanning exercises identifying and actioning opportunities for governance improvements.

3. Audit Opinion

- 3.1. **Reasonable Assurance is provided in respect of Surrey Pension Fund Governance Arrangements.** 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.
Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.

4. Basis of Opinion

- 4.1. We have been able to provide Reasonable Assurance as:
- 4.2. The Pension Team have been able to demonstrate compliance with Local Government Pension Scheme (LGPS) Regulations in respect of both governance arrangements and the protocols for the operating of the Surrey Pension Board and Surrey Pension Fund Committee.
- 4.3. In addition to this the Pension Team have embraced the opportunities for implementing best practice as detailed in the LGPS Scheme Advisory Board (England and Wales) Good Governance report. This represents a willingness and keenness to horizon scan and work towards best practice opportunities. For example proposal A.2 is "*Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer")*". The Pension team actioned this during their recent restructure and now have a designated LGPS Senior Officer.
- 4.4. The Pension Team have also recognised the importance of good governance practices and created a new Governance Manager post within the new Pension Team structure.
- 4.5. The Pension Team also have a Training Policy and Member Induction Handbook which set out the training requirements of Board and Committee members. A register is also maintained detailing the mandatory training requirements for Board and Committee members and dates of completion.
- 4.6. However, our review of this record established that only one of the Pension Board members had completed all mandatory training whilst none of the Pension Committee Members had completed all of these mandatory elements. A lack of completion of mandatory training inhibits the Board and Committee's knowledge and ability to provide effective challenge.
- 4.7. Finally, one of the key objectives of the Good Governance Review was to consider how potential conflicts of interest manifest themselves within current LGPS set up, including recognition of the dual role of the Council as the Administering Authority and a scheme employer in the Fund, and to suggest how those potential conflicts can be managed to ensure that they do not become actual conflicts.
- 4.8. An example of this is the Council's People, Performance and Development Committee, which currently has the authority to determine the policy statement in respect of administering authority discretions. The consequences of these policy decisions have the potential to place a financial burden on all employers in the Fund

and therefore the appropriateness of this autonomy requires further clarification as part of a wider review to provide clarity regarding Committee roles.

5. Action Summary

5.1. The table below summarises the actions that have been agreed together with the risk:

Risk	Definition	No	Ref
High	This is a major control weakness requiring attention.	-	-
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources.	2	1-2
Low	This represents good practice; implementation is not fundamental to internal control.	-	-
Total number of agreed actions		2	

5.2. Full details of the audit findings and agreed actions are contained in the detailed findings section below.

5.3. As part of our quarterly progress reports to Audit Committee we seek written confirmation from the service that all high priority actions due for implementation are complete. The progress of all (low, medium and high priority) agreed actions will be re-assessed by Internal Audit at the next audit review. Periodically we may also carry out random sample checks of all priority actions.

6. Acknowledgement

6.1. We would like to thank all staff that provided assistance during the course of this audit.

Internal Audit Report – Surrey Pension Fund Governance Arrangements
Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
1	<p>Mandatory Training Completion</p> <p>The Pension Fund have a Training Policy and Member Induction Handbook which sets out the training requirements of Board and Committee members.</p> <p>The Pension Fund also maintain a register of the mandatory training completed by Board and Committee members. Through review of tis register we identified that, in relation to the Pension Board:</p> <ul style="list-style-type: none"> • Only one of the eight Pension Board Members had completed all the mandatory training. • The Chairperson is recorded as not having completed any of the mandatory training. • Training completed by one Pension Board Member was circa seven years ago, there is no record that refresher training has been completed. <p>A review of the training records for Pension Committee Members established that:</p> <ul style="list-style-type: none"> • Training completed by the Chairperson was circa seven years ago, there is no record that refresher training has been completed, and; • None of the current members have completed all the necessary training. 	<p>There is a risk that the lack of completion of mandatory training is inhibiting the Board and Committee's knowledge and ability to provide effective challenge.</p>	Medium	<p>All members of the Committee and Board have access to LOLA (LGPS Online Learning Academy) provided by Hymans Robertson.</p> <p>The Surrey Pension Fund Committee approved the Training Policy on 10 March 2023.</p> <p>National Knowledge Assessment has been undertaken by the Board and Committee. This data has been used to benchmark and implement a tailored training plan.</p> <p>Training has been organised before a meeting, whereby an additional understanding is required to approve a recommendation.</p>
Responsible Officer:		Nicole Russell, Head of Change Management	Target Implementation Date:	31 March 2024

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Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
2	<p>Clarity Regarding Committee Roles</p> <p>The following four committees/boards have involvement in the governance of the Surrey Pension Fund:</p> <ul style="list-style-type: none"> • Surrey Local Pension Board, • Surrey Pension Fund Committee, • People, Performance and Development Committee; and • Audit and Governance Committee. <p>One of the key objectives of the Good Governance Review was to consider how potential conflicts of interest manifest themselves within current LGPS set up, including recognition of the dual role of the Council as the Administering Authority and a scheme employer in the Fund, and to suggest how those potential conflicts can be managed to ensure that they do not become actual conflicts.</p>	<p>A lack of clarity regarding the roles and responsibilities of committees/boards could lead to potential conflicts of interest, confusion or non-compliance with scheme regulations or best practice.</p>	Medium	<p>Develop a comprehensive matrix of roles and responsibilities.</p> <p>Undertake discovery work in the context of the relationships with the Council, Staff, IT, Cyber Security, Accommodation etc.</p> <p>The Governance matrix will clearly lay out the decision-making powers and delegations.</p> <p>Ensure the Scheme of delegations and constitution are amended and approved by full Council.</p> <p>Creation of a Conflict of Interest Policy.</p>
Responsible Officer:		Neil Mason - Assistant Director & LGPS Senior Officer.	Target Implementation Date:	31 March 2024

Appendix A

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.

Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.