

Final Internal Audit Report

Pension Improvement Plan

September 2022

Distribution: Corporate Director of Resources and S151 Officer
 Interim Director of Finance (Deputy S151 Officer)
 Interim Head of Pensions and Treasury

Assurance Level	Issues Identified	
Substantial Assurance	Priority 1	0
	Priority 2	1
	Priority 3	0

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility in Appendix 7 of this report for further information about responsibilities, limitations and confidentiality.

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1. Terms of Reference
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3. Statement of Responsibility

1. Introduction

- 1.1 The Croydon Pension Board commissioned Aon Hewitt to carry out a governance review for the London Borough of Croydon Pension Fund, which it concluded in September 2019.
- 1.2 The Croydon Council Pension Fund is part of the National Local Government Pension Scheme (LGPS). The LGPS is a statutory scheme regulated by the Government and covers all Croydon Council staff including support staff in school. As an administering authority, London borough of Croydon (the 'Council') discharges its duties with regards to the Pension Fund through the Pensions Committee which handles all matters relating to the investment and management/administration of the Fund.
- 1.3 Aon Hewitt also undertook an independent review of the Fund's compliance with the Pension Regulator's (TPR's) Code of Practice No.14, which was completed in February 2019. Findings on both reviews were shared with senior officers of the Pension Fund and the Chair of the Pension Board.
- 1.4 The pension improvement action plan has three overarching areas, namely
 - 1.4.1 Direction - which focuses on policies/strategies and the Fund's Annual Report and Accounts,
 - 1.4.2 Delivery - which focuses on how the Fund's implements its strategies and policies, together with appropriate monitoring as to whether they are being achieved, and good risk management to ensure effective and efficient delivery, and
 - 1.4.3 Decisions - which focuses on the governance structure, approach to training and the overall ability of decisions makers to make appropriate decisions.
- 1.5 The fieldwork for this review was completed remotely in response to COVID-19. While our review and testing were performed remotely, we have been able to obtain all relevant documents required to complete the review.
- 1.6 This audit is being undertaken as part of the agreed Internal Audit Plan for 2021/22. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

2. Key Issues

Priority 2 Issue

The frequency of updates to the Pensions Committee and Board on the targets within the improvement plan was only on an annual basis. **(Issue 1)**

3. Actions and Key Findings/Rationale

Control Area 3: Implementation of Actions

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1				
2	<p>Reporting on the progress of the Governance Review Action Plan will be reported every six months to the Pensions Board and Pensions Committee at least until the actions on the Plan have been cleared.</p> <p>Progress was reported to the Pensions Board in July 22 and is on the forward plan for reporting in Jan 23.</p> <p>It is on the forward plan for Pensions Committee to be reported on in September 22 and March 23.</p>	<p>Expected Control</p> <p>The Pension Improvement Plan should be monitored on a regular basis to ensure timely completion of objectives.</p> <p>Finding</p> <p>Internal Audit was informed by the Head of Pensions and Treasury that the Pension Improvement Plan is presented to the Pension Board as well as Pension Committee for oversight once every 12 months. This frequency is not ideal as this can lead to delays in identification and resolution of potential issues, subsequently having a negative effect on the achievement of the Pension Improvement Plan.</p> <p>To ensure the desired actions in the pension improvement plan are achieved, the action plan should be monitored more frequently, such as on a six monthly basis.</p> <p>Risk</p> <p>Where updates on the action plan are not provided on a frequent basis, there is a risk that timescales are not adhered to, and delays are not identified, resulting in failure to complete the required actions on a timely basis.</p>				
	<table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Interim Head of Pensions and Treasury</td> <td>In place</td> </tr> </tbody> </table>	Responsible Officer	Deadline	Interim Head of Pensions and Treasury	In place	
Responsible Officer	Deadline					
Interim Head of Pensions and Treasury	In place					

AUDIT TERMS OF REFERENCE

Pension Improvement Plan – 2021/22

1. INTRODUCTION & BACKGROUND

- 1.1 The Croydon Pension Board commissioned Aon Hewitt to carry out a governance review for the London Borough of Croydon Pension Fund, which it concluded in September 2019.
- 1.2 Aon Hewitt also undertook an independent review of the Fund's compliance with the Pension Regulator's (TPRs) Code of Practice No.14, which was completed in February 2019. Findings on both reviews were shared with senior officers of the Pension Fund and the Chair of the Pension Board.
- 1.3 Arising from the Aon Hewitt findings is the pension improvement action plan, which includes timescales for action and aligns with the meeting schedule for both the Pensions Committee and Pension Board.
- 1.4 The pension improvement action plan has three overarching areas, namely (i) Direction - which focuses on policies/strategies and the Fund's Annual Report and Accounts, (ii) Delivery - which focuses on how the Fund implements its strategies and policies, together with appropriate monitoring as to whether they are being achieved, and good risk management to ensure effective and efficient delivery and (iii) Decisions - which focuses on the governance structure, approach to training and the overall ability of decisions makers to make appropriate decisions.
- 1.5 The action plan was presented at the December 2020 Pension Committee meeting where members reviewed the progress achieved in implementing the recommendations.
- 1.6 This audit is being undertaken as part of the agreed Internal Audit Plan for 2021/22.

2. AUDIT OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
 - Walkthrough the processes to consider the key controls;
 - Conduct sample testing of the identified key controls, and
 - Report on these accordingly.

3. SCOPE





3.1 The audit included the following areas (and number of identified issues)

Audit Area	Identified Issues		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	0	0
Pension Improvement Action Plan Formulation and Approval	0	0	0
Implementation of Actions	0	1	0
Monitoring and Reporting	0	0	0
Totals	0	1	0

Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk,
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified issues are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

Statement of Responsibility

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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