

Internal Audit
Final Terms of Reference
ACCESS Support Unit (Audit Plan Ref: FT4)

Introduction and Background

This audit is being undertaken as part of the 2021/22 Internal Audit and Counter Fraud Plan that was agreed by the Council's Audit, Governance and Standards (AGS) Committee. The audit is sponsored by Kevin McDonald, Director, ACCESS Support Unit.

The ACCESS (A Collaboration of Central, Eastern and Southern Shires) is a c£50bn pooled investment collaboration. It is made of 11 LGPS Administering Authorities: Cambridgeshire County Council; East Sussex County Council; Essex County Council; Hampshire County Council; Hertfordshire County Council; Isle of Wight Council; Kent County Council; Norfolk County Council; Northamptonshire County Council; Suffolk County Council; and West Sussex County Council. ACCESS is not a legal entity. Instead it is operating as a collaboration between participating Authorities with the below objectives:

- Enable participating Authorities to execute their fiduciary responsibilities to Local Government Pension Scheme (LGPS) stakeholders, including scheme members and employers, as economically as possible.
- Provide a range of asset types necessary to enable those participating Authorities to execute their locally decided investment strategies as far as possible.
- Enable participating Authorities to achieve the benefits of pooling investments, preserve the best aspects of what is currently done locally, and create the desired level of local decision- making and control.

Whatever arrangements are made to discharge the statutory responsibilities of the Administering Authority, including any joint arrangements with other Administering Authorities, each Administering Authority retains ultimate responsibility for the fulfilment of its statutory duties.

A Joint Committee (JC), which was formed in accordance with the requirements of s.102 of the Local Government Act 1972 (known as a s.102 committee) provides oversight of the ACCESS Pool and the ACS Operator on behalf of the Administering Authorities. It is formed of Elected Members from the participating Councils.

ACCESS appointed Link Fund Solutions Ltd to provide Operator services in early 2018, following a procurement process involving each of the eleven ACCESS Funds and co-ordinated by procurement specialists at Kent County Council. The contract is for five years with an option to extend for a further period of up to two years. As ACCESS Operator, Link established an Authorised Contractual Scheme (ACS) along with the creation of investment sub-funds, and the appointment of investment managers to those sub-funds.

The ACCESS Administering Authorities have each signed an Inter Authority Agreement (IAA). The IAA is a legal document governing the relationship between the Authorities in relation to the ACCESS Pool. It was put in place in July 2017 and determines the relationship between each individual Pension Fund and the Joint Committee. The IAA is supported by a Governance Manual which is not a legal or governing document but is intended to bring together in one place all the essential detail regarding the governance of the ACCESS Pool and provide a working document

for reference purposes. Both documents are reviewed periodically, and approved changes are made as necessary.

At their meeting on 11 June 2018 the JC approved the structure of the permanent ACCESS Support Unit (ASU) comprising a Director, a Contract Manager, support administrator and technical lead officer support. It was also resolved that Essex County Council (ECC) will act as Host Authority for the ASU. Consequently, the hosted roles of Director, Contract Manager and Administrative Support are permanent employees of ECC. The costs of ASU are shared equally across the eleven ACCESS pension funds. The ASU provide the day-to-day support for the ACCESS Pool including programme management, contract management, administration, and technical support services. The Director leads the ASU and manages the relationship with key stakeholders which include Officers and Members in the eleven participating authorities, the pool operator, regulators, and Central Government. Governance Manual describes the role and responsibilities of the ASU.

Kent County Council currently provides secretariat support to ACCESS and all agendas, papers and minutes from their regular meetings are published on the Kent County Council website.

Given the materiality of sums involved and ECC's obligations to other pool members, it is important to be assured over the strength of the ASU's control environment. An Internal Audit review of ASU was last carried out in 2020/21 by ECC Internal Audit and received an overall opinion of Good Assurance.

Objectives and Scope

The objective of this audit is to evaluate the control design and test the operating effectiveness of key controls in place over the ASU. The audit will cover the period from as far as 12 months prior to the time of the audit. It was agreed as part of the 2020/21 Internal Audit review that the 2021/22 review will seek input from the administering authorities Internal Audit leads when drawing up the terms of reference. Consequently, all responses received have been considered, and incorporated either in this document, or in our audit testing schedules.

The Moderate agreed action regarding the Governance Manual and Decision Matrix from 2020/21 audit will be followed up in the current review. A list of potential risks has been set out in the below table.

Objectives	Risks
<p>Programme Management</p> <p>A programme for pooling assets is agreed to and delivered, with effective ASU management and support given to workstream/project leads.</p> <p>The work of the ASU (and the pool's activity more widely) is planned, communicated and delivered in a strategic, coordinated and systematic manner.</p>	<ul style="list-style-type: none"> • There is an increased risk that Administering Authorities may not achieve the benefits of pooling investments e.g. lower costs and the same or better return from their investments, in the absence of appropriate programme management. • As Host Authority for the ASU, any performance issues could harm ECC's reputation, particularly if there is a perception that the Council has not operated with a clear, agreed strategy and/or business plan. • The government may intervene if it determines the pool is not making sufficient progress in pooling assets which could lead to the pool itself having less control over or time to determine how it wants to move toward greater pooling.
<p>Stakeholder Management</p> <p>Progress toward pooling is timely and specific sub-fund launch milestones are met.</p> <p>Robust contract management ensures that the operator, and other service providers, deliver an effective service to the ACCESS Pool. The ASU provides sufficient, timely and reliable information on the pool's operation and specifically compliance with legal and regulatory requirements to section 151 officers, to enable them to fulfil their responsibilities in relation to their Authority's participation in the pool.</p>	<ul style="list-style-type: none"> • If stakeholders do not effectively cooperate with the ASU, and vice-versa, and therefore the work of the pool more widely, Administering Authorities may not achieve the benefits of pooling investments, potentially impacting on finances, service delivery, legal compliance, and reputation. • Poor stakeholder management could see Local Authorities failing to meet legal and transparency requirements over the fiduciary stewardship of the invested funds. A failure to do so may result in significant criticism and loss of member and public trust.
<p>Policies and Procedures</p> <p>The Pool's agreed governance arrangements are complied with.</p> <p>Any changes to Pool's governance arrangements are made in line with the due process of the IAA.</p>	<ul style="list-style-type: none"> • If appropriate mitigations are not identified and put in place by relevant parties (e.g. to Joint Committee, Section 151 officers and the Officers Working Group), to help manage the identified risks, local authorities may not meet legal and transparency requirements over the fiduciary stewardship over the invested funds. Risks may then materialise that reduce the effectiveness of the working of the pool and potentially reduce benefits of pooling investments.

Objectives	Risks
<p>The ASU identifies and reports on emerging, or all risks appropriately and timely.</p>	
<p>Managing Commercial and Contractual Relationships</p> <p>The Operator and other service providers meet their contractual requirements and deliver value for money.</p> <p>Any performance issues are identified and resolved.</p>	<ul style="list-style-type: none"> • Breaches of investment objectives and restrictions may negatively impact on finances, service delivery, legal compliance, and reputation.
<p>Financial and Physical Resources</p> <p>Sufficient and effective contributions are received from partner Authorities to the Officer Working Group.</p> <p>The ASU makes effective use of the resources at its disposal.</p>	<ul style="list-style-type: none"> • Poor usage of financial and physical resources could result in the ASU significantly overspending its agreed budget and additional contributions may be required from pool members to resolve. This may consequently add additional pressure to budgets.
<p>Management Information and KPI reporting</p> <p>KPIs are quantifiable and are based on specific goals and objectives which are critical for performance management and are regularly presented to appropriate audience to predict and address deviation from targets in a timely manner.</p> <p>Management information is sufficiently reliable, useful and timely to allow effective decision-making.</p>	<ul style="list-style-type: none"> • Absent or ineffective management information/KPI reporting could result in reactive and delayed decision-making and preventing the JC from putting timely corrective measures in place.
<p>Web Vulnerabilities and Website Security</p> <p>Cyber security controls are in place to safeguard network vulnerabilities and data hacks, providing protection to personal and organisational public-facing website from cyber attacks.</p>	<ul style="list-style-type: none"> • ACCESS Pool website may become a victim of security or data breach which may lead to significant financial, legal or reputational consequences.

Objectives	Risks
<p><i>* Note that a separate cyber security Internal Audit review is carried out annually for Essex County Council. This audit will place reliance on the outcome of that review where relevant to the ASU.</i></p>	

Approach

The audit will be carried out using a risk-based approach. We will:

- Obtain an understanding of the existing processes through discussions with key staff and the current known issues and planned actions to address these;
- Review relevant documentation;
- Identify and confirm the current key controls in place to mitigate the risks outlined in the list above;
- Evaluate the design and operating effectiveness of the current controls in place to address the key risks; and
- Report our findings detailing any issues identified, potential risks arising and agreed actions to address.

Limitations of Scope

Where possible, we will utilise data analytics and full population testing. Testing will otherwise be carried out on a sample basis.

Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

Timetable

Draft Terms of Reference issued	07 July 2021
Fieldwork *	1 September 2021 to 30 September 2021
Draft Report <i>(within 10 working days after completion of fieldwork, or holding of the exit meeting, whichever is the latter).</i>	15 October 2021
Response from key audit contact	<i>Within 10 working days of receipt of Draft Report.</i>
Final Report to all audit contacts	<i>Within 5 working days of receipt of acceptable management responses.</i>

* Note: Fieldwork start is intended to be the first day of a concentrated period on site up to the fieldwork complete date during which all fieldwork, including resolution of outstanding queries, is expected to be completed.

Agreed timescales are subject to the following assumptions:

- All relevant documentation including the source data, reports and procedures will be made available to us promptly on request; and,
- Staff and management will make reasonable time available for interviews and will respond promptly to follow up questions and requests for documentation.

Contacts

Audit Sponsor	Kevin McDonald – Director, ACCESS Support Unit
Essex County Council	Nicole Wood – Executive Director Corporate Services Mark Paget – ACCESS Contract Manager
Relevant Cabinet Member	Cllr Chris Whitbread - Finance, Resources and Corporate Affairs
Internal Audit and Counter Fraud	Paula Clowes – Head of Assurance Sarah Harris – Strategic Internal Audit Manager Stuart Coogan – Internal Audit Delivery Manager Murad Khan – Senior Auditor
External Audit	Barry Pryke – BDO External Auditors

Expectations

What can you expect from us?

- Professionalism at all times;
- Timely notification to enable adequate scoping and giving you opportunity to share areas of concern prior to audit;
- Efficient and effective execution of the audit;
- Accurate and timely reporting; and
- Adding value to the internal control environment.

What do we expect from you?

- Engaging fully in the audit process;
- Providing information as requested in a timely manner;
- Being available during the audit process for queries and assistance; and
- Allowing auditors access to required files and systems where necessary.

For Internal Audit to review their quality standards, feedback on the audit process will be sought at the end of the audit. Please consider this throughout the audit.

Where auditors request information in order to proceed with an audit and this is not forthcoming, an evaluation of evidence will progress only on the information available at the time. An audit report may then be written and issued on the basis that this information is not available, and actions will be raised accordingly.

Agreement

I, as the Audit Sponsor, agree to the Terms of Reference and the proposed timescales:

Audit Sponsor: Kevin McDonald – Director, ACCESS Support Unit

Date: 27 August 2021

Appendix 1 – Information Request

The following is designed to be a provisional list of key information we will require to assist us in the audit and should be provided in a timely manner from the fieldwork start date to the key Internal Audit contact listed above:

- Completed audit questionnaire along with all the requested evidence. Audit questionnaire will be provided shortly, before the fieldwork start date.

During the audit, we anticipate that we will require access to the agenda papers and minutes for:

- the Joint Committee, s151 Officers group, Officers Working Group and sub-groups.

Other information arising from our review of the above schedules and supporting documentation may be requested. Where required, we will provide these requests as soon as possible.

Appendix 2 – Background to Internal Audit

Internal Audit is an independent, objective assurance and consulting activity designed to add value to and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

The Internal Audit service will be delivered in accordance with the Internal Audit Charter.

The work of Internal Audit is structured through an approved Internal Audit Plan. This is compiled at least annually prior to the commencement of each financial year and reviewed periodically to reflect any relevant changes.

The Internal Audit Plan will be delivered in line with the Internal Audit Manual. This includes the following key steps:

- 1) Preparation for an audit, including research, a planning / scoping meeting and production of a written Terms of Reference.
- 2) Fieldwork, in line with the stated audit approach in the Terms of Reference. During fieldwork, the auditors will keep the key audit contact updated with progress and potential issues arising. Fieldwork will conclude with an exit meeting confirming all issues arising and discussion of action plans to address.
- 3) Formal reporting of the audit objective and scope, issues identified and agreed action plans. The reporting process will include issue of a draft to confirm factual accuracy and agreement of actions plans prior to finalising.

Please note that the outcome of each finalised audit will be presented to ECC's AGS Committee. In addition, all No and Limited Assurance reports will be issued to the Chief Executive, the Leader of the Council, the Cabinet Member for Finance, Resources and Corporate Affairs and other relevant Cabinet Members.

Releasing Internal Audit Reports: All distributed draft and final reports remain the property of the respective Director and the Executive Director for Corporate Services (S151 Officer). Audit reports contain confidential information which highlight weaknesses in our internal control environment which if released to a wider audience could expose the authority.