

**CAMBRIDGESHIRE
PENSION FUND**



Pension Fund Board

Date: 19 March 2015

Report by: THE HEAD OF AUDIT & RISK MANAGEMENT

Subject:	Internal Audit Update and Plan 2015-16
Purpose of the Report	To brief members on completed audits and Internal Audit work planned for 2015-16.
Recommendations	That members note the audit work undertaken and approve the plan of Internal Audit work 2015-16, as outlined in sections 3 and 4 of this report.
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1. Summary of Report

- 1.1 The report describes the internal audit work undertaken and in progress, covering process convergence and the adequacy of design and implementation of controls for the administration of the Pensions Services of Cambridgeshire and Northamptonshire.
- 1.2 It proposes a further review and compliance testing in 2015-16 to provide on-going assurance and support the opinion work of the external auditors.

2. Background

- 2.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.2 The work of Internal Audit complements and supports the work of external auditors in forming their opinion on the financial accounts. Internal audit work is coordinated with the external auditors and they place reliance on the work of internal audit to reduce the level of testing they undertake themselves. This reduces overall costs by avoiding

unnecessary duplication of effort and supports delivery of an efficient and effective service.

- 2.3 As the processes of the LGSS Pension Service at Cambridgeshire and Northamptonshire have converged, the work of Internal Audit has been adapted to take account of the opportunity for a more efficient audit.

3. Audit Work Undertaken

- 3.1 We completed and reported to management our review of the design and operation of controls in the converged processes being shared by Cambridgeshire and Northamptonshire for 2013-14. The final report was issued in June 2014 and the results were shared with the external auditors to support their work on the financial statements. Whilst the testing did identify some cases of non-compliance, we were satisfied overall with the design and application of controls. Based upon this we gave a substantial assurance opinion and agreed an action plan to strengthen further the controls and improve compliance. The results in each process area are summarised in the following table:

Process Area	CCC
New members	Substantial
New pensioners	Substantial
Deferred pensioners	Substantial
Death Benefits	Substantial
Transfers in	Substantial
Transfers out	Substantial
Contributions	Moderate
Reconciliations	Moderate
Systems and User Access	Substantial
Overall Level of Assurance	Substantial

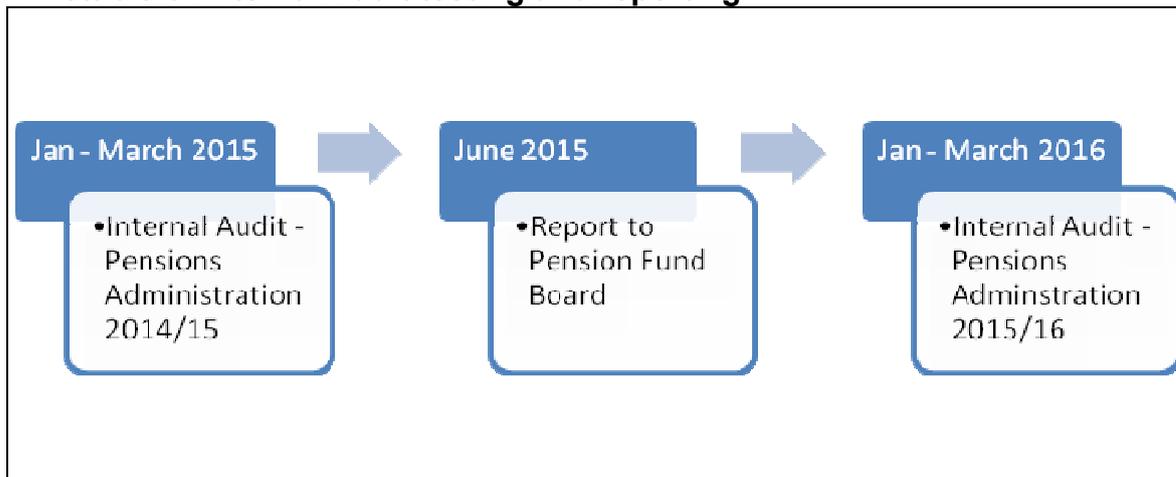
The executive summary of the report is at Appendix A.

- 3.2 The implementation of the agreed actions arising from our 2013-14 report has been monitored during the year and we have received confirmation that all actions have been implemented. Effective implementation will be verified as part of the 2014-15 audit.
- 3.3 The 2014-15 audit is currently being undertaken. This will assess the design and operation of controls covering the administration of both the Cambridgeshire and Northamptonshire Pension Schemes. Testing is designed to provide management with reasonable assurance that there are appropriate controls in place to effectively mitigate the following risk areas:
- Risk 1 – Pension payments are not made in accordance with the LGPS and council policy (including rates, annual uplift, lump sums, pensions, deferred pensions, early retirements, annual pension statements);

- Risk 2 – Pension payments are not recorded properly and not accounted for correctly;
- Risk 3 – New members are not set up on a timely basis and do not receive appropriate information;
- Risk 4 – Contributions received are not on time or not correct; (includes basic contributions, additional contributions including monitoring of payments from NCC, CCC, academies and admitted bodies and all other scheme employers);
- Risk 5 – Transfers in and out of the scheme are not subject to appropriate checks and authorisation (includes pensions transferring in and out);
- Risk 6 – Reconciliations are not completed i.e. between Altair and Oracle and also for the Pensions bank account;
- Risk 7 – Performance of the service provided is not monitored and reviewed;
- Risk 8 – User access is not reviewed and so staff may have inappropriate access to the pensions system.

3.4 Fieldwork should be completed by early March. This work includes a follow up of the agreed actions from the above report to ensure that adequate action has been undertaken. The finalised results of this audit will be reported to the June meeting of this Board and will also be shared with external auditors to support their work.

Timetable of Internal Audit testing and reporting



4. Audit Plan 2015-16

- 4.1 An annual audit of the administration of the LGSS Pension Service will be undertaken during 2015-16. This will provide an independent opinion on the management of risks relating to the operation of the LGSS Pension Service. The audit will take advantage of the converged approach to the administration of pensions for Cambridgeshire and Northamptonshire and undertake both audits together. This creates some time efficiencies for the audit and the budget for the combined audit is 35 days.
- 4.2 The testing will be designed to satisfy the requirements of Cambridgeshire external auditors (PwC) and Northamptonshire external auditors (KPMG). It will cover the following:

- 1) Follow-up of prior year items from internal audit report
- 2) Annual Pensions uplift
- 3) Joiners to scheme
- 4) New Pension Payments (mix of ill-health, early and normal retirements).
- 5) Transfers In
- 6) Transfers Out
- 7) Death Benefits
- 8) Scheduled / Admitted bodies –contributions
- 9) Pensions Data

4.3 Testing will be undertaken in the final quarter of the financial year to give assurance on the operation of controls across the whole period.

4.4 The external auditors undertake detailed reviews of the Pension Investment function each year. It is not therefore proposed to undertake an internal audit of this function in 2015-16.

5. Relevant Pension Fund Objectives

5.1 The audit work undertaken will be designed to support the Pension Service in achieving its objectives through the effective management of risk. The work therefore supports all of the outcomes of the Pension Service.

Perspective	Outcome
Funding and Investment	<ul style="list-style-type: none"> • To ensure that the Fund is able to meet its liabilities for pensions and other benefits with the minimum, stable level of employer contributions. • To ensure that sufficient resources are available to meet all liabilities as they fall due. • To maximise the returns from its investments within reasonable risk parameters.

Perspective	Outcome
Communications	<ul style="list-style-type: none"> • Promote the Scheme as a valuable benefit. • Deliver a clear and consistent message; that is simple, relevant and impactful, uses plain English throughout and engages all levels of stakeholders understanding. • Provide clear information about the Scheme, including changes to the Scheme, and educate and engage with members so that they can make informed decisions about their benefits. • Seek and review regular feedback from all stakeholders about communication and shape future communications appropriately. • Look for efficiencies in delivering communications including through greater use of technology.
Administration	<ul style="list-style-type: none"> • Provide a high quality, friendly and informative administration service to the Funds' stakeholders. • Administer the Funds in a cost effective and efficient manner utilising technology. • Ensure the Funds and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Funds. • Put in place standards for the Fund and its employers and ensure these standards are monitored and developed as necessary. • Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount. • Maintain accurate records and ensure data is protected and has authorised use only. • Understand the issues affecting scheme employers and the LGPS in the local and national context and adapt strategy and practice in response to this.
Governance	<ul style="list-style-type: none"> • To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies. • Ensure the Fund and its stakeholders have the appropriate skills and receive training to ensure those skills are maintained in a changing environment.

6. Finance & Resources Implications

6.1 Provision has been made within the LGSS Audit Plan to undertake the work planned in 2015-16.

7. Risk Implications

a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
The audit work may identify significant weaknesses with potential for reputational damage to the Pension Service.	A process is in place for timely and effective response to the findings of internal and external auditors.	Green

b) Risk(s) associated with not undertaking the proposal

Risk	Risk Rating
Unmitigated risks to the objectives of the Pension Service are not identified and addressed. The legal obligation to ensure internal audit is undertaken would not be met.	Red

8. Communication Implications

Website	The work of auditors will be transparent and will be reported to the Pension Fund Board and published on the internet.
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9. Legal Implications

9.1 The requirement for an Internal Audit function derives from section 151 of the Local Government Act 1972. All principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2003 in England (Appendix 41) [4] should make provision for Internal Audit in accordance with the Code.

10. Consultation with Key Advisors

10.1 We have confirmed with PwC and KPMG their requirements for internal audit.

11. Alternative Options Considered

- 11.1 Continue with separate audits as was the case prior of the convergence process. This would be a failure to capitalise on the opportunity to deliver a more efficient and effective service.

12. Background Papers

- 12.1 Previous report 8 April 2014.

13. Appendices

- 13.1 Appendix A – Pension service review 2013-14 – Executive Summary

Checklist of Key Approvals

(To be included for all reports)

Is this decision included in the Business Plan?	NO
Will further decisions be required? If so, please outline the timetable here	NO
Is this report proposing an amendment to the budget and/or policy framework?	NO
Has this report been cleared by The Deputy Head of Pensions?	Mark Whitby – 12/02/2015
Has this report been cleared by the Section 151 Officer?	Chris Malyon – 06/03/2015
Has the Chairman of the Pension Fund Board been consulted?	Councillor Count – 19/02/2015
Has this report been cleared by Legal Services?	Laurie Gould on behalf of Quentin Baker – 02/03/2015

Internal Audit Report

LGSS Pensions Administration

2013-14

Confidential

Client LGSS

Issued to Matt Bowmer, Director of Finance
Chris Malyon, Head of Finance
Steve Dainty, Head of Pensions

cc Paul Tysoe, Group Accountant

Date 4 June 2014

Lead Auditor Janette Lynn

Status of Report Final Report

Internal Audit Opinion Substantial Assurance

Executive Summary

<u>Assurance Summary</u>					
<i>Process Area</i>	<i>No</i>	<i>Limited</i>	<i>Moderate</i>	<i>Substantial</i>	<i>Full</i>
New members					
New pensioners					
Deferred pensioners					
Death Benefits					
Transfers in					
Transfers out					
Contributions					
Reconciliations					
Systems and User Access					
<i>Overall</i>					

Note

All Internal Audit reports are available on a confidential basis to Senior Management and the Audit Committee as a matter of course. The main points of this report and the overall assurance level will be summarised for the Audit Committee in a report that is made available within the public domain.

We will follow up the agreed actions contained in this report in line with individual timescales and report on progress to Management and the Audit Committee.

1. Background to the review

The audit of the LGPS administration comprises of a review of the administration processes for new members, new pensioners, deferred pensioners, death benefits, transfers in and out, refunds, contributions received from employer organisations and updating and maintaining the Altair pensions system.

The audit seeks to provide assurance to management and External Audit that expected controls are in place for pension administration, such controls are adequate in design and function appropriately in practice.

This year the audit consisted of a joint review of Northamptonshire County Council (NCC) and Cambridgeshire County Council (CCC) LGSS systems.

1.1 Key Risks

The audit relates the following risks from:

- a) the Northamptonshire County Council Corporate risk register:
- B4 The pension fund is materially underfunded;
 - C1 Failure to comply with legislative and regulatory requirements;
 - C6 Major Fraud and Corruption
 - D2 Inability to attract or retain staff with the right skills and experience
- b) the Cambridgeshire County Council corporate risk register:
- 3 The Council does not have appropriate staff resources with the right skills and experience
 - 20 Non compliance with legislative and regulatory requirements
 - 23 Major Fraud or Corruption
- c) the LGSS Pension Service risk register:
- B3 Maladministration
 - B4 Pension Fund Contributions are not collected on an accurate and timely basis
 - B5 Payments to pensioners and not paid accurately
 - B6 Lack of staff to administer and account for the fund
 - C2 Failure to comply with legislative and regulatory requirements
 - C3 Failure to comply with Data Protection and Freedom of Information Acts
 - D1 Inability to attract or retain staff with the right skills and experience

1.2 Objectives

Therefore, the objectives of the review were to provide management with assurance that there are appropriate controls in place to mitigate effectively the risks related to Pensions.

1.3 Approach

In order to test the operating effectiveness of the controls in place we performed sample testing for both the NCC LGPS and the CCC LGPS as follows:

- new members;
- new pensioners, calculations and pensions actually paid ;
- calculations for members who had left the organisations and whose pension had been deferred;
- payments of death grants, including proof of death and the calculation and payment made;
- dependent pensioners to ensure that they were paid promptly, accurately and to the correct beneficiaries;
- transfers into and out of the LGPS to ensure the calculations were checked and monies paid out were authorised and receipts monitored;

- refunds to employees who withdrew from the scheme within the permitted timeframe, to ensure that that they met the time thresholds;
- monitoring the receipt of contributions and supporting documentation from employer organisations;
- year end reconciliations of contributions received;
- reconciliation of bank accounts;
- reconciliation of pensions payroll to the Altair records;
- the annual uplift of pensions on Altair;
- access to Altair
- Sample sizes were agreed with KPMG and PwC.

2. Internal Audit Opinion and Main Conclusions

2.1 Main conclusions

Based on the completion of our fieldwork and the testing carried out, we are giving **substantial** assurance for the controls in place within LGSS pensions for the LGPS. A number of areas of good practice were noted and these are set out in Appendix 2. This section sets out the main findings of the audit.

The table below provides a breakdown on the level of assurance for both NCC and CCC for each of the process areas identified:

Process Area	NCC	CCC
New members	Substantial	Substantial
New pensioners	Substantial	Substantial
Deferred pensioners	Substantial	Substantial
Death Benefits	Substantial	Substantial
Transfers in	Substantial	Substantial
Transfers out	Substantial	Substantial
Contributions	Substantial	Moderate
Reconciliations	Substantial	Moderate
Systems and User Access	Substantial	Substantial
Overall Level of Assurance	Substantial	Substantial

New members - substantial assurance

Difficulties were encountered in obtaining prompt notification from employer organisations of new employees. An electronic notification system is to be introduced from April 2014 which will require employers to make monthly returns promptly and systems will be in place to monitor this.

It was identified that although Altair held records for the new members, they had not been sent a “welcome” letter in 50% of the sample.

New pensioners - substantial assurance

Pensions calculations were prepared and checked and paid correctly.

Deferred pensioners - substantial assurance

There were delays in the process and some cases had only been partially completed, an action plan was in place from last year's audit and progress against this will be reviewed as a result of this year's audit findings. (NCC)

Self checking was also in place which does not provide sufficient independence as the calculations provide a financial benefit to the recipients. (CCC)

Death benefits - substantial assurance

There was one instance where the death certificate held on file was not that of the member, the correct one is being requested. (CCC)

A claim for benefits had been received in November 2013 but had not been paid by mid March 2014. (NCC)

Insufficient evidence was held on Altair for eight payments so the payees and the amounts could not be easily checked, to improve anti fraud controls evidence should be easily located. (NCC)

For two dependents there was no evidence on Altair of how their pensions had been calculated. (CCC)

Transfers in to LGPS - substantial assurance

There was insufficient separation of duties in a number of cases for the quotations process and the updating of member records. (NCC & CCC)

Transfers out of LGPS - substantial assurance

There was insufficient evidence on Altair of the payments made to other providers so these could not be easily checked, 19 out of 20 did not have evidence on Altair. (NCC)

Quotations issued had not been subject to an independent check, 12/12 (CCC).

Contributions from employer organisations - moderate assurance

The payments tracking spreadsheet for the receipt of monthly contributions had not been completed each month. (NCC & CCC)

There was a short fall of approximately £4.5m in the receipt of contributions. This was identified by LGPS staff due to the miscoding of receipts by the LGSS Income Processing team. LGPS staff have asked that this be resolved promptly. This figure has already reduced to £3.9 and further work is being completed.

Year end reconciliations - moderate assurance

Evidence had not been retained on file for seven of the fifteen reconciliations tested. (CCC)

Access to Systems - substantial assurance

Access to the system had not been removed for two employees who had left.

Outstanding recommendations from the 2012/2013 Audit

An update on progress in implementing the recommendations is attached as Appendix 1. Those outstanding were in the main relating to year end processes so will be implemented as part of the 2013/14 year end.

2.2 Main recommendations

For each of the issues identified we have agreed actions with management which have been documented in a detailed action plan. When implemented these will positively improve the control environment and aid the Authority in its ability to effectively manage its risks.

2.3 Acknowledgement

We would like to take this opportunity to thank all members of staff whom we contacted during the course of this review for their time and assistance.