

# **Internal Audit Report**

## **Administration of the Cambridgeshire Pension Fund**

### **Governance Opinion**

<b>Control Environment</b>	<b>Substantial</b>
<b>Compliance</b>	<b>Substantial</b>
<b>Organisational Impact</b>	<b>Minor</b>

<b>Report Issued</b>	8 February 2018
<b>Follow Up due</b>	30/9/18

## Executive Summary

### 1 Background

- 1.1 LGSS Pensions administers the Local Government Pension Scheme on behalf of Northamptonshire County Council and Cambridgeshire County Council.
- 1.2 The administration of the scheme is subject to an annual audit and provides assurance around arrangements to the employer organisations, the Pensions Committee and also the Pension Fund's External Auditors. In the 2016-17 review, substantial assurance was provided that around the effectiveness of arrangements in place.

### 2 Audit Approach / Scope (including Volume / Value Indicators)

- 2.1 There are 140,000 members of the Cambridgeshire and Northamptonshire Pensions Funds and circa 550 scheme employers, the service holds a portfolio of assets in excess of £5 billion.
- 2.2 The objectives of this review will be to ensure that:
  - New members are set up accurately (including transfers in) and on a timely basis.
  - The correct contributions are received from employer organisations on a timely basis.
  - Appropriate action is taken upon notification that a member has left the scheme.
  - Pension payments are made in accordance with LGPS regulations and in line with relevant administering authority and employing authority discretions.
  - Pension payments are paid at the correct amount with the correct rate of annual increase.
  - Reconciliations are completed for key financial areas.

The review also followed up actions agreed in the 2016-17 review.

### 3 Internal Audit Opinion and Main Conclusions

#### 3.1 Main conclusions

Based on the completion of our fieldwork we are giving **Substantial** assurance for the control environment covering LGPS administration and **Substantial** assurance for compliance.

The assurance level reflects our view that effective and embedded procedures are in place to oversee the administration of pensions. Additionally, developments continue to take place to further automate processes by capturing data electronically and providing management information to assist with key processes.

The review did however identify the following issues:

- Our review identified a number of instances where the status of members was 'suspended' and cases, we have not been able to establish the reason for this. Additionally, these cases are not subject to regular review to ensure the status remains accurate.
- In terms of reconciliations, a number of issues were identified, namely:
  - The year-end reconciliation of employers' contributions for 2016-17 has not yet been completed, although it is acknowledged that a significant proportion of the variances identified had been resolved.
  - Whilst progress has been made on the reconciliation of historical payroll / Altair records to identify under / over payments, work is still required to resolve payment discrepancies identified.

#### 4. Main recommendations

For each of the issues identified we have agreed actions in the action plan. When implemented these will positively improve the control environment.

Detailed agreed actions are listed within the Management Action Plan (MAP) at pages 7 and 8 of this report.

## DETAILED FINDINGS

### **5 Control Objective (1) New members are set up accurately (including transfers in) and on a timely basis.**

- 5.1 Employers are responsible for notifying LGSS Pensions of any new employees or existing employees who wish to join the pension scheme. This information is currently captured by several methods, manual forms submitted, employer self-service portal, employer file transfer via i-connect, a bespoke interface provided by Heywood which links to Altair, and by data transfer.
- 5.2 Analysis highlighted that the Pensions Systems Team complete checks and balances processes on this data to ensure that only correct and complete records are uploaded into Altair to create the member record. Progress with these tasks is monitored to ensure that employer's data is processed on a timely basis after it has been received.
- 5.3 New members who wish to transfer in from another pension scheme are able to do so providing they complete the appropriate forms and meet key criteria. Ten transfers in for the NPF were tested and controls were found to be working effectively in that:
- A transfer in request form was on file signed by the member.
  - The pension certificate has been provided by the previous pension provider.
  - A calculation of the transfer in value was on file which had been subject to review and authorisation.
  - The payment had been received from the previous pension provider.
  - The member's pension record on Altair had been updated accurately.

### **6. Control Objective (2) The correct contributions are received from employer organisations on a timely basis.**

- 6.1 A clearly defined process is in place to oversee the monthly payment of employer contributions to the Pension Fund. A review of contribution records for 10 employers found that:
- Contributions reflected in the PEN18 returns were in the main agreed as accurate. Where variances existed these were minor in value and had been investigated and resolved with the relevant employer.
  - Payments were received from employers in line with agreed deadlines.
  - Payments received were traced to Pension Fund bank account.
- 6.2 In addition to the monthly process, an annual year end reconciliation of employers and members contributions to monies for 2016-17 has been undertaken. Where variances were identified, this would result in an automated letter being generated to the employer

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providing details of any variances in payments, request the employer to provide an explanation for these and also notify them that an invoice would be raised for any balances owed. Testing identified that whilst this had delivered clear benefits and most employers records had reconciled immediately the overall reconciliation had still not been finalised at the time of the audit.

**(See MAP 1)**

**7. Control Objective (3) Appropriate action is taken upon notification that a member has left the scheme, including transfers out.**

7.1 Employers notify Pensions when an employee leaves and the member's pension is then "deferred" unless they request and meet the criteria for a refund.

7.2 Five transfers out were reviewed and testing highlighted that:

- A transfer out request form was on file signed by the member.
- Evidence was on file to confirm the member had left their pensionable employment.
- A calculation of the transfer out value was on file which had been subject to review and authorisation.
- The payment had been made to the appropriate Pension Fund.

7.3 Notification of five pensioner deaths were reviewed and testing highlighted that:

- A death certificate was on file in all cases.
- The pension was suspended on a timely basis.
- A reconciliation had been completed to confirm if over / under payments had occurred and appropriate action was taken based on the reconciliation.

**8. Control Objective (4) Pension payments are made in accordance with LGPS regulations and in line with relevant administering authority and employing authority discretions.**

8.1 Testing of 15 new pensioners and 10 dependent pensioners confirmed that effective controls were in place and pensions were paid without delay once all relevant confirmation and documents were received from the respective parties.

8.2 Calculations were made based on membership within the relevant scheme i.e. pre 2008, 2008-2014 and post 2014 with appropriate deductions made where relevant.

8.3 In the case of dependent pensioners their status was confirmed and for death in service / pensioner deaths a calculation of potential death grants was also completed.

**9. Control Objective (5) Pension payments are paid at the correct amount with the correct rate of annual increase.**

- 9.1 Controls were in place to ensure that the pensioner payroll was set up to pay the correct pension as per the calculation and any relevant adjustments e.g. interest for late payment and mid-month adjustments.
- 9.2 Twenty five pensioner calculations and payments were checked (15 retirees and 10 dependents as considered in section 8) and all were found to be accurate.
- 9.3 The annual uplift process was completed by the Systems team based on national guidance. Altair is updated as required and the implementation of any changes is checked for its impact on member pensions to ensure that these are correct.
- 9.4 During testing of the uplift process we became aware that a number of member records were not receiving an increase as they had a status of “suspended”. Examination of the records failed to identify why this status had been awarded. It was also confirmed that there was not a regular review of these records in order to either reinstate payments or close the record down.

**(See MAP 2)**

**10. Control Objective (7) Reconciliations are completed for key financial areas.**

- 10.1 In addition the contribution reconciliation referred to in section 6 of the report, other reconciliations take place of the various Pension Fund bank accounts and also between payroll and Altair. These are considered below.
- 10.2 Bank reconciliations – The Pension Fund bank accounts had been reconciled each month and were subject to a management check to confirm this.
- 10.3 Reconciliation between pension payroll and Altair - The reconciliation between the historic pension payroll and Altair records has continued during 2017-18 and good progress has been made with identifying the anomalies. The resolution of these is now to be progressed commencing in January 2018.

**(See MAP 3)**

**(See MAP 4)**

## MANAGEMENT ACTION PLAN

The Agreed Actions are categorised on the following basis:

Likelihood	H	S	I	E
	M	S	I	E
	L	S	I	
		L	M	H
				Impact

**Essential**

- Action is imperative to ensure that the objectives for the area under review are met.

**Important**

- Requires action to avoid exposure to significant risks in achieving objectives for the area under review.

**Standard**

- Action recommended to enhance control or improve operational efficiency.

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
1.	<p><b><u>Employer and Employee Contributions Reconciliations</u></b></p> <p>The year-end reconciliation of employers and employees for 2016/2017 i.e. contributions v members records and payments received had still not been finalised at the time of the audit.</p> <p><b><u>Risk</u></b></p> <p>Incorrect payments received. Benefits paid for which contributions have not been paid.</p>	<p><b>Important</b></p> <p>A target date should be set by which the annual reconciliation process should be completed and progress against this should be monitored.</p> <p><b>Agreed – Target date for 2017/2018 reconciliations will be 31/8/18.</b></p>	<p>Paul Tysoe, Investments and Fund Accounting Manager</p> <p>31/8/18</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
2.	<p><b><u>Suspended Pensioners</u></b></p> <p>As part of the review, we came across a number of member records which had been suspended. Examination of the records failed to identify why this status had been awarded. It was also confirmed that there was not a regular review of these records in order to either reinstate payments or close the record down.</p> <p><b><u>Risk</u></b></p> <p>Incorrect payments could be made, pensioners continued to be active when they should have been closed down on the payroll.</p>	<p><b>Important</b></p> <p>A review of these records should be completed to determine whether the pension needs to be reinstated, closed down or remain suspended.</p> <p>The reasons for pensions being suspended should be noted clearly on their record and a process agreed for following up suspended records to resolve the issue.</p> <p><b><i>Agreed - The review process will be agreed by 28/2/18 and the target date for completion of current suspensions will be 30/6/18, thereafter they will be reviewed on a quarterly basis.</i></b></p> <p><b><i>Agreed - A note will be placed on Altair in future when records are suspended provide a clear audit trail of why this action has been taken.</i></b></p>	<p>Akhtar Pepper, Operations and Technical Manager</p> <p>Process by 28/2/18</p> <p>and</p> <p>Ensure the review current suspended records by 30/6/18</p>



Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
3.	<p><b><u>Historic payroll v Altair records reconciliation</u></b></p> <p>Although progress has been made in identifying where adjustments in pay are required this exercise has not been finalised.</p> <p><b><u>Risk</u></b></p> <p>Incorrect payments continue to be made.</p>	<p><b>Important</b></p> <p>A target date should be set by which the reconciliation process should be completed and progress against this monitored.</p> <p><b><i>Agreed - Given the complexity of resolving these queries, particularly in relation to the recoupment of overpayments for which legal advice is required - to ensure the process is completed correctly and to reduce the number of potential complaints and challenges that have to be responded to - the target date will be 31/3/2019. LGSS Pensions met their reconciliation target date of December 2017; a rectification target could not be set until the number of cases to be rectified was known.</i></b></p> <p>Internal Audit will review progress with this on 30/9/18.</p>	<p>Joanne Walton, Governance and Regulations Manager</p> <p>31/3/19</p>

## **Appendix 1 – Glossary / Definitions**

Internal Audit is not permitted to be responsible for control / governance in order to protect its independent audit of those controls and systems. There are three elements to consider when determining an assurance opinion as set out below.

### **1 Control Environment / System Assurance**

The adequacy of the control environment / system is perhaps the most important as this establishes the key controls and frequently systems ‘police/ enforce’ good control operated by individuals.

<b>Assessed Level</b>	<b>Definitions</b>
<b>Substantial</b>	Substantial governance measures are in place that give confidence the control environment operates effectively.
<b>Good</b>	Governance measures are in place with only minor control weaknesses that present low risk to the control environment.
<b>Satisfactory</b>	Systems operate to a moderate level with some control weaknesses that present a medium risk to the control environment.
<b>Limited</b>	There are significant control weaknesses that present a high risk to the control environment.
<b>No Assurance</b>	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

### **2 Compliance Assurance**

Strong systems of control should enforce compliance whilst ensuring ‘ease of use’. Strong systems can be abused / bypassed and therefore testing ascertains the extent to which the controls are being complied with in practice. Operational reality within testing accepts a level of variation from agreed controls where circumstances require.

<b>Assessed Level</b>	<b>Definitions</b>
<b>Substantial</b>	Testing has proven that the control environment has operated as intended without exception.
<b>Good</b>	Testing has identified good compliance. Although some errors have been detected these were exceptional and acceptable.
<b>Satisfactory</b>	The control environment has mainly operated as intended although errors have been detected that should have been prevented / mitigated.
<b>Limited</b>	The control environment has not operated as intended. Significant errors have been detected and/or compliance levels unacceptable.
<b>No Assurance</b>	The control environment has fundamentally broken down and is open to significant error or abuse. The system of control is essentially absent.

### 3 Organisational Impact

The overall organisational impact of the findings of the audit will be reported as major, moderate or minor. All reports with major organisational impact will be reported to SMT along with the relevant Directorate's agreed action plan.

Organisational Impact	
Level	Definitions
Major	The weaknesses identified during the review have left the Pension Fund open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole
Moderate	The weaknesses identified during the review have left the Pension Fund open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole
Minor	The weaknesses identified during the review have left the Pension Fund open to low risk. This could have a minor impact on the organisation as a whole.

### 4 Findings prioritisation key

When assessing findings, reference is made to the Risk Management matrix which scores the impact and likelihood of identified risks arising from the control weakness found, as set out in the MAP

For ease of reference, we have used a high/medium/low system to prioritise our recommendations, as follows:

<b>E</b>	<p><b>ESSENTIAL</b> Failure to address the weakness has a high probability of leading to the occurrence or recurrence of an identified high-risk event that would have a serious impact on the achievement of service or organisational objectives, or may lead to significant financial/ reputational loss.</p> <p>The improvement is critical to the system of internal control and action should be implemented as quickly as possible.</p>	<b>I</b>	<p><b>Important</b> Failure to respond to the finding may lead to the occurrence or recurrence of an identified risk event that would have a significant impact on achievement of service or organisational objectives, or may lead to material financial/ reputational loss.</p> <p>The improvement will have a significant effect on the system of internal control and action should be prioritised appropriately.</p>	<b>S</b>	<p><b>Standard</b> The finding is important to maintain good control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve service objectives effectively and efficiently.</p> <p>Management should implement promptly or formally agree to accept the risks.</p>
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