

Appendix A

Internal Audit Final Report

Administration of the Cambridgeshire Pension Fund

Governance Opinion

Adequacy of System	Substantial
Compliance	Good
Organisational Impact of findings	Minor

Report Issued	14 February 2020
Audit Committee schedule	24 March 2020
Follow up Date	June 2020

Executive Summary

1. Background

- 1.1. LGSS Pensions administers the Local Government Pension Scheme on behalf of Northamptonshire County Council and Cambridgeshire County Council. There are 150,000 members of the Northamptonshire and Cambridgeshire Pensions Funds and circa 500 scheme employers, the service holds a portfolio of assets in excess of £5.7 billion.
- 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.
- 1.3. In the 2018-19 review, substantial assurance was provided around the effectiveness of arrangements in place.

2. Scope of Audit and Approach

2.1. The objectives of the review were 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 accurately and in accordance with LGPS regulations and in line with relevant administering authority and employing authority discretions.
- Reconciliations related to Pensions are completed on a timely basis, with prompt action taken to clear unreconciled items.

The review also followed up actions agreed in the 2018/2019 review.

2.2. Approach

The audit process involved:

- Undertaking interviews with relevant officers, to ascertain the procedures in place.

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- Evaluating whether the procedures in place provided for an adequate and effective level of control.
- Testing, where appropriate, that the controls identified were operating in practice.
- Reviewing procedures for efficiency and, where appropriate, identify opportunities to make improvements to processes.

2.3. Acknowledgements

We would like to thank all the members of staff consulted, for their assistance and co-operation during the course of this review.

3. Internal Audit Opinion and Main Conclusions

- 3.1.** The assurance given to the system design is **Substantial**. The assurance level reflects our view that effective and embedded procedures are in place to support pensions and that the audit identified no control weaknesses in how key activity as defined in section 2.1 of the report was being administered.
- 3.2.** The assurance given for compliance is **Good**. Overall, the review found high levels of compliance with agreed procedures although the review did identify a small number of issues, including that unreconciled items on control accounts are not being cleared on a timely basis.
- 3.3.** The organisational impact of the findings is **Minor**. This reflects the fact that whilst a small number of improvements have been identified, these are considered to have a limited impact on the Cambridgeshire Pension Fund.
- 3.4.** 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 7-8 of this report.

Detailed Findings

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

4.1. Employers are responsible for notifying LGSS Pensions of any employees who wish to join the pension scheme. This information is currently received by LGSS Pensions through a number of mechanisms including:

- Manual forms from employees and employers,
- Electronic data submissions via i-connect, which is a bespoke system which interfaces with the pensions system,
- interface files from employers, and
- Information processed through employer self-service.

4.2. Irrespective of the mechanism, checks are undertaken to ensure that only correct and complete records are uploaded into the pensions system (Altair), which are then used to create the member record. This includes:

- Independent checks on manual information input onto the pensions system by Pension Officers, and
- Checks to ensure that electronic data received is accurately transferred to the pensions system. This includes ensuring that all submissions received from employers have been processed and that any rejected data is investigated and resolved.

4.3. 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 into the Cambridgeshire Pension Fund (CPF) 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 independent review and authorisation.
- The payment had been received from the previous pension provider.
- The member's pension record on Altair had been updated accurately.

5. Control Objective (2) - The correct contributions are received from employer organisations on a timely basis.

5.1. A clearly defined process is in place to oversee the monthly payment of employer contributions to the CPF. Employers submit details of their contributions each month on a PEN18 electronic return. The PEN18s system checks that employer contributions received agree to actuary percentage rate for pensionable pay for employer's contributions. This system is automated so that when the data is fed into the system it calculates the amount due based on pensionable pay, this is then compared to the amount received. A check is also completed at the same time to compare to monies received. Where variances occur the employer is contacted and they either adjust the next payment or invoice the employer. A review of contribution records for 10 employers found that:

- Contributions reflected in the PEN18 returns (which provide details of summary total employer and employee contributions) were agreed in the main as accurate.
- Where variances existed these were minor in value and had been investigated and resolved with the relevant employer, and future payments were amended as necessary for any under or overpayments.
- Payments were received from employers in line with agreed deadlines.
- Payments received were traced to the Pension Fund bank account.

5.2. In addition to the monthly process, an annual reconciliation of employers and members contributions to monies received takes place. Analysis of the year end reconciliations highlighted the following:

- In respect of the 2017-18 reconciliation, the process was linked to whether the employer submitted data via i-connect. This is considered below:
 - For employers that did not use i-connect, a year end return was made to confirm for each individual member, the employer and employee contributions. This data was then compared to the monthly PEN18 returns and variances above or below an agreed threshold were investigated and resolved with the employer.
 - For those employers that submitted data via i-connect, a year-end report was not submitted and reliance is placed on the checks undertaken as part of the monthly process, although such checks are currently visual and not evidenced or logged.

(See MAP 1)

Based on the process outlined, the reconciliation has been completed.

- The 2018/2019 reconciliation is still work in progress.

6. Control Objective (3) - Appropriate action is taken upon notification that a member has left his employment and / or the scheme, including transfers out.

6.1. Employers notify the Pensions Team when an employee leaves and the member's pension is then "deferred" until payments are due. Action is taken if a request or event takes place. These are considered below.

6.2. Ten transfers out of the pension scheme were reviewed and testing highlighted that:

- A transfer out request form was on file signed by the member.
- Confirmation from the employer / LGSS Payroll 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 by a Team Leader.
- The payment had been made to the appropriate Pension Fund.

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

- A death certificate was on file in all cases.
- The pension was stopped 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 findings.

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

7.1. Pension payments can be set up for both new and dependent pensioners. For a new pensioner, the Pensions Team will initially seek confirmation that the member has left their pensionable employment. This information can either be provided by the employer or through LGSS Payroll. The Pensions Team then seek to validate key information including the member's date of birth, length of service and pay details. This information is then used to calculate the pension payment and then the payment is set up on the pension payroll. Both the calculation and setting up on the pension payroll are subject to independent checks for accuracy. Testing of 10 new pensioners highlighted no issues for concern with pensions being paid once all relevant confirmation and documents were received from the respective parties.

7.2. For dependent pensioners, similar checks are undertaken as outlined above apart the initial focus is on seeking official notification that the member has died, and confirming the status of the dependent, and for death in service / pensioner deaths, a calculation of potential death grants was also completed. Testing of 10 new pensioners highlighted no issues for concern with

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pensions being paid all relevant confirmation and documents were received from the respective parties.

- 7.3. For all pensioners, the annual payment uplift process is an automated process as pensioner and payroll records are held on the Altair System. Evidence of the uplift process was held and the checking process undertaken to confirm that the correct uplift had been actioned.

8. Control Objective (5) - Reconciliations related to Pensions are completed on a timely basis, with prompt action taken to clear unreconciled items.

- 8.1. In addition the contribution reconciliation referred to in section 2 of this report, other reconciliations take place of the various Pension Fund bank accounts, the payroll control accounts and also between payroll and Altair. These are considered below.

- 8.2. Bank Reconciliations – CPF has four bank accounts in place (e.g. Accounts Receivable, Accounts Payable, Liquidities and Salaries). A review of reconciliations undertaken by the LGSS Business Systems Team during 2019-20 found that:

- Reconciliations were being completed on a timely basis. Completed reconciliations were subject to management review although the reconciliation for the salaries account had no evidence of the management check for September 2019.
- A re-performance of all the bank account reconciliations as at the end of September 2019 highlighted no issues of concern and found that unreconciled items were being resolved on a timely basis.

- 8.3. Payroll Control Accounts – Two key control accounts were reviewed namely net pay and pension payroll suspense. A review of the reconciliations between April and October 2019 highlighted that documentation included a list of unreconciled transactions along with a description of action to be taken. There is no assurance through the current process that the total value of unreconciled items agreed to the balance on the ledger each month as the ledger balance is not included in the working paper. We have been advised by the Payroll Service Delivery Manager that she checks the balance agrees to the ledger as part of the management review.

(See MAP 2)

9.3.1 A review of the reconciliations highlighted the following:

- Net Pay – During the period April to September 2019, there has been little progress in addressing unreconciled items. Whilst the current balance of unreconciled items is just under £500k, the number of unreconciled items has increased in this period from 309 to 397 items. This includes 144 items which relate to transactions dated prior to April 2019.
- Pensions Payroll Suspense – At the end of October 2019, there were 339 items in suspense to the value of £360k. This included 283 items dating back prior to April 2019.

Responsibility for investigating and resolving these items is assigned to Pensions Accounting and discussions indicated that they are progressing with investigating these items although dealing with some of the older transactions are time consuming.

(See MAP 3)

- 9.4 Reconciliation between pension payroll and Altair - The identification of and resolution of under and over payments following the completion of the reconciliation between the historic pension payroll and Altair records in 2017-18 has now almost been completed, only a small number (8) of queries remain and these are pending where information is awaited from HMRC in order to confirm the precise variance.

Management Action Plan

Likelihood	H	S	I	E	The Agreed Actions are categorised on the following basis:	
	M	S	I	E		
	L	S	S	I	<u>Essential</u>	Action is imperative to ensure that the objectives for the area under review are met.
		L	M	H	Important	Requires action to avoid exposure to significant risks in achieving objectives for the area under review.
		Impact			Standard	Action recommended enhancing control or improving operational efficiency.

Ref	Issue and Risk	Category	Agreed Actions & Management Comments	Responsible Manager & Target Date
1.	<p><u>Annual Reconciliation of employers / employee Contributions</u></p> <p>For those employers that submit data via i-connect, an annual reconciliation is not undertaken and instead reliance is placed on the checks undertaken as part of the monthly process, although such checks are currently visual and not evidenced or logged.</p> <p><u>Risk</u></p> <p>Errors not detected.</p>	Standard	As part of the monthly review of contributions, documented evidence should be retained, to demonstrate that appropriate checks have taken place.	Fund Accounting Manager May 2020

Ref	Issue and Risk	Category	Agreed Actions & Management Comments	Responsible Manager & Target Date
2.	<p><u>Payroll Control Accounts</u> A review of the reconciliations between April and October 2019 highlighted that documentation included a list of unreconciled transactions but no evidence was retained that this agreed to the ledger balance.</p> <p><u>Risk</u> Unreconciled transactions are not reviewed.</p>	Standard	To ensure a complete audit trail of information is included in the control account working papers.	Payroll Service Delivery Manager Implemented
3	<p><u>Control Account – Unreconciled Transactions</u> At the end of October 2019, there were:</p> <ul style="list-style-type: none"> 397 unreconciled items in the Net Pay control account to the value of £500k. This included 144 items dating back prior to April 2019. 339 unreconciled items in the Pension Payroll Suspense to the value of £360k. This included 283 items dating back prior to April 2019. <p><u>Risk</u> Unreconciled transactions are not reviewed. Transactions are not accurately recorded on the general ledger.</p>	Important	<p>To take appropriate action to ensure unreconciled items are addressed on a timely basis</p> <ul style="list-style-type: none"> Net Pay monthly control process to be reviewed with Payroll, supported by the Quality Assurance Officer, and Net Pay queries reconciled. Monthly allocation of suspense items to correct codes. 	<p>Fund Accounting Manager</p> <p>Net Pay - March 2021</p> <p>Suspense - March 2020</p>

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Audit Committee Date: 24th March 2020

This audit and report has been prepared in line with the LGSS Internal Audit Manual and has been subject to appropriate review.

LGSS Chief Internal Auditor Approval: Duncan Wilkinson

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