Internal Audit Report Administration of the Cambridgeshire Pension Fund

	Confidential
Client	Deputy Chief Executive & Chief Finance Officer
Issued to	Chris Malyon, Deputy Chief Executive & Chief Finance Officer Matt Bowmer, LGSS Director of Finance
CC	Mark Whitby, Head of Pensions Joanne Walton, Governance Regulations Manager; Akhtar Pepper, Operations and Technical Manager; Cory Blose, Employers and Systems Team Manager Paul Tysoe, Group Accountant Pensions Fund
Date	10 May 2017
Lead Auditor	Janette Lynn
Status of report	Final Report
Control Environment Assurance	Substantial Assurance
Compliance Assurance	Substantial Assurance
Pension Board Date	29th June 2017

Organisational Impact	Minor

Executive Summary

1.   Background to the review

The audit of the Local Government Pension Service for the Cambridgeshire Pension Fund (CPF) which is administered by LGSS includes the administration of:

- new members
- payment of pensioners and dependents
- cessation of payment to pensioners on notification of death
- transfers into and from the pension schemes
- receipt and recording of contributions from the employers
- administration processes on Altair operated by the LGSS pensions staff to ensure that there are appropriate separation of duties on key tasks
- reconciliations of financial systems
- User access

The audit provides assurance to the Pensions Committee and also the Pension Fund's External Auditors for their final accounts audit.

The audit seeks to provide assurance to management, External Audit and the employer organisations that expected controls are in place for pensions administration and key financial systems, such controls are adequate in design and function appropriately in practice.

1.1   Key Risks

The audit relates to the following risks from the LGSS Pension Service risk register:

- Failure to administer the scheme in line with regulations and policies
- Potential fraudulent activity by staff
- Potential fraudulent activity by scheme members
- Contributions to the fund are not received on the correct date and for the correct amount
- Pension fund accounts are not accurately maintained
- Inconsistencies in delivery due to failure to properly document processes and procedures
- Failure to include all required information in documents issued to members under disclosure regulations
- Contributions are not processed and recorded appropriately in a timely manner
- Events relating to Scheme members e.g. Joining the scheme, transfers in and out and retirements are not processed and recorded adequately

- Records are not accurate or do not reflect changes in circumstances
- Pension Fund systems and data may not be secure and appropriately maintained

1.2   Objectives

To provide management with assurance that there are appropriate controls in place for the following areas:

- Pension payments are made in accordance with the LGPS and council policy (including rates, annual uplift, lump sums, pensions, deferred pensions, early retirements, annual pension statements);
- Pension payments are recorded properly and accounted for correctly;
- New members are set up on a timely basis and receive appropriate information;
- Contributions and accompanying schedules are received on time and are correct; (includes employee and employer contributions, additional contributions from all scheme employers;
- Transfers in and out of the scheme are subject to appropriate checks and authorisation;
- Reconciliations are completed i.e. between Altair and Oracle, and payroll and the Pensions bank account;
- User access is reviewed and so staff have appropriate access to the pensions system.

1.3   Approach

In order to test the operating effectiveness of the controls in place we performed sample testing for the CPF as follows:

- new members;
- new pensioners, calculations and pensions actually paid ;
- transfers into and out of the LGPS to ensure the calculations were checked and monies paid out were authorised and receipts monitored;
- deaths of pensioners and dependent pensioner benefits;
- 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

2.   Internal Audit Opinion and Main Conclusions

2.1   Main conclusions and recommendations

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 administration of LGPS.

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

The review has, however, identified some areas for improvements including the need to develop an action plan to ensure that the findings of the recent reconciliation exercise of historical payroll and Altair records are identified and investigated on a timely basis.

The table below provides a breakdown on the level of assurance for the CPF for each of the process areas identified:

Process Area	CPF
New members	Substantial
New pensioners	Substantial
Transfers in	Substantial
Transfers out	Substantial
Deaths of pensioners	Substantial
Contributions	Substantial
Reconciliations	Moderate
Systems and User Access	Substantial
Overall Level of Assurance	**Substantial**

New members - substantial assurance

The review found that effective processes are in place to oversee the creation of new records on Altair. All data received is reviewed and processed in a timely manner. These functions are monitored so that if delays occur or issues arise these are investigated and resolved.

New pensioners - substantial assurance

Testing of 24 new pensioners for the CPF confirmed that overall, effective controls were in place. There was one instance where delays had arisen in the processing and payment of a dependent pensioner which indicates closer monitoring of these tasks is required to ensure that un-necessary delays do not impact on beneficiaries.

Transfers in - substantial assurance

Nine transfers in for the CPF were tested and controls were generally found to be working effectively. There was one instance where the transfer had been actioned but the membership records on Altair had not been updated to record the receipt of monies and the service credit awarded to the members.

Transfers out - substantial assurance

13 transfers out were tested for the CPF. Effective processes were in place however in one instance a transfer had been actioned but the member's completed election form was not held on file.

Deaths - substantial assurance

a) Notified deaths of pensioners

Five records were tested and effective processes were in place to cease payments promptly when confirmation of death was received.

b) Death of active member or pensioner which generated a dependent pensioner

Three dependent pensioners were included in the sample of new pensioners. Testing identified that effective processes were in place with the exception of one dependent pensioner which had not been processed promptly.

c) Possible un-notified death:

During 2016/2017 Internal Audit assisted the Pensions Team in a review of 48 elderly pensioners whose pension had been abated due to them being non-contactable. Whilst in most cases, evidence was found to support the abatement, in three cases the pensioner was traced and steps have been taken to reinstate pension payments.

d) Death monitoring / confirmation of pensioners living abroad

The 2015/2016 audit report included a recommendation that the Pensions Service should establish a system to verify if elderly pensioners and those living abroad are still alive.

The work undertaken in point c above looked at aged pensioners in the UK where pensions had been abated and where pensioners were over a certain age.

Discussions have taken place with Western Union to establish a process to verify whether overseas pensioners are still alive. This will require identification checks to be completed in their country of residence.

Contributions from employer organisations – substantial assurance

The returns, payments and accounting entries for fifteen employers' contributions records were tested for the CPF.

Although effective processes were in place, for three of the CPF employers errors had arisen for one of the months tested due to the employer submitting incorrect data.

Reconciliations - moderate assurance

Employers contributions

The 2015-16 review highlighted a concern that variances identified as part of the year end reconciliation of contributions had not been investigated. In response to this issue, the data has now been used to inform the calculation of the actuarial rates for 2017/2018 and beyond as part of the tri-annual valuation.

During 2016/2017 the monthly PEN18 receipt of data, the reconciliation of figures supplied and corresponding funds, and the posting to the general ledger have been improved and queries are now being dealt with and raised with employers more promptly during the year which should reduce the number of year end reconciliation queries for 2016/2017.

A new year end reconciliation process has been designed for 2016/2017 this will include electronic uploads of year end returns and if variances are identified the automatic production of a letter to the employer. The letter will provide details of any variances in payments, request an explanation for these and also notify them that an invoice will be raised for any balances owed.

Monthly bank reconciliations

Monthly bank reconciliations had been completed and found no issues.

Reconciliation between pensions payroll and Altair

The 2015/2016 audit report stated that a reconciliation between the Pensions payroll and Altair historic records had commenced in preparation for moving all records across to Altair for running the payroll through Altair from November 2016. The records "as they were" were transferred to Altair payroll i.e. any errors in payments are continuing.

Little progress has been made since the last audit as staff have been engaged in a payroll migration project throughout the review period.

An external third party was recently commissioned to undertake the reconciliation exercise again so that a more accurate assessment can be made of the size of the variance. This report has now been received and variances are being actively worked through.

Systems and User Access – substantial assurance

The Systems user list was checked to ensure that when users were set up staff had appropriate levels of access and that when staff left their access was removed.

Two members of staff has left and had not had their access removed, but testing confirmed that they had not accessed the system since their departure date.
The annual uplift process was not reviewed this year as there had not been an uplift required.

2.2   Main recommendations

For each of the issues identified we have made suggested recommendations in the accompanying 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.

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Findings and Management Responses

Area Risk Level	Key findings	Audit Recommendations	Management Agreed actions	Timescale / Owner
	NEW PENSIONERS			
1. **M**	Sample testing of new pensioners identified one case in relation to dependent pensioners; • TY10xxxxB where the death occurred in May 2016 and payments had still not been made by early January. When the case was investigated, there was no obvious reason for the significant delay in payments being made. Internal Audit have been advised that the dependent pension had now been actioned and paid.	A review of the task management reports available should be completed to identify if the process from confirmation of death to payment can be tracked and monitored.	Priority casework from workflow will have appropriate management oversight to ensure payments are made in a timely manner.	Akhtar Pepper 31/3/17
	TRANSFERS IN			
2. **M**	Sample testing of transfers into the pension schemes identified two cases; • NA98xxxxD where a transfer has been actioned, but the membership record on Altair had not been updated to record the receipt of monies and the service credit awarded to the member.	A review should take place to identify if there is a task management report which will identify when a transfer in is actioned and whether the receipt and service credit had been recorded.	This is a lower priority area of casework relevant to others workflow can be used to identify the outstanding cases and in the normal run of events there would be enough resource to deal with these in a timely manner. There have been increased pressures on the team in 2016/2017 due to the	Akhtar Pepper 31/3/17

Area Risk Level	Key findings	Audit Recommendations	Management Agreed actions	Timescale / Owner
			implementation of payroll and staff changes. The outstanding cases will be reviewed and an appropriate plan will be drawn up.	
	TRANSFERS OUT			
3. **M**	Sample testing of transfers out of the pension schemes highlighted one case (JK35xxxxC) where although there was evidence that the member had made enquiries about transferring their pension and a transfer payment had been made, a completed election form signed by the member was not on file.	Transfers out of the pension fund should not be processed unless the member has completed and signed an election form to confirm that this is his/her wish. A copy of the form should be retained on file for evidence.	Team Leaders will be advised at next team meeting to ensure appropriate checks are completed and evidence is on file before transfers out are actioned.	A Pepper 1/4/17
	UPLOADING OF EMPLOYERS CONTRIBUTIONS DATA			
4. **L**	**CPF** The Pensions Service is reliant on employers submitting data correctly based on an agreed pro forma (Pen18 return). Testing of fifteen returns for June 2016 identified three returns (Peterborough Culture and Leisure, Cambourne PC Greenwich Leisure) where errors were identified. The impact of this is that the information had been uploaded to incorrect codes on the general ledger, e.g. amount for normal employers contributions had been posted to the 50:50 or APC codes. These errors were identified by Internal Audit because they were	The impact of these errors should be reviewed and assurance gained that the errors are not more widespread across returns processed in 2016/17. Checks should be built into the data upload process in order to gain assurance that obvious errors have not been made in employers returns.	The process will be reviewed to included automated check son the values to ensure they are correct.	Ben Barlow 1/8/17

Area Risk Level	Key findings	Audit Recommendations	Management Agreed actions	Timescale / Owner
	substantial values being posted to codes which normally would be low in value.			
	PAYROLL AND ALTAIR RECONCILIATION			
5. M	The 2015/2016 audit report contained details of the work to date on the reconciliation of historic payroll and Altair records, the variances identified and investigations that had taken place . There has been almost no progress in this work during the intervening period. The Pension Service has appointed an external third party to complete a new reconciliation exercise so that an up to date position could be obtained on the issues that require consideration. A report has now been received on the findings of this exercise and this is currently being reviewed by the Governance Regulations Manager.	An action plan should be developed to ensure that the findings of the recent reconciliation exercise of historical payroll and Altair records are identified and investigated on a timely basis.	The result of the third party analysis was 2,355 cases (CPF=1,614 cases, NPF=667 cases) with an apparent variance of +/1 £100 pa when comparing payroll and Altair records. By 24 March 2017, after two weeks of investigation by officers, 286 cases (12%) had been cleared.	J Walton 31/12/17
	USER ACCESS			
6. L	A review of users with access to the Altair System identified two employees (P & S) who were no longer employed in the Pension Service. Assurance however was provided that neither had accessed the system since their leaving date.	User access should be periodically reviewed with evidence retained to demonstrate the outcome of such reviews.	All line managers will be required to inform the systems team when staff members leave. The systems team will also be required to send a list of users to the managers for checking every six months.	All line managers 1/4/17 Mansha 1/4/17

Area Risk Level	Key findings	Audit Recommendations	Management Agreed actions	Timescale / Owner
	OVERSEAS PENSIONERS			
7. **M**	The 2015/16 audit report included a recommendation that the Pensions Service should establish a system to verify if elderly pensioners and those living abroad are still alive. Whilst work has been undertaken in order to verify if elderly pensioners are still alive, work is currently ongoing with a third party supplier to put in place a mechanism to gain assurance in respect of overseas pensioners.	The process for confirming if overseas pensioners are still alive should be agreed and implemented.	Western Union have now been appointed to undertake proof of life checks of overseas pensioners. The first check will be undertaken in 2017/18 and every two years thereafter.	Jo Walton 30/4/17

Appendix 1 – Audit Definitions

There are three elements to each internal audit review, and an assurance opinion is provided against each element at the conclusion of the audit. The following definitions are used by Internal Audit in assessing the level of assurance which may be provided against each key element, and in assessing the impact of individual findings:

1.1   Control Environment Assurance

Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place which mitigate the risk of those objectives not being achieved. Completion of this work enables Internal Audit to give an assurance on the control environment.

Control Environment Assurance	
Level	Definitions
Substantial	There are minimal control weaknesses that present very low risk to the control environment.
Good	There are minor control weaknesses that present low risk to the control environment.
Moderate	There are some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

1.2   Compliance Assurance

However, controls are not always complied with, which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables internal audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.

Compliance Assurance	
Level	Definitions
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.
Good	The control environment has largely operated as intended although some errors have been detected.
Moderate	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

1.3   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 Council 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 Council 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 Council open to low risk. This could have a minor impact on the organisation as a whole.

1.4   Findings prioritisation key

When assessing findings, reference is made to the Risk Management matrix which scores the impact and likelihood of identified risks.

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

H	Failure to respond to the finding 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. The finding is critical to the system of internal control and action be implemented immediately.	M	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. The finding has a significant effect on the system of internal control and action should be implemented as a matter of priority.	L	The finding is important to maintain a reasonable system of internal control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve service objectives effectively and efficiently. Management should review, make changes if considered necessary or formally agree to accept the risks.