

Appendix 1 – Internal Audit Report 2018-19

CAMBRIDGESHIRE PENSION FUND



Pension Fund Committee

Date: 28th March 2019

Report by: LGSS Chief Internal Auditor

Subject:	Internal Audit Report 2018-19
Purpose of the Report	To present the findings of Internal Audit work during 2018-19.
Recommendations	The Pension Committee note the Internal Audit work during 2018-19.
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1. Background

- 1.1 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.
- 1.2 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. Findings

- 2.1 During 2017-18, Internal Audit work focused on the annual audit of the administration of the Cambridgeshire Pension Fund.
- 2.2 The audit assessed the adequacy of design and implementation of controls for the administration of the pension fund. Based on the completion of our fieldwork and the testing carried out, we gave **substantial** assurance for both the control environment in place and for compliance. The full report is included as Appendix A.

3. Relevant Pension Fund Objectives

- 3.1 The audit work undertaken was designed to support the Pension Service in achieving its objectives through the effective management of risk. The work therefore supports all of the objectives of the Pension Service.

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. <i>Objective 1</i>
Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers. <i>Objective 2</i>
Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment. <i>Objective 3</i>
Continually monitor and measure clearly articulated objectives through business planning. <i>Objective 4</i>
Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. <i>Objective 5</i>
Put in place performance standards for the Fund and its employers and ensure these are monitored and developed as necessary. <i>Objective 8</i>
Ensure employer contributions are as stable as possible, recognising the characteristics, circumstances and affordability constraints of each employer. <i>Objective 9</i>
Administer the Fund in a professional and efficient manner, utilising technological solutions and collaboration. <i>Objective 10</i>
Maintain accurate records and ensure data is protected and used for authorised purposes only. <i>Objective 11</i>
Promote the Scheme as a valuable benefit. <i>Objective 12</i>
Provide Scheme members with up to date information about the Scheme in order that they can make informed decisions about their benefits. <i>Objective 14</i>
Ensure cash flows in to and out of the Fund are timely and of the correct amount. <i>Objective 16</i>
Ensure the long-term solvency of the Fund, taking a prudent long term view, so that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment. <i>Objective 17</i>
Ensure an appropriate cash management strategy is in place so that net cash outgoings can be met as and when required. <i>Objective 20</i>

4. Risk Management

- 4.1 Good governance ensures that the Pension Fund is appropriately managed and has oversight by audit to ensure transparency.
- 4.2 The risks associated failing to independently assess the Pension Fund have been captured in the Fund's risk register as detailed below –

Risk register	Risk mitigated	Residual risk
Governance (risk 15)	Failure to understand and monitor risk and compliance	Green
Governance (risk 18)	Failure to provide adequate information to the Pension Committee/Board	Green

- 4.3 The full risk register can be found on the LGSS Pensions Website at the following link: <https://pensions.northamptonshire.gov.uk/governance/keydocuments/cambridgeshire>

5. Finance & Resources Implications

5.1 There are no finance or resource implications associated with this policy.

6. Communication Implications

Direct Communications	The work of auditors is transparent and reported to the Pension Committee.
Website	The report will also be published on internet.

7. Legal Implications

7.1 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 2015 in England should make provision for Internal Audit in accordance with the Code.

8. Consultation with Key Advisers

8.1 Consultation with the Fund's advisers was not required for this report.

9. Alternative Options Considered

9.1 Not applicable

10. Background Papers

10.1 Not applicable

11. Appendices

11.1 Appendix 1 – Internal Audit Report: Administration of the Cambridgeshire Pension Fund 2018-19.

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Not applicable
Will further decisions be required? If so, please outline the timetable here	Not applicable
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Section 151 Officer?	Sarah Heywood – 15 March 2019
Has this report been cleared by Head of Pensions?	Mark Whitby – 8 March 2019
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Rogers– 13 March 2019
Has this report been cleared by Legal Services?	Fiona McMillan – 12 March 2019

Internal Audit Report

Administration of the Cambridgeshire Pension Fund

Governance Opinion

Control Environment	Substantial
Compliance	Substantial
Organisational Impact	Minor

Report Issued	22 February 2019
Follow Up due	May 2019

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.
- 1.3 In the 2017/2018 review, substantial assurance was provided around the effectiveness of arrangements in place.

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

- 2.1 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 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 2017/2018 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. The 2017-18 review included recommendations linked to specific reviews / reconciliations. These are considered below:

- Employer and Employee Contribution Reconciliations – Apart from one employer, the 2016-17 reconciliation is now almost complete and the 2017-18 reconciliation is currently in progress with the focus on investigating variances identified.
- A review of suspended Pensioners – This review is still ongoing and of the 115 cases, only 25 still require investigation. Additionally, a process has now been implemented to ensure suspensions are subject to timely review.

Whilst technically, these previous recommendations have not been fully completed, we are satisfied that a defined process is in place to complete the above and that such exercises are progressing. We have not made recommendations around completing these given the difficulty in determining with any certainty when they will be completed, although we will follow up these matters in the 2019-20 review of the Cambridgeshire Pension Fund

With regard to the recommendation regarding the historical payroll / Altair record reconciliation agreed in the 2017-18 review, progress has been made on the outstanding queries and the previously agreed target of completing this exercise by the end of March 2019 is still on track based on discussions with management of the service

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 8 to 11 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 provided by a number of mechanisms both manual and automated.

5.2 Analysis highlighted that the Pensions Systems Team undertake checks on information received to ensure that only correct and complete records are uploaded into Altair which then is used to create the member record. Progress with these tasks is monitored to ensure that employer's data is processed on a timely basis.

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 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 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 CPF. 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. Improved processes in this area have resulted in these queries being dealt with promptly which should have a significant impact on the year end reconciliations which takes place.
- 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 takes place. Analysis of the year end reconciliations for 2016-17 and 2017-18 highlighted the following:

- 2016-17 Reconciliation – At the time of producing the report, this exercise has been completed apart from one employer reconciliation which is currently in process.

- 2017-18 Reconciliation – This reconciliation commenced in October 2018 and work to date has identified the variances for follow up. This work is currently ongoing.

As mentioned, there is now a more effective monthly reconciliation taking place for 2018/2019 returns so the year end reconciliation may be simplified or may not be required in future years.

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

7.1 Employers notify Pensions 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.

7.2 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.
- 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 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.

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 10 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 to 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 pensioner calculations and payments were checked (10 retirees and 10 dependents as considered in section 8) and all were found to be accurate.

9.3 The annual uplift process is an automated process as now pensioner and payroll records are now both held on the Altair System. Although evidence of the uplift processed was held and limited sample testing highlighted that the correct uplift had been actioned, no evidence had been retained to support the checks undertaken by Pensions to provide assurance that the uplift had been actioned accurately. **(See MAP 1)**

9.4 In the previous audit, we identified that a number of member records had been suspended but there was not always a clear reason to support this decision. During 2018-19, work has been ongoing to review all suspensions and has to date found that for 115 cases covering CPF.

- 90 cases where after investigation, no further action is required.
- 25 cases are still being investigated including seven where a death certificate has been or will be requested to complete the review.

It was also agreed that a quarterly process would be set up to review suspensions, this has now been introduced through the task management processes within Altair.

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, the payroll control accounts and also between payroll and Altair. These are considered below.

10.2 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 2018-19 found that:

- Reconciliations were being completed on a timely basis and subject to management review.
- A re-performance of all the bank account reconciliations as at the end of June 2018 highlighted no issues of concern and found that unreconciled items were being resolved on a timely basis.

10.3 Payroll Control Accounts – A review of the monthly process to review net pay and payroll suspense control accounts during 2018-19 found that:

- Reviews were being completed on a monthly basis and subject to management review.
- A review of the net pay and suspense account reconciliations as at the end of December 2018 highlighted the following:

- Documentation only included a list of unreconciled transactions along with a description of action taken. As such there is no assurance through the current process that the total value of unreconciled items agrees to the balance on the ledger. Discussions with the Payroll Service Delivery Manager highlighted that this is an oversight and that in undertaking her management review, she agrees the balance of the transactions to the ledger. It should be noted that Audit also verified the balance on the reconciliation to the ledger as part of our testing.
- Whilst the number and value of unreconciled items is relatively small, such items are not being resolved on a timely basis. As at the end of December 2018, transactions as old as May 2018 are still unreconciled. Whilst LGSS Payroll complete the reconciliation, it is up to Pensions to resolve the un-reconciled transactions. During the audit, we have been unable to establish that a formal process exists between LGSS Payroll and Pensions to resolve unreconciled items on a timely basis.

(See MAP 2)

10.4 Reconciliation between pension payroll and Altair - The reconciliation between the historic pension payroll and Altair records was completed in 2017-18 and during 2018-19 steps have been taken to resolve the under and overpayments. An action was agreed in the previous audit that the reconciliation would be completed by the end of March 2019. As at January 2019 of the 365 queries highlighted, 256 have been resolved and a further 109 are still to be actioned.

Discussions with the Governance and Regulations Manager indicated that the service was still on target to meet the March 2019 deadline. It should be noted that the deadline relates to agreeing / commencing action to resolve under and overpayments as especially for overpayments, the monies could be recovered over a defined period where a repayment plan is agreed.

(See MAP 3)

MANAGEMENT ACTION PLAN

The Agreed Actions are categorised on the following basis:

Likelihood	H	S	I	E
	M	S	I	E
	L	S	I	E
		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><u>Annual Uplift Process for pensioners' payroll</u></p> <p>Although evidence of the uplift processed was held and limited sample testing highlighted that the correct uplift had been actioned, no evidence was retained to support the checks undertaken by Pensions to provide assurance that the uplift had been actioned accurately.</p> <p><u>Risk</u></p> <p>Incorrect payments are made.</p>	<p>Standard</p> <p>Evidence of checks undertaken should be retained on file.</p>	<p><i>Employer Services and Systems Team Manager</i></p> <p>30/4/19</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
2.	<p><u>Payroll Control Accounts</u> A review of the net pay and payroll suspense control accounts highlighted the following:</p> <ul style="list-style-type: none"> Documentation does not provide assurance over the review of payroll control accounts as whilst a list of unreconciled transactions are provided, the total value of transactions is not verified to the ledger balance. It should be noted that Audit also verified the balance as accurate through testing undertaken. Whilst the number and value of unreconciled items is relatively small, such items are not being resolved on a timely basis and we have been unable to establish that a formal process exists between LGSS Payroll and Pensions to resolve unreconciled items on a timely basis <p><u>Risk</u> Unreconciled transactions are not reviewed. Transactions are not accurately recorded on the general ledger.</p>	<p>Standard To review arrangements in place to oversee the review payroll control accounts to ensure that:</p> <ul style="list-style-type: none"> A complete audit trail of relevant information (i.e. extract of ledger balance) is included in the review undertaken. A formal mechanism is put in place between LGSS Payroll and Pensions to ensure unreconciled transactions are cleared on a timely basis. 	<p><i>Pension Fund Accountant</i> 31/3/19 <i>Head of Payroll and HR Transactions</i> 31/3/19</p>

Ref.	Issues & Risks (Precis)	Agreed Action / management comments	Manager Responsible & Target Date
3.	<p><u>Historic payroll v Altair records reconciliation</u></p> <p>Since the last audit, of the 365 queries highlighted, 256 have been resolved and a further 109 are still to be actioned. Discussions with the Governance and Regulation Manager highlighted that the work is still on target to meet the deadline previously agreed of the end of March 2019.</p> <p><u>Risk</u></p> <p>Incorrect payments continue to be made.</p>	<p>Important</p> <p>Ongoing monitoring takes place to ensure the exercise is completed by the agreed deadline.</p> <p><i>Note this is not a new recommendation but reflects the fact that the timing of the 2018-19 review was undertaken prior to the target date agreed last year.</i></p>	<p>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.

Assessed Level	Definitions
Substantial	Substantial governance measures are in place that give confidence the control environment operates effectively.
Good	Governance measures are in place with only minor control weaknesses that present low risk to the control environment.
Satisfactory	Systems operate to a moderate level with 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.

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.

Assessed Level	Definitions
Substantial	Testing has proven that the control environment has operated as intended without exception.
Good	Testing has identified good compliance. Although some errors have been detected these were exceptional and acceptable.
Satisfactory	The control environment has mainly operated as intended although errors have been detected that should have been prevented / mitigated.
Limited	The control environment has not operated as intended. Significant errors have been detected and/or compliance levels unacceptable.
No Assurance	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:

E	<p>ESSENTIAL 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>	I	<p>Important 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>	S	<p>Standard 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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Circulation Details:

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Date 22 February 2019

Lead Auditor Janette Lynn

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