

Internal Audit Final Report

Administration of the Northamptonshire Pension Fund 2022/23

Governance Opinion

Adequacy of System	Substantial
Compliance	Substantial
Organisational Impact of Findings	Minor

Report Issued	21/07/2023
----------------------	-------------------

Executive Summary

1 Background

- 1.1 The Pension Service based within West Northamptonshire Council administers the Northamptonshire Local Government Pension Scheme.
- 1.2 The administration of the scheme is subject to an annual internal audit and for 2021/22 this was given substantial assurance for system design and satisfactory assurance for compliance. The respective audit report and assurance opinions were presented to the fund's Pension Committee and Pension Board during 2022.
- 1.3 Relevant statistics for the fund as reported in the 2021/22 Annual Report and Accounts are depicted in the following table:

Period end	No. of members	Active Employers	Value of assets
31 March 2022	76,519	318	£3.3billion
31 March 2021	73,078	358	£3.1billion

- 1.4 This audit forms part of the agreed 2022/23 Internal Audit Plan.

2 Scope of Audit and Approach

2.1 Scope

To provide assurance that the Pensions Service has effective arrangements in place with regards to the management and administration of the Northamptonshire Pension Fund, including the accuracy and timeliness of associated financial transactions.

The scope of the audit sought to determine whether:

- Appropriate systems are in place to ensure notification of new members and other changes (including transfers in) are recorded on the pensions systems accurately and on a timely basis.
- Mechanisms exist to ensure the correct contributions are received from employer organisations in line with agreed deadlines 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 regulations and agreed procedures.
- Reconciliations related to Pensions are completed on a timely basis, with prompt action taken to clear unreconciled items.
- Key Performance Indicators (KPIs) reported in Administration Performance reports are accurate.
- Appropriate procedures are in place to identify and report breaches of the law to the Pension Committee and Pension Board in the Administration Report.
- There is an up-to-date Risk Strategy and Risk Register in place which are monitored and reported on at appropriate intervals.

2.2 Approach

To move away from historic routine systems documentation, testing and control evaluation, a different approach was adopted to the audit review this year.

The initial stage of the approach involved the undertaking of an assessment with the help of management to document and understand the following aspects in each of the areas covered within the scope of this audit:

- Significant changes in staff / IT systems / activity including transaction volumes
- Current / future risks relating to these areas
- Where and how management gets its assurance that the identified risks are being effectively managed
- Implementation of prior year recommendations
- Any areas of management concern

This evaluation and mapping approach enabled us to assess the level of assurance and risk within each aspect of the administration process with a view to then determining and agreeing with management the areas requiring further audit attention, which may involve i.e. walk-through and/or compliance testing, as deemed appropriate.

2.3 Acknowledgements

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

3 Internal Audit Opinion and Main Conclusions

- 3.1 The review has confirmed that the current arrangements largely ensure that adequate controls are in place for achieving the eight key control objectives listed in 2.1 above. Therefore, the assurance opinion given to system design is one of **Substantial Assurance**. This opinion takes into account areas already recognised for improvement by management which are currently being actioned, including the imminent introduction of the new workflow design for dealing with year-end queries reconciliations, the development of complementary customer journey KPIs, and the monitoring of potential breaches of the law arising from the commissioned AON review into this area, which will further enhance the control environment.
- 3.2 Overall, the review found good levels of compliance with the expected control procedures, as confirmed by our testing. Therefore, the assurance given to procedural compliance is **Substantial**.
- 3.3 The organisational impact of the findings is **Minor**. This reflects the fact that whilst a small number of improvements are being implemented, which are considered to have a limited impact on the operations of the Northamptonshire Pension Fund.
- 3.4 **Recommendations**
There are no recommendations arising from this review as areas identified for improvement are already being actioned by management.
- 3.5 **2021/22 Audit recommendations - Follow-up**
The 2021/22 final report highlighted five issues for management action. Four issues have now been actioned and the other which relates to the annual reconciliation of outstanding employer data submission checks and validation is currently work in progress as it is scheduled for July/August (See paragraph 4.3).

DETAILED FINDINGS

4 Assurance Area - Recording new starters / changes (incl: transfers in)

Control Objective (1) - Appropriate systems are in place to ensure notification of new members and changes (including transfers in) are recorded on the pensions systems accurately and on a timely basis.

- 4.1 Employers are responsible for notifying the Pensions Fund of any employees who wish to join the pension scheme. This information is currently received by Pensions through two mechanisms:
- Electronic data submissions via I-connect, which is a system which interfaces with the pensions system.
 - Manual forms from employees and employers, although these are very rare.
- 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 At the time of reporting the Pensions Service was commencing the annual reconciliation for all employer submissions to be able to confirm the number of queries that they will need to raise with scheme employers as to the quality and accuracy of their submitted data for the 2022/23 financial year. The service has introduced improvements to the process of querying the year end data with the employer by:
- Creating query tasks on each individual member's record which can be reported on using the system's reporting tool, Insights. This replaces the use of multiple spreadsheets used by different officers.
 - Establishing a workflow so that a query on an individual's record can be tracked and reported on to check progress and whether the employer needs chasing for a response and/or escalating via the Funds' escalation policy. Insights reporting will easily detail this information.
 - Forming a permanent and auditable record of how the query was resolved.
- 4.4 New members who wish to transfer in from another pension scheme can do so providing defined procedures are followed. Walkthrough testing of a transfer into the Northamptonshire Pension Fund (NPF) confirmed that the following controls were operating effectively:
- A transfer in request was made within one year and a form was on file signed by the member.
 - If a transfer in request was made outside one year, the request has to be referred to the Head of Pensions to agree for the transfer to proceed.
 - A calculation of the transfer in value is on file which has been subject to independent review and authorisation.
 - The pension certificate has been provided by the previous pension provider.
 - The correct payment had been received from the previous pension provider.
 - The member's pension record on the Altair system had been updated accurately and the member notified.

5 Assurance Area - Contributions

Control Objective (2) - Mechanisms exists to ensure the correct contributions are received from employer organisations in line with agreed deadlines on a timely basis.

- 5.1 **Monthly Employer Contributions** - A clearly defined process is in place to oversee the monthly payment of employer contributions to the NPF. 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 rates 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 monies received. Where variances occur, the employer is contacted and they either adjust the next payment or invoice the employer.
- 5.2 Monthly performance data for the year 2022/23 ("NPF March 2023 Late Payments Stats" - the source document from which this information is derived is the Contribution Monitoring Sheet) was provided by the Principal Finance Technician. Review of this highlighted the monthly collection rates for the year April 2022 – March 2023 was 100% for all months, except March 2023 which was 99.4%. This information is submitted to the Governance Team on a regular basis and it is presented to the Pensions Committee/Board. At the end of June 2023, the Board received the Administration Report which included at Appendix B monthly collection rates for May 2022- April 2023 – all 100% except for March 2023.
- 5.3 **Annual Employer Reconciliations** - In addition to the monthly reconciliation of the receipt of employer contributions, an annual reconciliation of employer and member contributions to payments received takes place around July/ August in the following financial year. This takes place for employers who do not have access to the I-Connect system and manually submit an annual return. The Principal Finance Technician confirmed that there were no adjustments or differences out of tolerance levels for 21/22.

6 Assurance Area - Leaving the pension scheme

Control Objective (3) - Appropriate action is taken upon notification that a member has left the scheme.

- 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 **Transfers Out** - former members who wish to transfer out to another pension scheme are able to do so providing defined procedures are followed. The following controls are operational where it is to another LGPS England and Wales Pension Fund:
- A transfer out request form signed by the member is received if applicable.
 - Payment request received from Pension Fund.
 - Documentation from the employer / payroll to confirm the member had left their pensionable employment.
 - A calculation of the transfer out value is subject to review and authorisation.
 - The payment had been made to the appropriate Pension Fund.

The following controls are operational where it is to another pension scheme.

- Member issued information on pension scams.

- A signed transfer out request form was on file signed and final sign off (if applicable) received from the member.
- Confirmation of independent advice is received, where the total transfer is more than £30K.
- Documentation from the employer / payroll to confirm the member had left their pensionable employment.
- Due diligence checks carried out based on TPR (The Pensions Regulator) and LGA guidance.
- A calculation of the transfer out value is subject to review and authorisation. All actual transfers are currently reviewed and checked by the quality assurance officer.
- The payment is made to the new pension provider.

Walkthrough testing of a transfer out of the Northamptonshire Pension Fund (NPF) confirmed that the expected controls in relation to that transfer were operating effectively.

- 6.3 **Death** - certain procedures must be followed on the death of a pensioner member of the scheme.
- A death certificate or other official notification (e.g. tell us once) is obtained.
 - The pension is stopped on a timely basis.
 - A reconciliation is completed and independently checked to confirm if over / under payments had occurred and appropriate action then taken based on the findings.
 - The pensioner's records on the Altair System are "closed" where appropriate to do so.

Walkthrough testing of a death of a member of the Northamptonshire Pension Fund (NPF) confirmed that the expected controls in relation to that death were operating effectively.

- 6.4 The NPF Anti-Fraud and Corruption Policy - March 2022 (Section 10) has details of ongoing procedures that address the risk of payments being made to pensioners after their death.

7 Assurance Area - Pension Payments

Control Objective (4) - Pension payments are made accurately and in accordance with regulations and agreed procedures.

- 7.1 **New Pensioners** - 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 Payroll. The Pensions Team then seek to validate key information including the member's date of birth, length of service, marital status and pay details. This information is then used to calculate the pension payments (lump sum where applicable and monthly) and then the monthly payment set up on the pension payroll. Both the calculation and setting up on the pension payroll are subject to independent checks for accuracy and then payment. The pensioner is notified, and payments made accordingly.

Walkthrough testing of a new pensioner of the Northamptonshire Pension Fund (NPF) confirmed that the expected controls in relation to that status were operating effectively.

- 7.2 **Dependents**- following the death of a pensioner / member in service there is a need to seek official notification that the member has died, confirming the status of the dependent, performing a calculation, and a senior review of potential death grants and monthly payments (which also require authorised payroll set up), together with notification of the dependents of these. Walkthrough testing of a new dependent of the Northamptonshire Pension Fund (NPF) confirmed that the expected controls in relation to that status were operating effectively.

- 7.3 **Overseas Pensioner Payments** – Section 10.1 NPF Anti-Fraud and Corruption Policy - March 2022 requires annual proof of existence for overseas pensioner members including that all pensioner

members are asked to complete and return a proof of existence form (witnessed by a suitably qualified professional).

Walkthrough testing of an overseas pensioner of the Northamptonshire Pension Fund (NPF) confirmed that the expected control in relation to that status was operating effectively.

- 7.4 **Annual Uplift** - the annual uplift of pension payments is completed based on information provided by central government – Public Service Information Sheet (PSIS) Tables in an Excel sheet format. The updated PSIS values are input by a Pension System Analyst to a table in the Altair system and an uplift process run - both in the test and live environments – calculates the increase in pension required. The output which is used to update the payroll data with the increases are checked by another Pensions System Analyst to ensure the changes are complete and accurate before updating the live payroll system. We were provided with evidence by one of the Pension System Analysts that this process was successfully completed for 2022/23.

8 Assurance Area - Reconciliations

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

- 8.1 **Bank Reconciliations** – The Pension Fund has four Barclays bank accounts, namely:
- 1) Payables
 - 2) Income
 - 3) Liquidity
 - 4) Salaries
- 8.2 Monthly reconciliations of all four bank accounts are undertaken by the WNC Business Systems and Change Team.
- 8.3 A review of two months (September 2022 and February 2023) reconciliations for all four bank accounts completed by the Business Systems and Change Team highlighted that all had all been completed on a timely basis and included appropriate supporting documentation (bank statements and system extracts to support entries in the reconciliations). Unreconciled items were generally cleared on a timely basis. Different officers in the Business Systems and Change Team had completed (Business Support Officer) and reviewed (Business Systems Team Leader) the reconciliations for September 2022 and February 2023 ensuring adequate separation of duties.
- 8.4 **Payroll Control Accounts** - A walkthrough test to confirm that the WNC Payroll Control Account - Creditors Others - ZPR04 Reconciliation for March 2023 (which contains amongst others reconciling creditor entries for each of the payroll clients (WNC, NNC, and CCC) – ie employee payroll pension deductions and employer contributions which have to be paid over to the pension funds) had been completed and, that those reconciling items relating to pension contributions due to the NPF have been paid over via PEN 18 submissions in a timely manner.
- 8.5 **Employer data submission reconciliations** – See paragraph 4.3.

9 Assurance Area - Key Performance Indicators (KPIs)

Control Objective (6) - KPIs reported in Administration Performance reports are accurate.

9.1 The Lead Authority SLA 2022/23 - Pensions Section sets out seven KPIs for scheme administration performance monitoring. This performance is regularly reported to the Pension Committee and Board.

9.2 The Quality Assurance Officer confirmed the process for providing performance information for reporting is as follows:

Workflow reports are run monthly on the Altair system. The required Service Level Agreement (SLA) information is extracted and then checked for accuracy. From this information, the following are updated:

- SLA Performance PowerPoint report, which details the total SLA figures for the fund for all the SLA casework.
- SLA “misses” which provides details of the reason why a case has missed the relevant SLA target and by how many days.
- An SLA administration report in the form of a spreadsheet for the fund, which provides the required committee SLA information and is issued to the Governance team to report to the committee.
- A Pensions KPI and volumes spreadsheet which provides the required lead authority SLA information for the fund, which is uploaded to SharePoint.
- All the SLA information is checked internally by the Operation Team Leaders and Operations Manager, before that information is provided to the Governance Team to be included in the Performance Administration report for committee submission or uploaded to SharePoint for the Lead Authority Board.

Note that in arriving at SLA “misses” a detailed exercise is undertaken as follows:

- Using the potential misses shown on a pivot table worksheet the relevant cases are pulled from the relevant Altair system report and then checked on Altair to see if they have missed the SLA or not. Not all cases listed will have missed the SLA and reasons why include:
 - Out of office awaiting information from member, employer etc.
 - Reply received date not entered onto a task. These are shown on the SLA misses spreadsheet to highlight training issues to the relevant Team Leader.
 - Other issues with the completion of tasks, which will also be shown on the SLA misses spreadsheet.
- The Operations Manager checks the SLA misses spreadsheet to see what reasons have been provided by the Team Leaders for missed targets to ensure appropriate actions are being taken to stop re-occurrence and to review and provide guidance on the correct classification on misses where this is sought from the Team Leaders.

9.3 **Testing**

Walkthrough testing of one KPI of the seven referred to at 9.1(Statutory - “Award Dependant Benefits”) reported for March 2023 was undertaken to verify compliance with the identified procedures. The results were:

- It had been reported to the Pension Board in April 2023. No issues were noted.
- The reported performance can be verified to underlying system records (higher level testing). No issues were noted.
- Whilst the KPI tested did not require direct intervention from the Operations Manager, we obtained confirmation that the Operations Manager had been checking

the SLA misses spreadsheet to observe what reasons had been provided by the Team Leaders for missed targets to ensure appropriate action had been identified to stop re-occurrence and, to assist with the review and reclassification the potential misses.

9.4 Development of KPIs – see Section 10 below.

10 Assurance Area - Breaches

Control Objective (7) - Appropriate procedures are in place to identify and report breaches of the law to the Pension Committee and Pension Board in the Administration Report.

- 10.1 The fund has a policy in place, “Reporting Breaches of the Law to the Pensions Regulator Policy 2022”, to identify and report breaches of the law to the Governance Manager, the S151 Officer, the Pensions Committee and Pension Board, and upwards to the Pensions Regulator. It will be reviewed again upon release of the new Code of Practice. It is available on the fund website - [Key documents \(NCC\) - Cambridgeshire and Northamptonshire LGPS](#)
- 10.2 The Governance and Regulations Manager stated that following on from last year’s audit, complementary customer journey KPIs have been agreed by the Pension Committee at the March 2023 meeting and are being further developed during 2023/24, which will enhance reporting of statutory disclosure requirements and may lead to the identification of further immaterial breaches.
- 10.3 A review of all potential Breaches of the Law areas has been conducted by Aon. The next stage, following on from the KPI development is to map this against the processes and procedures to ensure compliance and report assurance accordingly to the Pension Committee and Pension Board. The current suite of KPIs will continue to be reported as these measure the performance of the administering authority, generally from the point of receipt of all information. The customer journey KPIs will measure performance from an event date, such as the date of retirement, and therefore encompass the performance of the administering authority, the scheme employer, any payroll contractor, other pension funds, and even the scheme member should they delay in sending back documentation. It is expected that the customer journey KPIs may identify immaterial breaches, especially where third parties have prevented the administering authority completing casework in a timely manner.
- 10.4 The NPF Pension Committee and Pension Board Agenda papers and minutes during 2022/23 were reviewed for evidence of the reporting of breaches. This confirmed regular reporting to the Pension Committee in the Administration Performance Report as follows- (June 2022; Oct 2022; Dec 2022; March 2023) and Pension Board (April 2022; June 2022; Nov 2022; Jan 2023) during the year. There was one material breach rated as red which had been committed by a third party (Committee June 2022; Board April 2022) which had been reported to the Pensions Regulator by both the third party and the NPF. All the other breaches reported had been classified as non-material.

11 Assurance Area - Risk Management

Control Objective (8) - There is an up-to-date Risk Strategy and Risk Register in place which are monitored and reported on at appropriate intervals.

- 11.1 An up-to-date Risk Strategy, the Northamptonshire Pension Fund Risk Strategy (December 2022) and Risk Executive Summary (June 2023) is in place. Both documents are available on the fund website. [Key documents \(NCC\) - Cambridgeshire and Northamptonshire LGPS](#)

Extract from - Section 11: Reporting and monitoring (Northamptonshire Pension Fund Risk Strategy (December 2022) - Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to the internal controls, will be provided on a quarterly basis to the Pension Fund Board and a biannual basis to the Pension Fund Committee. Pre scrutiny on the proposed changes is undertaken by the Board with final approval by the Pension Fund Committee.

11.2 Our review confirmed the following reporting on risk management in line with current agreed practice:

To the Pension Board as follows during 2022/23:

- April 2022 - Agenda - Exempt Item 13
- June 2022 - Agenda - Exempt Item 18
- November 2022 - Agenda - Exempt Item 15
- January 2023 - Agenda - Exempt Item 17

To the Pension Committee during 2022/23:

- June 2022 Meeting - Agenda - Exempt Item 16
- December 2022 Meeting – Agenda - Exempt Item 15

Review of the committee papers confirmed that the references to Risk Monitoring and Key Risks (Sections 10.5 and Section 12 respectively) to the effective delivery of the strategy within the current Risk Management Strategy are being addressed by the recognition of these in the Risk Registers which are presented to the committee and board.

Appendix 1 – Glossary / Definitions

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	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.
Satisfactory	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.

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	The control environment has substantially operated as intended with no notable errors detected.
Good	The control environment has largely operated as intended although some errors have been detected.
Satisfactory	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.

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 ELT along with the relevant directorate's agreed action plan.

Organisational Impact of Findings	
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.

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 Management Action Plan.

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

Category	Definitions
Essential	Action is imperative to ensure that the objectives for the area under review are met.
Important	Requires actions to avoid exposure to significant risks in achieving objectives for the area.
Standard	Action recommended to enhance control or improve operational efficiency.

Distribution List

Full Report Issued for Action: Mark Whitby - Head of Pensions
Michelle Oakensen - Governance and Regulations
Manager

Full Report Issued for Information: Martin Henry - Executive Director of Finance
(Section 151 Officer)
James Smith - Assistant Director (Strategic
Finance)

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

Head of Audit & Risk Management

Approval:

Jen Morris - Head of Audit & Risk Management

Quality Reviewed:

Jen Morris - Head of Audit & Risk Management
Scott Peasland - Audit Manager

Lead Auditor:

Anand Persaud - Principal Auditor