

Internal Audit Final Report

Administration of the Northamptonshire Pension Fund

Governance Opinion

Adequacy of System	Substantial
Compliance	Good
Organisational Impact of findings	Minor

Report Issued	30/4/2021
Follow up Date	January 2022

Executive Summary

1. Background

- 1.1. Pensions administers the Local Government Pension Scheme on behalf of Northamptonshire County Council and Cambridgeshire County Council. There are 156,000 members of the Northamptonshire and Cambridgeshire Pensions Funds and circa 563 scheme employers, the service holds a portfolio of assets in excess of £5.4 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.

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 2019/2020 review.

- 2.2. Approach

The audit process involved:

- Undertaking interviews with relevant officers, to ascertain the procedures in place.
- 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 minor 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 that independent checks were not always undertaken.
- 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 Northamptonshire 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 and 8 of this report.

Detailed Findings

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

4.1. Employers are responsible for notifying 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 bespoke system which interfaces with the pensions system.
- Manual forms from employees and employers 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. A log is maintained to monitor receipt of the monthly employers returns and this also details outstanding information and queries resulting from returns. As at 12th April 2021 9 returns are overdue and there is a process in place to follow these up.

4.4. At the year end, a validation check is undertaken to ensure all data is correct. At the time of reporting, 2,884 queries relating to 2019-20 had not yet been resolved. Of these 2,604 are waiting for further information from the employer before these can be actioned. It has been acknowledged that resources have been prioritised on other work which has contributed to the work not yet being completed.

(See MAP 1)

4.5. New members who wish to transfer in from another pension scheme are able to do so providing they complete the appropriate forms and meet defined criteria. Ten transfers into the Northamptonshire Pension Fund (NPF) were tested and controls were found to be working 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.
- The payment had been received from the previous pension provider.
- The member's pension record on Altair had been updated accurately.

In reviewing oversight of this activity, whilst procedures detail that the calculation of the transfer value should be subject to an independent check by a senior administrator, we found that:

- In five instances, no evidence of independent review was found. We were advised that working practice is that where an experienced administrator undertakes this task, no independent check is required for cases up to £10,000. From an audit perspective, we would expect independent checks on all calculations and that if a decision is made to change the process, this should be formally reflected in procedures agreed by the Head of Pensions in conjunction with the Pensions Committee.

(See Map 2)

- In another, an independent check was undertaken although this was by a Pensions Officer and not a Team Leader.

(See MAP 3)

5. 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.** 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 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 monies received. Where variances occur the employer is contacted and they either adjust the next payment or invoice the employer.
- 5.2.** Records are maintained for employers and their contributions. For a limited sample, evidence was found that contributions reflected in the PEN18 returns (which provide details of summary total employer and employee contributions) were agreed as accurate. Payments were received from employers in line with agreed deadlines and traced to the Pension Fund bank account.
- 5.3.** In addition to the monthly process, an annual reconciliation of employer and member contributions to monies received takes place. A review of the 2019-20 reconciliation identified three queries which have been investigated and resolved.

6. 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.** 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 / 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. One of the sample was approved by a Pension Officer rather than a Team Leader (See section 4.5).
- The payment had been made to the appropriate Pension Fund.

(See MAP 3)

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 regulations and agreed procedures.

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 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 five new pensioners highlighted that in three cases, a calculation was checked by a Pensions Officer rather than a Team Leader.

(See MAP 3)

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 five new dependent pensioners found pensions being paid all relevant confirmation and documents were received from the respective parties. However, testing found four instances where the calculation was checked by a Pension Officer rather than a Team Leader.

(See MAP 3)

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. Bank Reconciliations – The Council has four bank accounts, namely:

- 1) Accounts Payable
- 2) Accounts Receivable

- 3) Liquidity
- 4) Salaries

- 8.3.** A review of monthly reconciliations completed by the NCC Business Systems Team covering the period April 2020 to January 2021 highlighted that:
- Monthly reconciliations had all been completed.
 - Reconciliations were completed on a timely basis.
 - A clear audit trail existed as to the officer in the Business Systems Teams who has completed and reviewed the reconciliation.
- 8.4** A detailed review of the June, September and December 2020 reconciliations for all four bank accounts found that the reconciliations completed were accurate and that all entries could be agreed to appropriate source documentation. Across the four accounts, we have found that unreconciled items were generally cleared on a timely basis. Based on a review of the January 2020 reconciliations, there were no unreconciled in excess of three months old.
- 8.5** **Payroll Control Accounts** – Based on the same approach to bank reconciliations, audit tested seven pension fund control accounts (e.g. Net Pay, Debtors, Suspense, Altair Third Party Payment, Altair, Payroll Control and Payroll Third Party) between April 2020 and January 2021.
- 8.6** Whilst the review found some administrative issues with the reconciliations which will be raised with Payroll directly, testing highlighted that monthly reconciliation had been completed on a timely basis with a clear audit trail to support who had completed and reviewed the reconciliation. Furthermore, we found that unreconciled items were generally cleared on a timely basis by Pensions with only a small number of unreconciled items in excess of three months old, which were linked to the Altair Third Party Payment control account.

Management Action Plan

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

Ref	Issue and Risk	Category	Agreed actions	Responsible Manager & Target Date
1	<p><u>Annual Validation Check</u></p> <p>At the year end, a validation check is undertaken to ensure all data is correct. At the time of reporting, 2,884 queries relating to 2019-20 had not yet been resolved. Of the these 2,604 are waiting for further information from the employer before these can be actioned. It has been acknowledged that resources have been prioritised on other work which has contributed to the work not yet being completed.</p> <p><u>Risk</u></p> <p>Creates a delay in processing payments. Potential errors are not identified.</p>	Important	To develop a plan of action to resolve the outstanding queries and ensure there is a mechanism in place to prevent the build of queries going forward.	Projects & Systems Manager 30/6/2021

Ref	Issue and Risk	Category	Agreed actions	Responsible Manager & Target Date
2.	<p><u>Transfer In – Independent Check</u> Based on testing, we identified five transfer calculations that were not subject to independent review. We were advised that working practice is that where an experienced administrator undertakes the calculation of the transfer value, no independent check is required for cases up to £10,000. This is not consistent with procedures and no evidence was provided as to who agreed not to follow procedures in such circumstances.</p> <p><u>Risk</u> Errors not detected.</p>	Important	To review the current practices in light of the risk of error and align practices to approved procedures.	Operations & Technical Manager 31/8/2021
3.	<p><u>Independent Checks</u> Through sample testing of various activity, we identified a relatively small number of cases where the independent check was undertaken by a Pensions Officer rather than a Team Leader as stated in procedures. From an audit perspective, the important factor is that routine independent checks are carried out by an appropriately experienced officer rather than by an officer at a certain grade.</p> <p><u>Risk</u> Non-compliance with procedures.</p>	Standard	To align working practices with procedures.	Operations & Technical Manager 31/12/2021

Distribution List

Full Report Issued for Action: Mark Whitby – Head of Pensions
Joanne Walton - Governance and Regulations
Manager

Full Report Issued for Information: Martin Henry - Executive Director Finance
James Smith - Assistant Director Finance
(Strategy)

Issue Date: 30/4/2021

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

LGSS Chief Internal Auditor Approval: Duncan Wilkinson

Quality Reviewed: Stephen Mangan

Lead Auditor: Minashi Patel

