

Internal Audit Final Report

Administration of the Northamptonshire Pension Fund 2021/22

Governance Opinion

Adequacy of System	Substantial
Compliance	Satisfactory
Organisational Impact of Findings	Minor

Report Issued	06/07/2022
Follow Up Audit Due	TBD

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 was given substantial assurance for system design and good assurance for compliance in 2020/21.
- 1.3 Relevant statistics for the fund as reported in the 2020/21 Annual Report and Accounts are depicted in the following table:

Period end	No. of members	No. of scheme employers with active members	Value of assets
31 March 2021	73,078	314	£3.1 billion
31 March 2020	69,791	366	£2.4 billion

- 1.4 This audit forms part of the agreed 2021/22 Internal Audit Plan.

2 Scope of Audit and Approach

2.1 Scope

To provide assurance 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 objectives of this review will be to ensure that:

- 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.
- 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

The audit process involved:

- undertaking interviews with relevant officers to ascertain the procedures in place for managing risk;
- 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; and
- reviewing procedures for efficiency and, where appropriate, identify opportunities to make improvements to processes; and
- following up the recommendations made in the 2020/21 report.

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, with some minor areas for improvement made. Based on the audit findings the assurance given to the system design is **Substantial**.
- 3.2 Overall, the review found good levels of compliance with the expected control procedures. However, some areas of non-compliance have been identified, some of which were highlighted in last year's audit report, and recommendations for improvement made and agreed with management. On this basis the assurance given for compliance is **Satisfactory**.
- 3.3 The organisational impact of the findings is **Minor**. This reflects the fact that whilst a number of improvements have been identified, these are considered to have a limited impact on the operations of the Northamptonshire Pension Fund.
- 3.4 **Main recommendations**
- The timely resolution of queries resulting from validation checks on employer submissions and the chasing of late submissions. **(See MAP 1)**
 - Timely resolution of unreconciled items in the January 2022 and February 2022 Employer Contributions Worksheet. **(See MAP 2)**
 - Timely employer notification of required pension adjustments required as a result of the annual reconciliation of manual submissions. **(See MAP 3)**
 - Checking / authorisation of payments by appropriate officers in line with the checking limits schedule. **(See MAP 4)**
 - Additional checking by the Operations Manager of KPI data analysed and reported. **(See MAP 5)**
 - Review of the 2018 Reporting Breaches of the Law to the Pensions Regulator Policy. **(See MAP 6)**
 - Review of arrangements to maximise identification, classification, and reporting of breaches. **(See MAP 7)**
- 3.5 **2021/22 Audit recommendations - Follow-up**
The 2021/22 report highlighted three issues for management action. Two issues related to the introduction of appropriate independent checks during the processing of pensions transactions and, another to the numbers of validation checks outstanding at year end. This review has confirmed that whilst independent checks have been introduced, the limits for responsibility for these checks need to be clarified in particular relating to the checking of death and other grants. The numbers of validation checks outstanding at year end remains an issue. **(See MAP 1 & 4)**
- 3.6 For all issues identified as part of this audit, actions are agreed with management and are detailed in the Management Action Plan (MAP) from page 11 of this report. When implemented these will positively improve the control environment.

DETAILED FINDINGS

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

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 employer's returns, and this also details outstanding information and queries resulting from returns. Based on information provided in April 2022, returns from five employers were regularly overdue and having to be followed up. **(See MAP 1)**
- 4.4 During the year and at the year end, a validation check is undertaken to ensure all data submitted by employers is correct. Based on information provided at 22nd April 2022 by the Team Leader (Systems), 2906 queries relating to 2021-22 had not yet been resolved. **(See MAP 1)**
- 4.5 New members who wish to transfer in from another pension scheme can do so providing defined procedures are followed. Testing of ten transfers into the Northamptonshire Pension Fund (NPF) confirmed that the following controls were operational:
- A transfer in request was made within one year and a form was on file signed by the member.
 - 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 Records are maintained for employers and their contributions on a contributions worksheet. Audit review during April 2022 of the NPF Contributions 2021-22 worksheet for the period April 2021 – February 2022 highlighted that there was 100% reconciliation of employer's contributions received to that expected for the months April 2021- December 2021. For January 2022 it was 99.9% with £11.7k unreconciled and for February 2022 it was 96.1% with £760k unreconciled. From the worksheet received in early April 2022, reconciliation of contributions for March 2022 was work in progress, but notably unreconciled items up to February 2022 still required actioning. **(See MAP 2)**
- 5.3 For a sample of five employers (each for one month during the year), audit testing confirmed employer's contributions reflected in the PEN18 returns (which provide details of summary totals of employer and employee contributions – and recorded in the NPF Contributions 2021-22 worksheet) for a particular month were reconciled to expected contributions and had been paid into the Pension Fund bank account.
- 5.4 **Annual Employer Reconciliations** - In addition to the monthly process, 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. A review of the 2020/21 reconciliations highlighted that two areas for follow up, based on set variance levels being exceeded (overpayments of £74k & £52k), had been investigated. The Principal Accounting Technician confirmed in response to audit query that they were due to write to the employer in early May 2022 (just prior to their contributions payment being due) to advise them to make the deduction and / or keep as an additional amount against their valuation. We consider this to be an unnecessary delay in employer notification. **(See MAP 3)**

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. Testing of seven transfers (all year to date at time of testing) out of the NPF confirmed that the following controls were operational:
- 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.
 - The payment had been made to the appropriate Pension Fund.
- 6.3 **Death** - certain procedures have to be followed on the death of a pensioner member of the scheme. Notification of five pensioner deaths were reviewed and testing undertaken confirmed that the following controls were operational:
- A death certificate or other official notification (e.g. tell us once) was on file in all cases.
 - The pension was stopped on a timely basis.
 - A reconciliation had been completed and independently checked to confirm if over / under payments had occurred and appropriate action was taken based on the findings.
 - The pensioner's records on the Altair System had been "closed" where appropriate to do so.
- 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.
- 7.2 **Dependent pensioners** - 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.
- 7.3 Testing of five new dependent pensioners to confirm that the expected controls were operational highlighted that the calculation for one death grant payment (£94k) had been checked by a Pensions Officer with a checking limit up to £10k but this should have been checked by the Team Leader who has authority for payments over £10k. **(See MAP 4)**
- 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 2021/22.

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 2021 and February 2022) 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. For the unreconciled items identified in February 2022, the review prepared in March reconciliations (still awaiting completion in mid-April) confirmed these had been cleared. Different officers in the Business Systems and Change Team had completed (Business Support Officer) and reviewed (Business Systems Team Leader) the reconciliations for September 2021 and February 2022 ensuring adequate separation of duties.

8.4 **Payroll Control Accounts** - Based on work completed in other audit reviews during 2021/22 including the Payroll audit, a number of issues relating to payroll control account reconciliations have been identified and reported to management who have provided assurances that appropriate action will be taken to address these. These actions are being monitored by both senior management, Accountancy, and Internal Audit across each of the relevant client authorities. As a result, we have not undertaken any additional testing in this area as part of this review and expect the close examination of management and officers to resolve any issues arising will ensure effective arrangements are in place.

9 Assurance Area - Key Performance Indicators (KPIs)

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

9.1 The Administration Strategy for the NPF (reviewed and agreed by the Pension Board December 2020) sets out Performance Standards and makes specific reference to performance monitoring against administering authority tasks noted in Appendix C “Administering Authority Performance Standards” of that document and lists 18 performance indicators for scheme administration.

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 Huddle.
- 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 Huddle 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.

9.3 We confirmed with the Governance and Regulations Manager that most likely in 2012 (before their appointment) when there was a wholesale review of the information reported at the Committees and Boards, it was decided that only seven of the eighteen SLAs (four of these are statutory) would be reported to the Pensions Board and Pensions Committee. Furthermore, guidance is currently awaited from the Scheme Advisory Board and the Department for Levelling Up Housing and Communities. It is expected that this should consolidate the KPIs for all LGPS Funds and provide better consistency of report to their respective Committees and Boards.

9.4 **Testing**

Information relating to the seven SLAs is reported to the Fund’s Pension Committee and Pension Board alongside any remedial action taken where the expected standards are not being met. A selection of two KPIs (one statutory - “Award Dependant Benefits” and one non-statutory - “Notify employees retiring from active membership of benefits award”) were examined against the identified procedures. These results include:

- Both have been reported to the Pension Board during the 2021/22 year (latest one - January 2022) and April 2022 (for performance in January 2022). No issues were noted.

- The reported performance for one of the three months reported (December 2021 & January 2022) can be verified to underlying system recording (higher level testing). No issues were noted.
- Obtained confirmation from the Operations Manager that they had checked the SLA misses spreadsheet to observe what reasons had been provided by the Team Leaders for missed targets to ensure appropriate action had been taken to stop re-occurrence.

Whilst our testing provided assurance on the operation of the procedures to enable accurate reporting, we recommend that whilst the checking by the Operations Manager highlights areas for training and further improvement, which is important to the provision of the service, some attention should be directed to sample checking of the reclassification of “near misses” so that they are not reported as SLA misses. **(See MAP 5)**

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 2018”, 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.
- 10.2 In Section 5 of the policy ref: Review 5.1, it refers to the policy being expected to be appropriate for the long-term but will be reviewed every two years to ensure it remains accurate and relevant. The policy is therefore in need of review. **(See MAP 6)**
- 10.3 As part of the review we sought and obtained clarification from the Governance and Regulations Manager confirming that it is not possible to identify and report ALL breaches. Reasons provided included breach identification in the first instance, the large number of processes involved, and the limited resources available to oversee every process in the identification of breaches and reporting thereof.
- 10.4 This limitation should be noted by management to ensure that every effort is made to maximise identification, classification and reporting of breaches. Benchmarking with other pension funds may provide areas for retrospective checking if not already identified by the NPF. KPI monitoring should also be used to assist identification of any breaches – where KPIs have not been met (those reported to the Pensions Board and others internally monitored) potential breaches should be investigated. This should be a standard monthly procedure. **(See MAP 7)**
- 10.5 The NPF Pension Committee and Pension Board Agenda papers and minutes during 2021/22 were reviewed for evidence of the reporting of breaches. This confirmed regular reporting to the Pension Committee in the Administration Performance Report as follows- (July 2021; Sept 2021; Dec 2021; March 2022) and Pension Board (April 2021; July 2021; Nov 2021; Jan 2022) during the year. There was no classification of any breaches rated as red which would have required reporting to the Pensions Regulator. All the 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 2019 and Risk Register NPF Dec 2021 - is in place. Reporting and monitoring (ref: 11.1) within the document states "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 an annual basis to the Pension Committee. The Pension Committee will be provided with updates on an ongoing basis in relation to any significant changes to risks (for example where a risk has changed by a score of 3 or more) or new major risks (for example, scored 15 or more). As a matter of course, the Pension Fund Board will be provided with the same information as is provided to the Pension Committee (or Investment Sub-Committee as appropriate) and they will be able to provide comment and input to the management of risks."
- 11.2 It is current agreed practice (as determined by the Pensions Committee when it approved the Strategy) and referred to in the Background Section of Risk Monitoring Reports to the Pension Board and Pension Committee, that the Pension Fund Board would monitor risks on a quarterly basis and the Pension Fund Committee would review these on a bi-annually basis unless any concerns were raised by the Board prior to this. Whilst this practice enhances the risk monitoring reporting it is advisable that the strategy is updated on its next occasion to reflect the current practice.
- 11.3 Our review has confirmed the following reporting on risk management in line with current agreed practice:
- To the Pension Board as follows during 2021/22:
- July 2021- Risk Monitoring Agenda Item 8
 - Nov 2021-Risk Monitoring Agenda Item 10
 - Jan 2022 Risk Monitoring Agenda Item 8
 - April 2022 – Risk Monitoring Agenda item 13
- To the Pension Committee during 2021/22:
- June 2021 – Not listed on Agenda but Minute No 11 reflects presentation of the Risk Management Strategy and Risk Register to the committee.
 - Dec 2021 - Risk Monitoring Agenda Item 8

MANAGEMENT ACTION PLAN

The Agreed Actions are categorised on the following basis:

Likelihood	H	S	I	E	Essential -	Action is imperative to ensure that the objectives for the area under review are met.
	M	S	I	E	Important -	Requires action to avoid exposure to significant risks in achieving objectives for the area under review.
	L	S	I		Standard -	Action recommended to enhance control or improve operational efficiency.
		L	M	H	Impact	

Ref	Issue	Recommendation	Management Comments	Priority	Officer Responsible	Due Date
1	<p><u>Validation Checks / Employer returns</u> During the year and at the year end, a validation check is undertaken to ensure all data submitted by employers is correct. Based on information provided on 22nd April 2022 by the Team Leader (Systems) 2906 queries relating to 2021-22 had not yet been resolved.</p> <p>Similar issue raised in the 2020/21 Audit Report.</p> <p>Employer monthly returns are also monitored for late submissions. At the same date above, five employers were noted as being late with monthly submissions.</p> <p>Risk Creates a delay in processing payments. Potential errors are not identified /resolved in a timely manner.</p>	That appropriate and timely management action is taken to resolve the number of outstanding queries and late returns based on employer data submissions.	<p>A number of validation checks are run at year end indicating where there <i>may</i> be issues with the employer data submitted during the year.</p> <p>All validation queries were issued within planned timescales. However, management of responses could have been more effective, including handling of any nil response.</p> <p>Improved processes are being effectively made for the 2021-2022 year end to manage employer responses.</p> <p>Quarterly reconciliations of employer data are also being</p>	Important	Systems & Projects Manager	31 Aug 22



Ref	Issue	Recommendation	Management Comments	Priority	Officer Responsible	Due Date
			introduced for the 2022-23 scheme year to minimise the number of validation queries that need to be investigated at year end.			
2	<p><u>Monthly Reconciliations – Monthly Employer Contributions</u></p> <p>Records are maintained for employers and their contributions on a contributions worksheet.</p> <p>Audit review undertaken in April 2022 of the NPF Contributions 2021-22 worksheet highlighted for the period April 2021 – February 2022 that there was £11.7k unreconciled for January 2022 and £760k for February 2022. Management attention is required to ensure the reconciliation of the unreconciled items for these two months has now been satisfactorily dealt with.</p> <p><u>Risk</u></p> <p>Unreconciled items not resolved in a timely manner affecting the processing of pensions accounts affected.</p>	Management should ensure that the unreconciled items highlighted for January 2022 and February 2022 have been actioned.	<p>All income was verified for year ending 31 March well within the adjustment period after the year end. The vast majority of income is reconciled within the month however it is not uncommon for there to be a month or two delay in reconciled income due to dependencies on other teams for coding, overpayment of contributions deducted from the next month's returns etc. Our internal target is two months.</p> <p>No further action required.</p> <p>Internal Audit Comment:</p> <p>Management's comments are considered reasonable therefore we agree that no further action is required.</p>	Important	N/A	N/A



Ref	Issue	Recommendation	Management Comments	Priority	Officer Responsible	Due Date
3	<p><u>Employer contributions – Annual Returns</u></p> <p>A review of the 2020-21 reconciliations highlighted that two areas for follow up, based on set variance levels being exceeded (overpayments of £72k & £52k), had been investigated. The Principal Accounting Technician confirmed in response to audit query that they were due to write to the employer in early May 2022 (just prior to their contributions payment being due) to advise them to make the deduction and / or keep as an additional amount against their valuation. We consider this to be an unnecessary delay in employer notification.</p> <p><u>Risk</u></p> <p>Unnecessary delays in adjusting employer contributions. Cashflow implications for employers.</p>	<p>That employers who submit annual returns are notified in a timely manner after the annual reconciliation of any adjustments required to their future contributions.</p> <p><u>Note:</u> We acknowledge that the number of employers who submit annual returns is decreasing year on year.</p>	<p>These payments related to two academies part of the same foundation trust that changed payroll providers and reporting approach during the scheme year. The total payments have now been reconciled to within expected tolerance levels.</p> <p>Nevertheless, we agree with the principal that employers should be notified in a timely manner after the annual reconciliation of any adjustments required to their future contributions.</p> <p>Complete.</p> <p>Internal Audit Comment:</p> <p>We acknowledge management’s comments and expect that the issue of timeliness have been communicated to staff.</p>	Important	Investments and Fund Accounting Manager	Complete
4	<p><u>New Dependents - Checking</u></p> <p>Testing of five new dependent pensioners to confirm that the expected controls were operational highlighted that the calculation for one death grant payment had been checked by a Pensions Officer with a checking limit up to £10k but</p>	<p>That checking of payments should only be signed off by officers formally designated to do so as set out in the “checking limits 2022” spreadsheet.</p>	<p>The peer checking limit of £10K relates to the level of annual pension and not the level of the death grant payment. Grants are usually proportional to calculated annual pensions and so if this up to £10k, it is</p>	Important	Head of Pensions	30 Sept 22



Ref	Issue	Recommendation	Management Comments	Priority	Officer Responsible	Due Date
	<p>should have been checked by the Team Leader as it exceeded the £10k limit (£94k).</p> <p>Similar issues raised in the 2020/21 Audit Report.</p> <p>Risk Non-compliance with officers' checking limits which could result in errors/irregularities in material payments not being identified in a timely manner.</p>		<p>assumed that the resultant grant payment can be checked by the officer who checked the original annual pension calculation.</p> <p>It is acknowledged that the current "checking limits 2022" spreadsheet does not explicitly set out checking limits for grants including death grants, and the situation may be further complicated by the fact that in some cases there are no dependant pensions to be calculated where death grants are awarded. Explicit checking limits need to be determined and put in place for these situations. We have agreed to liaise with Internal Audit to revise and update the checking and authorisation limits guidance for Pension Officers.</p>			
5	<p><u>Key Performance Indicators (KPIs)</u> Confirmation was obtained from the Operations Manager (with responsibility for the preparation and reporting on the KPIs) on their checks of the SLA misses spreadsheet to determine the reasons</p>	<p>Whilst the checking by the Operations Manager highlights areas for training and further improvement, which is important to the provision of the service, we recommend that some attention</p>	<ul style="list-style-type: none"> The QAO runs and reviews the reports and identifies any cases where misses have been misreported (e.g. 	Important	Operations Manager	30 Sept 22



Ref	Issue	Recommendation	Management Comments	Priority	Officer Responsible	Due Date
	<p>and appropriateness of actions provided by the Team Leaders for missed targets, in order to avoid re-occurrence. It is our opinion that there is an inherent weakness in the checks undertaken as these concentrates on the SLA misses that have been decided without spot checking of initially classified “near misses” which are not formally reported.</p> <p>Risk Reclassification errors not identified. Performance erroneously and or deliberately changed to improve performance reported.</p>	<p>should be directed to sample checking by the Operations Manager of the reclassification of “near misses”, which are not reported as SLA misses, to ensure the accuracy and completeness of this stage of reporting.</p>	<p>due to the case being with a third party)</p> <ul style="list-style-type: none"> The QAO highlights any remaining potential misses to the team leaders. The team leaders then review and confirm whether or not they agree with these misses. The QAO and manager then review these again and agree / disagree with any changes made by the team leaders. <p>Oversight by the Operations Manager of any cases being changed from a “miss” to “target met” as part of the first step will be increased.</p>			
6	<p>Breaches (1) – Policy Reporting Breaches of the Law to the Pensions Regulator Policy 2018 - Section 5. Review 5.1 states the policy is expected to be appropriate for the long-</p>	<p>That the Reporting Breaches of the Law to the Pensions Regulator Policy 2018 is reviewed</p>	<p>The review of the Policy was delayed whilst awaiting changes to the Regulator’s Code of Practice. The Code of Practice changes have been</p>	Important	Governance & Regulations Manager	31 Oct 22



Ref	Issue	Recommendation	Management Comments	Priority	Officer Responsible	Due Date
	<p>term but will be reviewed every two years to ensure it remains accurate and relevant. The policy is therefore in need of review.</p> <p>Risk If the policy does not remain accurate and relevant this could lead to out-of-date practices being followed.</p>	<p>in a timely manner and updated as required.</p>	<p>pushed back multiple times so we have now proceeded with a review of the Policy. This Policy was scrutinised by the Local Pension Board on 30 June 2022 and will be reviewed by the Pensions Committee in October 2022.</p>			
7	<p>Breaches (2) – Identification As part of the review, we sought and obtained clarification from the Governance and Regulations Manager confirming that it is not possible to identify and report <u>all</u> breaches. Reasons provided included breach identification in the first instance, the large number of processes involved, and the limited resources available to oversee every process in the identification of breaches and reporting thereof. This limitation should be noted by senior management.</p> <p>Risk Insufficient resources dedicated to the identification of breaches resulting in (important) breaches not being identified. Potential non-compliance with Pensions Regulator requirements for identifying</p>	<p>That the current arrangements in relation to breaches are reviewed in order to maximise the identification, classification, and reporting of such.</p> <p>Management should also consider periodically undertaking the following as standard practice:</p> <ul style="list-style-type: none"> • Benchmarking with other pension funds might provide areas for retrospective checking if not already identified by the CPF & NPF. • Where KPIs have not been met (those reported to the Pensions Board and others internally) this may indicate potential breaches. 	<p>Red KPIs that relate to performance outside of statutory targets should already result in a breach being reported where appropriate.</p> <p>Other areas of activity also feed into breach reporting such as annual benefit statement production, dispute resolution and contribution pay over. An analysis by the Fund's Governance Consultant to ensure all appropriate areas are being reported has been commissioned.</p>	Important	Governance & Regulations Manager	31 Dec 2022



Ref	Issue	Recommendation	Management Comments	Priority	Officer Responsible	Due Date
	and reporting breaches. Areas for improvement not readily identified.					

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
Joanne Kent - 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: Audra Statham (Interim)

Quality Reviewed: Scott Peasland - Audit Manager

Lead Auditor: Anand Persaud - Principal Auditor