

Final Internal Audit Report

Pension Administration

March 2017

Distribution: Executive Director Resources (Final Only)
Director of Customer Transformation
Head of Finance Service Centre
Pensions Admin Manager
Governance and Compliance Manager

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	1
	Priority 3	3

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1. Introduction

- 1.1 Croydon Council is the "administering authority" in the Local Government Pension Scheme Regulations.
- 1.2 As an administering authority the Council discharges its duties in respect of maintaining the Pension Fund through the work of the Pensions Committee. Its terms of reference are to deal with all matters relating to the investment and management/administration of the Fund. Members of the Committee subscribe to a Knowledge and Skills framework that ensures they have access to training and support in taking decisions.
- 1.3 In addition, the Pension Committee is supported by officers and external advisers, independent professional observers and scheme members.
- 1.4 In line with the requirements of the Public Service Pensions Act 2013 the Council has also established a pension board. The primary role of the board is to help ensure the pension scheme complies with governance and administration requirements.
- 1.5 This audit is being undertaken as part of the agreed Internal Audit Plan for 2016/17. It is also carried out as part of our annual review of key financial systems and used as a source of assurance by the Council's external auditors, Grant Thornton.

2. Key Issue

Priority 2 Recommendation

There were still 4415 outstanding application system tasks at the time of the audit fieldwork (November 2016) **(Rec 1)**.

The priority 3 recommendations are included under item 4 below.

3. Actions and Key Findings/Rationale

Control Area 6: Performance Monitoring		Detailed Finding/Rational	
Priority	Recommendation 1	Agreed/Disagreed	Responsible Officer
2	Management should ensure that the number of outstanding system application tasks on Altair is significantly reduced.	<p>Targets are set for dealing with each task within the Pensions Service Procedures. Where these are not met, the responsible officer is required to clear these as soon as possible. Team leaders are responsible for monitoring tasks outstanding on the Altair system and taking corrective action where required.</p> <p>During the audit, it was established that there were still 4415 outstanding tasks on Altair as of 9th November 2016. Analysis of the report established that a number of these outstanding tasks dated back as far as to 2012. It was explained that this report is a backlog of low priority tasks and also that the main priority from April to October 2016 was to submit the data required for the Fund's valuation; a task requiring data correction for over 3 years.</p> <p>Discussion with key staff identified that reports of outstanding tasks on Altair were run only at management's request.</p> <p>Where outstanding tasks are not resolved in a timely manner, there is a risk that the needs of scheme members are not met and in some instances the Council may be in breach of pension regulations.</p>	Pensions Admin Manager
Management Response		Agreed/Disagreed	Deadline
We have since November reviewed and revised many of our processes to ensure they are efficient and fit for purpose. We have also revised our working pattern by putting all outstanding work as at the 7 th November into "backlog" and at the same time creating a new Business As Usual (BAU) workflow where all new cases are recorded. The intention is to ensure all BAU (new) cases are completed within timescales and therefore ensure no new cases are added to the backlog. It also means that team members are not faced		Agreed	Ongoing

with 100s of backlog cases when they assess their workload which of course is not only demoralising but also less efficient.

We are now completing the BAU cases on time and have reduced the outstanding cases to 4092. The pure backlog cases outstanding was 3,600 in November and is now 2,800.

4. Priority Three Recommendations

Recommendation	Detailed Finding/Rational
<p>1. Reconciliations of pension contributions to bank statements should be conducted on a monthly basis for all admitted bodies.</p>	<p>Examination of the reconciliation schedule for a random admitted body identified that no reconciliations had been performed for the year to date. However, this spreadsheet was updated at the time of audit.</p>
<p>2. For each joiner, a welcome letter and membership certificate should be sent within 13 weeks of the start date and details should be checked by a second officer after input.</p>	<p>A sample of 10 random joiners was tested. One employee had not been sent a welcome letter or a membership certificate and no reasoning was given as to why these had not been sent. Furthermore, the input of this employees details on the system had not been checked by a second officer and no reasoning was given as to why.</p> <p>Management comment:</p> <p>This has been looked into. It is not clear why it was missed but I am confident that this is an exception. This member has now received their welcome letter.</p>
<p>3. A plan for the internal and external training of Pensions staff should be created.</p>	<p>Where internal and external training is not documented in a training plan, there is the risk that Pensions staff training will not be thorough or timely and will not allow staff to perform their duties effectively and efficiently.</p> <p>Management comment:</p> <p>We have an internal training officer, who provides regular technical training to the team as well as bespoke training where needs are identified within the team.</p> <p>We also have two trainees that have formal training programmes in place through to their probation period and then bespoke training designed to enable them to progress to the next level.</p>

TERMS OF REFERENCE

Pension Administration

1. INTRODUCTION

- 1.1 Croydon Council is the administering authority for its employees in relation to the Local Government Pension Scheme (LGPS). The Pensions Team of the Finance Division are responsible and use the Altair software solution
- 1.2 For 2015/16 membership was 8,802 active members, 8,334 deferred members and 7,051 pensioners. Pension fund contributions for 2015/16 were £52,518. For the same period, pension payments were £39,792k, commutation and lump sum benefits were £9,166k and lump sum death benefits were £1,160k.
- 1.3 This audit is being undertaken as part of the Internal Audit Plan for 2016/17, as agreed by the Council's General Purposes and Audit Committee.

2. OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes relating to Pension Administration.
- 2.2 The audit will for each area included in the scope:
- Document and evaluate the risks and controls for each process to consider the key controls;
 - Undertake sufficient testing of controls operating, on a sample of transactions; and
 - Reach a conclusion on the effectiveness of the controls operating and report.

3. SCOPE





- 3.1 The audit included the following areas (and number of recommendations made):

Control Areas/Risks	Recommendations		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Employer and Employee Contributions (are correctly calculated and paid into the pension fund on a timely basis)	0	0	3
Transfer Values and Inter-fund Adjustments	0	0	0
Refunds	0	0	0
Benefits, Retirement Pensions and Grants (are accurately processed in accordance with LGPS rules)	0	0	0
Pensions Data	0	0	0
Performance Monitoring	0	1	0

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

STATEMENT OF RESPONSIBILITY

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

March 2017

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