

Final Internal Audit Report

Admitted Bodies

September 2017

Distribution: Executive Director of Resources and s151 Officer (Final only)
 Director of Finance Investment and Risk
 Head of Pensions and Treasury
 Pensions Manager

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

Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars Public Sector Internal Audit Ltd. accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality

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1. Introduction

- 1.1 The London Borough of Croydon admits bodies to its Local Government Pension Scheme (LGPS) if these bodies meet two main criteria; the staff continue to work in the same role after being TUPE'd over and, in addition, the employees transferring over were already part of the Scheme.
- 1.2 The London Borough of Croydon currently has 28 admitted bodies as part of its scheme.
- 1.3 This audit is being undertaken as part of the agreed Internal Audit Plan for 2017/2018.

2. Key Issues

Priority 2 Issues

Policies and procedures relating to admitted bodies are not in place for staff to follow, **(Issue 1)**.

The contribution rate for one of the admitted bodies on the reconciliation spreadsheet did not agree to the expected rate, **(Issue 2)**.

A signed agreement between the Council and one of the four admitted bodies sampled could not be located, **(Issue 3)**.

The priority 3 issue is included under item 4 below.

3. Actions and Key Findings/Rationale

Control Area 1: Legislative, Organisational and Management Requirements

Priority	Action Proposed by Management	Detailed Finding/Rational – Issue 1
2	Full procedures have now been written up covering all processes involved in admitted body TUPEs (including what to do in the event of a cessation) and uploaded to Share Point.	<p>Formal and up to date procedures relating to Admitted Bodies should be available for staff. This will help to ensure that all staff carry out their roles correctly, efficiently and consistently.</p> <p>Discussion with the Pensions Manager identified that there were no formal procedures in place for the undertaking of work in relation to admitted bodies. A procedure note for the admitting of such bodies to the scheme was compiled at the time of audit; however, no further procedure notes exist.</p> <p>Where formal procedure notes are not in place for the Pensions team to follow with respect to admitted bodies, there is an increased risk that there are inconsistencies with day to day processes and how bodies are removed from the scheme. This can result in staff acting inconsistently and mistakes being made and not being identified.</p>
Responsible officer Governance and Compliance Officer	Deadline Met	

Detailed Finding/Rational – Issue 2	
<p>Priority</p> <p>2</p>	<p>Action Proposed by Management</p> <p>To work with Pension Fund accountants at the beginning of each financial year to confirm rates applicable to all employers. Procedures notes on reconciliation to be written up and saved to SharePoint.</p>
<p>In order to help ensure that employer contribution rates applied are the same as those in the signed agreement/revaluation log, checks of the rates on the system and in the contribution spreadsheet should be conducted. Examination of the records for five out of the 28 admitted bodies currently part of the LGPS, identified that for one admitted body there was confusion regarding the contribution rate due from the employer. The reconciliation spreadsheet detailed an employer rate of 24.2%, while discussion with the Governance and Compliance Officer established that there was no agreement in place, but that it had been decided to pair them with the Council at 14.1%. The Governance and Compliance Officer also stated there was a deficit payment that the admitted body had had to pay of 10.1%. The total contribution was thus the 24.2% recorded in the reconciliation spreadsheet, however as the deficit payment was a one off payment, the normal rate should be the 14.1%.</p> <p>Where there is a lack of clarity regarding the rate that an Admitted Body should be paying, there is a risk that incorrect contributions are made.</p>	
<p>Responsible officer</p> <p>Governance and Compliance Officer</p>	<p>Deadline</p> <p>30 September 2017</p>

Control Area 2: Admitting New Bodies

Priority	Action Proposed by Management	Detailed Finding/Rational – Issue 3
2	<p>We have worked with the In-house Legal Team and with the Commissioning Team to locate all contracts. As some arrangements have been in existence for a few decades, finding all agreements is proving a challenge but is an on-going task</p>	<p>Working copies of the signed agreements between LBC and the Admitted Bodies should be available to the staff who work within the Governance and Compliance team, so that, where required, the contribution's due and the due dates of payments can be checked.</p> <p>Examination of the documentation for the four most recently Admitted Bodies found that a copy of the contract with one admitted on 1 March 2016, was not held. A check with the Council's Deed Officer, also established that a copy was not held in the Council's deeds store.</p> <p>Where a copy of the definite contract is not held, there is a risk that in the event of a dispute, the Council may not be able to legally enforce its intended position.</p>
Responsible officer	Deadline	
Governance and Compliance Officer	31 December 2017	

4. Priority 3 Recommendation

Action Proposed by Management	Findings
a) Procedures notes will be drawn up to cover all areas of contribution receipt and reconciliation jointly with the PFA	Discussion with the Pension Fund Accountant (PFA) identified that issues relating to incorrect contributions and late payments are sometimes discussed with the Governance and Compliance team, who then take these issues forward. However, the outcome/s is not always directly relayed back to the PFA, with adjustments being directly made to the Admitted Body's contribution pages.

TERMS OF REFERENCE

Admitted Bodies

1. INTRODUCTION

- 1.1 Admitted body status (ABS) provisions were introduced in the Local Government Pension Scheme (LGPS) in 1999 to allow contractors, who take on local authority services or functions with any specific groups of transferring employees, to offer transferring staff continued eligibility for the LGPS during the contract. ABS provisions enable members of the LGPS to remain in that arrangement and continue to accumulate benefits under their existing local government pension scheme arrangements whilst their employment is transferred between different contractors and as long as they remain employed in connection with the delivery of the outsourced service.
- 1.2 Admission agreements will contain a provision for the admitted body to adopt the practices and procedures relating to the operation of the LGPS as set out in the LGPS (Administration) Regulations 2008 [2008/239] (as amended). This will include the administering authority's pension administration strategy.
- 1.3 This audit is being undertaken as part of the Internal Audit Plan for 2017/18,

2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of the control environment relating to Admitted Bodies.
- 2.2 In order to achieve the overall objectives, a risk based systems audit approach will be carried out, documenting and evaluating the actual controls against those expected and based on this, undertaking appropriate testing conducted.
- 2.3 The key findings, conclusions, and subsequent recommendations arising will be presented at an exit meeting and followed by the circulation of a draft report for consideration by management. Prior to agreement and issue of the final audit report.
- 2.4 The audit will aim to provide management with any good practice guidance arising that could be used on similar contracts.
- 2.5 System testing will be limited to how information is obtained and communicated. There will be no detailed testing of pension calculations.

3. SCOPE

- 3.1 The audit included the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	2	0





Admitted Bodies 2017/18

Admitting New Bodies	0	1	0
Additions and Removals from the Scheme	0	0	0
Pension Contribution	0	0	1
Monitoring Meetings and Reporting	0	0	0
Total	0	3	1

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 to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any 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. 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.

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