

Final Internal Audit Report

Pension Administration

April 2018

Distribution: Executive Director Resources (Final Only)
 Director of Finance Investment and Risk
 Head of Finance Service Centre
 Head of Pensions and Treasury
 Pensions Administration Manager

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

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 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 Pensions Committee is supported by officers and external advisers, independent professional observers and scheme members.
- 1.4 Croydon Council as an administering authority for the LGPS is required to have in place a local pension board. The role of the board is to ensure the Croydon pension fund complies with all the legislative requirements and to make sure the scheme is being effectively and efficiently governed and administered. The board members work with the Council in its role as an administering authority and the pension fund's officers to ensure that the pension scheme is being run properly and members get the best service.
- 1.5 This audit was undertaken as part of the agreed Internal Audit Plan for 2017/18. It was 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 Issues

Priority 2 Issue

Life certificates were not issued during 2017/18, **(Issue 1)**.

There were still 1647 outstanding tasks on Altair as of 4th December 2017, **(Issue 2)**.

3. **Actions and Key Findings/Rationale**

Control Area 5: Pensions data		Detailed Finding/Rationale – Issue 2
Priority	Action Proposed by Management	<p>The Pensions team annually send out life certificates to pensioners aged over 85 years and pensioners living overseas, which are required to be signed and returned by the pensioners. The Council uses Western Union to provide the 'proof of existence' service for overseas pensioners.</p> <p>No annual life certificates were issued during 2017/18.</p> <p>If no annual life certificates are sent out, there is no assurance that pensioners aged over 85 years and pensioners living overseas are still alive and eligible to receive their pension. This can lead to a possible overpayment to a deceased pensioner, showing a poor control of finances by the Council and possibly difficulties in recovering overpayments.</p>
2	<p>It is proposed that a "life" exercise will take place in June 2018. This will be after all pensioners have received their April, May and June payslips as well as the Pensions Newsletter. Returned documents will help focus the life exercise.</p>	
Responsible officer	Deadline	
Pensions Admin Manager	30 June 2018	

Control Area 6: Performance Monitoring		Detailed Finding/Rationale – Issue 2
Priority	Action Proposed by Management	<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 1647 outstanding tasks on Altair as of 4th December 2017, (which is a significant improvement since the 2016/17 Pensions Audit Report, when the backlog was 4621). Analysis of the report established that a number of these outstanding tasks dated back as far as to 2012. Discussion established that, with the transfer to a cloud hosted pension system during the year, as well as two staff resignations, progress in clearing the backlog had been delayed.</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>
2	<p>We are currently going through a recruitment exercise to replace a number of staff that have left. I am taking this opportunity to review the team's resources so that we can make the most of IT and increase the efficiency of our processes with the intention of clearing the historic backlog as well as ensuring our current work is up to date.</p>	
Responsible officer		
Pensions Admin Manager		
Deadline		
On-going but with improvement by 31 July 2018		

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). As such, the Borough Council is responsible for ensuring that the Pension Fund is appropriately invested and that monies paid out of the Fund are paid in accordance with the LGPS Regulations.
- 1.2 The LGPS is a statutory, funded pension scheme for local government employees as well as non-teaching staff of further and higher education establishments and non-local government employees who are entitled to join the Scheme under an admission agreement. The Pensions Team of the Finance Division are responsible and use the Altair software solution.
- 1.3 This audit is being undertaken as part of the agreed 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 controls / processes.
- 2.2 The audit will for each controls / process being considered:
- Walkthrough the processes to consider the key controls;
 - Conduct sample testing of the identified key controls, and
 - Report on these accordingly.

3. SCOPE





- 3.1 The audit included the following areas:

Control Areas/Risks	Recommendations		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Employer and Employee Contributions	0	0	0
Transfer Values and Inter-fund Adjustments	0	0	0
Refunds	0	0	0
Benefits, Retirement Pensions and Grants	0	0	0
Pensions Data	0	1	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 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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