

# Final Internal Audit Report

## Pensions Administration

### April 2019

**Distribution:** Executive Director of Resources (Final only)  
 Director of Human Resources  
 Head of HR and Finance Service Centre  
 Director of Finance, Investment and Risk and s.151 Officer  
 Interim Pensions Manager

Assurance Level	Recommendations Made	
<b>Limited Assurance</b>	Priority 1	1
	Priority 2	3
	Priority 3	1

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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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## Executive Summary

### 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 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 Human Resources Division is responsible and uses the Altair software solution.
- 1.3 The previous Pensions Manager left in December 2018 and his role is currently being covered by two members of the team jointly acting up on an interim basis.
- 1.4 The objectives, methodology and scope are contained in the Audit Terms of Reference at Appendix 1.

### 2. Key Issues

#### Priority 1 Issue

Life certificates had not been issued during 2017/18 or 2018/19 for pensioners living overseas. **(Issue 2).**

#### Priority 2 Issues

A new pension starter process had not been started for one of the sample of ten new starters tested and new starter forms had not been returned for a further four of the sample, **(Issue 1).**

Staff did not regularly check that pension system backups were actually being performed by Aquila Heywood, who host the service, or that any test restores had occurred, **(Issue 3).**

There were 4254 outstanding tasks on Altair as of 31 January 2019, an issue that was also reported in the 2017/18 audit report, **(Issue 4).**

The Priority 3 issue is included under item 4 below.

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

<b>Control Area 2: <u>Employer and Employee contributions</u></b>	
<b>Priority</b>	<b>Action Proposed by Management</b>
2	<p>All new starters should be contractually enrolled by their employers into the pension scheme, which should also form part of their contract of employment. We will remind scheme employers of the need to send a new starter form as part of employee on boarding.</p> <p>We will review our work allocation with the aim of all new starters being sent a welcome pack within 13 weeks. However priority continues to be focussed on those members who are retiring or who have passed away.</p> <p>With regards to new starter forms not being returned we do not intend to take any further actions to be chasing up members to return those.</p>
	<p><b>Detailed Finding/Rationale – Issue 1</b></p> <p>All new starters are automatically enrolled on the Council's pension, unless they opt out and each starter is provided with a new pension starter form to complete, providing additional details (such as death grant expression of wish) and confirming their enrolment to the pension scheme. Each new starter is also set up on the pension system and a welcome pack is required to be sent out within 13 weeks.</p> <p>Examination of the records held for a sample of 10 new starters found that:</p> <ul style="list-style-type: none"> <li>• In one instance for a starter on 13 March 2018, the new starter process had not been started. The welcome pack therefore had not been sent out.</li> <li>• In a further instance there was no record to confirm whether the welcome pack was sent out within 13 weeks.</li> <li>• In five more instances the signed new starter form had not been returned.</li> </ul> <p>Where welcome packs are not sent out in a timely manner and starter forms are not returned, there is a risk staff may not be fully aware of their pension and that not all required details, (such as death grant expression of wish) are known.</p>
<b>Responsible officer</b>	<b>Deadline</b>
Head of HR & Finance Service Centre	31st July 2019

<b>Control Area 5: Benefits, Retirement Pensions and Deaths</b>					
<b>Priority</b>	<b>Action Proposed by Management</b>				
1	<p>The latest NFI results were made available to us in March 2019. We have taken action to suspend those cases identified by NFI and are seeking death certificates to confirm the member has passed away.</p> <p>As NFI match has been recently undertaken we will next focus overseas pensioners and will contact Western Union with the aim of agreeing a plan for this by end April.</p> <p>We have been speaking with companies who can provide a mortality screening/tracing service for UK pensioners and after receiving quotes we will need to undertake a procurement exercise with the aim of commencing in Autumn 2019.</p>				
	<p><b>Detailed Finding/Rationale – Issue 2</b></p> <p>The Pensions team should 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>Discussions with the Pensions Team Manager established that an initial meeting regarding life certificates was held in February 2019 to discuss the process and what was needed. Following receipt of the NFI death report, meetings with tracing services companies and in light of the General Data Protection Regulations, it was decided to postpone the project until later in 2019 when the tracing project has been run, so that the address being written to is up to date. Quotes were being obtained from various companies for a full tracing service.</p> <p>This issue was also raised in the 2017/18 audit report as life certificates were not sent out during that year either.</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>				
	<table border="1"> <thead> <tr> <th><b>Responsible officer</b></th> <th><b>Deadline</b></th> </tr> </thead> <tbody> <tr> <td>Head of HR &amp; Finance Service Centre</td> <td>30<sup>th</sup> November 2019</td> </tr> </tbody> </table>	<b>Responsible officer</b>	<b>Deadline</b>	Head of HR & Finance Service Centre	30 <sup>th</sup> November 2019
<b>Responsible officer</b>	<b>Deadline</b>				
Head of HR & Finance Service Centre	30 <sup>th</sup> November 2019				

<b>Control Area 6: Pensions Data</b>		<b>Detailed Finding/Rationale – Issue 3</b>
<b>Priority</b>	<b>Action Proposed by Management</b>	<p>In order to help ensure that pension data can be recovered in the event of a system failure or data becoming corrupted, it is key that the system is regularly backed up and that testing of the system backups occurs.</p> <p>Staff confirmed that all Altair backups are required to be performed by Aquila Heywood as they host the service. However, no evidence was available that staff regularly check that these backups were actually being performed or that any test restores had occurred.</p> <p>Where periodic assurance is not obtained over the backups and test restores, there is a risk that these are not being performed as required. Although these are the responsibility of Aquila Heywood, should there be a system failure or data corruption, there will be significant disruption to the service if the pension system cannot be restored in a timely manner.</p>
2	<p>Aquila Heywood are contracted to provide backups and the schedule is documented as part of the contract.</p> <p>A service request will be raised to request evidence of backups/test restores being undertaken or as this is cloud hosted whether there is any mirroring or other failover in place.</p>	
<b>Responsible officer</b>	<b>Deadline</b>	
Head of HR & Finance Service Centre	30 <sup>th</sup> April 2019	

<b>Control Area 7: Performance Monitoring</b>		<b>Detailed Finding/Rationale – Issue 4</b>
<b>Priority</b>	<b>Action Proposed by Management</b>	
2	<p>We continue to monitor the outstanding workload and prioritise outstanding tasks on a daily basis.</p> <p>There is a large number of fairly new staff in the team who came in without LGPS experience and their learning and development is ongoing until they have experience to deal with all types of cases. There is complexity in this area of work as we are administering to over 100 scheme employer across 3 sets of pensions regulations/calculations and multiple historic payroll systems.</p> <p>The main issue on overdue tasks is deferred benefit calculations. We are considering different resourcing options to clear those including sourcing external support. We have spoken with 2 companies. The next step will be to obtain high level quotes and produce a business case by end June 2019.</p>	<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 4254 outstanding tasks on Altair as of 31 January 2019, (this issue was also reported in the 2017/18 Pensions Audit Report).</p> <p>Discussion established that staff were working on clearing these outstanding tasks, including using 'blitz days'. Furthermore, they were also in the process of obtaining quotes from two companies after initial meetings at the beginning of the year and were in the process of creating a Valuation Project team to target leavers for the valuation.</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, the scheme may be incorrectly valued and in some instances the Council may be in breach of pension regulations.</p>
<b>Responsible officer</b>	<b>Deadline</b>	
Head of HR & Finance Service Centre	30 <sup>th</sup> June 2019	

4. Priority 3 Issues

<b>Action Proposed by Management</b>	<b>Findings</b>
<p>1) We will setup a programme to review all team procedures over the next 12 months.</p>	<p>Procedures available to staff should be reviewed on a regular basis.</p> <p>A number of procedures were listed on the Pensions team SharePoint page. A number of these had not been reviewed and updated recently, or were not dated and it was not possible to confirm when they were last updated. There were at least 16 different areas with procedure guides that had not been updated recently.</p> <p>Where procedures are not reviewed regularly, there is a risk that the processes are out of date and not due to be updated on a regular basis. Staff may therefore follow out of date practices.</p>



## TERMS OF REFERENCE

### Pensions 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 Customer and Corporate Services Division are responsible and use the Altair software solution.
- 1.3 This audit is part of the annual review of Key Financial Systems upon which the Council's external auditor may place reliance. It is being undertaken as part of the agreed Internal Audit Plan for 2018/19.

#### 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 This audit examined the Council's arrangements in relation to Pensions Administration, and included the following areas (and resultant issues):

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Organisational, Management and Legislative requirements	0	0	1
Employer and Employee Contributions	0	1	0
Transfer Values and Inter-Fund Arrangements	0	0	0
Refunds	0	0	0
Benefits, Retirement Pensions and Deaths	1	0	0
Pensions Data	0	1	0
Performance Monitoring	0	1	0
<b>TOTAL</b>	<b>1</b>	<b>3</b>	<b>1</b>

## 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:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that represent an exposure to risk and require timely action.
<b>Priority 3 (Low)</b>	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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP 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 by any third party is entirely at their own risk.

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