

Final Internal Audit Report

Pensions

April 2020

Distribution: Executive Director of Resources and Monitoring Officer (Final only)
Director of Human Resources
Head of HR and Finance Service Centre
Pensions Team Leader

Assurance Level	Identified Issues	
Substantial Assurance*	Priority 1	0
	Priority 2	1
	Priority 3	1

*** Note the scope of the audit and in turn the testing performed was impacted by the Coronavirus pandemic.**

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP 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 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, re-interpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, re-interpretation, 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.

Contents

Page

Executive Summary

1. Introduction.....	2
2. Key Issues.....	2

Detailed Report

3. Actions and Key Findings/Rationale	3
4. Priority 3 Issue.....	4

Appendices

1. Terms of Reference
2. Definitions for Audit Opinions and Recommendations
3. Statement of Responsibility

1. Introduction

- 2.1 Croydon Council (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.
- 2.2 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 in the Council are responsible for the administration associated with this in so far of Council employees and use the Altair software solution to support in this.
- 2.3 This audit was undertaken as part of the agreed Internal Audit Plan for 2019/20.

2. Scope

- 2.1 Due to the disruption caused by the Coronavirus pandemic (Covid-19) and subsequent restrictions, the following tests could not be completed:
- Confirm that Pensions staff checked that pension employer contributions communicated to Payroll had been correctly applied;
 - Confirm that monthly reconciliations of pension contributions from London Borough of Croydon employees to bank statements are conducted;
 - Confirm that monthly reconciliations of pension contributions from admitted bodies to bank statements are conducted;
 - Confirm that an annual reconciliation of employees as per HR to the employees on the pension systems (Altair) was conducted;
 - Confirm that the Pension team checks that payments to new pensioners are correctly made on the payroll; and
 - Confirm that an annual work plan is produced for the Pension Service.

3. Key Issues

Priority 2 Issue

During the Audit, it was established that there were still 5487 outstanding tasks on Altair as of 6 February 2020, (which is a regression since the 2018/19 Pensions Audit Report, when the backlog reported was 4254). **(Issue 1)**

The Priority 3 issue is included under item 3.

Control Area 6: Pensions Data						
Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 4				
2	<p>The position has actually slightly improved over the last 12 months. The 4254 tasks in the 2018/19 audit related to what was classified as 'backlog'. We ceased counting outstanding work in this way from April 2019 and the 5487 as at 6 February 2020 relates to the total number of tasks outstanding. At end March 2019 there were a total of 5951 tasks outstanding.</p> <p>Over 60% of the outstanding tasks do relate to a backlog of deferred benefit calculations. A procurement exercise has commenced to seek support from a specialist provider to clear this historical backlog. The tender evaluation and contract had been temporarily put on hold due to a change in priorities as a result of Covid 19 and is now expected to be completed by Autumn 2020.</p> <p>In addition there are currently 2 vacancies within the team for a Senior Pension Officer and Pension Support Officer and recruitment will commence once current working arrangements return to normal. In addition there is a new Pension Officer who has been recruited and will start employment with us during May 2020.</p> <p>Since April 2019, a monthly KPI report is produced and is presented to both the Pension Committee and Local Pension Board on a quarterly basis enabling performance to be actively monitored.</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 still 5487 outstanding tasks on Altair as of 6 February 2020, (which is a regression since the 2018/19 Pensions Audit Report, when the backlog reported was 4254).</p> <p>Discussion established that the team were looking to recruit additional staff to help with this backlog.</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>				
	<table border="1"> <thead> <tr> <th>Responsible officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Head of HR & Finance Service Centre</td> <td>Autumn 2020</td> </tr> </tbody> </table>	Responsible officer	Deadline	Head of HR & Finance Service Centre	Autumn 2020	
Responsible officer	Deadline					
Head of HR & Finance Service Centre	Autumn 2020					

4. Priority 3 Issue

Action Proposed by Management	Findings
<p>We were joined by an experienced Pension Team Leader in February 2020 with a lot of experience in training. She has been able to identify some training needs and produce training sessions for the whole team or in smaller groups. Training needs are identified by the checkers and through 1:1 discussions with the Pension Officers themselves.</p> <p>We have recently recruited a new Pension Officer and he is receiving structured one to one training (via skype during the lockdown) from the Pension Team Leaders.</p> <p>A log is being created to evidence this training with the view that it will be used for future new recruits. This is currently a work in progress as the training takes place and will be stored in the Guidance & Processes library on the Pension Admin SharePoint site.</p>	<p>Although, at the time the audit began, there had been no new staff in the Pensions team during the preceding two years, there were plans in place to recruit more staff. The Pensions team did not have a formal training plan for new staff or a record of past training for current staff, although there was evidence of ad hoc training taking place.</p> <p>When there is no training plan in place, it may be difficult to put together comprehensive training for new staff. Additionally, the lack of a record of training for current staff means that gaps in their training may not be apparent, and opportunities for further training may be missed.</p>

TERMS OF REFERENCE

Pensions

1. INTRODUCTION

- 2.1 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.
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- 2.3 This audit is being undertaken as part of the agreed Internal Audit Plan for 2019/20.

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 following areas:

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	0	0
Transfer Values and Interfund Adjustments	0	0	0
Refunds	0	0	0
Benefits, Retirement Pensions and Grants	0	0	0
Pensions Data	0	1	0
Performance Monitoring	0	0	0
TOTAL	0	1	1

DEFINITIONS FOR AUDIT OPINIONS AND IDENTIFIED ISSUES

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 identified issues 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.

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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