



## **Final Internal Audit Report**

## **Hertfordshire County Council –**

## **Pensions Administration**

**March 2016**

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**Report Status:** Final

**Reference:** 16940/15/001

**Overall Assurance:** **Substantial**

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## 1 EXECUTIVE SUMMARY

### Introduction

- 1.1 Internal Audit provides the Council with an independent and objective opinion on the organisation's governance arrangements, encompassing internal control and risk management, by completing an annual risk-based audit plan. This audit forms part of the approved 2015-16 Annual Audit Plan for Hertfordshire County Council (HCC).
- 1.2 Since 1 April 2011 the administration of the HCC Local Government Pension Scheme ("the scheme") and the Fire Service scheme has been administered by the London Pensions Fund Authority (LPFA). The LPFA acts as a third party administrator for the schemes with the Council's Finance team retaining responsibility for the management of investments and engagement with fund managers.
- 1.3 The majority of the transactional processing is undertaken by a team of LPFA staff based at the Council's offices in Hertford, although clearing the backlog of deferred pension quotes has been carried out by their London team. The Hertford team has responsibility for undertaking a wide range of administration tasks for the scheme including: processing new members; calculation and payment of benefits; and the collection of contributions from scheme employers. The performance of the LPFA team is monitored by the Council's Pensions Committee, which receives quarterly performance updates.
- 1.4 As at the end of the 2014/15 financial year, the LGPS had over 91,000 members (comprising active contributing members, deferred members and pensioner members). The total value of the LGPS Fund shown in the Statement of Accounts at 31 March 2015 was in excess of £3.5 billion. The Fire Scheme had approximately 1,400 members (comprising active contributing members, deferred members and pensioner members). There is no separate pension fund under management for the Fire Scheme; Fire Pension funds are managed within a separate cost centre within SAP.
- 1.5 The Case Management System (CMS) introduced in 2013 has continued to embed the automated processing of pensions. The CMS system in itself is not a control system and separation of duties is mainly enforced manually through task allocation and supervisory checks, plus documenting activity within a tasks comments field. Whilst compliance is not guaranteed, the results of our testing confirmed that separation of duties for the cases reviewed was appropriately applied and was satisfactory.

### Overall Audit Opinion

- 1.6 Based on the work performed during this audit, we can provide overall **substantial assurance** that there are effective controls in operation for the areas covered by this review.

- 1.7 With regards to the LGPS, the introduction of the Career Average Revalued Earnings (CARE) scheme in 2014 complicated the pension benefits calculation, while for the Fire Service, the 2015 scheme changes to tapered modifications for post 2006 retained firefighters has required calculations to be re-performed manually whilst they wait for the system providers (Heywoods) to devise systems amendments to Altair. The need to correct a high number of errors relating to the data submitted by scheme employers, has also put a strain on the service provided by LPFA and has affected the distribution of the Annual Benefit Statement (ABS) to members which continues to be monitored by the HCC Head of Finance and the Pensions Regulator. A project has been set up to address the issues encountered in the 2015/16 exercise with a view to ensuring that 2016/17 ABSs are issued by the statutory deadline.
- 1.8 As at 16<sup>th</sup> February 2016 there were 104 suspended and 517 deferred benefit cases over the age of 60 but not put into payment because current contact details are not held. This is usually because members themselves have failed to keep their pensions contact data up to date. Currently, when pensions are due to come into payment, LPFA carry out a number of investigatory checks to obtain this information but often with limited success.
- 1.9 HCC is evaluating ATMOS, a data matching service, which may identify a proportion of the missing address data for these outstanding accounts. The Head of Specialist Accounting may need to consider raising a separate project for LPFA to review the resulting changes in circumstances that could lead to accounts being brought into payment or closed.
- 1.10 Data matching will also identify incorrect member data or potential links to previously unknown relatives including surviving spouses where the deferred pensioner has passed away. If subscription to ATMOS goes ahead, this will, in the short term, increase the workload of LPFA through bringing deferred accounts into payment or closing accounts, but tasks in other areas will reduce..
- 1.11 The Governments 'Tell Us Once' scheme is another initiative in an embryonic stage, but once the teething issues are resolved by the service operators, more scheme operators will join to exchange data and earlier notifications of entitlement changes will result in reduced pension overpayments.
- 1.12 Internal Audit will ensure any new processes implemented as a result of these new initiatives are evaluated fully next year.
- 1.13 Please see definitions for the overall assurance levels at Appendix B, as well as the Assurance by Risk Area below.

### **Summary of Recommendations**

- 1.14 We have made four recommendations, all classified as 'Merits Attention' priority to strengthen internal controls and the achievement of value for money.
- 1.15 Please see the Management Action Plan at Appendix A for further details.

**Annual Governance Statements**

1.16 This audit provides good levels of assurance to support HCC’s Annual Governance Statement (AGS).

**2 ASSURANCE AREAS**

2.1 Our specific objectives in undertaking this work, as per the Terms of Reference, were to provide HCC with assurance on the adequacy and effectiveness of internal controls, processes and records in place to mitigate risks in the following areas:

Assurance Area	None	Limited	Moderate	Substantial	Full
1. System Checks for Starters, Leavers, Change of Circumstance and Pension Payments					
2. Pension Records and Contributions					
3. System Interface Checks					
4. Pensions Payroll Validation					
5. Financial Records and Reconciliations					
6. Annual Benefit Statement					
7. Overpayments					
8. Follow-up of Previous Audit Recommendations					
<b>Overall</b>					

2.2 For definitions of the above assurance levels, please see Appendix B.

No.	Assurance Area, Finding, Risks & Opportunities	Priority	Recommendation	Management Response	Target Date
1	<p><b>Assurance Area 3 - System Interface Checks</b></p> <p><u>Altair Access</u> Audit raised queries on the access rights for 18 of 84 accounts including three high priority risks and 6 medium priority risks. Following this, 9 roles were altered and 3 accounts were removed, although evidence was noted of other accounts existing for staff that have left service (including one auditor).</p> <p>We acknowledge that Altair access rights were immediately reviewed and corrected during this year's audit following receipt of our analysis results above.</p> <p><u>Risk</u> Unauthorised transactions could be processed without detection / intervention.</p>	Merits Attention	LPFA should review their staff's Altair access rights annually.	<p><b>Responsible Officer:</b> LPFA Head of Client Delivery</p> <p>The LPFA will implement a business process for amending access rights for leavers and changes in job roles and responsibilities. In addition, access rights will be reviewed on an annual basis in December each year</p>	31 March 2016 and then December each year

No.	Assurance Area, Finding, Risks & Opportunities	Priority	Recommendation	Management Response	Target Date
2	<p><b>Assurance Area 4 – Pensions Payroll Validation</b></p> <p><u>Monthly Process Checklist</u> The Monthly Checklist used for ensuring each stage of the process is carried out and signed off has only been partially completed during 2015/16 as it no longer fits how LPFA currently works due to some roles now being shared. Revising the Monthly Process Checklist has been targeted for the end of the financial year.</p> <p><u>Risk</u> Incomplete stages may be bypassed, or processes continued with errors or omissions.</p>	Merits Attention	LPFA should ensure the Monthly Process Checklist is revised and re-introduced as intended by year end and then checked annually to ensure it remains fit for purpose.	<p><b>Responsible Officer:</b> LPFA Head of Client Delivery</p> <p>Agreed.</p>	April 2016

No.	Assurance Area, Finding, Risks & Opportunities	Priority	Recommendation	Management Response	Target Date
3	<p><b>Assurance Area 7 - Overpayments</b></p> <p><u>Unrecovered Debt</u> Audit requested details of the current position on pension overpayment debt. We found that invoices were raised promptly after the overpayment had been identified, but that follow up action to chase the unpaid smaller debts was not always performed in a timely manner. However, we do accept this chasing work was prioritised with other responsibilities and pressures on the Section at the time.</p> <p>Additionally, there was no evidence of any periodic review, where agreements to repay are over an extended period of time, to consider potential changes to the debtors financial circumstances which could result in the debt being repaid more quickly without incurring hardship.</p> <p><u>Risk</u> Debts are less likely to be recovered or may not be recovered as quickly as possible.</p>	Merits Attention	The HCC Head of Specialist Accounting should consider including a review clause in agreements for debtors whose financial position is likely to significantly change and where the recovery period of a repayment plan exceeds two years.	<p><b>Responsible Officer:</b> Head of Specialist Accounting</p> <p>This will be considered in cases where there is a likelihood that the pensioner's financial situation could change in the future.</p>	As required



No.	Assurance Area, Finding, Risks & Opportunities	Priority	Recommendation	Management Response	Target Date
4	<p><u>Shared Anti-Fraud Service Access to Pensions Systems</u> The Shared Anti-Fraud Service does not currently have access to the LPFA pension online systems to help progress and follow up National Fraud Initiative (NFI) data matches or other potential fraud cases or queries where independent analysis is required.</p> <p><u>Potential Gain</u> Improved and effective anti-fraud investigation responses, possibly resulting in reduction of losses.</p> <p><i>Note: The majority of NFI data matching investigatory work carried out by SAFS provides positive evidence to HCC that fraud has not occurred.</i></p>	Merits Attention	The Shared Anti-Fraud Service should be given controlled, read only access to Altair, CMS and Fish pension systems and a protocol for using them drafted.	<p><b>Responsible Officer:</b> Head of Specialist Accounting</p> <p>The Pensions Team will contact the Shared Anti-Fraud Service to determine their requirements.</p>	31 March 2016

<b>Levels of Assurance</b>	
<b>Full Assurance</b>	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
<b>Substantial Assurance</b>	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
<b>Moderate Assurance</b>	Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
<b>Limited Assurance</b>	There are significant weaknesses in key control areas, which put the system objectives at risk.
<b>No Assurance</b>	Control is weak, leaving the system open to material error or abuse.

<b>Priority of Recommendations</b>	
<b>High</b>	There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management.
<b>Medium</b>	There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management.
<b>Merits Attention</b>	There is no significant weakness, but the finding merits attention by management.