



APPENDIX E

Final Internal Audit Report

Hertfordshire County Council – Pensions Administration

February 2017

Issued to:	Jolyon Adam – Finance Manager (Pensions, Treasury and Client Team) Patrick Towey – Head of Specialist Accounting Taryn Mutter – Pension Service Delivery Manager (LPP)
Copied to:	Claire Cook – Assistant Director of Finance
Report Status:	Final
Reference:	16940/16/001
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 formed part of the approved 2016-17 Annual Audit Plan.
- 1.2 Since 1 April 2011 the administration of the HCC Local Government Pension Scheme ("the LGPS") and the Fire Service scheme ("Fire Scheme") has been administered by the Local Pensions Partnership "LPP", formerly London Pensions Fund Authority. The LPP acts as third party administrator for the schemes with the Council's Finance team retaining responsibility for the governance of the LGPS Scheme, the management of investments and the engagement with fund managers and the Council's HR team retaining responsibility for the governance of the Fire Scheme.
- 1.3 As at the end of the 2015/16 financial year, the LGPS Scheme had 95,995 members (comprising active contributing members, deferred members and pensioner members). The total value of the LGPS Scheme Fund shown in the Statement of Accounts at 31 March 2016 was over £3,584 million. The LPP also manage the Fire Service scheme, however, no funds are under management for the Fire Scheme.
- 1.4 The introduction of the Work Place Pensions Automatic enrolment requires the Council to enrol all employees aged 22 to state pension age and who earn more than £10,000 into a pension scheme unless the employee decides to opt out.
- 1.5 The objective of this audit was to provide management with assurance over the adequacy of the control environment for the processing of new joiners, leavers, transfers in/out, collection of contributions due and payment of pensions to those eligible.

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 those elements of the risk management processes covered by this review. These are detailed in the Assurance by Risk Area Table in section 2 below.
- 1.7 The overall audit opinion was formed from management assurances given in response to our enquiries and an examination of appropriate evidence relating to the administration, record keeping and payments within the pension scheme.
- 1.8 With respect of the administration for joiners, leavers, new pensioners and transfers in and out of the scheme, we found that all necessary records were in place and retained, required actions had been processed in a timely manner and all records and calculations were accurate, both from physical or online forms and through the Altair/SAP interface.

- 1.9 We have noted that contributions are received from Admitted Bodies on a monthly basis and records are retained by way of a database that is regularly reconciled to the records held in SAP.
- 1.10 Reconciliations are largely completed on a quarterly basis, with the exception of transfers in and out which is reconciled every six months. All reconciliations are completed by LPP and reviewed and approved by the accountancy team from HCC. In the case of the rate and adjustments (R&A) and payroll reconciliations it was noted that these can progress to the reconciliation sign-off stage, where any unexplained variances are considered insignificant. A materiality level has been agreed for such purposes for the R&A reconciliation, with the payroll reconciliation instead relying on officer judgement. Despite a tolerance level being set, LPP are still required to review and clear all variances in advance of year end.
- 1.11 From the sample of new pensioners tested, we found that in all cases the calculations were accurate and were subject to a second officer review for both the annual value of the pension, any commuted amounts and also the monthly payroll amounts prior to finalisation.
- 1.12 The pay run for pensioners was tested and we confirmed that exception reports are run and review for new pensioners, material payments and leavers within the period. Our testing confirmed that there has been sufficient separation of duties in the payroll process with two officers involved throughout. Prior to the BACS run being completed, checks are performed to confirm that the number and value of payments are as expected.
- 1.13 Finally, we have completed a review of the system access for Altair and following this access levels for four officers has been revised to improve the segregation of duties between the administration and payroll elements of the system. There are now only five user profiles with full system access, two of which belong to the external system developers, and the remaining three deemed as necessary for system administration purposes.
- 1.14 For definitions of our assurance levels, please see Appendix B.

Summary of Recommendations

- 1.15 We have made two recommendations, both classified as 'Merits Attention', to further strengthen the internal controls.
- 1.16 Please see Management Action Plan at Appendix A for further detail.

Annual Governance Statement

- 1.17 This report provides good levels of assurance to support the Annual Governance Statement.

2. ASSURANCE BY RISK AREA

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

Risk Area	None	Limited	Moderate	Substantial	Full
System Checks for Scheme Joiners, Leavers, Change of Circumstance – appropriate controls are in place to ensure that starters, leavers and change of circumstances are processed in a timely and accurate manner.					
Pension Records and Contributions – Pension records adequately reflect a member's active service and contributions due from members (including admitted bodies and third parties) are received and accounted for in full.					
Pensions Payroll New Starters – appropriate controls are in place to ensure that new starters to the pensions payroll are appropriately authorised, eligible, benefits are correctly calculated and appropriate validation checks performed.					
System Interface Checks - interface file checks are in place between all key systems to ensure that data transferred is complete and accurate.					
Pension Payments Payroll Validation – appropriate validation and reconciliation routines are in place to confirm that the pension's payroll is accurate and complete, prior to submission for payment.					
Reconciliations – agreed reconciliations are carried out on a timely basis, with exceptions being investigated and resolved.					
Annual Benefit Statement – assess the progress in delivering the agreed actions within the improvement action plan submitted to the Pensions Regulator.					

Transfers in / out – requests for transfers in and out the scheme are administered on a timely and accurate basis. All payments are appropriately authorised and paid to the correct beneficiary and transfers in are received in full, correctly accounted for and members records are accurately updated.					
Systems Access - Access to key systems and modules are appropriately controlled and access to specific responsibility groups is aligned to an individual's role and business need. Access granted maintains an appropriate segregation of duties and is end-dated promptly when no longer required.					
Overall					

2.2 See definitions for the above assurance levels at Appendix B.

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
1.	<p>Reconciliations – Payroll Unexplained Variances</p> <p>Discussions with the Senior Accountant revealed that a tolerance level has not been set for unexplained variances resulting from the payroll reconciliation completed quarterly.</p> <p>Where there is an unexplained variance within the payroll reconciliation the accountancy officers (HCC) will make a judgement if the variance is acceptable.</p> <p>This is different to the approach to the quarterly rates and adjustment reconciliation, where the Council have agreed a tolerance level above which reconciliations cannot be submitted for approval until the unexplained variance has been investigated and cleared.</p> <p><u>Associated Risk</u></p> <p>By using a subjective approach to the acceptability of variances, there may be an inconsistent approach to investigating the variances. This may</p>	Merits Attention	<p>We recommend that, in order to remove the subjectivity of acceptable variances, the Council agree a tolerance level to be applied against the payroll reconciliations.</p> <p>A tolerance level should be set with both a monetary value (e.g. £1,000) and a percentage of the total payroll for each Admitted Body (e.g. 1%).</p> <p>Whilst making this recommendation, the aim should always be to identify and rectify any variances discovered in a timely manner.</p>	<p>Management will look to implement an appropriate tolerance level for variances which require investigation prior to approval.</p> <p>Responsible Officer: Senior Accountant (Pensions), Finance Manager (Pensions, Treasury, Banking and Taxation Team) – whilst position is recruited to.</p>	31 May 2017

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	result in increased officer time, and increase the risk of fraud and error not being identified and subsequent financial loss to the Council.				
2.	<p>Joiner Forms and Input</p> <p>Based on the compliance testing performed, we have been able to conclude that data input for new joiners was accurate and complete.</p> <p>However, in terms of system design, there are currently no in-built system validation checks to prevent errors or omissions at the data input stage.</p> <p>We have noted there any errors or omissions in data input would be identified and rectify during the year end interface upload for all admitted bodies.</p> <p><u>Associated Opportunity</u></p> <p>Identification of errors and omissions in data may be identified and corrected earlier saving officer time at year end.</p>	Merits Attention	<p>We recommend that management examine the Altair functionality to determine whether mandatory fields could introduced for key data required for new joiners (e.g. National Insurance number, name, address, salary and contribution rates). This will improve the preventative controls in place to reduce the risk of errors at the data input stage.</p> <p>In addition to the above, sample management checks on data input could also be considered to identify other error types such as transposition errors.</p>	<p>LPP will be requested to raise the request for this change to the Altair system at the next 'Class Group', where it will be considered by the application's users, and - if agreed as an appropriate amendment – prioritised and added to a development list.</p> <p>Depending on the outcome of the proposal above, the second element of the recommendation will be considered, although LPP consider that their current approach of identifying and correcting any errors at year end is sufficient.</p> <p>Responsible Officer: Finance Manager (Pensions, Treasury, Banking and Taxation Team)</p>	31 March 2017

Levels of assurance	
Full Assurance	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.
Substantial Assurance	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.
Moderate Assurance	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.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

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