



Final Internal Audit Report

Hertfordshire County Council – Pensions Administration

March 2018

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Report Status: Final

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Overall Assurance: Substantial

INDEX

<u>Section</u>	<u>Page</u>
1. Executive Summary	3
2. Assurance by Risk Area	5
Appendix A – Management Action Plan	7
Appendix B - Definitions of Assurance and Recommendation Priorities	10

1. EXECUTIVE SUMMARY

Introduction

- 1.1 Internal Audit provides Hertfordshire County Council ('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 2017/18 Annual Audit Plan for the Council.
- 1.2 Since 1 April 2011 the HCC Local Government Pension Scheme ("the LGPS Scheme") and the Fire Service scheme ("Fire Scheme") has been administered by the Local Pensions Partnership (LPP), formerly the London Pensions Fund Authority. The LPP acts as a third party administrator for the schemes while the Council retains responsibility for the governance of the LGPS Scheme, management of investments and engagement with fund managers and the responsibility for the governance of the Fire Scheme.
- 1.3 As at the end of the 2016/17 financial year, the LGPS Scheme had over 99,000 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 2017 was over £4.24 billion. The Fire Scheme had approximately 1,500 members (comprising active contributing members, deferred members and pensioner members). No funds are under management for the Fire Scheme.
- 1.4 The purpose 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

- 1.5 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.
- 1.6 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.
- 1.7 We have recognised that LPP are currently transforming their services to split delivery across three offices, Hertford, London and Preston. This has led to the strength of system access controls being reduced due to officers being required to perform multiple roles; although we are satisfied that appropriate compensating controls are in place to monitor appropriate use of any conflicting responsibilities. Going forward, there will potentially be improvements in this area due to the transformation that is currently underway.

- 1.8 During our testing we identified that the use of mail-merge to complete details on input forms, rather than manual input, had led to data errors during a one-off payment run, resulting in payments being rejected or incorrect payments being made. We have confirmed that (with the exception of one small payment that remains unpaid) all errors that occurred have been addressed, with monies recovered or failed payments re-processed. Management have confirmed that mail merges will not be used in future to export data into standard forms from Altair, thereby eliminating the risk of the above issue reoccurring.
- 1.9 Reconciliations for Payroll, Lump Sum, Contributions, Rates and Adjustments and Balance Sheet are completed on a quarterly basis and transfers in and out are reconciled every six months. All reconciliations are completed by LPP and reviewed and approved by the accountancy team from HCC. However, we have identified that, whilst electronic communications support approval being provided by HCC, the approving officer has not fully completed the reconciliation form to demonstrate approval being granted. Given that there is evidence of independent oversight and challenge we have not raised a formal recommendation in respect of the above finding, but remind management of the importance of ensuring the formal sign off process is adhered to.
- 1.10 For definitions of our assurance levels, please see Appendix B.

Summary of Recommendations

- 1.11 We have made two recommendations, one classified as 'Medium' and one classified as 'Merits Attention', to further strengthen the internal controls.
- 1.12 This recommendation relates to the sample checks completed on the Annual Benefits Statements before they are issued to members.
- 1.13 Please see Management Action Plan at Appendix A for further detail.

Annual Governance Statement

- 1.14 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 Statements – the accuracy of annual benefit statements are checked prior to being issued.					

<p>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.</p>						
<p>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.</p>						
<p>Overall</p>						

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

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
1.	<p>Annual Benefits Statement (ABS) – Sample Checking</p> <p>Through discussions with the Projects Team Leader and a review of the available evidence, we have identified that the checks to confirm the accuracy of the ABS prior to issue are not documented.</p> <p>In addition, we have noted that there is no formal process to detail what checks should be performed.</p> <p>As a result of the above there was an insufficient audit trail to allow us to verify the total number of records that were checked, which members were subject to checks or whether any changes were required / made as a result of the checks.</p> <p><u>Associated Risk</u></p> <p>Errors in ABS may not be identified before the statements are issued leading to inaccurate information being issued to members. This may result in reputational damage.</p>	Medium	<p>We recommend that a formal and documented process is established for checking the accuracy of the Annual Benefit Statements issued.</p> <p>This process should include the following, as a minimum;</p> <p>a) The basis by which a sample is selected is documented, e.g. 10% of records per Admitted Body;</p> <p>b) The information that is required to be checked for each record;</p> <p>In order to demonstrate the completion of the checks the following should be recorded:-</p> <p>c) The member records that have been checked and any issues are documented;</p> <p>d) The officer completing the checks ;</p>	<p>Responsible Officer: Projects Team Leader</p> <p>A Check will be introduced at two stages:</p> <p>1. Print file (for each ABS print file run)</p> <p>Where possible we will check 10%. However due to numbers a check of 10% is not feasible. For Deferred, we will check a selection of each category of service.</p> <p>2. Proofs</p> <p>We will check a minimum of 10% of all proofs.</p> <p>At both stages, we will complete a check list detailing the checks made, who has checked them along with a final sign off.</p>	31 August 2018

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
			<p>e) Formal final sign off by management, prior to the issuing of Annual Benefit Statements.</p>		
<p>2.</p>	<p>Pensions New Starters - Processing of Unsigned Forms</p> <p>Through our testing, we identified that one out of six new pensioners forms were processed without the LGPS retirement form being signed by the member (ref 699199).</p> <p>The member is required to sign the retirement form to verify that they wish to begin drawing their pension.</p> <p><u>Associated Risk</u></p> <p>Failure to ensure that forms are appropriately signed by the member prior to processing may result in member benefits being incorrectly paid or fraudulent forms being submitted. This may cause additional administration time required to correct errors and reputational damage.</p>	<p>Merits Attention</p>	<p>We recommend that management investigate how the form was processed without being signed.</p> <p>In addition, we recommend that management remind officers that all retirement forms must be signed by the member prior to processing.</p>	<p>Responsible Officer: Pensions / Payroll Team Leader</p> <p>The member of staff who ran the retirement has been spoken to and she could not account for how the missing signature was overlooked.</p> <p>She is aware and normally follows the process which states that all forms are checked, including that they have been signed by the member. If any of the forms are not signed they should be sent back for signing.</p> <p>On further checking the main options form was signed by the member showing the</p>	<p>Implemented</p>

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
				<p>pension amount they wanted to take. It was the life time allowance form that was missing a signature, though the member did complete the rest of the form as expected.</p> <p>We have reiterated the process to the entire team and further checks have been added to the checking and authorising steps to make sure all forms have been completed fully and correctly.</p>	

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.