

**Appendix 1**

**Internal Audit Report  
Pension Administration Review  
19 October 2023**

**To** Jo Moore Interim Strategic Director Finance & Investment  
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We would like to thank management and staff for their time and co-operation during the course of the internal audit.

## 1. Executive Summary

Assurance Level	Scope Area	Number of recommendations by risk category			
		Critical	High	Medium	Low
<b>Reasonable</b>	Legislation, Policies & Procedures	0	0	0	0
	Joiners, Information and Deductions	0	0	0	0
	Leavers	0	0	0	0
	Transfers	0	0	0	0
	Payments	0	1	0	0
	Refunds	0	0	0	0
	Reconciliations	0	0	0	0
	Monitoring & Review	0	0	1	0

### Audit objective and scope

The objective of this audit is to ascertain that the identifications and administration of the pension contributions is being done accurately, effectively and efficiently and that controls are in place to mitigate against potential risks. Specifically, the review considered the following areas detailed within the agreed scope:

#### Scope Title – Scope Objectives

#### **Legislation, Policies & Procedures**

All staff act consistently in compliance with legislative and management requirements and administration of the Council’s pension is conducted in an economic, efficient and effective manner.

#### **Joiners, Information and Deductions**

New employees are provided with adequate and timely information about the Local Government Pension Scheme to ensure correct deductions are made.

#### **Leavers**

System is timely updated with leavers to ensure that pension liabilities are accurately reflected.

#### **Transfers**

There is a process in place to ensure transfers to / transfers in from other pension funds are correct including the timescale for completion of transfer.

**Payments**

Processes are in place to ensure that correct, authorised and timely payments to beneficiaries and other third parties are made.

**Refunds**

There is a process in place to ensure that refunds of pension contributions are valid, correct and appropriately authorised.

**Reconciliations**

Reconciliations are timely and regularly conducted between the pension system and other key financial management systems to ensure that any errors/ omissions are picked up promptly and alleviating the end of year pressure.

**Monitoring and Review**

There are performance indicators in place that are monitored by senior management.

**Pensions Data and System Security**

Controls are in place to prevent unauthorised access to the pensions system leading to personal data being compromised.

An extract from the Terms of Reference detailing the scope of this review is available at Appendix C.

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**Summary of approach and findings**

The Council's pension scheme is part of the Local Government Pension Scheme (LGPS), following the regulations in line with this and the appropriate contribution level thresholds. The Pension Team are responsible for recording new joiners and leavers from the scheme, the calculating and processing of contributions to and from other pension schemes and the calculation of pension payment entitlements.

Audit established that there is an ad hoc pension procedure guidance and LGPS brief guide for the Pension Team while other information and process of the pension scheme are available to all staff on the Council's intranet page.

Audit also established that there is a Pensions Administration Strategy outlining the roles and responsibilities of the key parties in the Pension Funds.

The Council's pension system is administrated using the Altair system, which records the details of all members of the LBBB pension scheme. The Altair system is used for monitoring of pensions information for members of the scheme and calculating amounts with the correct parameters of the LGPS.

The Altair system is hosted and administered by the provider, Heywood Pension Technologies. Documentation and independent ISO certifications were provided to evidenced that the system is regularly backed up, secured and tested for business continuity and disaster recovery.

Separate system; iTrent and E5 are used for processing of payments following appropriate authorisation by a senior member of Pensions staff.

The Council pension scheme works on an opt-out basis for new joiners, and they are processed onto the scheme unless they choose otherwise. Human Resources (HR) notifies the Pensions team of new joiners, including the equivalent full-time salary they are starting at as well as their working patterns

i.e. full time or part time, which determines the pay-band they belong to and consequently the percentage level of their pension contribution. This is deducted from their monthly salary payment automatically at source by the iTrent system (payroll system).

From review of 20 selected new joiners by Audit it was established that the records on the Altair system (recording system) included the National insurance (NI) number of the employee, their unique payroll reference number for iTrent system, their contribution percentage level and the start date of the employee. These were then found to match the records recorded on the HR/Payroll records on the iTrent system, with the start date and the percentage level deducted from monthly salary payment matching those documented on the Altair system. Through re-calculations performed by Audit it was established that the value of contributions deducted were accurate in all cases and statutory notices were sent to the selected joiners.

Leavers' information from iTrent are transferred to the Altair System via i-Connect interface for their records to be updated. Leavers between age 55 and State Pension Age are entitled to a claim early pension with reductions, or they can choose to defer their benefits. Ill-health retirements are processed where the employment has been terminated on health grounds due to incapacity and a certificate of permanent incapacity issued. In the case of redundancy retirements termination notice from HR is required. The length of service is automatically calculated by the system when the last day of service is entered onto the system.

From review of 20 selected leavers by Audit it was established that their records were timely and accurately updated with their leavers' dates and the formular for calculating their pension benefits were consistently applied.

The Council allows new joiners to transfer the contributions made to previous pension schemes to the Council pension scheme. Similarly leavers from the scheme also have the option to transfer their LBBB contributions to the scheme of their new employer. These transfers are only processed when the Pension's Team receive written authorisation from the scheme members confirming their wish to transfer the amounts.

From the selected leavers stated above 9 had their pensions contributions transferred to the scheme of their new employers and on review by Audit it was established that the formular for calculating the transfer values were consistently applied and reflected on E5 – Account Payable as accurately paid out.

For the 20 selected samples of pension contributions transferred in by new joiners and reviewed by Audit it was established that the transferred value re-calculations by the Altair system reconciled with the valuation quoted by the previous employers' pension scheme provider and accurately reflected on E5 – General Ledger as paid into the Council's bank account.

On retirement Pensioners can either request to be paid their entitlements monthly or in a lump sum subject to meeting the required criteria. From the samples of 20 selected Pensioners reviewed by Audit it was established that the correct values calculated on the Altair system were accurately paid to them monthly via the iTrent system.

From a review of 20 selected samples of Pensioners that got paid lump sum of their pension entitlements it was established that the retirement lump sum had been accurately calculated and payments made via E5 – Account Payable to the Pensioners.

Audit was informed that for aged pensioners currently, apart from participating in the National Fraud Initiative (NFI), the Pension Team does not monitor life existence. However, they are in talks with the administrators of Altair about entering into a mortality screening exercise and waiting on some information on costings etc. The same applies for oversea pensioners as proof of life are not requested for continue payments of pension entitlements.

In the event of Pensioners' death, the Council requires whoever is looking after the Pensioners' affairs to contact the Pension Team to give the Team copy of the death certificate or complete the Government's "Tell us Once" online system. From the samples of selected 20 deceased Pensioners with

death grants pension payments reviewed by Audit it was established that appropriate evidence were in place and Altair and iTrent system accurately and timely updated.

Pension contributions by employees are automatically refunded if they opt out within 3 months of joining the scheme. They could also be eligible for a refund if they have less than 2 years membership, no other LGPS membership and have not transferred in benefits from another scheme. However only their contributions are refundable after tax and National Insurance deductions where applicable, those paid by the Council would not be refunded.

From a review of 20 selected refunds payments reviewed by Audit it was established that the processed refunds were in eligible, accurately calculated and payments made through the E5 – Account Payable for leavers and iTrent system for employees after the deduction of the required income tax.

Audit established that reconciliations are performed by the Pension Fund Accountant between the Altair system and the general ledger transactions on E5 system for pensioners, retirement grants paid, transfer values received, transfer values paid out. Review of supporting documents for the period April to July 2023 were deemed satisfactory by Audit.

Audit identified within the Council's Pension Administration Strategy that legislation dictates that Councils should set minimum standards that pension schemes should meet in providing certain pieces of information to the various stakeholders. Activities were identified by the Council's Pension Team and target days for completion were set for each of them. However only the number of activities delivered during the financial years were reported in the LBBB draft-pension-fund-annual-report-2022-23.

The Council's Pension fund is subject to an actuarial valuation once every three years. A valuation was undertaken by Barnett Waddingham LLP and report issued in March 2023 for the period 1 April 2023 to 31 March 2026. The draft report looks at the position of the fund in relation to the past service liabilities, the amount due to pension scheme members based on their contributions and the current assessed value of assets by the fund.

Audit established that the complaints procedure for pension scheme is known as 'Internal Disputes Resolution Procedure' (IDRP) and available to all on the Council's website.

Audit was informed that all complaints results to IDRP and Barnett Waddingham LLP were appointed by the Council as the Adjudicator for Stage 1 cases under IDRP of the Local Government Pension Scheme (LGPS) under regulation 74(1) of the LGPS Regulations 2013 and are required by the same regulation to decide on the application of the applicant.

Should the applicant not be satisfied with Stage 1 decision they may apply to the relevant LGPS administering authority, the Pension Team, for a further consideration of the case under Stage 2 of the IDRP process.

Audit was informed that at the time of this review there were only 2 cases of complaints and documentations were provided showing that the above procedures were complied with.

We identified one medium and one high risk findings:

- Life certificates form for completion are not sent to oversea pensioners to check that the pensioners are still alive to deter fraudulent payments.
- Pension administration activities target days are not monitored for performance efficiency.









## **2. Findings and Action Plan**

REF	FINDING	RISK	RISK CATEGORY	PROPOSED RECOMMENDATIONS & MANAGEMENT ACTION	RESPONSIBLE OFFICER TARGET DATE
1.1	<p><b>Overseas Pensioners – Life Certificates</b></p> <p>From time-to-time pension administrators need to check that pensioners are still alive and well, and getting the pensions they are entitled to.</p> <p>Audit was informed that for aged pensioners currently, apart from participating in the NFI the Pension Team does not monitor life existence.</p> <p>However, they are in talks with the Administrator of Altair system about entering into a mortality screening exercise and waiting on some information on costings etc.</p> <p>The same applies for overseas pensioners as proof of life are not requested for continued payment of pension entitlements.</p> <p>As of 25<sup>th</sup> of August 2023 there are 118 LBBB overseas pensioners.</p>	<p>The following are potential frauds for not confirming proof of life:</p> <ul style="list-style-type: none"> <li>• There is a risk that pension payments continue to be made following the death of a pensioner; and</li> <li>• In the case of incapacitated pensioners, where they have been subject to financial abuse by family members and friend.</li> </ul>	High	<p>Pension life certificate form should be developed and send to all overseas pensioners for completion.</p> <p>The form should be witnessed by a person (unrelated) in a recognised profession, signed and stamped.</p> <p>The list of recognised profession should be listed on the form.</p> <p>It should be stated in the form that failure to return the completed and witness form within the specified timeframe would result to suspension of pension payments until such time as a completed life certificate is received.</p> <p>The above process could also be used for aged pensioners living in UK.</p> <p>All the above information and form should be available of the Pension Scheme page of the Council's website.</p>	
1.2	<p><b>Pension Activities Target Days Monitoring</b></p>	<p>Lack of service delivery performance monitoring</p>	Medium	<p>Plans should be put in motion on how to generate the data</p>	

REF	FINDING	RISK	RISK CATEGORY	PROPOSED RECOMMENDATIONS & MANAGEMENT ACTION	RESPONSIBLE OFFICER TARGET DATE
	<p>Audit identified with the Council’s Pension Administration Strategy that legislation dictates that Councils should set minimum standards that pension schemes should meet in providing certain pieces of information to the various stakeholders.</p> <p>Pension activities were identified by the Council’s Pension Team and target days for completion set for each of the activities.</p> <p>However, it is only the number of activities delivered during the financial years that are reported in the LBBB draft pension fund annual report 2022 – 23.</p>	<p>could result to poor service deliver and complaints from service users.</p>		<p>needed to capture and record the target days set for completion of the pension activities identified for monitoring on the system.</p> <p>Once achieved the target days should be analysed to find and recommend area for improvement.</p> <p>The outcome should be reported as part of the figures stated in the pension fund reports.</p> <p>This would allow management to be proactive in tracking resource consumption, response times, and other performance metrics as well as predict potential issues that requires immediate action before they impact on pensioners.</p>	

**Appendix A: Definition of risk categories and assurance levels in the Executive Summary**

## INTERNAL AUDIT – Pension Administration Review Draft Report

Risk rating	
<b>Critical</b> 	<p>Immediate and significant action required. A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Life threatening or multiple serious injuries or prolonged workplace stress. Severe impact on morale &amp; service performance (e.g. mass strike actions); or</li> <li>• Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny (i.e. front-page headlines, TV). Possible criminal or high-profile civil action against the Council, members or officers; or</li> <li>• Cessation of core activities, strategies not consistent with government's agenda, trends show service is degraded. Failure of major projects, elected Members &amp; Senior Directors are required to intervene; or</li> <li>• Major financial loss, significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council. Critical breach in laws and regulations that could result in material fines or consequences.</li> </ul>
<b>High</b> 	<p>Action required promptly and to commence as soon as practicable where significant changes are necessary. A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale &amp; performance of staff; or</li> <li>• Significant impact on the reputation or brand of the organisation. Scrutiny required by external agencies, inspectorates, regulators etc. Unfavourable external media coverage. Noticeable impact on public opinion; or</li> <li>• Significant disruption of core activities. Key targets missed; some services compromised. Management action required to overcome medium-term difficulties; or</li> <li>• High financial loss, significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences.</li> </ul>
<b>Medium</b> 	<p>A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale &amp; performance of staff; or</li> <li>• Moderate impact on the reputation or brand of the organisation. Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage; or</li> <li>• Significant short-term disruption of non-core activities. Standing orders occasionally not complied with, or services do not fully meet needs. Service action will be required; or</li> <li>• Medium financial loss, small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences.</li> </ul>
<b>Low</b> 	<p>A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Minor injuries or stress with no workdays lost or minimal medical treatment, no impact on staff morale; or</li> <li>• Minor impact on the reputation of the organisation; or</li> <li>• Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule; or</li> <li>• Handled within normal day to day routines; or</li> <li>• Minimal financial loss, minimal effect on project budget/cost.</li> </ul>
Level of assurance	
<b>Substantial</b> 	<p>There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice.</p>
<b>Reasonable</b> 	<p>An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses, but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.</p>
<b>Limited</b> 	<p>There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.</p>
<b>No</b> 	<p>There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.</p>

## Appendix B: Internal Audit Roles and Responsibilities



Internal Audit is responsible for this report; however, the actions / implementation of the matters raised in this report are only those that came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all weaknesses that exist nor all improvements that might be made:

- Management are responsible for maintaining effective internal controls including the implementation of audit recommendations and the management of risks attached to this system / service. Internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.
- The responsibility for effective and timely implementation of the recommendations made rests with management and these should be fully assessed for their full impact before they are implemented.

## Appendix C: Terms of Reference Extract – Scope of the Review

The audit will consider the potential risks set out in the table below:

Objectives	Risks
<p><b>Legislation, Policies &amp; Procedures</b></p> <p>All staff act consistently in compliance with legislative and management requirements and administration of the Council's pension is conducted in an economic, efficient and effective manner.</p>	<p>Failure to comply with legislative requirements and recommended practice could result to litigation and bad publicity against the Council.</p>
<p><b>Joiners, Information and Deductions</b></p> <p>New employees are provided with adequate and timely information about the Local Government Pension Scheme to ensure correct deductions are made.</p>	<p>Failure to obtain contributions, incorrect calculation of future liabilities and future administrative complications could result to financial loss or over payments both to and by the Council and employees.</p>
<p><b>Leavers</b></p> <p>System is timely updated with leavers to ensure that pension liabilities are accurately reflected.</p>	<p>Incorrect information about current employees on the system as leavers are not timely removed which could result to continuous employer's contribution.</p>
<p><b>Transfers</b></p> <p>There is a process in place to ensure transfers to / transfers in from other pension funds are correct including the timescale for completion of transfer.</p>	<p>Financial loss to the Councils due to invalid and inaccurate transfer of pension funds and inaccurate payments of benefits, pensions, and grants.</p>
<p><b>Payments</b></p> <p>Processes are in place to ensure that correct, authorised and timely payments to beneficiaries and other third parties are made.</p>	<p>Invalid and erroneous payments made potentially resulting to fraud payments and financial loss to the Council.</p>

<b>Objectives</b>	<b>Risks</b>
<p><b>Refunds</b></p> <p>There is a process in place to ensure that refunds of pension contributions are valid, correct and appropriately authorised.</p>	<p>Failure to refund overpayments of contributions in a timely manner can result in financial hardship, reputational damage and a breach of legislative requirements.</p>
<p><b>Reconciliations</b></p> <p>Reconciliations are timely and regularly conducted between the pension system and other key financial management systems to ensure that any errors/ omissions are picked up promptly and alleviating the end of year pressure.</p>	<p>Where reconciliations between the Pension System and the iTrent &amp; e5 System are not undertaken there is an increased risk discrepancies remain undetected, and issues are not correctly accounted for.</p>
<p><b>Monitoring and Review</b></p> <p>There are performance indicators in place that are monitored by senior management.</p>	<p>Management failure to monitor the administration of the pension administration could lead to:</p> <ul style="list-style-type: none"> <li>• poor decision making when setting the budget for contribution;</li> <li>• financial loss to the Council; and</li> <li>• legal repercussion.</li> </ul>
<p><b>Pensions Data and System Security</b></p> <p>Controls are in place to prevent unauthorised access to the pensions system leading to personal data being compromised.</p>	<p>System data may not be secure against inappropriate access and systems failure may result in lack of continuity in service / service failure including late payments.</p>