



**FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT**

PENSION ADMINISTRATION 2019-20

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INTRODUCTION

1. This report sets out the results of our internal audit of Pension Administration. The audit was carried out as part of the work specified in the 2019-2020 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee. The controls we expect to see in place are designed to minimise the Council's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be addressed by management.
2. The audit looked to review the arrangements in place for oversight and control over pension administration activity which impact on the reliability of records, integrity of information and compliance with relevant regulations.
3. The Council's Pensions Manager is responsible for the oversight and management of pension fund related processes. Administrative services are outsourced to Council's Exchequer Contractor, who have delegated responsibility for many of the processes associated with pensions. The key objective of the Council's Exchequer Contractor's Pensions Team is to maintain accounts on the pensions system, calculate annual contributions, pensioner and lump sum payments, and to liaise with prospective and current pension fund members.
4. We would like to thank all staff contacted during this review for their help and co-operation.

AUDIT SCOPE

5. The scope of the audit was outlined in the Terms of Reference issued in December 2019.
6. The controls in place to mitigate the impact of the key risk areas were examined. Controls relating to corporate and departmental risks were also examined where applicable. The audit included a review of relevant documentation, interviews with key officers and testing of related procedures and processes.
7. The following were considered to be the key risks inherent to the Pension Administration process:
 - There are inappropriate policies and procedures in place to guide staff and support meeting legislative requirements.
 - Ineffective process may be in place for setting up new joiners or terminating leavers from the pension scheme. Processes / systems for transferring staff into the scheme from other schemes (previous employers) may be unsuitable.

- In the absence of independent checks, inappropriate or incorrect refunds may be made, which are not supported by key documentation, detailing calculations and evidence of appropriate authorisation.
- The system for employee/employer contributions may not be robust to ensure that the correct amounts are deducted and recorded in the pension accounts. Additional voluntary contributions may therefore not be fully authorised by the contributor; agreed by the employer, or be within the prescribed limits.
- Pension payments may not be complete, legitimate and accurate to prevent fraud and/or error, e.g. there may be payments to deceased pensioners, ineligible partners, overseas pensioners, etc.
- Pension records are not maintained completely, accurately and securely (including the processing of Death Grants, which can be significant sums of money and thus must be correctly calculated and appropriately authorised).
- In the absence of regular reconciliations between the pensions system and the general ledger, errors or omissions may go unnoticed. Lump sum payments, refunds and transfers in and out may not be undertaken on a timely basis and reviewed.

AUDIT OPINION

8. Our overall audit opinion, number and rating of recommendations are as follows.

AUDIT OPINION	
Reasonable Assurance	(Definitions of the audit assurance level and recommendation ratings can be found in Appendix B)

Number of recommendations by risk rating		
Priority 1	Priority 2	Priority 3
0	1	2

SUMMARY OF FINDINGS

9. Controls noted to be in place and working effectively, based on the audit testing conducted, included:

- Procedural flow charts have been implemented by the Pension’s Team at Council’s Exchequer Contractor. These were confirmed to reflect key processes within the remit of the team as well as reflecting current practice observed through the audit.
- In terms of supervisory review, our walkthrough/testing evidenced that risk was minimised by segregating duties within the key processes, such as through the secondary checking of calculations and separating sign-off for key processes (to give comfort that additions, removals, payments could not be processed by a single person).

- Sample testing of 10 new starters since April 2019 confirmed scheme joiners had been correctly entered onto the pensions system, as well as being issued their statutory notice and letter, as confirmation of being successfully set up onto the scheme. Some control is automated upon recruitment e.g. a new starter is automatically enrolled to the pension membership, so does not necessarily need to complete a new pension membership form. However, reminder letters are still sent to the member to determine if they wish to transfer in from another scheme for example.
- Sample testing confirmed account statuses and amendments in respect of 10 pension scheme leavers since April 2019 had been correctly administered on the pension system. Cessation of membership forms had been uploaded to the pension system for reference, and leavers had been contacted by letter as confirmation. It was also noted that the pension system is linked to the payroll system. If an employee is marked as a leaver/deceased on the pensions system this is then translated and payments are stopped.
- Sample testing confirmed for 10 transfers since April 2019 that members transferring their funds into the Council's pension scheme had completed the required application form, and correspondence with each member's previous pension scheme providers had been retained. Transfer in calculations had been saved and checked for accuracy by a senior member of the Council's Exchequer Contractor 's Pensions Team. Calculations had also been checked and signed-off both physically and electronically on the pension system.
- Testing of a sample of 10 payment requests and calculations for transfer out cases confirmed they had been checked and authorised within Council's Exchequer Contractor. Furthermore, correspondence with the new pension providers had been retained.
- Refunds may be issued for one of two reasons:
 - 1) A new starter does not want to be part of the pension scheme and has not opted out or communicated this before deductions are made; or
 - 2) Leavers that do not want to transfer their pension money are able to refund their stake in the fund.

An employee can request a refund within two years of joining the scheme.

Testing a sample of 10 refunds established that payments had been processed accurately. All refunds tested were confirmed to be processed within two years of joining the scheme. Refund payment requests accurately matched calculations and logs from the pension system. Refund calculations had also been checked and signed off by a senior member of the Council's Exchequer Contractor's Team.

- Access rights to the pension system had been restricted by the Systems Administrator at Council's Exchequer Contractor. Only those with agreed high seniority levels had full access to the pensions system and were able to make amendments to pension accounts.
- Sample testing confirmed consent of members with Additional Pension Contributions (APCs) were obtained, along with declaration of fitness from the member's employer. The testing of all three APCs administered since April 2019 identified all as having consent from both employee and employer. Furthermore, the value of all APCs tested fell within the prescribed limit of £7,026 (this limit is set by the Local Government Pension Scheme (LGPS), governed by The Local Government Association).
- Signed new pensioner forms were retained on the pension system, along with checked calculations and authorised payment requests for those 10 sample tested. This confirmed relevant documentation, including forms, checked calculations and authorised payment requests, were available on the pension system.
- Sample testing of six death grant payment requests administered since April 2019 confirmed they were authorised and paid to the correct beneficiaries. Grant calculations were checked and signed off by the Pensions Manager and then sent for final authorisation to the Chief Accountant or Director of Finance.

10. We would however like to bring to management attention the following issues:

- Reconciliations between the pension system and general ledger accounts are produced on a quarterly basis by Council's Exchequer Contractor before being sent to the Council. The reconciliations for Quarters 1 and 2 of 2019/20 were provided as evidence as these being forwarded by Council's Exchequer Contractor. However, there is no evidence of Council review or sign-off of the quarterly reconciliations produced by Council's Exchequer Contractor. This finding is carried forward from the 2018-19 audit*.
- The policy and procedure documents in place outlining the responsibilities of Council staff in the pension's administration process are not centralised, limiting their accessibility and validity to Bromley related processes. This finding is carried forward from the 2018-19 audit*.
- Refunds are paid through cheque rather than BACS. The Council is in the process of transferring over to a BACS payment platform, however, BACS payment runs and BACS refund claim forms have not yet been finalised.

** The reason for not implementing these recommendations was advised, by management, to be as a result of staff vacancies, particularly the Capital Accountant and Principal Accountant, plus a change to the Pensions Manager post holder. The Principal Accountant and Pensions Manager roles had been filled as of December 2019.*

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

11. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are prioritised in line with the criteria set within Appendix B.

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DETAILED FINDINGS AND ACTION PLAN

APPENDIX A

No	Finding	Risk	Recommendation and Priority *Raised in previous Audit	Management Response	Agreed timescale and responsible manager
1	<p><u>Reconciliations – Review and Sign Off</u></p> <p>Reconciliations between the pensions system and the retirement grant, death grant, transfer in and transfer out general ledger accounts, are produced on a quarterly basis by Council's Exchequer Contractor. Despite the reconciliation spreadsheets being shared with the Council's Principal Accountant upon completion, there is no physical evidence of the reconciliations being reviewed and signed off each quarter. This was an issue raised in the 2018-19 audit.</p>	<p>Where quarterly reconciliations are not reviewed and signed off by the Council's Principal Accountant, errors or omissions may go unnoticed. This could contribute to a lack in the timeliness and accuracy of transfers and grants payments.</p>	<p>Management should ensure that, upon completion of the quarterly reconciliation sheet, the Council's Principal Accountant reviews and physically signs off on the validity of the reconciliations.</p> <p style="text-align: center;">Priority 2</p>	<p>Quarterly reconciliations to be carried out by Capital Accountant and signed off by Principal Accountant.</p>	<p>31/03/2020 Responsibility: Principal Accountant/Capital Accountant</p>
2	<p><u>Council Policies and Procedures</u></p> <p>Although procedure flow charts were available with respect to the processes</p>	<p>Where policy and procedure documentation is not in place and accessible, there is an increased likelihood of</p>	<p>Management should produce a centralised policy and procedure document highlighting the processes specific to Council staff, and the extent to which Council staff interact with the processes</p>	<p>Management to review current policies and procedures and to have a "combined" policies and procedures booklet.</p>	<p>30/09/2020 Responsibility: Pensions manager</p>

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DETAILED FINDINGS AND ACTION PLAN

APPENDIX A

No	Finding	Risk	Recommendation and Priority *Raised in previous Audit	Management Response	Agreed timescale and responsible manager
	undertaken by the Council's Exchequer Contractor's Pension's Team, discussion with the Pensions Manager established that there is a lack of equivalent procedure documentation outlining the responsibilities of Council staff in these processes, held in one central location. As a result, these policies could not be provided during the audit. This was an issue raised in the 2018/19 audit.	processes being completed inconsistently and a lack of Council wide awareness of pension related administrative procedures.	owned by Council's Exchequer Contractor. All policies contributing to the centralised document should be reviewed and updated where appropriate. Priority 3		
3	<u>Secure Payment of Refunds</u> It was established that refunds are paid to members via cheque. This limits the security of payments and could encourage fraudulent activity. Discussion with the Pensions Manager identified that there are plans to roll out a process where refunds are paid	Where refund payments are not issued through secure means, there is an increased likelihood of payments being involved in fraudulent activity, or being lost/ stolen.	Management should progress in finalising the BACS refund payments process for pensions. Priority 3	Agreedf	The BACS payment for refunds is expecting to go live on 02/03/2020 Responsibility: Council's Exchequer Contractor

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	through BACS rather than cheque. The new BACS refund claim form has been produced and is awaiting approval from the Head of Revenues and Benefits.				

Assurance Level

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

Recommendation ratings

Risk rating	Definition
Priority 1	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
Priority 2	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
Priority 3	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.