

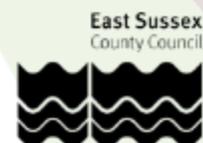


# Internal Audit Report

## Pensions Fund Processes and Systems

### Final

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Prepared for: East Sussex County Council  
Date: 22 August 2018



## Internal Audit Report – Pensions Fund Processes and Systems

### Report Distribution List

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This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

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## Internal Audit Report – Pensions Fund Processes and Systems

### 1. Introduction

- 1.1. The Council (East Sussex County Council) is the designated statutory administering authority of the East Sussex Pension Fund (the Fund). The Council has a statutory responsibility to administer and manage the Fund in accordance to rules of the Local Government Pension Scheme (LGPS) which are set out in the following regulations:
  - The Local Government Pension Scheme Regulations 2013;
  - The Local Government Pension Scheme Transitional Provisions, Savings and Amendment Regulations 2014; and
  - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- 1.2. As at 31 March 2018 the Fund comprised 132 scheme employers with approximately 70,000 scheme members in relation to the LGPS. The most recent actuarial valuation of the Fund, carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008, was in October 2016. The valuation found that the funding level has improved from 81% in 2013 to 92% in 2016. In particular, it found that the Fund's assets and liabilities were valued at £2.78bn and £3bn respectively, resulting in a funding deficit of £240m (down from £541m 2013).
- 1.3. The governance of the Fund is the responsibility of the Chief Finance Officer for East Sussex County Council, the East Sussex Pension Committee, and the Pension Board. The day to day administration of the Fund is provided by Orbis Business Operations.
- 1.4. During the financial 2017/18 the scheme received approximately £124.1m in contributions from members and their employers, and made pension payments of approximately £123.9m to members who are now pensioners.
- 1.5. This review is part of the agreed Internal Audit Plan for 2018/19.
- 1.6. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the main body of the report.

### 2. Scope

- 2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
  - Process controls in the system are effective and any transactions, data and outputs from the system are complete and accurate.
  - The Governance processes that are in place are both effective and clear. They help the efficient running of the service and performance of pensions administration by Orbis Business Operations is monitored.
  - Deficits for the admitted bodies are fully supported by a bond or guarantee.
  - The employer portal (PensionWeb) is used in a secure environment and administration is controlled to ensure appropriate administration of the fund.

### 3. Audit opinion

**Reasonable Assurance** is provided in respect of the Pension Fund processes and systems. This opinion means that most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.

*Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.*

#### **Basis of Opinion**

- 3.1 We have been able to provide Reasonable Assurance over the controls operating within the area under review because:
- 3.2 Systems are in place to ensure the accuracy of data entry to pension systems and the calculation of pension benefit entitlements.
- 3.3 Contributions received from employers are reconciled to employers' monthly certificates of contribution to provide assurance that income expected is received intact.
- 3.4 The roles and responsibilities of the Council (as Fund managers) and Surrey County Council (as the administration service providers) have been defined and documented.
- 3.5 Performance targets for the pension administration service provider have been set and are monitored on a regular basis.
- 3.6 The Fund has developed procedures covering the identification and escalation of breaches of statutory requirements.
- 3.7 An actuarial assessment is undertaken for all new employers and appropriate bond or guarantees are put in place before they can join the Fund.

However, a number of opportunities for improvement were identified, as follows:

- 3.8 The presence of data errors, highlighted in December 2017 data cleansing exercise, and which remain unresolved, may lead to errors in actuarial valuations or the calculation of benefit entitlements.
- 3.9 The Administrator and the Council have not set out scheme-specific data requirements to supplement statutory requirements expected for each member, as recommended by the Pension Regulator. As a result, it may be missing the opportunity to strengthen its data quality.
- 3.10 To help ensure that year end activities are completed in a timely manner, the Administrator should develop and submit a schedule of key pensions activities that it will undertake for the year to the Council for approval by the start of each calendar year.
- 3.11 To improve system access controls, the Administrator should carry out an annual access review of Altair.

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- 3.12 There has been slippage in the Annual Benefit Statement production plan (as agreed by the Pension Board), but a formal management action has not been raised because the Administrator is working to a revised production plan to help ensure that the statutory deadline of 31<sup>st</sup> of August is met.

### 4. Action Summary

Risk Priority	Definition	No	Ref
High	Major control weakness requiring immediate implementation		
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	2	1 & 2
Low	Represents good practice but its implementation is not fundamental to internal control	2	3 & 4
	<b>Total number of agreed actions</b>	4	

### 5. Acknowledgements

We would like to thank all staff that provided assistance during the course of this audit.

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
1	<p><b>Membership Data Cleansing</b></p> <p>The Pensions Regulator (TPR) recommends that members' data should be reviewed and cleansed on an annual basis. We found that a data cleansing exercise was carried out in December 2017 using the Fund's Actuary (Hymans Robertson LLP)'s data validation tool. The exercise identified a significant number of errors and warnings and these have not yet been resolved.</p> <p>For example, the data validation tool raised 14,000 queries that may be errors that would affect actuarial calculations (e.g. missing date of birth). It also raised 67,000 warnings where data may be correct but the value lies outside the expected range (e.g. where full time salary is under £10,000). These types of warnings should be investigated and the data should be amended if it is found to be incorrect.</p>	Poor data quality (e.g. inaccurate or incomplete scheme member information) may result in errors in valuations, calculations and payments.	Medium	All errors and/or warnings from the membership data cleansing exercise will be investigated and the data will be amended, if it is found to be incorrect.
Responsible Officer:		Head of Business Operations	Target Implementation Date:	31/12/2018

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
2	<p><b>Record Keeping</b></p> <p>TPR has set out 11 common data items that it expects all schemes to hold for its members. We found that 99.9% of members have all the common data items present on Altair; the small exception relates to 105 out of 73,521 members that have a missing address and/or postcode. It should be noted that presence of the data does not imply accuracy (see ref 1).</p> <p>In addition to the common data items, TPR requires each scheme to have developed a set of scheme specific data items that should be present for each member. However, we were unable to measure the presence of scheme-specific data because the Council and/or the administrators have not set these out. It is worth noting that the Fund will have to report on the percentage of common data set and scheme specific data set that have been assessed as present in its annual scheme return to TPR.</p>	<p>Poor data quality (e.g. inaccurate or incomplete scheme member information) may result in errors in valuations, calculations, and payments. In addition, failing to measure the presence of scheme specific data set may hinder the Fund's ability to complete its statutory return.</p>	Medium	<p>We will submit a proposal to the Pension Board, setting out the scheme-specific data set that will be measured and the associated cost of the exercise, for approval.</p>
Responsible Officer:		Head of Business Operations	Target Implementation Date:	12/10/2018

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
3	<p><b>Annual Schedule</b></p> <p>Surrey County Council (as the pension administration service provider) is responsible for developing an annual schedule of tasks that will be agreed by East Sussex County Council. The annual schedule sets out a timetable of key pension activities that should be completed by the service provider, including statutory activities such as submitting tax returns and issuing annual benefit statements. However, the annual schedule for 2018 has not yet been developed by the service provider despite requests from the Council. A review of the annual schedule for 2017 found that some statutory reports had not been included. These includes submitting:</p> <ul style="list-style-type: none"> <li>the Pension Fund’s annual accounts (SF3) to the DCLG; and</li> <li>the annual event report to HMRC.</li> </ul>	The failure to meet statutory reporting responsibilities may result in reputational damage and financial penalties for the Council.	Low	We shall develop and submit an annual schedule of key pension activities to the Council for approval by the start of each calendar year. We shall ensure that the schedule includes all statutory returns and reports.
<b>Responsible Officer:</b>		Head of Business Operations	<b>Target Implementation Date:</b>	31/12/2018

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
4	<p><b>Annual Review of System Access</b></p> <p>A review of systems access identified an employer (Eastbourne Home) who has left the Fund but can still gain access to the employer portal (Pensions Web). In addition, five out of the 32 users who currently have access to the pension management system (Altair) have left the Council.</p>	<p>Failure to secure and manage personal data held by the Pension Fund if officers who do not need access have access to the data, this may result in reputational damage and financial penalties for the Council.</p>	Low	<p>The user accounts for the employer and employees identified have been deleted, we will write to employers with access to Pensions Web to positively confirm their employees who need access to the system on an annual basis. We will also review user access to Altair at least on an annual basis.</p>
Responsible Officer:		Head of Business Operations	Target Implementation Date:	31/12/2018

# Appendix A

## Audit Opinions and Definitions

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
<b>Minimal Assurance</b>	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

## Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.