Internal Audit Report

Pension Administration - People, Processes and Systems 2021/22

Final

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1. Introduction

1.1. The Council (East Sussex County Council) is the designated statutory administering authority of the East Sussex Pension Fund. The Council has statutory responsibility to administer and manage the fund in accordance with the Local Government Pension Scheme (LGPS) Regulations.

1.2. The governance of the Fund is the responsibility of the East Sussex Pension Committee, and the Pension Board, supported by the Chief Finance Officer for East Sussex County Council. The day-to-day administration of the Fund was provided by Orbis Business Operations, but this responsibility was transferred to the Pensions Team at East Sussex County Council, commencing on 1 April 2021.

1.3. As at 31 March 2021, the Fund comprised 127 scheme employers with 25,002 active, and 31,234 deferred, scheme members. The most recent actuarial valuation of the Fund was carried out in 2019. The valuation found that the funding level had improved from 92% in 2016 to 107% in 2019. The Fund's assets and liabilities were valued at £3,633m and £3,386m respectively, a surplus of £247k, compared with a funding deficit of £240m in 2016.

1.4. During the financial year 2020/21, the scheme collected £131.5m in contributions from members and their employers and made benefit payments of approximately £128.7m to members who are now pensioners.

1.5. This audit tested the controls employed by management covering the calculation and payment of pension benefits; transfers to and from the Pension Fund; and the collection and recording of pension contributions (including contributions from admitted and scheduled bodies).

1.6. This review was part of the agreed Internal Audit Plan for 2021/22.

1.7. This report has been issued on an exception basis, whereby only weaknesses in the control environment have been highlighted in 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:

- Payments made to pensioners are correct and on time.

- Income due to the Fund is received in full and in a timely manner.

- Clear and effective governance processes over pension administration ensure efficient and effective delivery of the administration service.

- Transactions, data and outputs from the system are complete and accurate.

- Previously agreed actions are actioned and implemented.

3.	Audit Opinion
3.1.	**Reasonable Assurance** is provided in respect of **Pension Administration - People, Processes and Systems 2021/22.** 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.*

4.   Basis of Opinion

4.1.   We have been able to provide an audit opinion of reasonable assurance because work has continued to improve the administration of the Fund, since the separation of the administration function from Surrey County Council. This has occurred despite the introduction of the new instance of the administration software, Altair, as part of the separation from Surrey, and the Pension Administration Team carrying up to nine vacancies throughout the year. There are no high-risk findings in this report.

4.2.   Robust processes are in place to ensure that contributions due, as notified by employers, are received intact. Late payments are monitored, and official warning notifications are being sent to employers whose contributions have been received late.

4.3.   Benefit payments and transfers out are required to be checked by an independent officer to ensure they are correct before payments are made.

4.4.   KPI reports presented to the Pension Board and Pension Committee were found to be consistent with the underlying data in Altair and reflect the Pension Administration Team's performance.

4.5.   Most of the actions agreed during the previous audit have been implemented. Where they have not been implemented in full, they have been restated in this report.

4.6.   However, we found some areas where the Fund would benefit from strengthening its internal controls.

4.7.   Greater assurance over the accuracy of pension contributions, as identified by employers, is needed to ensure that contributions are collected in full. Many employers delegate the submission of contributions to relatively junior officers, who do not indicate how they ensure that the figures they provide are correct, despite being prompted to do so when completing returns.

4.8.   In addition to records held in Altair, historical data, relating to members transferring into the scheme, are retained separately on an unsecured spreadsheet, breaching the requirements of the General Data Protection Regulations.

4.9.   Following last year's audit, the PAT agreed to establish a comprehensive set of process notes, set itself a target of August 2022 and continues to work on documenting its processes to ensure that tasks are carried out in a controlled manner. However, it has not yet set out a clear timetable to achieve this, reducing the likelihood that it meets the target.

4.10.   Controls were found to need strengthening to improve the integrity of data entry, when setting up new members in the administration software, Altair. Instructions have been issued to staff to ensure that employers provide full details of new members, and that clarification is sought, where data is incomplete.

4.11.   There remains some inconsistency in the use of the checklists that are used to control processes and provide quality assurance, with checklists not always being completed in full or signed to indicate that they have been reviewed and checked by a second officer.

4.12.   A small number of more minor areas for improvement were also identified. Findings are set out in the main body of the report.

5.   Action Summary

5.1.   The table below summarises the actions that have been agreed together with the risk:

Risk	Definition	No	Ref
High	This is a major control weakness requiring attention.		
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources.	6	1 - 6
Low	This represents good practice; implementation is not fundamental to internal control.	4	7 - 10
	Total number of agreed actions	**10**	

5.2.   Full details of the audit findings and agreed actions are contained in the detailed findings section below.

5.3.   As part of our quarterly progress reports to Audit Committee, we track and report progress made in implementing all high priority actions agreed. Medium and low priority actions will be monitored and re-assessed by Internal Audit at the next audit review or through random sample checks.

6.   Acknowledgement

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

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
1	**The Collection of Contributions** Employers in the scheme submit a form (LGPS31) on a monthly basis, which provides payroll details, and the resulting amounts of pension contributions due to the Fund. The form requires employers to state the source of assurance provided to support the payroll figures on it, and for the forms to be certified correct by the employer's Section 151 Officer or equivalent (i.e., Chief Finance Officer.) Testing found that in all cases, the contributions received matched the contributions due, as stated on the accompanying forms. However, we found that half of forms made no reference to any sources of assurance (these fields were left blank), and most forms were signed by administrative officers, not the Chief Finance Officers.	Without obtaining assurance that payroll figures, including pension deductions, are correct, there is an increased risk that not all contributions due to the Fund are identified and received. There is reduced accountability where employers' CFOs do not certify forms as correct, increasing this risk further.	Med	Employer engagement will be used to highlight the significance of payroll returns and to reinforce employer responsibilities. The team will send out a request for signatory lists with delegations from all employers to ensure the person summitting the form has been deemed by the S151 (or equivalent) to be able to certify this document on behalf the employer. Incomplete forms will be returned to employers' Chief Finance Officers to ensure there has been an assurance review prior to submission.
Responsible Officer:		Tim Hillman, Pensions Manager - Employer Engagement	**Target Implementation Date:**	May 2022

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
2	**System Documentation** The previous audit found that there were no comprehensively documented procedure notes to cover the many transactions undertaken by the PAT. As a result, the report contained an agreed action to create a project plan to review these in August 21, with an expectation to complete the documenting of procedures during the year. The target for their overall completion was August 2022 but this is no longer expected to be met, as resources have been redirected following the disaggregation from Surrey, and due to the number of vacant posts in the team. Work is continuing on processes and procedures, but we were advised that no timetable for this work has yet been formalised.	Without a clear approach to the documenting of processes, the likelihood of meeting the August target date is reduced. This may have a negative impact on the quality of the delivery of the service.	Med	An IT Business Analyst (0.5FTE for 12 months) will start on this project (Tracey) in April 2022. We have developed a high-level project plan prioritising the order the processes should be reviewed. The review will create a documented "as is" and "to be" process map. The process will include a review of existing letter and checklist. We will also link to the existing task/process built into the Altair workflow system. Additionally, we have agreed to look at opportunities to use robotics for all or part of a process.
Responsible Officer:		Paul Punter, Head of Pension Administration	**Target Implementation Date:**	March 2023

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
3	**Data Protection** Together with the Accounts Receivable Team, the Pension Administration Team uses a spreadsheet to record the transfer amounts due and received. The spreadsheet is maintained on a cumulative basis and retains 2,500 members' personal data, dating back to 2016. This appears to be a historical practice, inherited from Surrey, and has not yet been reviewed. However, once transfers in have been completed, this data is recorded, securely, in Altair. Article 5 of the General Data Protection Regulations requires that the holding of personal data is both "limited to what is necessary in relation to the purposes for which they are processed" and "kept in a form which permits identification of data subjects for no longer than is necessary for the purposes for which the personal data are processed".	The use of the cumulative transfer spreadsheets conflicts with Article 5 of the GDPR requirements and the Fund risks investigation or penalty by the Information Commissioner's Office as well as reputational damage.	Med	I can confirm that the spreadsheet which will remain in the Finance W-Drive has now been password protected and trimmed to reflect just the last two years' payments. In addition, we have set-up a quarterly review basis to delete the older entries.
Responsible Officer:		Paul Punter, Head of Pension Administration	**Target Implementation Date:**	Complete

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
4	**The Setting Up of New Members in Altair** When participating employers engage new members of staff, they supply their details to the Pension Administration Team (PAT) using an LGPS5A form. When observing the setting up of a new scheme member in Altair, it was noted that, when faced with a form that was missing data fields (no details had been entered for the member's sex or title), an administrator assumed the sex, based on the member's name and made a further assumption about their title. The Auditor was advised that any errors would become apparent through correspondence with that member, who would be expected to identify any errors and notify the PAT accordingly.	Entering data from incomplete forms, using assumptions, increases the risk of data inaccuracy. Holding the correct details relating to the sex of members is particularly important because it affects actuarial valuations. Making assumptions about individuals' gender may cause offence to members and result in reputational damage to the Fund.	Med	An instruction has been circulated to the members of the Pension Administration Team, directing them to ensure employers have completed all fields on the forms and to seek clarification from employers, where data is missing.
Responsible Officer:		Paul Punter, Head of Pension Administration	**Target Implementation Date:**	Complete

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
5	**The Setting Up of New Members in Altair** When setting up new members in Altair, a checklist is followed, and data entry is checked by a second officer, who signs the checklist to confirm that the task has been successfully carried out. Testing found that these checklists are not always being used. Moreover, as the forms containing these members' details were not retained on their files, we were unable to test the accuracy of data entry and so cannot provide assurance in this area.	Without undertaking checks on the accuracy of data entry, the risk that Altair holds inaccurate data is increased.	Med	An email has been sent to the PAT on 21/1/22 and repeated on 30/3/22 to emphasise the importance of FULLY completing checklists and ensuring they are signed-off/dated by both the doer and checker. Our documented processes (see ref no. 2 above) will reiterate that completion of checklists is compulsory.
Responsible Officer:		Paul Punter, Head of Pension Administration	**Target Implementation Date:**	Complete

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
6	**The Checking of Payments** Before transferring out a member's accrued benefits to another pension fund, a final check is made on the value to be transferred out, to ensure it is correct. As detailed above, the task and checking process is governed by checklists and these cover the final check. However, during testing, we were not always able to find evidence that this check had been carried out, even where a second officer had reviewed the task.	Without checks on outgoing payments, there is a risk that incorrect payments may be made, which may result in financial loss to the Fund.	Med	An email has been sent to the PAT on 21/1/22 and repeated on 30/3/22 to emphasise the importance of FULLY completing checklists and ensuring they are signed-off/dated by both the doer and checker. Our documented processes (see ref no. 2 above) will reiterate that completion of checklists is compulsory.)

Responsible Officer:	Paul Punter, Head of Pension Administration	**Target Implementation Date:**	Complete

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
7	**Independent Checks** The processes for transferring a member's accrued benefits in or out of the Fund or setting up death benefits are governed by checklists. These detail the tasks to be undertaken by the administrator and provide quality assurance through the signature of an officer, independent of the one performing the transaction. Testing found that not all checklists bore evidence of having been checked by a second officer. Examples found included: • a completed transfer out; • a completed transfer in; • survivors' pension payable; • payment of a death grant; and • a checked transfer out, completed in 2021/22, but following a member's decision that was based on a transfer value quotation from 2020/21, which bore no evidence of a second check.	Without carrying out independent checks on administrative tasks, the risk of error is increased.	Low	An email has been sent to the PAT on 21/1/22 and repeated on 30/3/22 to emphasise the importance of FULLY completing checklists and ensuring they are signed-off/dated by both the doer and checker. Our documented processes (see ref no. 2 above) will reiterate that completion of checklists is compulsory.
Responsible Officer:		Paul Punter	**Target Implementation Date:**	Complete

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
8	**Inefficient Working Practice** During the walk-through of death benefit processing, it was noted that, although the new 'Admin to Pay' module in Altair calculates death benefits, the administrator still performs a manual calculation of short- and long-term benefits. We understand that the continuing manual calculation is a throwback to a time before this process became automated. Whilst we accept that there may be a need for some checks to ensure that the system is generating the correct output, the routine use of manual calculations is not an efficient use of resources.	Carrying out benefit calculations manually, instead of using the software to process them, is expensive, inefficient, and increases the risk of error.	Low	An email has been sent to the PAT on 30/3/22 to ensure manual calculations are only performed when appropriate and necessary. Our documented processes (see ref no. 2 above) will clarify if any manual calculations are required. For example, if volumes of a particular type of member task does not warrant the cost of automation.
Responsible Officer:		Paul Punter, Head of Pension Administration	**Target Implementation Date:**	Complete

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
9	**System Automation** Dependants' benefits are calculated by Altair, which also generates a letter to notify dependents of the benefits due to them. However, the letters are only partly populated, and require additional manual input to complete. In particular, they require details of the benefits to be added.	There is an increased risk of error, where the system only part completes documents, which then rely on manual intervention (as was found in the previous year's audit).	Low	We are aware that some letter templates are within Altair and others outside. We are further aware that some of the letters in Altair are only created to pick up part of the required data. We already have a housekeeping project underway to delete the unnecessary letter templates. The next phase will be to reduce any manual intervention (uploading data). The ESCC team has very limited in-house knowledge about the Altair system letter process (historically done by SCC Technical & Communications teams). We have agreed that Heywood's will provide us with a scheme specific training session on 31/3/22 & 6/4/22. The session will cover the creation and design of documents as well as the ability to link to benefit calculations.

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
				Changes will be rolled-out as part of the process reviews (see reference no. 2 above).
Responsible Officer:		Paul Punter, Head of Pension Administration	**Target Implementation Date:**	March 2023

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
10	**Task Management** When tasks are received by the helpdesk, they are loaded into Altair and put into the 'E-Lewes' user group so that they can be allocated to an administrator. Testing of outstanding tasks identified a small number of tasks that had not been put into the correct user group. As a result of this, they had not been identified and allocated to administrators for action. As part of routine performance management, Team Leaders monitor outstanding tasks against each of the administrators in their teams. However, any tasks that have not been allocated are not captured in these reports, so no corrective action is taken. It is pleasing to note that, despite the PAT having up to nine vacancies throughout the year, the number of outstanding tasks has not increased since last year.	If tasks are not allocated to administrators, they cannot be actioned, resulting in a risk of customer dissatisfaction. Without running reports on all outstanding tasks, these exceptions cannot be identified and investigated.	Low	The issue was discussed on a Helpdesk Teams meeting 22/2/22 and a follow up email instruction on 30/3/22 has been circulated to all members of the Pensions Helpdesk Team. This was a reminder that all tasks for ESCC should be allocated the user group ELEWS. A further reminder that to all tasks are put into reply received when we receive correspondence that requires a response from the Pensions Admin Team.
Responsible Officer:		Paul Punter	**Target Implementation Date:**	Complete

Appendix A

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	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.
Minimal Assurance	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.