

# Internal Audit Report

## The Administration of Pension Benefit Payments

### Final

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Prepared for: East Sussex County Council

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## Internal Audit Report – The Administration of Pension Benefit Payments

### Report Distribution List

#### Draft Report:

- Paul Punter, Head of Pensions Administration

#### Final Report:

- Paul Punter, Head of Pensions Administration
- Sian Kunert, Head of Pensions
- Ros Parker, Chief Operating Officer
- Ian Gutsell, Chief Finance Officer
- Pension Committee
- Pension Board

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 – The Administration of Pension Benefit Payments

### 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 Council has delegated the responsibility for the management and responsibility of the Fund to the East Sussex Pension Committee, supported by the Pensions Board & Chief Finance Officer (S151 officer) for East Sussex County Council.
- 1.3. As of 31 March 2022, the Fund comprised 140 scheme employers with 24,801 active, and 33,043 deferred, scheme members, as well as 23,173 pensioners. The most recent actuarial valuation of the Fund was carried out in 2022. The valuation found that the funding level had improved from 107% in 2019 to 123%.
- 1.4. During the financial year 2021/22, the scheme made benefit payments of approximately £134m.
- 1.5. This audit tested the controls employed by management over the calculation and payment of pension benefits and transfers to and from the Pension Fund.
- 1.6. This review was part of the agreed Internal Audit Plan for 2022/23.
- 1.7. This report has been issued on an exception basis, whereby only weaknesses in the control environment have been highlighted in the detailed findings section 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:
  - Data quality is sufficiently accurate to support transactions and reporting requirements;
  - The calculation of pension benefit entitlements is accurate; and
  - Delivery of the pension administration service complies with the requirements of the Pension Regulator.

### 3. Audit Opinion

- 3.1. **Reasonable Assurance is provided in respect of The Administration of Pension Benefit Payments.** 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 opinion of **Reasonable Assurance** over the controls in place within the area of review because:
- 4.2. Processes are in place to ensure that data quality is maintained, with data quality reports showing a good level of compliance with the Pension Regulator's requirements. Data quality and improvement are routinely reviewed at Board and Committee level. Although there are significant concerns about the quality of data being received from one large employer, the Fund is working closely with the employer to ensure it can provide data of the required quality. Where the inability of that employer to provide the necessary data has resulted in breaches of regulations, the breaches have been documented and reported to the Pension Regulator.
- 4.3. Mechanisms are in place to ensure that pension benefits are calculated correctly and are paid on time. If a delay, or complication, in the processing of a new pensioner's benefits results in the first payment being late, interest is paid.
- 4.4. The pension administration system is run in accordance with regulatory requirements and delivers an effective service to members of the Scheme. The number of outstanding tasks has reduced very considerably, compared with the previous year.
- 4.5. However, there are some areas where scope for strengthening controls has been identified.
- 4.6. The pension administration system, Altair, has no control to enforce the approval of payments in accordance with officers' authorised approval limits. We found an example of a payment for £218K that had been approved by a Pension Administrator, which does not comply with the Fund's internal regulations, which require that all payments, in excess of £100K, be approved by the Head of Pension Administration.
- 4.7. Where requests to amend members' bank details are received via bulk requests from employers, no evidence of the requests are retained against individuals' records in Altair, reducing the effectiveness of the paper trail.
- 4.8. New members' details (e.g., relationship status) are not always received in full, resulting in gaps in data. Altair is not always marked to indicate that new members' dates of birth have been verified.
- 4.9. Whilst in general, compliance appears to have improved, a small number of the checklists that govern the processing of transactions are not being completed in full.

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### 5. Action Summary

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

<b>Risk</b>	<b>Definition</b>	<b>No</b>	<b>Ref</b>
<b>High</b>	This is a major control weakness requiring attention.	0	N/A
<b>Medium</b>	Existing procedures have a negative impact on internal control or the efficient use of resources.	1	1
<b>Low</b>	This represents good practice; implementation is not fundamental to internal control.	4	2 - 5
<b>Total number of agreed actions</b>		<b>5</b>	

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 seek written confirmation from the service that all high priority actions due for implementation are complete. The progress of all (low, medium and high priority) agreed actions will be re-assessed by Internal Audit at the next audit review. Periodically, we may also carry out random sample checks of all priority actions.

### 6. Acknowledgement

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

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### Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
1	<p><b>The Approval of Payments</b></p> <p>All payments in excess of £100K are required to be approved by the Head of Pension Administration. Testing of transfers out, found a payment of £218K, which had been approved by a Pensions Administrator.</p> <p>Further enquiries highlighted that any attempt to process a transaction beyond an officer’s authorised approval level, would previously have been blocked within Altair. However, since the introduction of the ‘Immediate Payments’ module in 2022, this is no longer the case, and the Pension Administration Team was unaware of this. Whilst Altair does remind users to create an approval task, that would then lead to a reminder to seek further approval, there is no systemic control to enforce this.</p> <p>Testing confirmed that the payment itself was genuine and had been calculated correctly.</p>	<p>Without a systemic control to block the completing of transactions beyond officers’ approval levels, there is an increased risk of fraud or error.</p>	<p>Med</p>	<p>The team has been reminded that all payments over £100k need additional approval and the online process clearly states this.</p> <p>There is no current functionality within Altair to block a larger financial transaction. However, there may be a way to address restrictions on higher amounts through Altair Workflow, in recently developed functionality that exists in the 23.2 release, expected to go live in June 2023.</p> <p>Assuming that the amount is held in a particular field on a data view, then restrictions on approving higher values could be accommodated via the ‘auto follow-on task creation’. This allows customers to set conditions for automatically creating a follow-on task. We could then set a threshold above which a defined seniority for approval would be needed.</p> <p>We will need to adopt and test the functionality once live to see if this is possible.</p>
<p><b>Responsible Officer:</b></p>		<p>Paul Punter, Head of Pensions Administration</p>	<p><b>Target Implementation Date:</b></p>	<p>1 September 2023</p>

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**Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
2	<p><b>Changes to Members’ Bank Account Details</b></p> <p>Changes to members’ bank details were not always supported by documentary evidence of the request to make the change. We understand that some changes are received in multiple notifications from employers (often on spreadsheets), and these are not uploaded to members’ records because they contain other members’ data.</p> <p>Unlike most processes, there is no checklist, but an Altair workflow task, with a checking stage, is set up on the member’s record that can be used to confirm that the relevant checks are carried out.</p>	<p>Where changes to members’ data are not supported by documentary evidence of the requests, there is an increased risk of fraud or error.</p>	Low	<p>The only time we receive banking changes in bulk are those received via the banking clearing system where, at least in theory, the members have undertaken an online switch of banks and the new bank is informing us after the event. All spreadsheets are retained on the P-Drive so there is evidence of the request.</p> <p>Whilst we don’t intend to upload the bank change request, we intend sending the members an acknowledgement email to log-on to MSS to check their new bank details. We have documented the process.</p> <p>We are investigating sending the email to the member direct from the <a href="mailto:pensions@eastsussex.gov.uk">pensions@eastsussex.gov.uk</a> address and it being automatically saved to their Altair record. However, not all members of the team can create email templates from within the Altair system. This is likely to be a permissions issue that we cannot identify and have raised it with Heywoods.</p>
<b>Responsible Officer:</b>		Paul Punter, Head of Pensions Administration	<b>Target Implementation Date:</b>	1 August 2023

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**Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
3	<p><b>Changes of Address</b></p> <p>Requests to change records of members' addresses in Altair are received via a number of channels, including i-Connect, letters from members and notifications from their employers.</p> <p>When the record of a member's address is changed in Altair, the member is advised accordingly, providing a last check that the request is genuine and providing assurance that the new details are correct.</p> <p>However, confirmation does not always take place. This may be as a result of the number of ways requests are received. In the case of written requests, there is also doubt about the efficacy of providing written confirmation, i.e., if the address were incorrect, no confirmation would reach the member.</p>	<p>If no confirmation is sent to members to advise them that their addresses have been updated, there is a risk that any data-processing errors would not be detected, reducing the quality of data held in Altair.</p>	Low	<p>We struggle with finding an effective and consistent means of communicating confirmation of changes of address or where they are necessary.</p> <p>The point is if the request comes via i-Connect it is in respect of an active member who has informed their employer who has updated their payroll records. If the member informs us via MSS, the member has advised us through a secure password protected system. In these circumstances it is arguable no acknowledgement is required.</p> <p>If the member writes or emails, then we will provide written confirmation of the change of details. We regularly undertake address tracing exercises with a third party (ITM).</p> <p>We don't believe any additional action is required.</p>
<b>Responsible Officer:</b>		Paul Punter, Head of Pensions Administration	<b>Target Implementation Date:</b>	N/A

**Internal Audit Report – The Administration of Pension Benefit Payments**  
**Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
4	<p><b>The Setting up of New Members in Altair</b></p> <p>When new members join the scheme, their personal details are entered onto Altair, based on details supplied by their employers.</p> <p>When testing a sample of newly set-up members, we found that Altair had not always been marked to indicate that checks on members' ages had been completed, though we understand that checks were completed in practice.</p> <p>Moreover, forms from new members are sometimes received that lack details of their relationship status, resulting in gaps in datasets.</p> <p>Although these checks would be revisited before any benefit payments were made, it would be more efficient, and contribute to a more robust data set, if all data elements were checked and confirmed at the point new members were set up in Altair.</p>	<p>Without ensuring that all data is complete and recording checks on the accuracy of data, there is an increased risk of error, poor quality and incomplete data.</p>	Low	<p>A reminder was circulated to members of the PAT, on 28 April 2023, reminding them to ensure that all data is complete. Any missing data needs to be sought from employers even if not a mandatory field to set up the record. In addition, the date of birth and marital status verification boxes need to be updated if the appropriate certificates have been verified.</p>
<b>Responsible Officer:</b>		Paul Punter, Head of Pensions Administration	<b>Target Implementation Date:</b>	Complete

**Internal Audit Report – The Administration of Pension Benefit Payments**  
**Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
5	<p><b>The Completion of Checklists</b></p> <p>The processing of transactions is governed by checklists, which 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.</p> <p>Compliance has improved since last year, with fewer examples found where independent checks had not been completed. However, we still found examples in the processing of death benefits, where no independent checks had been evidenced.</p>	Without carrying out independent checks on administrative tasks, the risk of fraud or error is increased.	Low	When the internal audit was in progress the team was reminded in the Pension Admin team March meeting that it is important that all checklists are completed in full by both doers and checkers.
<b>Responsible Officer:</b>		Paul Punter, Head of Pensions Administration	<b>Target Implementation Date:</b>	Complete

# 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.