

Internal Audit Report

Pensions Administration

January 2018

To: Assistant Chief Executive
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Barnet Partnership Director, CSG
Operations Director, CSG
Business Manager, CSG HR Solutions
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Copied to: Director of Finance
Head of Finance
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From: Head of Internal Audit

We would like to thank management and staff of Capita Employee Benefits for their time and co-operation during the course of the internal audit.

Executive Summary

Assurance level	Number of recommendations by risk category				
LIMITED ASSURANCE	Critical	High	Medium	Low	Advisory
	-	2	6	1	-
Scope					
This report sets out the findings of our work undertaken in October and November 2017 to review the design and operating effectiveness of controls in place in relation to pensions administration, in line with our terms of reference agreed on 9 October 2017. The scope of work and controls identified are summarised in Appendix 3.					
Summary of findings					
<p>The administration of London Borough of Barnet’s pension fund (“the fund” or “the scheme”) is outsourced to Customer Support Group (“CSG”, part of Capita) who are responsible for working with scheme employers to ensure that the records are kept up to date and that members are supplied with correct information regarding their pension entitlements. The Council, as administering authority, is currently subject to scrutiny by The Pensions Regulator (“TPR”) in light of concerns raised when it investigated the Council’s failure to submit its 2016 annual return. Correspondence between the Council and TPR highlights several weaknesses in the control environment of the fund and the Council are in regular correspondence with them to provide evidence that controls have been developed and are being embedded. The Council issued CSG with a contractual remedy notice on 25 August 2017 in light of the issues being experienced with the service. The Council also agreed a service improvement plan in August 2017 with CSG as a result of these enquiries, covering the quality assurance, project management and communications improvements needed to ensure the scheme complies with TPR’s requirements. Progress against this plan is being regularly monitored at monthly senior officer meetings. It was reported to the Local Pensions Board that the 2017 scheme return was submitted on 10 November 2017, ahead of the 22 November 2017 deadline.</p> <p>We found that scheme member transactions are mostly well managed through Hartlink, the pension fund administration system, but that there are weaknesses in the processes which take place outside Hartlink, such as the annual benefits statement process, and governance of scheme administration. A review of data quality has also identified significant issues and the arrangements with scheme employers means that the scheme currently has limited ways of encouraging compliance with scheme working practices. The scheme will need to invest in improving the quality of existing data and the data gathered in future. We acknowledge that this may be a costly exercise, however, the scheme has the ability to charge scheme employers for this data quality work both now and in the future under regulation 70 of The Local Government Pensions Scheme Regulations 2013, providing the reason for the rectification work is due to scheme employers failing to meet its obligations. Going forward, the scheme will also need to work more closely with employers, for example by engaging proactively when changes to membership are detected, and will need to consider both exercising its right to report employers to TPR if employers do not comply with legal requirements and charging additional costs incurred resolving issues to employers as permitted by the scheme regulations.</p> <p>This audit has identified two high, six medium and one low risk findings.</p> <p>We identified the following high risk-rated issues as part of the audit:</p> <ul style="list-style-type: none"> • Scheme data quality (finding one) – A data quality review undertaken by CSG, on behalf of the Council, in October 2017 identified that the quality of data held to identify team members is below the standards expected by TPR, with 85% of records created before June 2010 containing missing information compared to a target of 95%. We also identified that a data quality review of the data used to calculate benefits and value the fund has not been undertaken, but a review is currently being scoped. We also found that there were issues in the data provided to CSG by employers for 60% of the employers reviewed and 					

that there was no reporting on the nature and extent of data quality issues noted. This increases the risk of inaccurate data being held by the scheme and delays in preparing annual benefits statements not being identified.

- **Preparation of annual benefit statements (finding two)** – We found that there were weaknesses in the project management of the annual benefits statement process which meant that the results of data quality checks for a number of employers, from whom data was received in May 2017, were not communicated until mid-July 2017 reducing the period available to resolve any issues from three months to one month. We also found that there were a number of active member records for which no benefit statement was prepared due to a lack of data. This led to some members receiving annual benefit statements after the statutory deadline of 31 August 2017, or not at all. This was an area of concern raised by TPR when it considered the 2015/16 annual benefit statements process.

We identified the following medium risk-rated issues as part of the audit:

- **Retirement benefit calculations (finding three)** – A number of retirees received their benefits over 30 days after they retired as a result of delays in notifying the scheme of their intention to retire, either by the employee or employer. We also found that annual benefit statements did not communicate the timescales involved in retirements leading to members not being aware of the timescales involved. There is a risk that retirees may not receive their benefits promptly leading to financial hardship.
- **Governance of scheme administration (finding four)** – We found that contract monitoring meetings held to monitor the pension administration section of the CSG contract were not formally recorded by the Council and that the employer targets for the scheme administration strategy are not monitored. This could lead to the Council not identifying breaches of laws and regulations.
- **Communication strategy (finding five)** – There was no scheme communication strategy or agreed fund administration strategy in place during the period under review. This could lead to scheme members having an expectation gap between what they expect and what is provided by the scheme or scheme records may be incomplete as a result of employers not working effectively with the administration team.
- **New members and impact on data quality (finding six)** – The scheme does not follow up on new joiners identified outside of the usual notification process and there were duplicate records. This could lead to membership records being incomplete meaning that scheme liabilities could be understated.
- **Transfers (finding seven)** – There were some delays in the payment of transfers out of the fund and issuing letters to scheme members once the transfer took place. This could lead to members not being aware of their entitlement or leading to breaches of legal requirements in relation to transfers out.
- **Breaches of law (finding eight)** – The Council did not have a breaches of law policy in place until late October 2017 and does not receive reporting on possible breaches of law. TPR also identified that CSG did not report a breach of law when 2016 annual benefit statements were issued late. The Council may not report matters required to TPR leading to them being exposed to fines or other civil action by TPR.

We identified the following low risk-rated issue as part of the audit:

- **Creation of new members records (finding nine)** – A large number of records were created and authorised outside of the timespan stated in the scheme administration strategy. This could lead to the scheme's membership numbers and record of benefits earned being understated.

2. Findings, Recommendations and Action Plan

Ref	Finding	Risks	Risk category	Agreed action
1.	<p><u>Scheme data quality</u></p> <p><i>Control design</i></p> <p>The Council's pension fund is required to hold a large amount of data on scheme members. This data is used to contact members and calculate benefits. The scheme is now a career revalued earnings (CARE) scheme, for benefits earned after 1 April 2014 which means that the scheme is required to hold data on pensionable pay for each year since that date to calculate each member's pension entitlements correctly. TPR expect that schemes review their data annually and implement improvement plans where poor quality or missing data is identified. Prior to this year, no reviews had been undertaken of data held.</p> <p>During the audit, we noted that:</p> <ul style="list-style-type: none"> One data quality review was undertaken by CSG on behalf of the Council during the period to identify whether data held by the scheme is complete. This focused on "common data", a dataset specified by TPR as being data required to uniquely identify scheme members. Data held passed for 85% of members for whom records were created before June 2010 and 91% for records created after June 2010. These are below TPR's target of 95% and 100% respectively. At the time of our fieldwork (October/November 2017), the results were being communicated to the Council. CSG are currently working with the Council to agree a plan to resolve the data quality issues noted as part of the agreed service improvement plan. There has been no recent review of the quality of 	<p>If inaccurate or incomplete data is held on scheme members, then benefits paid to members may be incorrect or members may be provided with incorrect information on their pension entitlement.</p> <p>If inaccurate or incomplete data is provided to the scheme's actuary, the valuation of the scheme may be inaccurate which could lead to scheme employers being under or overcharged deficit reduction contributions.</p> <p>The extent of data quality issues may not be known leading to unexpected delays in providing information to scheme members.</p>	<p>HIGH</p>	<p>Agreed Action:</p> <p>a) We will deliver the improvement plan, as agreed with the scheme manager, to improve data quality so as to meet TPR's target standards. We will also consider recovering the cost of this from employers, where the reason for the data quality issues is their failure to fulfil their obligations to the scheme and if employers are unable to assist with the update of members' records we will consider if this is a breach of law reportable to TPR.</p> <p>b) We will review the quality of conditional data by 28 February 2018 as per the agreed service improvement plan and will update this data, as agreed with the scheme manager, prior to the triennial review of the fund due as at 31 March 2019.</p> <p>c) We will discuss how to complete employer's end of year returns at the planned employers' forum to ensure that employers are aware of requirements. We will inform</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>“conditional data”, defined by TPR as being the data required to calculate pension benefits. The service improvement plan specifies that a review of conditional data quality will be completed by 28 February 2018.</p> <p>In order to update data held by the scheme, CSG receives an annual submission from scheme employers which includes current full time equivalent salary, qualifying pay in the period and contributions deducted in the period. This return is used to update Hartlink and is used to prepare annual benefit statements. This exercise usually identifies data quality issues, for example, 12/20 employer returns that we reviewed identified new members who had not been notified to the scheme. For each of these employers, CSG wrote to employers to request the appropriate forms were supplied to allow CSG to create new member records.</p> <p>We found that:</p> <ul style="list-style-type: none"> • The pensions administration team does not have a detailed checklist of items it reviews for each submission which is retained with the submissions to evidence the completion of their review; • The pensions administration team does not perform a check on each employer submission to ensure that all employees who are logged as active members of the scheme for that employer have information provided; • There is no monitoring and reporting of the nature and extent of data quality issues identified in the submissions made by employers, such as new members not notified to the scheme and unusual salaries, and the subsequent resolution of these issues; and • The pensions administration team does not undertake 			<p>employers that they will need to sign a statement saying that what has been submitted is accurate, and that they have done their own checks prior to submission. We will also ensure scheme employers are aware of our ability to charge them the cost of undertaking work to rectify issues in their initial submissions.</p> <p>d) We will ensure analytical reviews are undertaken over contributions received and reported to ensure movements reported are reasonable and reconciliations will be performed between amounts reported and the general ledger. We will consider if any further assurance is required over the accuracy of contributions received, considering whether sufficient assurance is provided by reviews undertaken by internal audit and external audit both at the Council and employers.</p> <p>e) We will create a checklist which will be used to evidence the review of end of year returns. These checks will include reviewing whether data is provided for all active member records.</p> <p>f) We will log data quality issues identified by type of issue and both record and monitor the number of</p>

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	<p>to ensure that the correct contributions have been deducted by employers for employees. This is due to employee contribution rates fluctuating month on month and this would require them to undertake a detailed review of monthly pay to confirm contributions are correct. It should be noted that responsibility for deducting the correct contributions lies with the individual employer.</p> <p>These data issues are most likely to affect the actuarial valuation of the scheme as most data held is validated with scheme employers before benefits are paid. However, for benefits earned after 1 April 2014, the start of the CARE scheme, this check may become ineffective as the period between benefits being earned and benefits paid increases.</p>			<p>records not loaded to Hartlink. A summary of issues encountered will be presented annually to the Local Pension Board and employers.</p> <p>Responsible officer: (Head of Public Sector Pensions, Capita) / (Head of Business Assurance, CSG Employee Benefits)</p> <p>Target date:</p> <ul style="list-style-type: none"> a) 31st August 2018 b) 28th February 2018 (analysis completed) / 31st March 2019 (data rectification complete) c) 28th February 2018 d) 30th June 2018 e) 30th April 2018 f) 31st May 2018
2.	<p><u>Preparation of annual benefit statements</u></p> <p><i>Control design and operating effectiveness</i></p> <p>The scheme is required to issue annual benefit statements, which report each member's accumulated pension entitlements at the end of the financial year, by 31 August of each year. There are a number of steps involved in the process including, uploading of end of year returns and uplifting accumulated benefits in the CARE section of the scheme by the index.</p> <p>We noted the following control design deficiencies in the process to collect returns for the year-ended 31 March</p>	<p>Annual benefit statements may not be issued promptly leading to reputational damage to the Council and fines from TPR.</p>	HIGH	<p>Agreed Action:</p> <ul style="list-style-type: none"> a) We will prepare a detailed project plan for the provision of annual benefit statements, as well as the other key milestones in the Scheme Year Planner and the Triennial valuation, and this will be approved by the Council. Progress will be monitored and managed by

Ref	Finding	Risks	Risk category	Agreed action
	<p>2017:</p> <ul style="list-style-type: none"> Chasing of late end of year returns by the pensions administration team took place one month after forms became due, reducing the time to resolve any data quality issues by 3½ months to 2½ months; The vast majority of data quality issues required to be resolved by scheme employers were communicated to employers in mid-July 2017. Given that a large number of employers are schools, this makes it less likely that responses will be received in time to meet a 31 August 2017 deadline; There is no documented process for reviewing and evidencing the review of the accuracy of calculations performed within Hartlink which are used to populate annual benefit statements; and There is no formal monitoring and reporting to the Local Pension Board of the number of benefit statements not issued. <p>We tested a sample 25 active member records to ensure that statements were issued on time. We found that:</p> <ul style="list-style-type: none"> 4/25 statements were not issued before 31 August 2017 as a result of issues identified and being resolved with employers; and 5/25 statements were not issued as no end of year return data was held. This is thought to be due to employers not notifying the scheme of leavers. CSG management have identified that there are potentially over 1,000 such records. <p>Through discussions with CSG management, we note that there is an intention to allocate specialist project managers to the 2018 annual benefits statement process.</p>			<p>specialist project managers. Progress against the agreed plan will be reported to the monthly CSG pensions administration contract monitoring meetings.(see finding 5)</p> <p>b) We will introduce a process for reviewing calculations used to populate annual benefit statements. This will include sampling of calculations and also how this is evidenced</p> <p>c) We will work with scheme employers to close active records where no employment data has been reported in 2016/17.</p> <p>d) We will consider how we can change the relationship with employers and their payroll providers to encourage compliance with scheme requirements, such as reminding employers of the scheme's ability to recharge the cost of any rectification work undertaken by the fund, and reporting employers to TPR for breaches of law.</p> <p>Responsible officer: (Head of Public Sector Pensions, Capita) / (Head of Business Assurance, CSG Employee Benefits)</p> <p>Target date:</p>

Ref	Finding	Risks	Risk category	Agreed action
				a) 31 st March 2018 b) 31 st May 2018 c) 31 st August 2018 d) 28 th February 2018
3.	<p><u>Timeliness of the notification of planned retirements</u></p> <p><i>Control design and operating effectiveness</i></p> <p>The draft fund administration strategy (see finding 6) states that scheme employers are expected to notify the pension administrations team at least 30 days before a scheme member's expected retirement. Scheme members are then issued with retirement option forms and these are returned before payment can be authorised. Final calculations are released within 10 working days of receipt of completed option forms.</p> <p>We noted the following:</p> <ul style="list-style-type: none"> There are no communications to scheme members regarding the requirement to notify the scheme, via their employer, of any intention to retire. This means that scheme members may not be aware of the time required to complete retirement processes. <p>We reviewed a sample of 20 retirements in the period and found that:</p> <ul style="list-style-type: none"> 10/20 retirees were paid lump sums more than 30 days after their retirement date. The root cause of the delays were one or a combination of: late notification by the employer; employers failing to promptly answer queries on information provided; or delays in receiving completed option forms from members. 	<p>If benefits are not calculated correctly or paid to retirees promptly then retirees may suffer financial hardship and the Council may suffer reputational damage</p>	<p>MEDIUM</p>	<p>Agreed Action:</p> <p>a) Scheme members will be informed of retirement timescales by including this information in newsletters sent with annual benefit statements and other communications.</p> <p>b) We will remind employers of the need to promptly notify the scheme of potential retirements and use information provided by employers to proactively identify potential retirees.</p> <p>c) The scheme's communication strategy will include communicating with members nearing retirement to proactively engage with them regarding their retirement.</p> <p>Responsible officer: (Head of Public Sector Pensions, Capita) / (Head of Business Assurance, CSG Employee Benefits)</p>

Ref	Finding	Risks	Risk category	Agreed action
				Target date: a) 31 st March 2018 b) 28 th February 2018 c) 31 st January 2018
4.	<p><u>Governance of scheme administration</u></p> <p><i>Control design</i></p> <p>The Council's Pension Fund Committee is the 'scheme manager' and as such has overall responsibility for the pension scheme. It has been agreed that the Local Pension Board will oversee the administration of the scheme, including the performance of CSG.</p> <p>CSG are responsible for managing the administration of the scheme. There is a group, comprising senior Council officers and CSG staff, who meet monthly to monitor the pensions administration part of the CSG contract.</p> <p>We found that:</p> <ul style="list-style-type: none"> • During the period under review, meetings of the group which monitors the pensions administration part of the CSG contract were not formally minuted by the Council; • A formal risk register reviewing scheme administration risks did not exist before August 2017 and was first reported to the Local Pensions Board on 11 September 2017; and • The draft fund administration strategy specifies certain targets to be met by scheme employers, including the provision of data to the administrator at the end of each scheme year and the provision of information regarding new members. Compliance 	<p>If management information does not monitor compliance with the fund administration strategy then the Council may breach legal requirements leading to fines and further reputational damage.</p>	<p>MEDIUM</p>	<p>Agreed Action:</p> <p>a) We will review the risk register at each governance meeting and ensure these meetings are minuted.</p> <p>b) We will agree a Terms of Reference for the monthly governance meetings.</p> <p>c) We will investigate how we can report on the compliance of employers and payroll providers with the fund administration strategy, once adopted and report management information produced to the Local Pensions Board.</p> <p>Responsible officer:</p> <p>a) and c) (Head of Public Sector Pensions, Capita) / (Head of Business Assurance, CSG Employee Benefits)</p> <p>b) (Head of Business Assurance, CSG Employee Benefits) /</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>with these targets is not monitored and reported to the Council or the Local Pensions Board.</p> <p>There are also regular meetings between CSG, the Council and the Trade Union to discuss the actions being taken to address a number of issues the Trade Union has raised.</p>			<p>(Strategic HR Lead)</p> <p>Target date:</p> <p>a) 11th January 2018</p> <p>b) Complete</p> <p>c) 31st March 2018</p>
5.	<p><u>Communication strategy</u></p> <p><i>Control design and operating effectiveness</i></p> <p>The pension fund is required to communicate with its stakeholders, including scheme members and scheme employers. It is normal practice for key information on the fund to be held on the Council's website so that employers and scheme members, whether active, deferred or pension members, can access the information. TPR requires that the scheme has a strategy to communicate with members and identifies that members should receive information when they join the scheme and as scheme terms vary.</p> <p>We found that:</p> <ul style="list-style-type: none"> • There is no strategy for communication with scheme employers and members beyond requesting the information required, such as the end of year return information. This has been identified within the service improvement plan and is due to be agreed and implemented before the start of 2018. • The LGPS section of the Council's website was last updated in 2014 and does not contain up to date information on the scheme or contact information for the current administration team. • There was no agreed fund administration strategy, 	<p>If there is not a clear communication strategy with scheme members then there may be an expectation gap between what members expect and what is provided leading to increased complaints.</p> <p>If there is no clear communication strategy with employers, then scheme members may receive a below standard service or scheme records may be inaccurate or incomplete leading to under or overpayments of benefits.</p>	MEDIUM	<p>Agreed Action:</p> <p>a) A communication strategy, including the provision of sufficient quality assurance over communications with members and employers, will be developed and agreed by the Local Pensions Board.</p> <p>b) A flowchart will be created for retiring members to enhance clarity around what they should expect to happen when.</p> <p>c) Responsibility will be agreed for keeping the LGPS section of the Council's website updated regarding the operation of the LGPS scheme and a process for ensuring this remains up to date will be included in the communications strategy.</p> <p>d) The fund administration strategy</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>specifying what is expected of scheme employers, in place during the period under review. However, a draft strategy was approved, subject to consultation with employers, at the 11 September 2017 meeting of the Local Pension Board.</p> <ul style="list-style-type: none"> Annual benefits statements issued and scheme website do not give contact details of the CSG team responsible for pensions administration to allow them to raise any queries directly to CSG. 			<p>will be finalised and issued to scheme employers. We will also ensure employers are aware of the scheme's ability to recover costs incurred through not complying with the administration strategy and that non-compliance with the strategy could be construed as a breach of law, reportable to TPR.</p> <p>e) We will ensure that annual benefit statements and the website include contact details for the CSG pensions administration team.</p> <p>f) We will change the format of the presentation of estimates so that the Annual Benefit Statements are easier to understand.</p> <p>Responsible officer: (Head of Public Sector Pensions, Capita) / (Head of Business Assurance, CSG Employee Benefits)</p> <p>Target date:</p> <p>a) 14th February 2018 b) Complete c) 31st January 2018 d) 31st January 2018 e) 28th February 2018 f) 31st March 2018</p>





Ref	Finding	Risks	Risk category	Agreed action
6.	<p><u>New members and impact on data quality</u> <i>Control design and operating effectiveness</i></p> <p>Some scheme employers also provide CSG with a listing of employees and contributions paid each month. These are checked to ensure that all employees have records in Hartlink, the pension fund administration system. In addition, there is an interface between the payrolls administered by CSG and Hartlink. This is designed to identify potential duplicates and create new member records where new members are identified.</p> <p>We found the following control deficiencies:</p> <ul style="list-style-type: none"> • There is no central log of new joiners identified from a review of monthly contributions paid to the scheme. This means that records for new members may not be created promptly, leading to issues with the annual end of year returns process. • We found that there is no review of potential duplicate records created when data is loaded to Hartlink by the interface with CSG managed payrolls. This can lead to duplicate member records, overstating the number of pension accounts. <p>We tested a sample of 25 new members records created in the period. We found that:</p> <ul style="list-style-type: none"> • 1/25 records was a duplicate record. In this case, a record was created by the employer submitting a new member form and the second record by the interface between the payroll system and Hartlink. The duplicate has now been deleted. The agreement of pay and service before retirement ensures that members do not receive duplicate payments. 	<p>If records are not created for new members identified then their entitlement to future benefits may not be recorded.</p> <p>Duplicate records may lead to the fund's membership numbers being overstated and confusion for scheme members.</p>	<p>MEDIUM</p>	<p>Agreed Action:</p> <ol style="list-style-type: none"> We will use monthly scheme returns to identify new members and potential leavers and record this in Hartlink, so as to create a task to request paperwork from employers to support the change in status of members. We will review records created by the interface between the payroll system and Hartlink to ensure that duplicate entries are resolved before Annual Benefit Statements are issued. <p>Responsible officer: (Head of Public Sector Pensions, Capita) / (Head of Business Assurance, CSG Employee Benefits)</p> <p>Target date:</p> <ol style="list-style-type: none"> 31st January 2018 30th June 2018

Ref	Finding	Risks	Risk category	Agreed action
7.	<p><u>Transfers</u></p> <p><i>Operating effectiveness</i></p> <p>Scheme members can transfer their benefits into and out of the scheme so that their benefits sit with their current employer's pension scheme. The Council's draft fund administration strategy states that tasks relating to transfers should be completed by CSG within 10 working days.</p> <p>We tested a sample of two transfers into the fund to ensure that the above timescales were met and found that:</p> <ul style="list-style-type: none"> In both cases, letters were issued to fund members more than 10 working days after completion of the transfer. <p>We tested a sample of five transfers out of the fund to ensure that the above timescales were met and found that:</p> <ul style="list-style-type: none"> In 2/5 cases, payments to other schemes were made after more than 10 working days. In one case, the transfer took over two months to be approved due to the size of the transfer. <p>It should be noted that compliance with best practice turnaround times are monitored and reported to the Council and the Local Pensions Board. This best practice guidance is incorporated in the draft administration strategy which now form part of contractual SLAs.</p> <p>The most reporting to the Local Pension Board, as at the 31 October 2017, identified that there were 42 transfers which had yet to be completed which were over three months old. 4 of these related were awaiting Capita action and 38 of these were awaiting third party action.</p>	<p>If transfers are not updated promptly then members may have inaccurate knowledge of their pension entitlements.</p> <p>If transfers out are not actioned promptly, then the scheme may be fined by TPR and the Council may suffer reputational damage.</p>	<p>MEDIUM</p>	<p>Agreed Action:</p> <p>a) Work will be allocated so that the targets set in the administration strategy, which are SLA targets, are achieved.</p> <p>b) We will work with third parties to clear the backlog of transfers.</p> <p>Responsible officer:</p> <p>(Head of Public Sector Pensions, Capita) / (Head of Business Assurance, CSG Employee Benefits)</p> <p>Target date:</p> <p>a) Complete</p> <p>b) 31st March 2018</p>
8.	<p><u>Breaches of law</u></p>			

Ref	Finding	Risks	Risk category	Agreed action
	<p><i>Control design</i></p> <p>It is a legal requirement that breaches of the law of material significance to TPR are reported to TPR.</p> <p>We found that:</p> <ul style="list-style-type: none"> The Pension Fund Committee approved the scheme's policy on reporting breaches of law on 24 October 2017 with no approved policy in place prior to this date. However, CSG staff use a Capita policy and procedure to identify breaches of law and assess them. The Capita policy is aligned to TPR's guidance and thus aligned with the Council's policy for identifying and assessing breaches. This means that Council staff may not have identified and reported issues as required; TPR have concluded that CSG and the Council did not promptly identify that the failure to issue annual benefit statements on time in 2016 could be a reportable breach of law; and The Council does not receive reporting of matters, such as delays in receiving contributions or late data returns from employers, to enable it to identify if potential breaches of law have occurred. <p>CSG expect that breaches identified will be reported through to the Council and the Local Pensions Board. Reporting of breaches would be made either immediately or after discussions with the Council, as scheme managers, depending on the severity of the breach.</p>	<p>If members or officers of the Council or the pensions administration team are not aware of the need to report breaches of law then breaches may not be reported promptly which could expose the Council to fines or other civil action.</p>	<p>MEDIUM</p>	<p>Agreed Action:</p> <ol style="list-style-type: none"> We will train members of staff at the Council and CSG on the scheme's policy on breaches of law We will maintain a record of identified breaches of law which will include any breaches of scheme requirements by employers which are breaches of law. This will be included in the monthly reporting to the governance meeting. The Council will review breaches identified and report breaches considered to be of material significance to TPR. <p>Responsible officer:</p> <ol style="list-style-type: none"> and b) (Head of Public Sector Pensions, Capita) / (Head of Business Assurance, CSG Employee Benefits) (Strategic HR Lead) <p>Target date:</p> <ol style="list-style-type: none"> 31st January 2018 11th January 2018 Ongoing and monitored through monthly reporting

Ref	Finding	Risks	Risk category	Agreed action
9.	<p><u>Creation of new member records</u></p> <p><i>Operating effectiveness</i></p> <p>The fund's draft administration strategy requires that the scheme's employers inform the pension administration team of new scheme members within 10 days of the employee becoming eligible or by the end of the month they joined, and new records should then be created within 10 days. These timescales are considered best practice for schemes.</p> <p>We tested a sample of 25 new members to confirm that new member records were established and authorised in Hartlink within 20 days of joining or 10 days of month end.</p> <p>We found that:</p> <ul style="list-style-type: none"> 19/25 had records created outside of the period identified in the fund's draft administration strategy. This was due to delay by employers in informing the pensions administration team of new members with the correct paperwork to create new records and delays in processing the interface between the Council's payroll and Hartlink. Of these 12 of the new records related to members whose pay and pension arrangements are managed by CSG. 	<p>If records are not created promptly, then records of members and benefits due may be incomplete which could result in the scheme being undervalued at triennial revaluations.</p>	<p>LOW</p>	<p>Agreed Action:</p> <p>a) Employers will be reminded of the need to notify the scheme of new joiners promptly.</p> <p>b) We will use data provided to us by employers to identify potential new members of the scheme and log new members identified in Hartlink, pending paperwork.</p> <p>Responsible officer:</p> <p>(Head of Public Sector Pensions, Capita) / (Head of Business Assurance, CSG Employee Benefits)</p> <p>Target date:</p> <p>a) 28th February 2018</p> <p>b) 31st January 2018</p>

Appendix 1: Definition of risk categories and assurance levels in the Executive Summary

Risk rating	
Critical 	<p>Immediate and significant action required. A finding that could cause:</p> <ul style="list-style-type: none"> Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance (e.g. mass strike actions); or 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 Cessation of core activities, strategies not consistent with government's agenda, trends show service is degraded. Failure of major projects, elected Members & Senior Directors are required to intervene; or 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.
High 	<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"> Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale & performance of staff; or 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 Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome medium-term difficulties; or High financial loss, significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences.
Medium 	<p>A finding that could cause:</p> <ul style="list-style-type: none"> Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale & performance of staff; or 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 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 Medium financial loss, small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences.
Low 	<p>A finding that could cause:</p> <ul style="list-style-type: none"> Minor injuries or stress with no workdays lost or minimal medical treatment, no impact on staff morale; or Minor impact on the reputation of the organisation; or Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule; or Handled within normal day to day routines; or Minimal financial loss, minimal effect on project budget/cost.
Level of assurance	
Substantial 	<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>
Reasonable 	<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>
Limited 	<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>

No ●	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.
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Appendix 2 – Analysis of findings

Area	Critical		High		Medium		Low		Total
	D	OE	D	OE	D	OE	D	OE	
Managing risks	-	-	-	-	1	-	-	-	1
Administration – scheme record keeping	-	-	1	-	1*	-	-	1	3
Administration – providing information to members	-	-	1*	-	1*	1	-	-	3
Administration – providing information to and receiving information from employers and other admitted bodies	-	-	-	-	1*	-	-	-	1
Resolving issues – resolving disputes and breaches of law	-	-	-	-	1	-	-	-	1
Governing the scheme – submitting returns	-	-	-	-	-	-	-	-	-
Total	-	-	2	-	5	1	-	1	9

*Includes finding relating to control design and operating effectiveness

Key:

- Control Design Issue (D) – There is no control in place or the design of the control in place is not sufficient to mitigate the potential risks in this area.
- Operating Effectiveness Issue (OE) – Control design is adequate, however the control is not operating as intended resulting in potential risks arising in this area.

Timetable					
Terms of reference agreed:	Fieldwork commenced:	Fieldwork completed:	Draft report issued:	Management comments received:	Final report issued:
9 October 2017	9 October 2017	1 December 2017	5 December 2017	8 January 2018	9 January 2018

Appendix 3 – Identified controls

Area	Objective	Risks	Identified Controls
<p>Managing risks</p>	<p>There are defined arrangements to ensure oversight over pension administration activity and the fulfilment of requirements.</p>	<p>Governance arrangements may not support the Council effectively fulfilling pension administration requirements if:</p> <ul style="list-style-type: none"> • Governance responsibilities, including key accountabilities, are not clearly defined; • Compliance with internal SLAs (for example between payroll and pensions) is not monitored to mitigate operational issues arising due to dependencies; • Management information is not accurate or is not produced to facilitate oversight and scrutiny; • Target timeframes are not in place to process transfers and compliance against targets is not measured. • Action plans to address wider issues identified through complaints are not formulated leading to underlying issues, 	<ul style="list-style-type: none"> • Scheme administration is overseen by the Local Pensions Board • There is a governance group, made up of members of the Council and CSG, who oversee administration of the scheme (see finding 4) • There is a clear scheme of responsibilities in the pensions administration team • There are SLAs in place for queries which are reported to the Local Pensions Board • Reporting includes compliance against SLAs and the number cases outstanding, and their ageing • Management information relating to task management is prepared in Hartlink and targets are embedded into task management processes (see finding 4) • A service improvement plan is in place to address issues identified • Actions are logged as part of governance group meetings (see finding 4) • A risk register exists and is reported to the governance group and the Local Pensions Board (see finding 4)

Area	Objective	Risks	Identified Controls
		<p>such as inaccurate calculation of pension benefits, continuing; and</p> <ul style="list-style-type: none"> • A comprehensive risk register does not exist or is not regularly updated. 	
<p>Administration – scheme record keeping</p> <p><u>Member information – scheme joiners</u></p>	<p>Contributions made to the fund by employers and employees are accurate, timely and complete for all new joiners.</p>	<ul style="list-style-type: none"> • Inefficient processes may lead to applications not being processed on a timely basis resulting in a delay in members joining the scheme. • Inaccuracies in information supplied (such as salary details) may lead to an incorrect contribution rate upon enrolment leading to over or underpayments of contributions. • Duplicate members are not identified leading to members' pension entitlement not being calculated accurately. 	<ul style="list-style-type: none"> • Members information is supplied by employers and records created within 20 working days of starting or 10 days after the end of the month the employee joins the employer (see findings 6 and 9). • Hartlink identifies potential duplicate records (see finding 7).
<p>Administration – scheme record keeping</p> <p><u>Member information – updating active member</u></p>	<p>Data recorded on the pensions system in respect of active members (Hartlink) is accurate and complete.</p>	<p>Data held on the system may not be accurate or up to date resulting in inaccurate data submissions to the regulator and inaccurate calculation of the scheme's funding status if:</p> <ul style="list-style-type: none"> • Information is not received from scheme employers in 	<ul style="list-style-type: none"> • Employers are notified in advance of the requirement to supply information and deadlines specified for the provision of data (see finding 2) • Employers are chased to provide information if provided late (see finding 2) • Submissions are reviewed by CSG prior to data upload and queries on data returned to employers (see findings 1 and 3)

Area	Objective	Risks	Identified Controls
<u>records</u>		<p>line with required timeframes;</p> <ul style="list-style-type: none"> • Inaccurate or incomplete submissions are not identified and resolved; • Information is not uploaded accurately in to the underlying system; and • Membership records are lost and not promptly replaced. 	<ul style="list-style-type: none"> • Data is uploaded direct from spreadsheets to Hartlink
<p>Administration – scheme record keeping</p> <p><u>Member information – updating pensioner member records</u></p>	<p>Data recorded on the pensions system in respect of pensioner members (Hartlink) is accurate and complete.</p>	<ul style="list-style-type: none"> • A lack of a systematic approach to updating the pension records may mean that pension payments may continue to be made in respect of deceased individuals. 	<ul style="list-style-type: none"> • Deaths identified/reported are recorded on Hartlink and pension payments blocked for these members • Results from the National Fraud Initiative and “Tell us once” are used to identify possible deaths
<p>Administration – scheme record keeping</p> <p><u>Calculation of benefits payable</u></p>	<p>Accurate and timely pension payments are made to retired scheme members.</p>	<ul style="list-style-type: none"> • Use of incorrect final salary information and/or CARE pension account value may mean calculation of pension benefits to retirees is inaccurate leading to over- or underpayment. • Delays in processing the retirement information may mean that payments to retirees may be inaccurate or delayed. • Inaccurate benefit 	<ul style="list-style-type: none"> • Forms are received from employers containing final pay figures to enable pensions to be calculated • Calculations are reviewed to ensure that scheme rules are applied correctly • Final calculations are issued within 10 working days of receipt of relevant paperwork (see finding 3) • Exception reporting on pension increases proposed are reviewed before increases are approved

Area	Objective	Risks	Identified Controls
		<p>payments are made as a result of draft information being used in benefit calculations</p> <ul style="list-style-type: none"> • Inaccurate calculations of annual increases of pensions in payment are not detected leading to over- or underpayment. 	
<p>Administration – scheme record keeping</p> <p><u>Transfers in/out</u></p>	<p>Transfers in and out of the pension scheme are processed accurately and in a timely manner.</p>	<p>Transfers may not be processed accurately and on a timely basis, leading to complaints from scheme members and/or inaccuracies in the financial records maintained by the fund if:</p> <ul style="list-style-type: none"> • Insufficient information is not received/provided in a timely manner to support the transfer leading to inaccuracies in member records; and • Inaccurate calculations to support transfers out are not identified and resolved. 	<ul style="list-style-type: none"> • Data is requested to support transfers in using a standard template to enable the scheme to receive sufficient information to provide an indication of the size of benefits to members transferring into the scheme • Transfer value received and information is used to calculate the value of benefits transferred in • Transfer out calculations are reviewed before these are issued to ensure they are accurate (see finding 7)
<p>Administration – providing information to members</p>	<p>Accurate annual benefit statements are provided annually in line with scheme requirements.</p>	<p>Scheme members may not receive accurate information regarding their pension in a timely manner resulting in service user dissatisfaction if:</p> <ul style="list-style-type: none"> • Officers are not aware of scheme requirements in relation to annual benefit statements; • Responsibility for producing annual benefit statements is 	<ul style="list-style-type: none"> • There is an annual scheme plan which sets out tasks to be completed in the period – this includes the requirement to produce annual benefit statements • Annual benefit statement preparation is assigned to an officer at CSG • A plan to collect appropriate data and load data was in place (see finding 2) • Data is taken from annual returns and added to CARE accounts • A sample of benefit statement calculations are reviewed to ensure accuracy before being issued (see finding 2)

Area	Objective	Risks	Identified Controls
		<p>not assigned;</p> <ul style="list-style-type: none"> • Operational plans are not in place to ensure data required is provided in line with required timeframes; • Incorrect or incomplete figures are added to or held for members career average revalued earnings pension accounts leading to inaccurate benefit calculations; • Benefit statement calculations are inaccurate; • Benefit statements are insufficiently detailed to allow members to identify and report errors; and • Operational plans do not take account of seasonal workload fluctuations to ensure the service is sufficiently resourced at peak times. 	<ul style="list-style-type: none"> • Various entitlements of members are set out on benefit statements (see finding 3) • Staff are allocated to the pensions administration team during busy periods
<p>Administration – providing information to members</p>	<p>Information about the scheme, such as changes to terms and conditions, are communicated to members.</p>	<p>Scheme members may not receive accurate information regarding their pension in a timely manner resulting in service user dissatisfaction if:</p> <ul style="list-style-type: none"> • Officers are not aware of scheme requirements in 	<ul style="list-style-type: none"> • The service improvement plan requires that CSG produces a communication strategy (see finding 5)

Area	Objective	Risks	Identified Controls
		<p>relation to member communications;</p> <ul style="list-style-type: none"> • Responsibility for producing communications is not assigned; and • Communications sent to members are inaccurate or not made in a timely manner. 	
<p>Administration – providing information to and receiving information from employers and other admitted bodies</p>	<p>Information about the scheme, such as timeliness of data returns for new joiners, retirees or other changes are communicated and a comprehensive communication plan is in place for all stakeholders</p>	<p>Scheme employers and other admitted bodies may not be aware of data requirements and timescales resulting in employer dissatisfaction with the scheme administration, over/underpayments, inaccurate benefits statements and reputational damage to the Council if:</p> <ul style="list-style-type: none"> • Employers and other admitted bodies are not aware of scheme requirements in relation to member data; • Employers and other admitted bodies are not aware of key cut off dates for data returns (e.g. new joiners, actuarial review); and • Employers and other admitted bodies are not aware of changes 	<ul style="list-style-type: none"> • Templates are used to ensure data is provided in line with scheme requirements • Cut-off dates are communicated to employers in advance • Emails are sent to employers and payroll providers in the event of scheme changes (see finding 5)

Area	Objective	Risks	Identified Controls
		to the scheme.	
Resolving issues – resolving disputes	Scheme members are kept informed when they have raised a query.	<p>Scheme members may not receive accurate information regarding their pension in a timely manner resulting in service user dissatisfaction if:</p> <ul style="list-style-type: none"> • Communications to members are inaccurate or not made in a timely manner; • Casework processing levels are not monitored; • Queries and complaints are not processed in a timely manner ; and • Queries and complaints are not resolved accurately and in a timely manner. 	<ul style="list-style-type: none"> • Tasks relating to scheme members are actioned by CSG within 10 working days • Casework levels are reported to team leaders using a live dashboard and reported in performance reporting to the Council and the Local Pensions Board • Queries and complaints are responded to in line with contractual SLAs • Meetings are held between trade union representatives and CSG to resolve any issues raised by members
Resolving issues – breaches of law	Breaches of law are reported to regulators promptly and accurately.	<p>Breaches of law may not be reported in line with requirements resulting in regulatory action including fines and reputational damage if:</p> <ul style="list-style-type: none"> • Officers are not aware of reporting requirements; and • Reportable breaches or errors are not reported promptly to the appropriate regulator. 	<ul style="list-style-type: none"> • There is a breach of law policy for the scheme (see finding 8)

Area	Objective	Risks	Identified Controls
Governing the scheme – submitting returns	Accurate data is supplied in accordance with relevant deadlines to ensure compliance with scheme conditions.	Data may not be provided in line with requirements resulting in regulatory action including fines and reputational damage if: <ul style="list-style-type: none"> • Officers are not aware of scheme requirements in relation to data submissions; • Responsibility for producing the returns is not assigned; and • Operational plans are not in place to ensure data is provided in line with required timeframes. 	<ul style="list-style-type: none"> • There is an annual scheme plan which sets out tasks to be completed in the period – this includes the requirement to complete the annual return • Preparation of the annual return is assigned to an officer at CSG and is referenced in the allocation of staff.

Appendix 4 – Internal Audit roles and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of Pensions Administration, subject to the limitations outlined below.

Internal control

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.

Specifically we will not:

- Provide assurance over controls in place around the investment of funds in relation to LGPS regulations.
- Provide assurance over controls in place around the receipt of contributions, including controls monitoring the receipt of contributions on a timely basis.
- Provide assurance over controls in place around the payment of pensioner payroll.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

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.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.