

Internal Audit Report

Pensions follow-up review

May 2020

To: Anisa Darr – Director of Finance
Mark Fox – Pensions Manager
George Bruce – Head of Finance - Pensions
Keith Barker - Head of Scheme Finance & Payroll, Capita
Scott Harriott – Head of Public Sector Pensions, Capita

Copied to: Paul Clarke – Deputy Director of Finance
Mike Green – Public Sector Account Director, Capita
Mark Richardson – Service Delivery Manager, CSG
Iain Gray – Client Services Director, CSG
Tracey Moore – Operations Director, CSG

From: Caroline Glitre, Head of Internal Audit

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

Cross Council Assurance Service

1. Executive Summary

Overall implementation level	Action status			
	Superseded or closed	Not implemented	Partially implemented	Fully implemented
Partially implemented	7/14	1/14	1/14	5/14

Scope

This follow-up review was undertaken as part of the 2019/20 Internal Audit and Anti-Fraud Strategy, which has been approved by the Council's Audit Committee.

An internal audit review was undertaken in October 2017 examining the Council's arrangements for administering the Barnet Local Government Pension Fund. This identified a number of improvements to address data quality issues, improve the process for producing annual benefit statements and improve the scheme's governance.

The audit identified two high risk, six medium risk and one low risk findings which required a total of 31 agreed actions to be taken forward. Follow up reviews were completed in April 2018 and March 2019 and after the completion of these reviews, six actions had not been fully implemented. Three of these were followed up and closed prior to this review commencing. The remaining three actions were followed up during this review.

A second internal audit review was undertaken in July 2019 examining the Council's arrangements for managing the scheme's finances and investments. This audit identified two high risk, one medium risk and one low risk finding, which required a total of 11 agreed actions to be taken forward. All these actions were followed up during this review.

Summary of findings

We identified that one of the 14 agreed actions reviewed had not been implemented and one of the 14 actions were partially implemented. The remaining actions were either fully implemented or superseded and closed.

Of the six actions relating to high risk findings, one was fully implemented, one was partially implemented and four were superseded and closed.

5/14 (36%) of agreed actions have been fully implemented:

- Late or underpayment of contributions is reported to each Local Pension Board meeting. **See action 1c of the Pensions Finance and Investments review.**
- Strain contributions invoices are sent to addresses agreed with employers and the employer is notified by the Pensions Administration team of the amount due per their final calculation. **See action 3a of the Pensions Finance and Investments review.**
- The Council and CSG have agreed how often CSG will pursue debts and at what stage the Council will be informed. **See action 3b of the Pensions Finance and Investments review.**
- Reporting is produced monthly reporting on the collection of strain contributions and the ageing of strain contribution debts. This reporting is presented to each meeting of the Local Pension Board. **See actions 3d and 3e of the Pensions Finance and Investments review.**

1/14 (7%) of agreed actions were not implemented. This related to a low priority action.

- The Pension Fund Committee did not receive reporting on contributions received and benefits paid alongside reporting of costs incurred by the scheme in the first six months of 2019/20. **See action 4a of the Pensions Finance and Investments review.**

1/14 (7%) of agreed actions were partially implemented. This related to a high priority action.

- Per a report presented to the 13 February 2020 Pension Fund Committee, the Council has not finalised admission agreements, cessation agreements or bond renewals for over 50% of the agreements outstanding at 30 May 2019. This was due to the scheme triennial valuation being a focus of Council officers and the Council's advisers. **See action 2a of the Pensions Finance and Investments review.**

7/14 (50%) of agreed actions were superseded or closed. Four of these were high priority actions and the remaining actions were medium priority.

The following high priority actions were superseded and closed:

- The Pension Regulator has indicated to the Council that it is satisfied with actions taken to monitor contributions and their receipt. **See actions 1a and 1b of the Pensions Finance and Investments review and action 1d of the Pensions Administration review.**
- The arrangements between the Council and its advisors in relation to admission agreements, cessation agreements and bond renewals are considered sufficient by the Director of Finance. **See action 2b of the Pensions Finance and Investments review.**

The following medium priority action was superseded and closed:

- The Council's has agreed to change provider of pensions administration services to West Yorkshire Pension Fund. They will implement their own processes and controls over new members, including controls to ensure duplicate member records are not created. **See action 6b of the Pensions Administration review.**

The medium priority actions were closed:

- Sufficient updates have been made to the Council's website to ensure key documents are available for all scheme members. Further enhancements are included in the scheme's communication strategy. **See action 5c of the Pensions Administration review.**
- A process is now in place for pursuing strain contributions due to the Council and escalating significantly overdue amounts to the Council for further action. **See action 3c of the Pensions Finance and Investments review.**

See the table below for the detailed findings.

2. Findings and Action Plan

No.	Action agreed	Audit procedure	Outcome	Status	Further action required
Pension Fund Finance and Investment					
Finding 1 – Monitoring receipt of contributions (High Risk)					
1a	CSG Pensions Finance will implement the new process for collecting data from employers on the amounts paid over to the Fund to enable them to check if contributions are deducted at the correct rate and all contributions due under the Rates and Adjustments Certificate, including additional lump sum contributions, are collected.	For a sample of five employers, test whether the employer provided data in line with the requirements of the new process.	<p>We inspected the returns provided to CSG Pensions Finance for the following employers for July 2019:</p> <ul style="list-style-type: none"> • Barnet & Southgate College • BEAT (Barnet Education Arts Trust) • Oakleigh School • London Borough of Barnet • Barnet Homes. <p>These were all provided in the new format.</p> <p>This was one of a number of measures agreed with The Pensions Regulator in response to The Pensions Regulator’s improvement notice. A letter from The Pensions Regulator dated 29th August and associated correspondence demonstrates that sufficient action has been taken in relation to the monitoring of contributions.</p> <p>Therefore, it has been agreed that this action has been superseded and closed.</p>	Superseded	Not applicable

No.	Action agreed	Audit procedure	Outcome	Status	Further action required
1b	CSG will provide monthly reports to the Council on the collection of contributions, which will include reporting on whether contributions were received on time, at the correct rate and details of any significant issues noted when reviewing contributions received, such as failure to provide starter and leavers forms for member changes or unexplained movement in contributions received.	Obtain the report provided to the Council for contributions received in July 2019 and check that it includes reporting on whether contributions were received on time, at the correct rate and details of any significant issues noted when reviewing contributions received, such as failure to provide starter and leavers forms for member changes or unexplained movement in contributions received.	<p>We obtained the LBB Contributions Report, Finance Dashboard and supporting narrative for September 2019. This was shared with the Council on 9 October 2019.</p> <p>This included the following measures:</p> <ul style="list-style-type: none"> - Late payment of contributions - Failure to receive appropriate contribution forms. <p>This also included a report on the checks undertaken to ensure that employers were paying contributions at the correct amount with exceptions being followed up.</p> <p>In addition, the report included a list of employers where unexpected variances between prior month and current month contributions had been identified and reported. The report also identified employers where sufficient explanations had not been received to ensure that the Council was aware of this.</p> <p>This was one of a number of measures agreed with The Pensions Regulator in response to The Pensions Regulator's improvement notice. A letter from The Pensions Regulator dated 29th August and associated correspondence demonstrates that sufficient action has been taken in relation to the monitoring of contributions.</p> <p>Therefore, it has been agreed that this action has been superseded and closed.</p>	Superseded	Not applicable

No.	Action agreed	Audit procedure	Outcome	Status	Further action required
1c	Late or underpayment of contributions will be reported to each meeting of the Pension Fund Committee and Local Pension Board.	Obtain the reports provided to the Pension Fund Committee and Local Pension Board in September 2019 and check that late or underpaid contributions have been reported.	<p>This was included in the Performance Report presented to the 4 September 2019 meeting of the Local Pension Board.</p> <p>It has been agreed that, where required, this report will be escalated to the Pension Fund Committee.</p> <p>Therefore, this action is considered to be fully implemented.</p>	Fully implemented	N/A – action fully implemented.
Finding 2 - Admission agreements, bonds and cessation agreements (High Risk)					
2a	We will promptly complete admission agreements, cessation agreements and renewals of admission bonds for all employers identified in the report to the Pension Fund Committee on 30 May 2019 to minimise risk to the Fund.	Obtain, for each employer identified in the report to the Pension Fund Committee on 30 May 2019, the relevant agreement to confirm the agreement has been completed.	<p>We reviewed the reporting to the Pension Fund Committee on 13 February 2020.</p> <p>This reported:</p> <ul style="list-style-type: none"> - 8/13 admission agreements outstanding at 30 May 2019 had not been completed; - 3/5 cessation agreements outstanding at 30 May 2019 had not been completed; and - 6/10 bond renewal agreements outstanding at 30 May 2019 had not been completed. <p>We understand that there have been delays in finalisation of these agreements as a result of the CSG Pensions Administration team and scheme actuary focusing on the triennial valuation at 31 March 2019. This means that the above agreements will be based on up to date membership information.</p> <p>Therefore, this action is considered to be partially implemented.</p>	Partially implemented	<p>The Council will need to work with the scheme's administrators, actuary, its legal advisors and related employers to ensure agreements are finalised.</p> <p>Original implementation date: 30 September 2019</p> <p>Revised implementation date: 30 September 2020 (deferred from previously agreed revised date of 30 April 2020)</p> <p>Responsible officer: Mark Fox, Pensions Manager</p>

No.	Action agreed	Audit procedure	Outcome	Status	Further action required
2b	We will agree Service Level Agreements (SLAs) with CSG, our actuary and legal team to establish potential timelines for future admission agreements, cessation agreements and the renewal of admission bonds.	Obtain the agreement between the Council, CSG, the Council's actuary and the Council's legal team and confirm this includes timelines for the completion of future admission agreements, cessation agreements and the renewal of admission bonds.	<p>Since the completion of the audit, the relationship between the Council and other parties involved with admission agreements, cessation agreements and the renewal of admission bonds has been reviewed by the Director of Finance.</p> <p>This identified that these relationships, whilst not formalised by a service level agreement, were sufficiently well understood. As such, it was determined that service level agreements are not required.</p> <p>Therefore, it has been agreed that this action has been superseded and closed.</p>	Superseded	Not applicable
Finding 3 - Collection of strain contributions (Medium Risk)					
3a	The CSG Pensions Administration team will agree where and to whom invoices relating to strain costs will be sent as part of the retirement process and notify the employer of the final calculated strain cost once the retirement has been agreed.	For one recent retirement where strain costs were due, confirm that the Pensions Administration team agreed where the invoice for strain costs were to be sent to and the employer was notified of the final calculated strain cost.	<p>This process was implemented from October 2019. We examined the process followed for one retirement since October 2019. We agreed that the invoice was sent to the address agreed with the employer and the final strain cost was communicated to the employer.</p> <p>Therefore, this action is considered to be fully implemented.</p>	Fully implemented	N/A – action fully implemented.

No.	Action agreed	Audit procedure	Outcome	Status	Further action required
3b	The Council will agree when and how often CSG will pursue outstanding amounts and at what stage the Council will be informed and take action against the employer.	Obtain the agreement between CSG and the Council on how outstanding strain contributions amounts will be pursued and reporting to the Council on outstanding debt.	<p>We obtained email correspondence between Mark Fox, Pensions Manager, and CSG Pensions Finance which agreed the process for pursuing debts. This was finalised on 18 December 2019.</p> <p>Therefore, this action is considered to be fully implemented.</p>	Fully implemented	N/A – action fully implemented.
3c	CSG Pensions Finance will implement the process agreed with the Council for collecting strain contributions.	For one strain cost invoice issued, or outstanding after June 2019, confirm that the process agreed for collecting strain contributions was followed.	<p>Agreement was reached with the Council in December 2019 regarding the collection of debts. Prior to this agreement, all debt outstanding was chased in December 2019 to ensure employers were aware of the debts outstanding.</p> <p>We selected one invoice issued in January 2020 and noted that this was chased in line with protocol prior to payment in March 2020.</p> <p>We were also provided with evidence to show that the full process, including referral to the Council by CSG Pensions Finance, was in place.</p> <p>Therefore, this action is considered to be closed as a process for collecting strain contributions is now in place.</p>	Closed	Not applicable

No.	Action agreed	Audit procedure	Outcome	Status	Further action required
3d	CSG will provide monthly reports to the Council on the collection of strain contributions including an analysis of ageing of outstanding debt and current status of aged debts.	Obtain the report provided to the Council for contributions received in July 2019 and check that it includes reporting on the collection of strain contributions including an analysis of ageing of outstanding debt and current status of aged debts.	We obtained the Finance Dashboard and supporting executive summary for December 2019. This included reporting of the volume and value of outstanding strain invoices outstanding for both the current and prior month, allowing the Council to understand the ageing of debts. The executive summary also summarised the ageing of the debt and the steps being taken to reduce the amount outstanding. Therefore, this action is considered to be fully implemented.	Fully implemented	N/A – action fully implemented.
3e	An age analysis of strain cost debtors will be included in quarterly reports to the Pension Fund Committee.	An update as to progress on this action will be sought as part of this review.	The Finance Dashboard and supporting executive summary for December 2019, discussed in relation to action 3d, above, was presented to the Local Pension Board on 10 February 2020. It has been agreed that, where required, this report will be escalated to the Pension Fund Committee. Therefore, this action is considered to be fully implemented.	Fully implemented	N/A – action fully implemented.
Finding 4 - Budgets and management information (Low Risk)					
4a	Six monthly reporting of fund costs to the Pension Fund Committee will be expanded to include reporting on contributions received and, benefits paid.	Obtain the most recent six monthly reporting of fund costs and inspect whether it includes reporting on contributions received and benefits paid.	These items were not included in the report of fund costs for the six months to 30 September 2019 that was presented to the 21 November 2019 Pension Fund Committee. Therefore, it this action is considered to be not implemented.	Not implemented	The next reporting of costs to the Pension Fund Committee will include contributions received and, benefits paid. Original implementation date: 30 September 2019 Revised implementation date: 30 September 2020 Responsible officer: George Bruce, Head of Finance - Pensions
Pensions Administration					

No.	Action agreed	Audit procedure	Outcome	Status	Further action required
Finding 1 – Scheme data quality (High Risk)					
1d	<p>CSG will undertake analytical reviews over contributions received and reported to ensure movements reported are reasonable.</p> <p>Once implemented, CSG and the Council will then 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>Inspect analytical reviews performed over contributions received and reconciliations between the amounts reported by employers and the general ledger to ensure that these have been implemented.</p> <p>Inspect decision made regarding further assurances required over pension contributions received.</p>	<p>An analytical review is undertaken each month on contributions received. At the time of fieldwork, variances above 10% month on month were being investigated. In addition, a running reconciliation was being undertaken between this spreadsheet and the amount recorded per the scheme ledger.</p> <p>It has been proposed that the threshold for investigation is reduced in the near future.</p> <p>This was one of a number of measures agreed with The Pensions Regulator in response to The Pensions Regulator's improvement notice. A letter from The Pensions Regulator dated 29th August and associated correspondence demonstrates that sufficient action has been taken in relation to the monitoring of contributions.</p> <p>Therefore, it has been agreed that this action has been superseded and closed.</p>	Superseded	Not applicable

No.	Action agreed	Audit procedure	Outcome	Status	Further action required
Finding 5 - Communication Strategy (Medium Risk)					
5c	The Council will determine how information regarding the Council's pension scheme is presented on its website and the content subsequently updated.	Inspect documents showing that the Council has agreed how information regarding the pension scheme is presented on the Council's website and that the content has been subsequently updated.	<p>The webpages relating to the pension scheme have been updated and now include a number of pieces of information which are helpful to employers and members.</p> <p>A new scheme communication strategy was presented to the Local Pension Board on 10 February 2020 and this included a commitment to further improve information provided to members. It is intended that this will be implemented once pension administration is provided by West Yorkshire Pension Fund.</p> <p>Given the significant increase in information on the Council's website and the inclusion of further enhancements in the scheme communication strategy, it has been agreed that the initial risk identified has been addressed and thus this action has been closed.</p>	Closed	Not applicable
Finding 6 - New members and impact on data quality (Medium Risk)					
6b	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.	Inspect the exercise undertaken to identify duplicate records generated by the interface between the payroll system and Hartlink. Where duplicates have been identified, we will ensure these have been followed up and appropriate actions taken.	<p>CSG Pensions Administration planned to test all interface files in a test environment before being uploaded to Hartlink. It was reported that interface files could not be tested as intended owing to the data held in the test environment being out of date.</p> <p>As such, a manual exercise had been undertaken to load interface files and remove duplicates created.</p> <p>The Council have decided to change provider of pensions administration services, with changes being implemented during 2020/21. The new provider will implement their own systems and processes for maintaining member records. This will include their own controls to respond to the creation of duplicate records, if the method used to update the database of members creates duplicate records. Therefore, this action has been superseded and closed.</p>	Superseded	Not applicable