



Internal Audit Report

IOW1920-016

Pension Administration

Overall Assurance: Reasonable Assurance

CONTENTS

Executive Summary
Introduction, Objectives and Scope
Exceptions Table

Author: Wayne Petty
Version: Final 1.
Dated: Monday, 28 October 2019
Recipient: Chris Ward (Section 151 Officer), Claire Shand (Director of Resources), Jo Thistlewood (Technical Finance Manager), Sharon Betts (Strategic Manager - Business Centre), Claire Massiter (Payments Manager) and Matthew Collier (Employment Services Lead Officer)

Approved by: Chief Internal Auditor, Elizabeth Goodwin 

Executive Summary

An audit of the Isle of Wight Council (IWC) Pension Administration process was undertaken in accordance with the 2019/20 audit plan. The Pensions Administration team are responsible for administering the Council's Local Government Pensions Scheme (LGPS), Fire-fighters Pension Schemes (FPS) and a number of related activities, for example statutory returns in relations to the Teacher Pension Scheme (TPS). The audit reviewed the processes, procedures and controls that are in place for Pension Administration and covered all three schemes.

Achievement of Organisation's Strategic Objectives Assurance Level: Reasonable Assurance

Audit testing showed that the pension procedures are held on the pensions department i drive. So as to bring all the procedures together they are currently being put into an access data base. The data base has not yet been fully developed and is still work in progress. A review of the Access Pensions LGPS front sheet showed that not all the procedures were up to date. A review of the procedure notes for transfers out showed that they were written in November 2014, updated in June 2019. It was noted that reference was still being made to ex officers.

Based on the testing conducted one medium risk exception has been raised under Achievement of Organisation's Strategic Objectives, with further details provided under ISS 1.

Compliance with Policies, Laws and Regulations Assurance Level: Reasonable Assurance

The Pension Administration Team are promptly notified of any changes necessary to employee pension contribution levels

Members' contribution payments are either uploaded onto the system directly by the IWC payroll services and some of the larger external payroll providers. Information uploaded on to the system is not automatically validated. Smaller payroll providers do not currently have the ability to upload details directly on to the system and will forward details of any changes directly to Pensions Administration. Audit testing showed that information is not always received in a timely manner and is not always accurate. A manual process is currently operated to validate data provided and raise any irregularities with payroll providers for resolution. This is time consuming and inefficient. The Pension Administration Team are developing the implementation of a new system, i-connect which will enable electronic, direct transfer & validation of information prior to entry into the Altair system on a monthly basis. This will be rolled out first to the IWC payroll system and then to all admitted bodies and school payroll providers. Due to the Pension Administration team having to spend a lot of time on the data cleansing exercise the implementation of this system which was due in September 2018, this dead line has been missed and it is now hoped that the i-connect system will be implemented in 2019.

New scheme members are processed and recorded completely and accurately and in accordance with the regulations of the scheme

From a sample of 19 starter forms tested the date between the member joining and being accurately entered on the Altair Pension system ranged from 11 days to 439 days. Further investigation into 3 of the starters where long delays had been calculated showed that not only was the information late, the quality of the information being provided was not accurate and caused extra work for the Pension Administration team. An example of this is shown in the main body of the report ISS 3.

Data relating to scheme members (including transfers out, retirement, death and deferred membership) are processed and recorded completely and accurately.

From the sample of 14 changes tested it was noted that not all the information required to change a members position in the pension scheme was received in a timely manner, the delay in receiving the required forms ranged from 7 to 10 months. Failure by employers or their payroll providers to provide accurate and timely information on members standing in the pension scheme could mean that members may not receive accurate information on their pension benefits and may not receive their correct entitlements when they fall due. An exception for the lateness of providing information has been raised under new starters.

The data improvement plan which has been put in place and the specific data improvement measures are being met within the defined timeframe.

Since 2013 data quality issues within the IWC pension scheme have grown in number. The 2016 valuation identified some 1944 incorrect records for resolution. Owing to this the IWC Pension fund has recently had to undergo a data improvement process. From the information provided the areas highlighted in the data improvement plan which has been put in place following a review by the Pension Regulator to improve the quality of the pension information held, is in place and the specific data improvement measures have been met. 2019 is the Isle of Wight Pension Funds Triennial Valuation year and Pensions Administration were able to get the Valuation data to Hyman's by the 19th July 2019, which met the 31st July 2019 deadline. Initial feedback from Hymans states "We have carried out our initial checks on the membership data and on the whole it is looking pretty good. A lot of issues seem to have been resolved from the data cleansing exercise". This statement has been backed up by the 2019 data scores from Heywood's, showing that the accuracy of Common Data which includes details of members name, date of birth and National Insurance number was 95% (91.1% in 2018) and Scheme Specific Data, which is used to run calculations on a member's pension was 95.2% (73.7% in 2018). It was stated by the Employment Services Lead Officer that Hymans are planning to feedback to the Isle of Wight Council Pension Board in November 2019 on the results of the Pension Fund valuation.

Based on the testing conducted two medium risk exception has been raised under Compliance with Policies, Laws and Regulations, with further details provided under ISS 2 & 3.

Safeguarding of Assets Assurance Level: Assurance

Details of the contract for the pensions administration system between the service provider(Heywood's Ltd) and the IWC was sighted and it showed that arrangements are in place to ensure appropriate third party expertise is available for the pension system (Altair) configuration and problem solving.

Effectiveness & Efficiency of Operations Assurance Level: Reasonable Assurance

Information is provided promptly by school payroll providers regarding the TPS

Under the Teacher's Pension Scheme (TPS) the pension administration team are responsible for completing and ensuring the accuracy of the teacher's monthly returns. A review of the information provided for 2 months by the schools payroll providers showed that the information is checked for accuracy and submissions are made in a timely manner. It was stated by the Employment Services Lead Officer that TPS returns were completed by the 31st May 2019 and have been audited by an external auditor, although at the time of the audit no feedback as to the accuracy of the information provided has been received.

Appropriate arrangements are in place to ensure that 2019 benefit statements will be issued for both LGPS and FPS by the 31st August 2019.

A review of the processes and procedures for the issue of annual benefit statements to members showed that there were issues with the accuracy of information provided to 1060 members in 2018. Following errors found with the accuracy of last year's benefit statements, greater controls and enhanced procedures have been put in place to ensure all benefit statements will be issued for both LGPS and FPS by the 31st August 2019. Details were provided by the Employment Services Lead Officer, showed that all benefit statements had been issued.

Performance indicators are in place for pension administrations.

A review of the Pension Administration KPI's showed that for 2018-19 the 5 KPI's that were reported on only one Pensioner Payroll, which is payment of pension benefits to member by last working day of the month, was shown as being met. No explanation as to

why the targets have not been met has been sighted. For 2019-20 another 7 KPI's have been added which have not previously been reported on. From the information provided for the period April 2019 to August 2019 all the KPI's with the exception of one "Payment of Benefits" had been met, this KPI missed the target in May 2019 with a score of 90.63%, against a target of 100%.

KPI performance is reported back through the Isle of Wight Pension Board as a standing item. A review of the Pension Board minutes for Tuesday 24 April 2019 showed that the board reviewed the administration performance statistics for the financial year 2019-20 and it was suggested that going forward an additional column should be added to the table to explain any outliers or issues.

Based on the testing conducted one medium risk exception has been raised under Effectiveness & Operations, with further details provided under ISS 4.

Reliability & Integrity of Data Assurance Level: Assurance

A review of the minutes provided to the pension committee and pension board showed that the management information regarding the pension schemes is relevant, accurate, reliable, and sufficient and is reported back to the in a timely manner so as to allow member the chance to challenge and question the details provided and then give independent assurance on the pension schemes progress.

Completion of the audit Assurance Level: Reasonable Assurance

Four medium risk exceptions have been raised as a result of audit testing. In light of these findings, Internal Audit can offer Reasonable Assurance that the Pension Administration processes and procedures are of low risk to the authority.

Please be aware that summaries of all exceptions are routinely reported to the Audit Committee who may call in any Audit report they wish. Where any critical exceptions are found and/or the audit receives an overall level of 'No Assurance' these will be reported in their entirety to the Audit Committee along with the Directors comments. These exceptions may also be reported to the relevant Portfolio holder.

ASSURANCE LEVELS

The overall assurance is given on the activity that has been audited. These levels are based on the areas tested within the audit as noted with the Objectives & Scope.

Levels:	Description / Examples
Assurance	No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority
Reasonable Assurance	Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority
Limited Assurance	Control weaknesses or risks were identified which pose a more significant risk to the Authority
No Assurance	Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit

Objectives and Scope

The objectives of this audit were to assess the adequacy and effectiveness of the system of internal controls designed to manage and mitigate both financial and non-financial risks relating to Pensions Administration under the following control headers to ensure that:

Achievement of Organisation's Strategic Objective

- Key pension processes and procedures are documented up to date and regularly reviewed.

Compliance with Policies, Laws and Regulations

- The Pension Administration Team has been promptly notified of any changes necessary to employee pension contribution levels; changes have been processed accurately in the pension system (Altair) in a timely manner.
- New scheme members are processed and recorded completely and accurately and in accordance with the regulations of the scheme.
- Data relating to scheme members (including transfers out, retirement, death and deferred membership) are processed and recorded completely and accurately in accordance with the regulations of the scheme.
- The data improvement plan which has been put in place following a review by the Pension Regulator to improve the quality of the pension information held is in place and the specific data improvement measures are being met within the defined timeframe.

Safeguarding of Assets

- Arrangements are in place to ensure appropriate third party expertise is available, specifically regarding the pension system (Altair) configuration and problem solving.

Effectiveness & Efficiency of Operations

- Information is provided promptly by school payroll providers regarding the TPS; information is checked for accuracy and submissions are made in a timely manner.
- Appropriate arrangements are in place to ensure that 2019 benefit statements will be issued for both LGPS and FPS by the 31st August 2019.
- Performance indicators are in place for pension administration, covering service standards as defined by CIPFA benchmarking standards.

Reliability & Integrity of Data

- All management information regarding the pension schemes is relevant, accurate, reliable, and sufficient and is reported back to the pension committee and/or pension board in a timely manner so as to give independent assurance on the pension schemes progress.

ISS.1 - IOW1920-016-Pension Administration-Procedures	
Priority Level Medium Risk	
Exception	<p>Audit testing showed that the pension procedures are held on the pensions department I drive. So as to bring all the procedures together they are being put into an access data base. The data base has not yet been fully developed and is still work in progress. A review of the Access Pensions LGPS front sheet showed that not all the procedures were up to date.</p> <p>A review of the procedure notes for transfers out showed that they were written in November 2014, updated in June 2019. A review of this procedure showed that reference was still being made to officers, who no longer work for the Council.</p>
Risks and Consequences	<p>Failure to have key pension processes and procedures documented, up to date and regularly reviewed could mean that the IWC Pension scheme is not being administered in line with the set procedures and current legislation. This could lead to members receiving the wrong pension details/payment, which could lead to a financial and reputational loss to the authority.</p>
Agreed Action	Person Responsible / Action by Date
All procedure notes will be updated by 31 st March 2020.	Matthew Collier/Leo Atkinson-Goffe

ISS.2 - IOW1920-016-Pension Administration-System Changes to members contributions	
Priority Level Medium Risk	
<p>Exception</p> <p>The Pension Administration Team upload the annual members pension contribution rates based on pay bands on to the Altair system annually. These rates are only adjusted on an annual basis. Members' contribution payments are either uploaded onto the system directly by the IWC payroll services and some of the larger external payroll providers. Information uploaded on to the system is not automatically validated. Smaller payroll providers do not currently have the ability to enter details directly on to the system and will forward details of any changes directly to Pensions Administration.</p> <p>Audit testing showed that information is not always received in a timely manner.</p> <p>A manual process is currently operated to validate data provided and raise any irregularities with payroll providers for resolution. This is time consuming and inefficient. The Pension Administration Team is developing the implementation of a new system, i-connect which will enable electronic, direct transfer & validation of information prior to entry into the Altair system on a monthly basis. This will be rolled out first to the IWC payroll system and then to all admitted bodies and school payroll providers. This system was originally going to be rolled out to all providers by January 2019, but owing to work pressures the target date has slipped. No new target date has been set.</p>	
Risks and Consequences	
<p>Failure to notify the Pension Administration Team in a timely manner of any changes to employee pension contribution levels, so they can be processed accurately in the pension system (Altair) in a timely manner, could lead to inaccurate details being shown on members annual statements and lead to pensions being wrongly paid, which could cause financial and reputational damage to the Authority.</p>	
Agreed Action	Person Responsible / Action by Date
i-connect implementation will be delivered in a number of phases and will need full support from third party systems company Absoft to complete configuration of the i-connect file and also the requirement of a dedicated member of the team to enable implementation. It is therefore difficult to put	Matthew Collier/Leo Atkinson-Goffe/AdrianTaylor - ongoing



a date on completion of the project. The implementation will be as follows:

- Absoft to complete configuration
- Testing of IWC data on configuration completion – On going
- New Employers will automatically be set up and be required to send data through i-connect – Starting October 2019
- Pensions Team to set up configuration and initial data matching i-Connect for all employers, with support
- Onsite or telephone training and support.
- Meeting with Strictly & Capita to confirm i-connect requirements and get commitment

ISS.4 - IOW1920-41-Pension Administration-Reporting on KPI's	
<p>Priority Level Medium Risk Exception</p>	<p>A review of the Pension Administration KPI's showed that for the financial year 2018-19 the 5 KPI's that were reported on only one "Pensioner Payroll", which is the payment of pension benefits to member by the last working day of the month, was shown as being met. No explanation as to why the targets have not been met for the remaining 4 KPI's has been sighted. For 2019-20 another 7 KPI's have been added which have not previously been reported on. From the information provided for the period April 2019 to August 2019 all of the 12 KPI's with the exception of one "Payment of Benefits" had been met, this KPI missed the target in May 2019, with a score of 90.63%, against a target of 100%.</p> <p>KPI performance is reported back through the Isle of Wight Pension Board as a standing item. A review of the Pension Board minutes for Tuesday 24 April 2019 showed that the board reviewed the administration performance statistics for the financial year 2019-20 and it was suggested that going forward an additional column should be added to the table to explain any outliers or issues.</p>
<p>Risks and Consequences Failure to ensure appropriate performance indicators have been set for the contract and are regularly monitored could mean that the Pension Administration team is not achieving its objectives, which could cause operational problems and lead to a financial loss and damage to the Authority's reputation.</p>	
<p>Agreed Action Additional information will be provided on the KPI document by 31st December 2019.</p>	<p>Person Responsible / Action by Date Matthew Collier</p>

ISS.3 - IOW1920-016-Pensions Administration-Timely Processing of New Starters	
<p>Priority Level Medium Risk Exception</p>	<p>New starters who are eligible to join the Isle of Wight Pension scheme can be either automatically or manually uploaded on to the pension system. A review of 19 new starter forms showed that the date between the member joining and being accurately entered on the Altair Pension system ranged from 11 days to 439 days. Further investigation into 3 of the starters where long delays had been calculated showed that not only was the information late, the quality of the information being provided was not accurate and caused extra work for the Pension Administration team. One of the cases highlighted showed that there appeared to be a delay of 578 days from when the member started and when the starter form was received. The explanation for this was "One member, who was classed as a new starter on the 13/11/17, contacted the Pension Administration Team enquiring about the job role. The team had to investigate the problem, which showed that the original pension starter record started on the 1/9/14 and a starter form for this date had to be requested from the payroll provider. Upon further investigation it transpired that the payroll provider had recycled a payroll reference i.e. gave two posts the same payroll number. So one post started on 01/09/2014 and then ceased, and another post started on 13/11/2017. As the posts had the same payroll number throughout, the Pension Administration Team would not have known that one role stopped and the other started as there was no break in service. Following on from the members query, the Pension Administration Team received the starter form which is why there was such a late notification".</p> <p>Failure to receive information from payroll providers in a timely manner was also highlighted in the audit testing for pensioners into payments and transfers out of the scheme. From the sample of 14 changes tested it was noted that 3 of the sample where information required to change a member's position in the pension scheme was not received in a timely manner, the delay in receiving the required forms ranged from 7 to 10 months. So as to provide a quality of service to members the supply of accurate and timely information from employers and their outsourced service providers is essential.</p>
Risks and Consequences	
<p>Failure by employers or their payroll providers to provide accurate and timely information on new starters could mean that members may not receive accurate information on their pension benefits and may not receive their correct entitlements when they fall due. This causes operational problems with the administration of the pension scheme and could lead to a financial and reputational loss to the authority.</p>	
Agreed Action	Person Responsible / Action by Date
As per the i-Connect solution above. (ISS2 refers)	Matthew Collier/Leo Atkinson-Goffe/Adrian Taylor - ongoing

EXCEPTIONS

The following tables outline the exceptions from the recent audit and are reported in priority order. Internal Audit report regularly to the Governance Committee on findings and management actions. However, in accordance with agreed protocols, all critical exceptions are brought to the attention of the Committee.

Priority Level	Description
Critical Risk	<p>Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the organisation's objectives in relation to:</p> <ul style="list-style-type: none"> ▪ The efficient and effective use of resources ▪ The safeguarding of assets ▪ The preparation of reliable financial and operational information ▪ Compliance with laws and regulations <p>And corrective action needs to be taken immediately.</p> <p>Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not "show stopping" but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.</p> <p>These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.</p>
High Risk	
Medium Risk	
Low Risk - Improvement	<p>Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.</p>