



Pension Scheme Administration

CA22-2016

INTERNAL AUDIT REPORT

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Report Authors: Amanda Palmer & Kelly Neath

Audit Manager: Sarah Bubb

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AUTHORS	
Report Authors	Amanda Palmer Kelly Neath
QA	Sarah Bubb





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1 EXECUTIVE SUMMARY

1.1 Introduction

- a) As part of the 2015-2016 Audit Plan it was agreed that Internal Audit would undertake an audit of Pension Scheme Administration.
- b) The Local Government Pension Scheme (LGPS) is one of the largest public sector pension schemes in the UK with over 4 million members. The Kent Pension Fund is a regional LGPS funds and is administered by Kent County Council. The Kent Fund has approximately 36,000 pensions in payment. As of March 2015 the value of the Kent Fund was £4,539 million.
- c) The overall purpose of the audit is to provide assurance on the controls over the administration of the Kent Pension Fund, including admitting new members, transfers into and out of the scheme and calculating retirement benefits. The set up and payment of pensions was covered by our audit of Pensions Payroll earlier this year (ref CA21-2016).

AUDIT OPINION & PROSPECTS FOR IMPROVEMENTS	
Opinion (See Appendix A for Definitions)	Adequate 
Prospects for Improvement (See Appendix C for Definitions)	 Very Good

1.2 Rationale

There are effective systems in place to ensure the accuracy of processes within the pension administration section. However, key evidence to support these processes and the validity of entitlement is sometimes of poor quality, uncertified or not always retained. There is currently a backlog of work impacting on the timeliness of processing in a number of areas.

Strengths

- Accurate calculations and processing is evident across the Pension Administration section and this is ensured through an internal checking system.

- A training structure is in place to ensure that those who carry out checks are suitably experienced.
- Payments are appropriately authorised.
- Annual Benefit Illustrations are produced for all relevant active members.
- New KCC employees are automatically enrolled in the pension scheme.
- Validation exercises are carried out to ensure the accuracy of data held for each new joiner.
- Scheme member's retirement instructions are followed accurately.
- Scheme members are made aware of potential pension scams when transferring their benefits out of the Kent Pension Fund.
- Transfers in and out of the scheme comply with LGPS regulations and scheme rules.

Areas for Development

- There is a backlog of work, impacting the timely processing of concurrent, aggregation, deferred benefits and refund cases.
- Paper records are not stored securely.
- Uncertified photocopies of documents to verify date of birth are accepted.
- Documents scanned on to scheme member records are inconsistent in quality, with some being illegible.
- Evidence used in the collation of KPI data and the annual data review exercise is not retained and we were therefore unable to confirm the accuracy of reported KPIs.

Prospects for Improvement are considered to be Very Good based on the following factors:

- There is an action plan in place to address the backlogs of work, although this may take some months for some areas (for example guidance is awaited on the aggregation of benefits).
- Management have responded positively to the issues raised in this report and developed appropriate action plans to address them.
- The Pension Administration system has recently been updated.

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	1	1	0
Medium Risk	3	3	0
Low Risk	1	0	1

2 FINDINGS

A. Background

- 1) The Local Government Pension Scheme (LGPS) is one of the largest public sector pension schemes in the UK with over 4 million members. It is a tax approved, defined benefit occupational pension scheme set up under the Superannuation Act 1972
- 2) The scheme is administered locally through 90 regional pension funds. The Kent Pension Fund is one of these regional pension funds and is administered by Kent County Council. The Kent Fund has approximately 36,000 pensions in payment. As of March 2015 the value of the Kent Fund was £4,539 million.
- 3) LGPS 2014 was introduced in April 2014 after changes to pension legislation. The new scheme operates on a Career Average Revalued Earnings (CARE) basis and affects contributions made after 1st April 2014.

B. Detailed Findings

Policies and procedures

- 4) Up to date policy and procedure guides are accessible to all relevant staff. These are in the process of being moved across to the staff zone on the Kent Pension Fund website. Although version control is apparent within many of the documents, this is not evident in all cases and some refer to the previous software system, Axis, which was replaced by the Altair system. A recommendation was made in our recent Pension Payroll Audit Report (ref CA21-2016) in September 2015 to review all procedure notes. This is currently underway within a timescale for implementation of 31st March 2016.
- 5) There is a career structure chart in place for staff to ensure their development and that they are competent to complete in their roles.
- 6) As detailed within the Kent Code, all employees must declare annually, to an appropriate Senior Manager, any financial and non-financial interests or commitments which may conflict with KCC's interests. The annual exercise must be completed even when an employee has nothing to declare. Audit testing found that none of the 59 members of staff within the Pensions Section had completed a declaration of interest form for 2015/2016 and only 9 had completed one in previous years. **See Issue 1**
- 7) Because pension entitlement is partly dependent on your age, it is necessary to verify a scheme member's date of birth before benefits are put in to payment. When required, members are asked to supply a copy of either their birth certificate or

passport. Photocopies of documentation are accepted; however they are not certified as genuine. In addition, there is no overarching written policy on date of birth verification. **See Issue 2**

- 8) Any documentation relating to individual members is scanned and stored on to their record in the Altair pensions system. Audit testing found that the quality of the scanned documents was inconsistent and on occasion illegible. It is understood that this is, in part, due to the quality of photocopies received into the pensions section so we will not be raising an issue.

System Access and Data Security

- 9) Electronic member data is held securely on Altair. Staff require a log on for Windows, Citrix and the Altair system to enter the database. The system administrator places users into “roles” which have varying levels of access. An issue was raised in the Pension Payroll audit that 2 members of the payroll control team had “client” access and could therefore carry out amendments to pension member details. The agreed action to address this has not yet been implemented; however a process has been put in place to identify any unauthorised data input by the Pension Payroll Team.
- 10) Testing found that members of staff who left the Pension section had their access to Altair and Citrix removed in a timely manner. Data on the Altair system is held by the system provider, Heywood. We have confirmed that Heywood operates within the Data Protection Act 1998 and has clear policies and technical measures in place to safely manage this data.
- 11) When documents are indexed onto a member’s record, hard copies are kept for 2 months until a backup of the system has been completed by Heywood. Paper records are not currently stored in locked cabinets although they contain member information. Access to the pensions section is not restricted to the Pensions team and can be accessed by anyone with a swipe card for Invicta House. **See Issue 3**
- 12) Accurate records are maintained through data validation at the point a member joins the scheme (for more detail please see Pension Scheme Joiners). Changes to information can be requested by an employer and must contain the member’s name and National Insurance Number. The details of previous information continue to be held on the member’s record. If a request is made by the member they need to confirm personal details before any update is processed.
- 13) The Pension Regulator requires Pension Administrators to hold certain common data including:
- National Insurance Number
 - Surname
 - Forename
 - Data of birth
 - Sex

- Address and postcode
- Membership status
- First contribution date
- Expected retirement age
- Last status event

This common data should be recorded on a member's record. Audit testing found good record keeping in line with Pension Regulator requirements and KCC's record retention policy. Electronic records are held in line with the Data Protection Act.

- 14) The Pension Regulator requires data review exercises to be carried out at least annually on common data. For the Kent Scheme this was first carried out in August 2015 by the system administrator. Although we were able to obtain a copy of the initial exception report which identified items for investigation and missing data fields, no record has been kept of what action has been taken to rectify each exception. The report has not been re-run after any action had been taken. Therefore it is not possible to establish whether the exceptions have been corrected. **See Issue 4**

Pension Scheme Joiners

- 15) It is a government requirement for employers to automatically enrol new staff into a Pension Scheme. Employees have the option to opt out of the scheme if they wish. Upon examination of a sample of new joiners from KCC, all had been enrolled into the Kent Pension Fund, and where they had opted out there was documentation to support this.
- 16) It is the employer's responsibility to send new joiner information to the Pension Team and this is checked by the Pension Section for errors in formatting and any missing data. Once a new member record is created, a validation report is run to member with a previous record and is compared to ensure the data matches. If there are any errors, these are investigated and returned to the employer, if necessary, to ascertain the correct information.
- 17) A validation report is printed for each new member and the data checked against the newly created record for accuracy. New starter checklists and consistency checks are also completed to ensure there is no missing information and data matches. Audit testing of a sample of new joiners established that all had a validation check completed, however it was only possible to test April 2015 - July 2015 as there is currently a backlog in checks due to the end of year process.
- 18) Annual benefit illustrations for active members for the 2014/2015 financial year were issued in August 2015. Of the 48,138 active members 9,904 were not issued with an annual benefit illustration. Sample testing identified that those members with outstanding queries on their record did not receive a statement, as it was not able to ascertain what their annual benefit would be. We understand there is a backlog in dealing with these queries due to the April 2014 Legislation changes.

Transfers in and out

- 19) Pension Regulation 100(6) requires that a notice to transfer membership into a pension scheme must be made within 12 months of membership. From a sample of transfers in it was established that all requests and election forms were received within the deadline.
- 20) Once a transfer in has been agreed, a request is made to the previous scheme for the funds to be released. These payments are made to the Treasury and Investments Team (T&IT) and should not be applied to the members account until the previous scheme have written confirming the transfer of funds and T&IT have processed a journal transfer of the money. Testing found the correct processes had been followed and the correct amounts applied to each member.
- 21) A member can only transfer their funds out of the scheme to a HMRC registered pension scheme. If a transfer is made to a non-registered scheme it is deemed unauthorised and can result in a sanction to the pension administrator of 40% of the value. The scheme can also lose their status as "registered". Checks should be made with receipt of the receiving schemes HMRC registration certificate or a check on the Registered Overseas Pension Scheme list (ROPS). Testing identified that all transfers out from the sample went to registered pension providers and evidence of a check was on the member's record.
- 22) A transfer out quotation must be calculated and sent to the member directly before a transfer out can actually proceed. Checks are made to ensure all information required has been received and that the member is eligible to transfer, the Cash Equivalent Transfer Value (CETV) is then calculated. This calculation is checked for accuracy by another member of staff, indexed on to the member's record and sent directly to the member, with a leaflet on how to avoid pension scams. This process was evident for the entire sample in testing of 14 transfers out.
- 23) If a member decides to continue with their transfer, completed discharge forms are required from the member and receiving scheme. Upon receipt of the correct forms the transfer amount payable can be calculated. This is then checked by a second member of staff for accuracy. This was completed in all instances within audit testing. However, there was one occasion where the correct forms were received in December 2012 but the amount payable was not calculated until October 2015. This was due to no task being set up at the time and has now been actioned.
- 24) To pay the transfer amount, a payment voucher is generated and signed by the member of staff who completed the calculation and the one who checked it. The voucher is then authorised for payment by one of 3 appropriate authorisers. This was evidenced for each of our sample when we obtained each payment voucher.

Leavers

- 25) When a member leaves the Kent Pension Fund they are either subject to a refund or a deferred benefit entitlement. If a member leaves within 3 months of joining the scheme, their employer's payroll department are responsible for processing a refund. If they leave after 3 months to 2 years of service, the member is entitled to a refund from the Pension Team, or can choose to retain their deferred benefit. Leavers after 2 years are entitled to a deferred benefit. Employers must send a leavers pack to the Pension Team from which a refund or deferred benefit is calculated.
- 26) Audit testing found that although all processing of deferred benefits was calculated and checked for accuracy, there was a delay in processing the deferred benefit once the correct leaver paperwork had been received. Of a sample of 15 only 3 were completed within the KPI date. On average there was 108 days between receiving the necessary paperwork and writing the member with details of their benefit.

Issue 5

- 27) Examination of a sample of 15 refunds found that all were eligible for a refund from the Pension Team and each member had returned a signed refund declaration form requesting the reimbursement. All were processed and checked by another member of staff for accuracy, with payment vouchers signed off and authorised by an appropriate member of staff.

Retirements

- 28) When a member wishes to receive retirement benefits they need contact their employer to ask for an estimate. The employer collates all the necessary information on the member and fills out an estimate request form which is sent to the Pension Team. This is checked to ensure all the data required is provided. It is then processed and checked by second member of staff for accuracy. Not all members request an estimate but it is advised. Sample testing of 22 retirement estimate requests found that all were processed and checked for accuracy. However, 17 of these were completed outside the KPI target date. **Issue 5**
- 29) If a member wishes to go ahead with retirement, their employer sends a final retirement package to Pensions including a retirement declaration form which details a member's instruction to either take the standard lump sum or to trade some pension rights for a larger lump sum. Audit testing established that for a sample of 30 retirements all had a retirement declaration form indexed on their record and member's instructions were followed when their lump sum was paid.
- 30) Once the correct forms have been received, the retirement actuals can be calculated. These are then checked for accuracy. Again all of our sample were processed, calculated and checked correctly.

Monitoring and reporting

31) The Pension Section has the following KPIs, some which are only reported internally and some to the Superannuation Fund Committee bi annually:

- Benefits
- Correspondence
- Divorces
- Estimates
- Deferred Benefits
- Transfer in Actuals
- Transfer in Quotes
- Transfer out Actuals
- Transfer out Quotes
- Widows/Dependants

32) Although it is evident that KPIs are produced monthly and are reported to the Superannuation Fund Committee every 6 months, it is not possible to verify the accuracy of these figures as source data is not retained and cannot be re-run. Audit testing has also identified a number of backlogs within certain processes which the KPIs do not support. **See Issue 5**

3 ISSUES IDENTIFIED & MANAGEMENT ACTION PLAN

1. Declaration of interest	
<p>Issue Of the 59 members of staff working within the Pension Administration Team, none had completed a declaration of interest form for 2015/2016. This exercise needs to be completed yearly, even if there is a nil return, in line with the Kent Code.</p> <p>Risk Managers are not aware of whether staff have financial and non-financial interests which may conflict with their role at KCC.</p> <p>Root Cause There is no process in place to ensure all staff complete an annual declaration of interest.</p>	<p>Risk Rating</p> <p style="text-align: center;">Medium</p>
<p>Management Action Plan</p> <p>All staff have been instructed to complete a declaration of interest on Oracle self-service and to update on an annual basis. A annual reminder has now also been setup to ensure that these are reviewed and completed annually.</p> <p>Issue Owner: Barbara Cheatle – Pensions Manager</p>	<p>Timescales</p> <p>31 March 2016</p>



2. Verifying date of birth	
<p><u>Issue</u></p> <p>There is no overarching written policy on verifying dates of birth, which is a key piece of information for calculating pension entitlements. When required to provide evidence of date of birth, uncertified photocopies of documentation are accepted.</p> <p>Risk</p> <p>Fraudulent and poor quality documents are received leading to incorrect calculation of entitlement of benefits and financial loss to the pension fund or scheme member.</p> <p>Root Cause</p> <p>Pension Team procedures do not require that photocopies of birth certificates and passports are certified as genuine.</p>	<p>Risk Rating</p> <div style="border: 1px solid black; background-color: #92d050; padding: 5px; text-align: center; width: fit-content; margin: 0 auto;"> <p>Low</p> </div>
<p><u>Management Action Plan</u></p> <p>This issue has been considered and is seen as a low risk. The administrative processes that would have to be put into place to enforce this would be too great to add any benefit. In addition members of the scheme would be liable to pay for obtaining proof of authenticity and may choose to bring in the original documents which would also be time consuming and not viable once the offices have been relocated.</p> <p>Issue Owner: Barbara Cheatle – Pensions Manager</p>	<p>Timescales</p> <p>n/a Issue not accepted</p>



3. Storing paper records	
<p>Issue It was identified that paper records are not stored in locked cabinets within the Pension Section Offices. This breaches the Data Protection Act and also contravenes KCC's Information Management Manual.</p> <p>Risk Unauthorised access to personal information . Breach of the Data Protection Act.</p> <p>Root Cause Documents are not stored in locked cabinets</p>	<p>Risk Rating</p> <div style="background-color: red; color: white; padding: 5px; border: 1px solid black; width: fit-content; margin: 0 auto;">High</div>
<p><u>Management Action Plan</u></p> <p>The offices that were occupied at Brenchley House were restricted to pension staff only. When moving to Invicta no advice was received via new ways of working that we needed to ensure that all documents were stored in lockable cabinets. The section is being relocated again in the near future to Cantium and a request has been made that lockable cabinets need to be provided for all documents.</p> <p>Issue Owner: Barbara Cheatle – Pensions Manager</p>	<p>Timescales</p> <p>30th June 2016</p>








4. Data review – retaining documents	
<p>Issue Although an annual data review exercise was carried out in August 2015, there is no record of the actions taken to address the errors and missing data fields identified. The data report was not re-run once the necessary actions were taken. It is therefore not possible to establish if all exceptions had been acted upon and corrected.</p> <p>Risk Data held may be incomplete</p> <p>Root Cause No evidence of action on data exceptions is retained.</p>	<p>Risk Rating</p> <div style="background-color: yellow; border: 2px solid blue; padding: 5px; display: inline-block;"> <p>Medium</p> </div>
<p>Management Action Plan Evidence of the action taken during the data review exercise will be retained in the future. The data review exercise may be carried out more regularly than annually.</p> <p>Issue Owner: Barbara Cheatle – Pensions Manager</p>	<p>Timescales</p> <p>30 September 2016</p>



5. Performance reporting	
<p>Issue During audit testing it was identified that the reports run from the Altair system including the statistics which make up the KPIs are not retained and it is therefore not possible to ensure all figures reported are correct and supported by evidence.</p> <p>Audit testing, also identified a number of areas including leavers and retirements where there were backlogs of work and large percentages of the samples tested were completed outside the KPI deadlines.</p> <p>Risk Incorrect KPIs could be reported leading to misinformation and understanding of performance of the Pension Section.</p> <p>Root Cause Base data used to calculate KPIs is not retained.</p>	<p>Risk Rating</p> <div style="background-color: yellow; border: 1px solid blue; padding: 5px; display: inline-block;"> <p>Medium</p> </div>
<p><u>Management Action Plan</u></p> <p>Relevant staff have now been instructed to retain the KPI reports for 12 months. We currently have a team of 10 to try and clear the back log and hope to recruit additional staff</p> <p>Issue Owner: Barbara Cheatle – Pensions Manager</p>	<p>Timescales</p> <p>Immediate</p>

Appendix A – Definition of Audit Opinions

In order to assist management in using our reports we categorise our **audit opinion** according to our assessment of the controls in place and the level of compliance with these controls. The definitions of assurance levels are as follows:

-  **High** There is a sound system of control operating effectively to achieve service/system objectives.
Any issues identified are minor in nature and should not prevent system/service objectives being achieved.
-  **Substantial** The system of control is adequate and controls are generally operating effectively.
A few weaknesses in internal control and/or evidence of a level of non compliance were noted during the audit that may put a system/service objective at risk.
-  **Adequate** The system of control is sufficiently sound to manage key risks.
However there were weaknesses in internal control and/or evidence of a level of non compliance with some controls that may put system/service objectives at risk.
-  **Limited** Adequate controls are not in place to meet all the system/service objectives and/or controls are not being consistently applied.
Certain weaknesses require immediate management attention as if unresolved they may result in system/service objectives not being achieved.
-  **No Assurance** The system of control is inadequate and controls in place are not operating effectively. The system/service is exposed to the risk of abuse, significant error or loss and/or misappropriation.
This means we are unable to form a view as to whether objectives will be achieved.

Appendix B – Definition of Issue Priorities

We categorise our **issues** according to their level of priority.



Immediate management action is required to remedy a gap or failure of internal control that has led, or may lead, to non achievement of service or system objectives.



Timely management action is required to remedy weaknesses in internal control that could lead to non achievement of service or system objectives.



Management action is suggested to improve the quality and/or efficiency of the control environment of the system or service.

Appendix C – Prospects for Improvement

<u>Prospects for Improvement</u>	
Very Good	There are strong building blocks in place for future improvement with clear leadership, direction of travel and capacity. External factors, where relevant, support achievement of objectives.
Good	There are satisfactory building blocks in place for future improvement with reasonable leadership, direction of travel and capacity in place. External factors, where relevant, do not impede achievement of objectives.
Adequate	Building blocks for future improvement could be enhanced, with areas for improvement identified in leadership, direction of travel and/or capacity. External factors, where relevant, may not support achievement of objectives.
Uncertain	Building blocks for future improvement are unclear, with concerns identified during the audit around leadership, direction of travel and/or capacity. External factors, where relevant, impede achievement of objectives.

Appendix D – Engagement Plan

Objective

As part of the 2015-2016 Audit Plan it has been agreed that Internal Audit will undertake an audit of Pension Scheme Administration.

The overall purpose of the audit is to provide assurance on the controls over the administration of the Kent Pension Fund.

Scope

Policies and Procedures

- Up to date policies and procedures are available to all relevant members of staff.

System Access and Data Security

- Member data is held securely with access restricted to those staff who require it.
- Accurate and up to date records are maintained on all Pension Scheme members.
- Member data is held in line with LGPS regulations and the Data Protection Act.
- Data review exercises are completed to maintain high standards of data quality.
- Access rights to Altair are relevant to each job role.
- Members of staff who leave the Pensions team have their access rights removed in a timely manner.

Pension Scheme Joiners

- New employees are automatically enrolled.(Employer responsibility)
- Pension scheme joiners are processed promptly and accurately.
- An annual benefit statement is produced for all active members.

Transfers in and out

- Only eligible members can transfer funds in and out of the Kent Pension Fund.
- Transfers comply with LGPS regulations and scheme rules.
- Earned pensions are awarded only after confirmation from the Treasury & Investments Team (T&IT) of the transfer of funds.
- Discharge forms are completed promptly and accurately.
- Cash Equivalent Transfer Values (CETV) are calculated correctly.
- Proactive 'Pension Scam' checks are carried out.

Leavers

- Members leaving the scheme are processed correctly and in a timely manner.
- Deferred benefit calculations are accurate.
- Contributions are returned to members in line with scheme rules.

Retirements

- Retirement benefit entitlements are calculated accurately.
- Member instructions regarding their retirement benefits are followed.

Monitoring and Reporting

- Key Performance indicators are reported to the Superannuation Fund Committee on a regular basis.