

Pensions Contributions CS03-2019

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1 EXECUTIVE SUMMARY

1.1 Introduction

- 1) As part of the approved 2018-2019 Audit Plan it has been agreed that Internal Audit will undertake an audit of Pension Contributions. The aim of the audit is to provide assurance that controls are in place to ensure that contributions for pensions are being correctly received and processed by the Kent Pension Fund.
- 2) The Kent Fund is part of the Local Government Pension Scheme, and Kent County Council are responsible for administering the Kent Fund. This includes receiving the monthly contributions to the fund from the member employers. The value of the annual contributions for 2017/18 was c£222m
- 3) The Pension Contributions process was last audited in February 2016 and received an overall audit opinion of Substantial.

AUDIT OPINION & PROSPECTS FOR IMPROVEMENT	
<p><u>Opinion</u></p> <p>There is a sound system of control operating effectively to achieve service/system objectives.</p> <p>Any issues identified are minor in nature and should not prevent system/service objectives being achieved.</p>	 High
<p><u>Prospects for Improvement</u></p> <p>The operation has satisfactory building blocks present for future improvement, there are minor improvements required in leadership, direction and capacity</p>	 Good

1.2 Rationale

The audit identified that there are robust controls in place to manage the employer contributions to the Kent Pension Fund. Automated processes ensure that the contributions due from providers are calculated correctly and align to the actuary valuation of the fund. There are also monthly and annual reconciliation processes that ensure the correct amount is received into the fund.

There are minor improvements required with regard to ensuring procedure documentation is reviewed and kept up to date and that year end reconciliations are completed and signed off for 2017/18.

Our opinion of High is based on the following strengths and areas of development

Key Strengths

- Procedure notes are detailed and contain adequate information to reproduce the monthly/annual processes for collecting employer contributions. They are kept centrally where they are accessible to the staff that would require them.
- Correct employers pension contributions are received on a monthly basis and coded correctly on the Councils financial systems. Any exceptions/differences in amounts received are picked up in a timely manner and addressed.
- The automated creation of contribution Journals each month means there is minimal risk of incorrect amounts or coding.
- Calculation of the KPI (percentage of contributions received by 19th of the month) is robust.
- The debtor analysis undertaken at the year-end effectively identifies any balances due from each employer. Outstanding balances are investigated, although a number of smaller debts have not been addressed for some time.
- Bank reconciliations are carried out regularly during the year. Adequate evidence is retained, and each reconciliation is reviewed and authorised
- There is a reliable year end reconciliation process in place to ensure that the correct contributions have been received with regard to employers' pensionable pay.
- The contributions data and spreadsheets maintained by the team are backed up.
- A risk register is maintained by the team - the risks it contains are appropriate and all have adequate mitigating actions against them.
- Quarterly reports are submitted to the Superannuation Fund committee which contain accurate and sufficient information regarding fund contributions and related issues.

Areas for Development

- The year end contributions reconciliation for 2017/18 is not yet complete. Although the risk of inaccurate payments lies with the employer as this will affect future valuations and contribution levels
- The procedure notes for the collection and reconciliation of Employer Contributions are have not been reviewed and updated since 2014/15. **Issue 1**
- There are capacity issues with the document library on Sharepoint. This has affected the storage of employer documentation. **Issue 2**

Prospects for Improvement have been assessed as Good due to the following factors:

- There has been little turnover in the team and therefore there is a good level of knowledge and understanding of processes and they are open to way to improve.
- There is an awareness of weaknesses and consideration has been made to

possible ways to address these.

- Issues raised have been accepted and management action plans developed

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	0
Medium Risk	0	0	0
Low Risk	2	2	0

2 ISSUES IDENTIFIED & MANAGEMENT ACTION PLAN

1. Procedure Notes	
<p><u>Issue</u></p> <p>Although procedure notes for the collection and reconciliation of Employer Contributions are detailed and adequately cover the key processes, they have not been reviewed since 2014/15. The lack of a review means it is possible that they are not up to date and accurate for any new or covering staff to understand the process.</p> <p>Risk</p> <p>If procedure notes are not kept accurate and up to date, then it may not be possible to reproduce the key processes by new or covering staff. This may lead to incorrect collection of Employer Contributions</p> <p>Route Cause</p> <p>There has been little change in processes and a due to low staff turnover in the department all existing staff are experience and familiar with the proceses</p>	<p>Risk Rating</p> <p>Low</p>
<p><u>Management Response</u></p> <p>Action Plan</p> <p>We have recently recruited a new member of staff and will use this opportunity to review the procedures to confirm they are still accurate.</p> <p>Responsible manager – Alison Mings, Treasury and Investments Manager</p>	<p>Timescales</p> <p>31 December 2018</p>

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2. Document Storage	
<p><u>Issue</u> There are capacity issues with the document library on SharePoint. This has affected the storage of employer documentation.</p> <p>Consideration should be made on whether this is the best repository for the Pensions library in the future.</p> <p>Risk Capacity issues with document storage may lead to the loss of key documentation to support the process</p> <p>Route Cause As the number of employers on the fund has increased there not been sufficient document management, and SharePoint has a limit to the number of documents in each library</p>	<p>Risk Rating</p> <div style="border: 1px solid black; background-color: #90EE90; padding: 5px; text-align: center; width: fit-content; margin: 0 auto;"> <p>Low</p> </div>
<p><u>Management Response</u></p> <p>Action Plan</p> <p>We are presently reviewing our use of SharePoint as a document repository for the Fund particularly taking into account the functionality of the ALTAIR ERM system which is part of the Pensions Admin system. If we decide to continue to use SharePoint we will undertake a review of all documents saved to the system.</p>	<p>Timescales</p> <p>31 December 2018</p>



Responsible manager – Alison Mings, Treasury and Investments Manager	
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Appendix A – Definition of Risk Ratings

We categorise our issues according to risk rating as follows:



There is a gap in the control framework or a failure of existing internal controls that results in a significant risk that service or system objectives will not be achieved.



There are weaknesses in internal control arrangements which lead to a moderate risk of non-achievement of service or system objectives.



There is scope to improve the quality and/or efficiency of the control framework, although the risk to overall service or system objectives is low.

Appendix B – Engagement Plan

Objective

The aim of the audit is to provide assurance that controls are in place to ensure that contributions for pensions are being correctly received and processed by the Kent Pension Fund.

Scope

Receipt of Employer

- Procedure notes are made available to all relevant staff.
- New Employers are added to the database in the correct month and with the correct contribution rate.
- The PEN 4/1 forms are received by the Council in a timely manner each month and used to raise the pension contribution debtor.
- Employer contribution values provided by the independent actuary are accurately input onto the PEN 4/1 forms.
- The daily BACs download is coded correctly with any unidentified amounts being investigated and cleared promptly.
- The 'transaction listing' is reviewed to ensure the payments received match the PEN 4/1 debtor amounts.
- The 'contribution monitoring dashboard' is promptly updated and reviewed.
- Bank reconciliations are prepared monthly and reconciling items are identified and cleared.

Year End Reconciliations

- Annual employer returns (PEN 4/B form) are completed by all employers and submitted to the Council in line with agreed timescales.
- These returns are used in the year end reconciliation of pension contributions which is reviewed and signed off on completion.

Back Up and Recovery Arrangements

- Regular back-ups are performed of the key spreadsheets used to monitor and control contribution receipts.
- There is a 'disaster recovery' plan that has been tested.

Risk Management

- There is an appropriate risk identification and monitoring process.

Reporting

- The Pension Fund reports regularly to the Superannuation Fund Committee.
- Reports are accurate and fairly reflect the level of contributions received and any related issues faced by the Kent Scheme.



Pensions Contributions