

PLEASE NOTE APPENDIX 2
NOT FOR PUBLICATION

North Yorkshire County Council

Pension Board

20 April 2017

Internal Audit Reports

Purpose of Report

To provide the Pension Board with an update on internal audit activity.

Background and Recent Activity

The internal audit reports for 2015/16 have now all been completed and are attached as appendices. Details of each audit are attached below

Audit	Assurance level	Comments
Pension Fund Expenditure (Appendix 1)	Reasonable Assurance	The audit reviewed the processes in place for paying pensions, particularly around changes to pensions and the death of pensioners
Pension Fund Income (Appendix 2). NOT FOR PUBLICATION	No assurance level provide	Following the change in the pension scheme in April 2014 issues were identified with the returns submitted by scheme members in 2015. This created a large amount of additional work for pension fund staff. The aim of this audit was to examine a sample of returns to identify best practice and common issues to enable action to be taken to improve the quality of future returns
Pensions Fund Investments (Appendix 3)	High Assurance	The audit reviewed the policies in place to manage the investments of the fund and the assurances obtained from fund managers

The audit plan for 2016/17 was agreed with senior pensions staff and is detailed below

Audit	Details
Pension Fund Expenditure	The audit will review the processes in place for paying pensions to ensure pensions payments are accurate and action is taken promptly where changes are required
Pension Fund	The audit will review the processes in place within NYCC to

Income	provide information to NYPF on contributions for scheme members and the guidance provided to employers following the previous audit
Pensions Fund Investments	The audit will review the policies in place to manage the investments of the fund and the assurances obtained from fund managers
Altair System	The audit will review the systems access controls for the Altair Pensions system

Work on each of these audits is still ongoing, and will be reported to the pension's board on completion.

Recommendation

Pension Board Members are asked to note this report and the attached Internal Audit Reports.

BARRY KHAN
Assistant Chief Executive (Legal and Democratic Services)
County Hall
Northallerton



Pension Fund Expenditure

North Yorkshire County Council

Internal Audit Report 2015/16

Business Unit: Central Services
 Responsible Officer: Corporate Director – Strategic Resources
 Service Manager: Pensions Administration Team Manager
 Date Issued: 10 April 2017
 Status: Final
 Reference: 32220/008

	P1	P2	P3
Actions	0	1	3
Overall Audit Opinion	Reasonable Assurance		

Summary and Overall Conclusions

Introduction

The Local Government Pension Scheme is a statutory scheme for local authority employees, operated under the Local Government Pension Scheme Regulations under regulations issued by the Central Government Department, Communities and Local Government. The Scheme is administered on a local basis and the County Council is responsible for the Scheme within the geographical areas of North Yorkshire and the City of York. In addition to employees working in local government, a number of other public, education and voluntary sector employees are also members of the LGPS. Private contractors engaged in local authority work are also able to participate in the scheme.

The North Yorkshire Pension Fund uses the Altair system for administration purposes. This system has the means of providing a payroll function however these are made on their behalf by the North Yorkshire County Council Employment Support Service through ResourceLink. There are approximately 17,500 members who are in receipt of a pension with a monthly payroll of approximately £5.6 million.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system ensured that:

- the death of pensioners and the recovery process of any overpaid pension payments once they have deceased were appropriate;
- PP1 amendment forms (a form detailing required amendments to be made to a pensioner's payroll record within ResourceLink) which are issued to Employment Support Services were actioned in a timely manner; and
- prior to the payroll being finalised and payments made to pensioners there was a process of validation.

Key Findings

The key findings identified in the audit include:

- there are a number of suspended records on the ResourceLink system that does not agree to information held on the NYPF Altair system that would ultimately impact upon pension fund valuation;
- there is no periodic reconciliation between the NYPF Altair system and the NYCC ESS ResourceLink system;
- the present arrangements in the NYPF for monitoring the pensions of dependants are not sufficient to prevent overpayments from being made;
- there is no formal procedure for the ending of deceased pensioner records when the NYPF is unable to provide ESS with a copy of the death certificate; and
- the guidance for processing a deceased pensioner record is not sufficiently detailed so that ESS and the NYPF are aware of its own and the other party's responsibilities. Nor does it allow for monitoring against targets to be undertaken and remedial action to take place when targets are not achieved under the safeguards of a service level agreement.

An error was made when a member elected to receive a lump sum payment and forego any further rights to a pension. NYPF did not provide ESS with the correct information resulting in an overpayment which was only identified when notified by the pensioner. A suitable process has now been put in place to prevent this from happening in the future.

Overall Conclusions

It was found that the arrangements for managing risk were satisfactory with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made. Our overall opinion of the controls within the system at the time of the audit was that they provided Reasonable Assurance.

1 Reconciliation between the Altair and ResourceLink systems

Issue/Control Weakness

There is no periodic reconciliation between the NYPF Altair system and the NYCC ESS ResourceLink system.

Risk

Financial loss to the NYPF.

Findings

There is no reconciliation process between the NYPF Altair system and the NYCC ESS ResourceLink system for record management purposes. Where personnel and payroll are provided by different systems where there is no means of communication between either system best practice would dictate that a reconciliation should be undertaken regularly at the very least annually to highlight anomalies and prevent fraudulent records from being set up. Six exception reports are downloaded each month from ResourceLink for the pensioners payroll that are checked by ESS staff. However exception reports are not forwarded to the NYPF. There are no exception reports that identify the setting up of new pensioner records on ResourceLink, records that have been ended, suspended or amended. Staff within the NYPF set up new pensioner records including the monthly amount to be paid, additionally they are able to suspend records. Members of staff within ESS have access to the ResourceLink system and are able to amend and update accordingly. However this is all done in isolation. As these reports are not run or forwarded to the NYPF there is no reconciliation between the Altair system and the ResourceLink system where it can be identified and verified the total of all new records, ended or suspended records during any given pay period. As there is no reconciliation process between the two systems it cannot be guaranteed that there are no pensioner records on ResourceLink where payment is being made where there is no such record on the Altair system and vice versa.

ESS has recently provided the NYPF with a report from the ResourceLink system of all suspended records. This includes 34 suspended dependant records dating back to 2011 and 70 suspended pensioner records dating back to 2001. The NYPF Team Leader advised that an initial review of these identified that some did not have a record on the Altair system ie were not NYPF members, and some were recorded on Altair as currently being in receipt of a pension when in fact they had not received one for a number of years. Later during 2016 there is to be a fund valuation which will have an impact on the overall value of the fund if calculations are being made based upon incorrect information held on the Altair system.

Agreed Action 1.1

There is a weekly spreadsheet prepared by the NYPF of all new pensioners set up on ResourceLink. This spreadsheet is used by the ESS Pensions Team to carry out final checks before the payroll is run. This spreadsheet can be authorised by ESS to agree that all entries on the spreadsheet have a corresponding ResourceLink record. A further exercise will be carried out to obtain death certificates and update Altair and ResourceLink records for cases which have been suspended including those which are teachers.

Priority

2

Responsible Officer

Pensions
Administration Team
Manager

Timescale

31 May 2017

Consideration will be given to introducing an annual reconciliation between both systems however this would have to be done in consideration of other projects and resources.

2 Dependant pensions

Issue/Control Weakness

The present arrangements for monitoring the pensions of dependants are not sufficient to prevent overpayments from being made. Additionally NYPF guidance does not define sufficiently what constitutes a training programme or a full time educational course.

Risk

Dependants may not receive the pension payments they are entitled to receive from the NYPF.

Financial loss to the NYPF.

Findings

A sample of twelve pensioner records was reviewed as part of the testing, two of these related to dependant pensions. Pensions are paid to dependants of deceased pensioners up to the age of 18 or up to the age of 23 if they are in full time education or on a training programme. Applicants complete a NYPF Supplementary Application Form for Payment of a Child's Pension that has to be verified by the educational or training provider.

Dependant pensions are monitored within the NYPF on a monthly basis by one designated member of staff, the NYPF Team Leader, using a spreadsheet. When eligibility ceases they suspend the record on ResourceLink. No NYCC Pensions Payroll Input Form is completed for these amendments with the only record being that entered onto the spreadsheet. An addition to the process has recently been introduced where after a period of three months if there has been no comeback from the recipient to advise that they are in further education or on a training programme a request will be made to ESS to end the record. This whole process is manual with no automated safeguards put in place should monitoring not be undertaken. Such safeguards could include an automated email to ESS or a date entered onto the ResourceLink record to indicate when eligibility is due to expire. There is no annual review of each dependant record to confirm ongoing eligibility. It was advised by the NYPF Team Leader that these records are periodically reviewed on an ad hoc basis subject to resources. This review entails contacting the dependant and requesting confirmation that they are still entitled to receive the pension.

The sample reviewed included 9900051935 and 9900043128. For the former information held indicated that the dependent was starting an apprenticeship and based upon this information payment of the pension was suspended from the end of September 2015. This was queried and it has since been agreed by the NYPF that an apprenticeship will now be recognised as a training programme and those eligible will be able to apply for a dependant pension. A new form has been introduced to accommodate for these NYPF Supplementary Application Form for Payment of a Child's Pension Apprenticeship to be completed by the young person and certified by the employer. In this case the young person will be contacted and any eligible pension will be back dated. For the latter the dependent had been overpaid from her 23rd birthday a period from 9 January 2015 until it was identified on 18 September 2015. This was identified by a colleague when querying the record of another dependent from the same family and not through the monthly monitoring process undertaken by the NYPF Team Leader even though the spreadsheet recorded all appropriate information. An invoice has been raised for the overpayment that is being repaid in instalments.

Agreed Action 2.1

Introduce a change where the 'date due to cease' is entered into ResourceLink and additionally the monthly monitoring spreadsheet is shared each month at an agreed date with ESS.

That all amendments be done using a PP1 input form so there is more formal recording of the changes. That changes are tracked on the monthly monitoring spreadsheet which is then shared with ESS at an agreed time each month.

Where a record is suspended that this is tracked on the monthly monitoring spreadsheet which is sent to ESS. This will act as a reminder for ESS to inform the NYPF of any incidents of returned payments which can also be tracked on the monthly monitoring spreadsheet.

Priority

3

Responsible Officer

Pensions
Administration Team
Manager

Timescale

31 May 2017

3Ending deceased pensioner records

Issue/Control Weakness

The guidance for processing a deceased pensioner record is not sufficiently detailed so that ESS and the NYPF are aware of its own and the other party's responsibilities. Nor does it allow for monitoring against targets to be undertaken and remedial action to take place when targets are not achieved under the safeguards of a service level agreement.

Risk

Reputational risk to the Authority.

Findings

The ESS guidance for processing a deceased pensioner record is not sufficiently detailed so that ESS and the NYPF are aware of its and the other party's obligations. The guidance refers to a service level agreement with the NYPF of five days for some of the process. It was advised by the ESS Business Manager that this five day period cannot be achieved as there are factors that affect the turnaround of these cases such as receiving a copy of the death certificate and when during the month ESS is notified of the death. Therefore no monitoring of performance against this five day target is carried out. The reason for this target needs to be clarified with NYPF, although it is likely in reality to be a target to process information provided prior to key cut off dates if provided more than five days prior to that date. Amendments can be made to the pay run prior to the processing date that usually occurs in the middle of the month. It is also possible to cancel a BACS payment up to 2 days prior to the payment date.

The guidance also states that overpayments above £50 will be recovered. A case was identified where a payment was made with an overpayment of £37.70 where ESS was notified with sufficient time to stop the BACS payment and to issue a manual cheque payment for the amount due. It has been reported that this was a one-off error. However, it is likely that there will be a value below which it would be inefficient to stop the BACS payment and pay any balance by cheque, and a minimum level should be agreed with NYPF.

ESS will not end a record until they have received a copy of the death certificate, but will suspend the record until they receive clarification. In some cases the NYPF is unable to obtain a death certificate particularly in cases where they receive information from other sources and are not notified of the death directly from the next of kin or a solicitor. Presently ESS has 45 cases on Lagan where they have been informed of a death and have suspended the record but have not ended it as they are waiting for death certificates from the next of kin or the executor.

For these and future cases where a death certificate cannot be obtained the NYPF and ESS need to establish a protocol to process and end records so that they can be ended promptly and are not suspended for periods of time. There may be rare occasions where the NYPF provide ESS with incorrect information and a record is ended when the pensioner is not deceased. In these cases a new record would have to be set up again on ResourceLink. Incorporated into the protocol could be some form of recompense to cover the cost and time incurred in setting up a new record. Once each of the above points have been updated within guidance and included within the service level agreement performance

monitoring against targets can be undertaken and action taken to address issues promptly.

Agreed Action 3.1

The 5 day target will be clarified in relation to the action which can be taken in relation to the monthly cut-off date, as action is only possible at certain times in the run up to the key date.

The NYPF would wish to ensure that all payments due to the Estate are made irrespective of how small but it would seem sensible to allow ESS to not make payments of less than £5 and guidance will be updated to reflect this.

Where a death certificate cannot be obtained but a date of death has been obtained a check can be made with the DWP to validate the date of death. Where this is done a death proforma should be completed by the NYPF to allow ESS to act to suspect the record.

Priority

3

Responsible Officer

Pensions
Administration Team
Manager

Timescale

31 May 2017

4 Payment of small monthly pensions

Issue/Control Weakness

There are some pensioners in receipt of a monthly payment where the cost of making that payment would be more than the payment itself.

Risk

Financial loss to the NYPF.

Findings

From the low net pay exception report downloaded by ESS from ResourceLink 54 records were identified where the pensioner was receiving a monthly pension of less than £1.00 ranging from £0.04 to £0.97. Each of these payments incurs a cost to the NYPF. The NYPF should review the current arrangements to determine if a more cost effective process could be introduced.

Agreed Action 4.1

The NYPF would be in agreement to ESS making annual payments but a robust system would need to be in place to ensure that these payments are made annually.

A manual system for making annual payments was in place in the past and pensioners were in agreement to receiving payments annually but the manual system was not found to be reliable.

Initial discussions will take place by 31 May 2017 on re-introducing this process.

Priority

3

Responsible Officer

Pensions
Administration Team
Manager

Timescale

31 May 2017

Audit Opinions and Priorities for Actions

Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

Where information resulting from audit work is made public or is provided to a third party by the client or by Veritau then this must be done on the understanding that any third party will rely on the information at its own risk. Veritau will not owe a duty of care or assume any responsibility towards anyone other than the client in relation to the information supplied. Equally, no third party may assert any rights or bring any claims against Veritau in connection with the information. Where information is provided to a named third party, the third party will keep the information confidential.



North Yorkshire Pension Fund Investments

North Yorkshire County Council

Internal Audit Report 2015/16

Business Unit: Central Services
 Responsible Officer: Corporate Director – Strategic Resources
 Service Manager: Head of Commercial and Investments
 Date Issued: 6 September 2016
 Status: Final
 Reference: 32210/008.bf

	P1	P2	P3
Actions	0	0	1
Overall Audit Opinion	High Assurance		

Summary and Overall Conclusions

Introduction

The Local Government Pension Scheme (LGPS) is a statutory scheme for local authority employees, operated under the Local Government Pension Scheme Regulations under regulations issued by the Central Government Department, Communities and Local Government. The County Council is responsible for the Scheme within the geographical areas of North Yorkshire and the City of York. In addition to employees working in local government, a number of other public, education and voluntary sector employees are also members of the LGPS. Private contractors engaged in local authority work are also able to participate in the scheme.

The scheme is administered on a local basis and NYCC is the statutory Administering Authority for the scheme with responsibility for making sure appropriate arrangements are in place to administer all aspects of the Fund. This is achieved by the County Council delegating responsibility for managing all aspects of the Fund to the Pension Fund Committee.

Objectives and Scope of the Audit

The audit was based upon a document produced by the Society of County Treasurers in conjunction with the Lead Auditor Working Group on the Audit of Investment Managers and the Chief Auditors Network. This guidance includes an analysis of risks and controls that are common to all local authority pension funds and that framework formed the basis for this review.

The purpose of the audit was to provide assurance to the North Yorkshire Pension Fund (NYPF) that:

- the Authority had a policy and strategy for the investment of its funds that was reviewed annually; and
- investment fund managers produced independently audited financial statements and provided information required by the NPYF.

This included a review of:

- AAF 01/06, SAS70 reports or equivalent of the current Investment Managers and the Custodian where they were produced and available; and
- information such as the insurance cover, annual reports and the contents of the procedure manuals held by the Investment Managers.

Key Findings

The key findings identified in the audit include:

- assurance reports on internal controls were provided by all of the investment fund managers with the majority receiving an opinion of reasonable assurance from their auditors. The report for Newton returned twenty two exceptions this being much higher than the three reported for the previous year;

- annual reports and accounts were provided by the majority of investment fund managers which had been audited and each providing a true and fair view, the annual report and accounts for Standard Life Investments was obtained from the internet as they failed to provide a copy;
- a number of investment fund managers provided detail of the insurance policies they had in place and staff handbooks or policies. However both Standard Life Investments and Legal and General refused to provide detail of their insurance cover or a copy of their staff handbook. M and G Investments refused to provide detail of their insurance cover.

Overall Conclusions

It was found that the arrangements for managing risk were very good. An effective control environment appears to be in operation. Our overall opinion of the controls within the system at the time of the audit was that they provided High Assurance.

1 Requests for information from investment fund managers

Issue/Control Weakness

Some investment fund managers refused to provide information when requested limiting the audit work that could be undertaken and assurances provided.

Risk

Potential for financial loss to the NYPF.

Findings

During the course of the audit we found that a number of the investment fund managers were reluctant to release information as they felt Veritau did not have authority to act on behalf of the NYPF. We are therefore unable to provide any assurance that these investment funds have appropriate insurance cover.

Agreed Action 1.1

We will get in touch with fund managers prior to the audit at Veritau's request to aid their information gathering. We will also intervene where managers are not providing Veritau with the requested information.

Priority

3

Responsible Officer

Senior Accountant - Pensions

Timescale

31 March 2017

Audit Opinions and Priorities for Actions

Audit Opinions

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Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
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