North Yorkshire County Council

Pension Board

12 October 2017

Internal Audit Plan

Purpose of Report

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

Audit Plan 2016/17

Details of the planned audits for 2016/17 are shown in the table below

Audit	Status	Assurance level
Pension Investments	Complete	High Assurance
Pensions Income	Complete	Substantial Assurance
Pensions Expenditure	Draft	Reasonable Assurance
Altair IT System	Complete	Substantial Assurance

The Pensions Expenditure audit is still at draft stage and will be reported to the Board when issued as final. A copy of the final report for the remaining 3 audits are attached as **Appendices 1a, 1b and 1c.**

Audit Plan 2017/18

The Internal Audit Plan for 2017/18 was approved at the Board meeting on 20 July 2017. The current progress of work for the 2017/18 plan is detailed below

Audit	Days	Status
Pension Fund Governance Arrangement	15	
The audit will review the governance arrangements for the pension's fund, including compliance with CIPFA guidance and pensions fund regulations. This will include a review of the Annual report, and the issue of Benefits statements to scheme members.		**In progress**
Pension Fund Income	15	
The audit will review the processes in place for the collection of income from member organisations and the information provided to enable the calculation of benefits under the various schemes. This will include a follow up of previous years audit work on the quality of data provided by scheme employers		

Pension Fund Expenditure

The audit will review the processes for paying pensions, in particular reviewing payment of new pensions and changes to pension entitlement.

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

Ian Morton,

Audit Manager,

Veritau Ltd.

Background Papers - attached

NYCC Pension Fund Investments

North Yorkshire County Council

Internal Audit Report 2016/17

Business Unit: Central Services
Responsible Officer: Corporate Director – Strategic Resources
Service Manager: Head of Pensions Administration
Service Manager: Senior Accountant - Pensions
Date Issued: 18 September 2017
Status: Final
Reference: 32210/009.bf

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

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 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.

On that basis the purpose of the audit was to provide assurance to the NYPF that:
- the Authority had a policy and strategy for the investment of its funds that was reviewed annually;
- the Authority undertook a reconciliation of the funds it had invested; and
- investment fund managers produced independently audited financial statements and provided information required by the NPYF.

This included a review of:
- information such as insurance cover, annual reports and policies held by the Investment Managers.

Key Findings

The LGPS (Investment and Management of Funds) Regulations 2016 came into force on 1 November 2016, replacing the 2009 regulations. Under these new regulations administering authorities are now required to have an Investment Strategy Statement (ISS) rather than the Statement of Investment Principles (SIP) as required under the previous regulations. The ISS was approved by the Pension Fund Committee in February 2017.

BYN Mellon the custodian reconciles the investments with each of the fund managers on a quarterly basis and prepares the quarterly performance reports that are presented to the Pension Fund Committee. The NYCC Accountant reconciles the NYPF investments on an annual basis at the year end. The process used was reviewed and appeared reasonable although there is an issue with the recording of some transactions at the year end because of timing differences.

Information is downloaded for each of the fund mangers from the Workbench System, a system used by BYN Mellon for recording all of its transactions. Year end closing figures on Oracle are brought forward and entered onto a spreadsheet specifically set up for this purpose with a tab for each fund manager containing a template that is then completed for each category of investment. Information from the workbench reports are collated and entered onto the respective template within the spreadsheet. These are then summarised into the reconciliation and compared to the annual report from BNY Mellon to verify figures. Once verified a journal is completed and Oracle is updated. The reconciliation for 2016/17 identified two errors which were corrected.

As part of the reconciliation undertaken by the NYCC Accountant there is a check of what was reported by each fund manager in their year end reports, which is compared to the report produced by the custodian. This highlights timing differences which are checked to verify dates and to understand if significant in value. This is not recorded anywhere within the reconciliation undertaken by the NYCC Accountant and it would provide greater clarity particularly to those who are signing off the reconciliation to include those transactions that represent the timing differences as an addendum to the reconciliation.

For each investment fund a copy of the annual report and accounts, and details of insurance cover was obtained. No issues were identified with the insurance cover. The annual assurance report on internal controls was reviewed for each investment fund managers and all have an opinion of reasonable assurance from their auditors. The number of reported exceptions varied from thirteen (Standard Life Investments) to none (ECM Asset Management Ltd, Veritas and Bluebay). The remainder varied between one and nine. A review of the issues identified raised no significant concerns in relation to the areas identified, other than the prominence of IT issues. As a result of the IT issues identified a request was made to ensure all had specific policies in place such as an Information Security Policy and a Data Protection and Data Management Policy, that there was monitoring in place to ensure they were part of the induction process and that employees had to regularly familiarise themselves with the policies on a periodic basis. All of the investment fund managers were contacted, each replied and no concerns or issues were identified with the responses provided.

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.

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.

North Yorkshire County Council

Veritau
Assurance Services for
the Public Sector

Pension Fund Income

North Yorkshire County Council

Internal Audit Report 2016/17

Business Unit: Central Services
Responsible Officer: Corporate Director – Strategic Resources
Service Manager: Head of Pensions Administration
Date Issued: 21 August 2017
Status: Final
Reference: 32260/003

	P1	P2	P3
Actions	0	0	2

Overall Audit Opinion	Substantial Assurance

North Yorkshire
County Council

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.

From April 2014 the scheme changed to become a Career Average Revalued Earnings (CARE) scheme. For each year of membership the amount in each pension pot for a specific employee will be re-valued based upon indexes. Any pension accrued up until 31 March 2014 is still based upon final salary. Under the 2014 scheme overtime and additional hours are pensionable pay. Members can opt to pay half of their pension contributions at any time and for any period.

Each year scheme employers have to submit year end files to the North Yorkshire Pension Fund (NYPF) that provide information for each fund member that is used to produce annual benefit statements for each member of the NYPF. With the introduction of the new scheme two year end files now need to be completed one for the CARE scheme and one for the 2008 scheme. Incorrect information submitted in these returns can lead to an employee being provided with an incorrect annual benefit statement.

The NYPF provided the sample of scheme employers to be visited of which there were eight including NYCC. Seven of these were visited during the last financial year and a memo report was issued to the NYPF on 29 April 2016. It was agreed to delay the review of NYCC, the ESS which provides the information to the NYPF was unable to accommodate the review within the timescales.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to the NYPF that NYCC had adequate procedures and controls within their systems to ensure that:
- reports downloaded from the payroll system were complete and contained the correct information; and
- there were processes in place for checking and validating information before it was submitted to the NYPF.

In addition it was also agreed to revisit the key findings in the memo report issued on 29 April 2016 to follow up and review the extent that these had been incorporated into the NYPF guidance to employers for the completion and submission of files for the year ending 31 March 2017.

Key Findings

For the 2015/16 year NYCC ESS introduced a new process for extracting information from ResourceLink to complete the year end returns to the NYPF. A script was written using Cognos Impromtu a reporting tool from IBM used by ESS for downloading information from ResourceLink. ESS provides a payroll service to several employers including NYCC and the same script was used to produce the required information for all employers who have employees that are members of the NYPF. Information from these reports once independently checked was used to populate the annual returns to the NYPF for the CARE scheme and the 2008 scheme. The report for NYCC was the last to be run, being the largest employer any errors identified in the scripting were addressed through the checking of information for the smaller employers. The process used for extracting information was reviewed and appeared reasonable.

Information was checked on a 10% sample basis by a member of staff in ESS who was independent from the running of the reports. The process used for checking the information also appeared reasonable although they were unable to provide a record of the 10% that had been checked. As part of the audit undertaken a sample was reviewed that included new starters, leavers, change of post, those taking maternity/paternity/sick leave, part time and term time employees and could verify all of the figures included in the pensions return for these individuals

We did identify a relatively minor issue which affects a lot of staff but in a minor way where the payroll deduction for Compulsory Unpaid Leave (CUP) was incorrect. A 0.77% monthly deduction for CUP this being the two days unpaid leave over the December break was made from employee salaries during the 2015/16 financial year. The deduction should have been 0.55%. This has had an impact upon the calculation for the whole time equivalent salary for the 2008 scheme. These figures are incorrect for those employees who have chosen not to buy back the pension entitlement for the unpaid leave period. The Pensions Administration Team Manager is aware of this and has acknowledged that pension statements will be incorrect by small amounts for these members. Pension statements are only relevant at a point in time to provide an illustration. For those employees and members of the pension scheme who retire or leave and defer their pension additional checks and calculations are undertaken at this stage.

ESS identified an issue with ResourceLink that impacted upon the year end figures for some 258 employees. The issue has since been resolved with the system provider and the NYPF have been advised of the correct figures for these employees; individual amounts varied up to £50 to that previously submitted to the NYPF.

NYPF undertake checks on data received from employers, and refer these back to the employer. Whilst NYCC ESS investigates the individual cases referred they do no necessarily seek out similar cases that could also be affected by the same circumstances and may therefore not identify similar errors which are below the threshold for NYPF checks.

The 2015/16 Pensions Fund Income report made a number of suggestions for future improvements based upon best practice and common issues identified from visits to a sample of scheme employers. NYPF has taken on board the suggestions made in the memo report for

improving best practice and incorporated this in new year end guidance for the completion of the annual returns. Guidance issued to employers now includes a checklist and a suggested project plan for the completion of the returns.

The guidance makes it quite explicit that the completion and return of a checklist is a mandatory requirement and the year end file will not be processed without a completed checklist being received. There will be the expectation that the checklist will be signed off by someone who is on the NYPF authorised signatory list. Where information is compiled by a 3rd party administrator it will be expected that this 3rd party will also sign the checklist. Additionally each scheme employer will need to acknowledge on the checklist if it has undertaken a 100% check of records or has undertaken a sample check.

The inclusion of a project plan is a significant improvement on previous guidance and picks up on the process issues identified through the audit visits and reported upon in the memo report. Areas for inclusion in a project plan include:
- identifying key staff and their role;
- a refresher on guidance and the spreadsheet returns;
- the draft project plan to include reporting, validation, key dates in diaries and milestones;
- test reports to identify problem categories before the live exercise;
- to document all areas that need manual intervention (with examples where appropriate);
- estimate the numbers in each 'problem' area and allocate responsibilities to key personnel. This should include an estimate of the amount of time needed so that the project can be resourced properly;
- the final project plan to include firm dates for key personnel to be involved; and
- for issues in specific areas to involve the software consultant to help resolve those issues.

The audit undertaken last year identified particular issues with York St John University and Selima a 3rd party provider that provides a payroll service to Askham Bryan College. Since the audit direct action has been taken with these two employers that has included meetings with York St John University to improve processes. Meetings have also been held with Askham Bryan College, they have now employed a payroll and pensions co-ordinator to manage the contract and act as a link between the college and Selima. Previously the college had no one with any relevant payroll or pensions experience. The co-ordinator now receives monthly reports and undertakes their own validation checks on the accuracy of the information and payroll processing.

Overall Conclusions

It was found that the arrangements for managing risk were good with few weaknesses identified. An effective control environment is in operation but there is scope for further improvements in the areas identified. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

1 Checking of information before submission to the NYPF

Issue/Control Weakness	Risk
There is no evidence that a process of validation encompassing different types of working patterns was undertaken prior to information being sent to the NYPF.	Annual benefit statements could be incorrect.

Findings

The returns completed by the Employment Support Service (ESS) for NYCC employees and submitted to the NYPF on 29 April 2016 contained 25,242 lines covering 16,288 members. It was advised that prior to the information being submitted to the NYPF a 10% sample check of lines was undertaken by ESS staff and that a record was maintained of these. However ESS was unable to locate a copy of this record. From the testing undertaken on a sample that included different scenarios such as new starters, leavers, change of post, those taking maternity/paternity/sick leave, part time and term time employees no issues were identified.

Agreed Action 1.1

The Employer Year End checklist includes confirmation the employer has checked either 100% of the data or spot checked it. It is the responsibility of the employer to ascertain which members require checking if a spot check is being undertaken.

NYPF will include wording in the email issued Jan/Feb each year to provide guidance to employers advising which categories of members should be included as part of the spot checking.

Priority	3
Responsible Officer	Head of Pensions Administration
Timescale	28 February 2018

North Yorkshire County Council

2 Queries raised by the NYPF

Issue/Control Weakness	Risk
Without a review of similar records a potential underlying problem would not be highlighted or addressed.	Annual benefit statements could be incorrect.

Findings

Occasions that would warrant queries to be referred back to an employer would be where there was a 20% increase or a 10% decrease in the whole time equivalent pensionable pay for the 2008 scheme and/or CARE scheme compared to information submitted for the previous year. Queries referred to ESS by the NYPF are checked with action taken where necessary. However if there is an error other employee records of a similar nature are not reviewed to determine if the issue raised by the NYPF is isolated or more prevalent in nature.

Agreed Action 2.1

The incoming data is double checked by NYPF so wherever whole time equivalent pay has increased by 20% or decreased by 10% it will be identified and reported back to the employer for investigation.

The employer does not need to undertake further investigation because NYPF has identified all members affected.

Priority	3
Responsible Officer	Head of Pensions Administration
Timescale	Completed

North Yorkshire County Council

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.

North Yorkshire
County Council

Assurance Services for the Public Sector

Altair System 2016-17

North Yorkshire County Council

Internal Audit Report

Responsible Officer: Head of Pensions Administration
Service Manager: Systems Team Leader
Date Issued: 18 September 2017
Status: Final
Reference: 32270/001.bf

	P1	**P2**	**P3**
Actions	**0**	**0**	**1**
Overall Audit Opinion	Substantial Assurance		

North Yorkshire County Council

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. The Altair pension administration system is a web-based application used to manage pension records and carry out relevant tasks. NYCC migrated from using Axise to Altair (both products of Heywood) in 2013. The project initiation document, which noted the system migration cost, was signed off on 02/08/2013.

Objectives and Scope of the Audit

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

- timing of and storage of back-ups from the application;
- user management i.e. adding and deleting user accounts;
- audit trails;
- password requirements, and
- business continuity and disaster recovery arrangements.

Key Findings

The work undertaken indicates that the key controls are in place are generally operating effectively. The Altair application is licensed and supported by the system supplier, Heywood. The pensions' system team liaises with Heywood to ensure that the relevant security patches and software updates are rolled out when required.

The one issue identified in the course of the audit relates to password requirements hardcoded into the Altair system. It was found that the settings for historic passwords are low. Whilst to a certain extent this is an accepted risk, ensuring that employees understand the importance of effective password management can be a mitigating factor. This is detailed in Finding 1.

North Yorkshire
County Council

The appropriateness of user access was considered; both for internal and third-party users. All changes to user accounts require an in house System Access Form (SAF) to be completed by the appropriate line manager. A leaver's Altair access is deleted or disabled when an SAF is sent to Technology & Change (T&C), who subsequently remove the user from the Altair policy group. To access Altair in the small window between being deleted by Pensions and T&C, a leaver would have to know someone else's log on details to access the system whilst they still had the Altair icon. There is no periodic user access check performed by the Pensions team to identify any inappropriate access, however as access amendments happen fairly infrequently this has not been raised as a finding.

Generic user accounts used by third parties are all disabled whilst not in use, with the exception of Heywood (the Altair system provider) accounts. The accounts controlled by Heywood are used for investigating issues with the systems, implementing releases etc. and cannot be accessed by the pensions system team (if they try and access these accounts, they are faced with an error message). Heywood can only access the system by phoning the pensions team and requesting a token to log on through the extranet portal. Therefore, the pensions team know when and why the Heywood accounts are in use, mitigating against the potential for inappropriate access by external parties. A formal Data Protection Procedure outlines the use and protection of client data by Heywood.

The capability of the system's audit trail was reviewed along with the extent of pro-active monitoring using this function. All actions carried out on the Altair Pensions Administration System are recorded automatically and written to a system 'audit file'.
There are documented procedure notes on accessing information from the audit file, indicating that the following audit functions are available:

•   Audit Trail
•   Input Check
•   Security
•   Analysis
•   Individual member reporting

The audit file is monitored on an ad-hoc reactive basis, generally for the recovery of deleted records. In the event that the pensions' team want to review activity on the system for any given day (going back to system implementation), they can re-run the audit file for that day and inspect the activity log.

Finally, the audit considered the disaster recovery (DR), backup and business continuity arrangements in place to mitigate against the potential data loss of a major incident or ICT failure.

Backups are managed by T&C. There is an Altair back up procedure document which outlines the backup schedule. Backups are stored in the datacentre at County Hall and the replicas are held in the DR datacentre in Leeds. A nightly batch job is run (live service every night) which does an rman (Recovery Manager) backup of the database. Test is backed up weekly using a cold backup, whereby the database is shut down and the files copied off / backed up by Networker. In the event of new system releases, the pensions system team sends confirmation of a successful backup to the pensions team before authorisation of the delivery of the new release. Patches to the server are run on the 1st, 2nd and last Sunday of every month by IT.

The Altair system has been considered in disaster recovery and business continuity planning, with documented procedures in place such as the Pensions Incident Management Plan and the T&C DR plan. The NYCC Business Continuity Plan was tested during the week beginning the 10th of July 2017. Whilst the whole live system was recovered and set up as the new test system, the recovery took over a week due to unsupported servers. This has been raised with Heywood with the solution being the upgrade of the Oracle database to ensure that future default backups run without manual intervention from T&C. This update is currently underway.

Overall Conclusions

The arrangements for managing risk were good with few weaknesses identified. An effective control environment is in operation, but there is scope for further improvement in the areas identified. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

1 Minimum password requirements

Issue/Control Weakness	Risk
Settings for historic passwords are low and there is no minimum password age.	Unauthorised users may gain access to the system.

Findings

There were a few issues identified relating to the password requirements for the Altair system. It was found that the settings for historic passwords are low. A user can shuffle between the same three passwords repeatedly e.g. Password1*, Password2*, Password3*, Password1* etc.

There doesn't appear to be a minimum password age, so when a change is forced, they could then immediately change password twice to get back to the original.

In terms of password lock outs, users have three attempts, so to use the same example, if it's not 1*, then it must be either 2* or 3*. A user could therefore try to guess all three without lockout.

There is no minimum password age hardcoded into Altair, so this is not something the Service Area is able to change. The minimum character length of the password can not be amended; this is a standard setting of the Altair product. The passwords must be configured based on the password strength.

Agreed Action 1.1

Systems Team Leader to raise this with Heywood as a development area.	Priority	3
	Responsible Officer	Systems Team Leader
	Timescale	Completed

North Yorkshire
County Council

Annex 1

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.

North Yorkshire
County Council

North Yorkshire County Council