

**North Yorkshire County Council**

**Pension Board**

**18 July 2019**

**Internal Audit update**

**Purpose of Report**

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

**Audit Plan 2018/19**

The audit plan for 2018/19 was approved by the Pensions Board on 19 July 2018. The current status of each audit is as shown below

<u>Audit</u>	<u>Days</u>	<u>Status</u>
Pension Fund Investments	15	Delayed until June following request from Senior Accountant (Pensions)
Pension Fund Income	15	Draft
Pension Fund Expenditure	15	Final – Limited Assurance

A copy of the final Pension Fund Expenditure report is attached at Appendix 1

The implementation of agreed actions for 2017/18 audits is shown in summary in the attached appendix 2

**Audit Plan 2019/20**

In accordance with professional standards and the County Council's Audit Charter, internal audit plans are prepared on the basis of a risk assessment. This is intended to ensure that limited audit resources are prioritised towards those systems and areas which are considered to be the most risky and/or which contribute the most to the achievement of corporate priorities and objectives. The proposed plan for 2019/20 is attached as Appendix 3

**Recommendation**

Pension Board Members are asked to note this report

Ian Morton,

Audit Manager,

Veritau Ltd.



# Pension Fund Expenditure

## North Yorkshire County Council

### Internal Audit Report 2018/19

Business Unit: Central Services  
 Responsible Officer: Corporate Director – Strategic Resources  
 Service Manager: Head of Pensions Administration  
 Date Issued: 29 April 2019  
 Status: Final  
 Reference: 32220/012

	P1	P2	P3
<b>Actions</b>	<b>0</b>	<b>4</b>	<b>3</b>
<b>Overall Audit Opinion</b>	Limited 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 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.

North Yorkshire County Council Employment Support Service (NYCC ESS) provides the payroll function to the North Yorkshire Pension Fund (NYPF) through ResourceLink. As part of this function they also calculate and pay the pensions increase which is payable to all pensioners over 55 years of age, ill-health pensioners and those in receipt of spouse's and children's pensions.

If a member has been in the Scheme between 6 April 1978 and 6 April 1988 and had been notified of a Guaranteed Minimum Pension (GMP) by HMRC, the pensions increase on the GMP amount is paid with their state pension. For membership since 6 April 1988 the NYPF has paid the pensions increase on the GMP. If a member retired during the year they receive a proportion of the pensions increase. Annually the NYPF receive pensions increase multiplier tables from HM Treasury which they send to NYCC ESS for uploading onto ResourceLink against the appropriate pay elements. On 7 March 2018 HM Treasury advised of a pension increase of 3% from 9 April 2018. Both NYPF and NYCC ESS have a responsibility for checking the pensions increase to ensure it has been correctly calculated and applied.

## 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:

- both the NYPF and NYCC ESS were aware of their own and each others expectations and responsibilities of the process;
- there was a process of validation and reconciliation of pensions increases to pensioner records by NYCC ESS;
- there was a process of sample checking of pensions increases to pensioner records by NYPF; and
- there was a record of review and sign off for each stage of the process.

## Key Findings

The NYPF is responsible for ensuring payments to pensioners are correct although the actual paying of pensions is devolved to NYCC ESS. It is the responsibility of the NYPF to ensure there are sufficiently detailed procedures in place so that both NYCC ESS and the NYPF administration team understand what is involved in the pension increase process and the requirements and responsibilities of each. Each has a procedure document neither of which is sufficiently detailed or contains all the required information that can be relied upon to provide some assurance that if followed would allow for the successful completion of the task. A timeline was produced for the 2018 pensions increase process but was not

sufficiently detailed or used as a live document that would allow for the highlighting and recording of issues at an early stage allowing for corrective action to be taken. Had there been a detailed procedure document in place the timeline could have made reference to and mirrored each stage, identifying those responsible for a particular task allowing for the review and sign off of each stage.

Two significant parts of the process undertaken by NYCC ESS are the updating of the pay element tables on ResourceLink with the pensions increase and the creation of the member lists. In addition for the 2018/19 pensions increase new pay elements were also introduced which had to be manually created on ResourceLink. With any manual intervention there is the risk that errors can be made yet there was no formal review or sign off to evidence that pay element data tables were updated correctly on ResourceLink or any user testing before the processing of the pensions increase to establish that new pay element data tables had been set up correctly and were not impacting on the calculations from other pay elements. Errors were identified by the NYPF when checking pension increases which meant NYCC ESS having to correct errors and run further reports. When creating the member lists there was no reconciliation to ensure all pensioner records had been accounted for. Documented procedures do not specify for such validation or reconciliation and as such NYCC ESS would be unaware of the need to do so.

A pension increase date should be set up on each pensioner's record on ResourceLink by the NYPF when creating a new pensioner record. Not entering the pensions increase date does not prevent the record from being created but without a date being entered a pension increase will not be calculated by ResourceLink even if the pensioner was receiving pay elements eligible to a pension increase. NYCC ESS needs to provide the NYPF with a report of those pensioner records that do not have a pension increase date to enable NYPF staff to correct records before the running of the pension increase reports. .

The pension increase reports produced by NYCC ESS did not contain sufficient information to enable the NYPF to undertake meaningful validation checks to satisfy themselves that the pensions increase had been correctly calculated and applied to all eligible pensioner records. The format of the information currently provided to the NYPF by NYCC ESS does not allow for high risk records to be easily identifiable and subsequently checked for accuracy for example new starters who are only entitled to a proportion of the increase.

NYCC ESS did not undertake sufficient checking of the pension increase reports before they were sent to the NYPF. There is no guidance on how many records should be checked or the type of record to be checked for example checking new starters, ensuring all pay elements had been reported upon and checking a sample from each pay element group to ensure they have been treated and calculated correctly.

In previous years the NYPF has undertaken a sample check of the information provided by NYCC ESS. For the 2018 pensions increase the NYPF requested additional information to allow for a more thorough check to be undertaken, this identified a number of errors. Documented procedures do not identify a level of checking or the type of records to be checked and as such NYCC ESS would be unaware of the need to do so. Had NYCC ESS undertaken more validation checks these errors could have been rectified before the reports were sent to the NYPF

## Overall Conclusions

It was found that the arrangements for managing risk were poor with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation. Our overall opinion of the controls within the system at the time of the audit was that they provided Limited Assurance.

# 1 Procedure documents

## Issue/Control Weakness

As a service provider NYCC ESS process the pensions increase on behalf of the NYPF. NYCC ESS has their own procedures but there has been no discussion with the NYPF to ensure these procedures cover all points to achieve the required outcome.

## Risk

The pensions increase may be processed incorrectly resulting in inaccurate payments to pensioners.

## Findings

The NYPF is responsible for ensuring payments to pensioners are correct however the actual paying of pensioners is devolved to NYCC ESS. It is the responsibility of the NYPF to ensure there are sufficiently detailed procedures in place so that both NYCC ESS and the NYPF administration team understand what is involved in the pension increase process and the requirements of each. Both the NYPF and NYCC ESS have a different set of procedure documents as they carry out different roles in the process. Those produced by the NYPF were last updated in February 2015.

NYCC ESS has its own procedure document which has not been reviewed or approved by the NYPF. NYPF as the client should identify the objectives of the process, whilst ESS will be responsible for determining what activities they carry out to achieve these objectives. There are two pension increases to process the Statutory Pensions Increase (SPI) and the Guaranteed Minimum Pension (GMP) increase. The NYCC ESS document does not include all relevant information that is included in the one prepared by the NYPF for example apportioning the SPI increase for April.

Neither document provides a full list of ResourceLink pay element codes or what they represent. Neither document explains what each pay element code is and how it should be treated in respect to the pensions increase. There are no instructions in any of the procedure notes to state at the different stages of the process which requires an independent review and sign off, who is authorised to undertake that independent review and sign off or in what form that authorisation should be given.

## Agreed Action 1.1

1. NYPF will review and approve the NYCC ESS procedure document
2. NYPF will produce a full list of element codes with explanations of treatment for PI
3. NYPF documentation will be updated to identify who is authorised to review and sign off

**Priority**

2

**Responsible Officer**

Head of Pensions Administration

**Timescale**

31/12/2019

## 2 Timeline for processing the pensions increase

### Issue/Control Weakness

The timeline was not sufficiently detailed and not used as a live document that would allow for the highlighting and recording of issues at an early stage and allow for corrective action to be taken.

### Risk

The pensions increase may not be processed within timescales resulting in inaccurate payments to pensioners.

### Findings

A meeting was held on 13 February 2018 between the NYPF and NYCC ESS to discuss the process of calculating and applying the pensions increase to pensioner records to ensure both parties were aware of their own and each other's expectations and responsibilities. A timeline was prepared identifying the dates and timescales for the completion of those processes. The timeline was brief for example it had a task of run and check proposed increases by 1 March 2018 but made no reference to other tasks that needed to be done beforehand such as updating pay element tables on ResourceLink and creating member lists. The timeline did not include a checklist for any element of the process to record the expected date of completion, the actual date of completion, the reason for any delay, the name of the person responsible for the completion of a particular task and a sign off by the reviewer or authoriser.

Pension increases were calculated without any review of the records flagged as aged less than 55.

### Agreed Action 2.1

1. A detailed standard checklist will be created and used throughout the process to identify key steps, completion dates, responsibilities and to capture issues for future reference

**Priority**

3

**Responsible Officer**

Head of Pensions  
Administration

**Timescale**

31/12/2019

### 3 Updating pay element tables on ResourceLink

#### Issue/Control Weakness

There is no formal review or sign off to evidence that pay element data tables were updated correctly on ResourceLink.

There was no user testing before the processing of the pensions increase to establish that new pay element data tables had been set up correctly.

#### Risk

The pensions increase may be processed incorrectly resulting in inaccurate payments to pensioners.

#### Findings

Pension increases are payable to all pensioners over 55 years of age, ill-health pensioners and those in receipt of spouse's and children's pensions. There are two pension increases to process, the Statutory Pensions Increase (SPI) and the Guaranteed Minimum Pension (GMP) increase. The SPI is payable from the first Monday after the 6th of April and depending when this falls in the month depends upon the number of days it will be payable for April. The GMP increase is always payable from the 6th of April. The pensions increase is applied across three payroll control groups PY0079 – NYCC pensioners in advance, PY0076 - NYCC current month and PY0108 – NYCC current month international.

Each year HM Treasury provides public service pension schemes with a copy of the Pensions Increase Order and multiplier table that confirms the percentage increase. For 2018 this was set at 3%. If the increase is above 3% then the GMP is capped at 3%. There were proportionate increases to those pensioners whose pension began on or after 26 April 2017. The pension increases together with proportionate increases have to be updated on ResourceLink for all of the pay element data tables. For 2018 a number of new pay elements were also introduced.

The pay element data tables were manually updated on ResourceLink by the Senior Business Support Officer but there was no formal sign off to evidence that there had been a process of independent checking and validation. The Business Support Manager manually created the new pay element data tables on ResourceLink but there was no user testing to establish that these had been set up correctly and working as intended. The Head of Pensions Administration had to request further re runs of the pension increase reports for pay group PY0108 because of errors found in the calculations of the pension increases for the new pay elements.

#### Agreed Action 3.1

1. The checklist will have actions for the load, check and sign off of the PI table in Resourcelink
2. A test run will be carried out in the Resourcelink Test environment each year to ensure checking of the increase and elements prior to running in the Live environment. This will be added as part of the standard procedure.

**Priority**

2

**Responsible Officer**

Head of Pensions Administration

**Timescale**

31/12/2019





## 4 Member API routine

### Issue/Control Weakness

There is no reconciliation to ensure all pensioner records have been accounted for.

### Risk

Inaccurate payments may be made to pensioners.

### Findings

The Member API routine is an automated action that needs to be performed on ResourceLink. By doing so using the reporting tool COGNOS it creates two text files one for control group PY0079 NYCC pensioners paid in advance and one for control group PY0076 NYCC current month and PY0108 NYCC current month international pensioners. Each text file captures the unique identifier reference number (not the payroll reference number) for each active ResourceLink record and these text files become the member lists which are uploaded onto ResourceLink against each pay element. When running the pensions increase reports ResourceLink compares the ResourceLink unique identifier reference numbers on the member list against unique identifier reference numbers set up on the pay element. If there is a match ResourceLink checks to see if the under 55 flag has been applied (if Y no increase is calculated) and that there is a pensions increase date (if no date no increase is calculated). If these rules apply an increase is calculated. No reconciliation was undertaken to make sure that the total number of unique identifier reference numbers on each of the text files was correct i.e. taking the total from last years pensions increase adding on new starters and deducting leavers and agreeing this to the number of pensioner records from each of the payrolls. Without a check it cannot be guaranteed that the Member API routine picked up all pensioner records for each control group.

The Member API routine for control group PY0079 NYCC pensioners paid in advance contained 588 records yet the final report of the pensions increase contained 585 records, 3 pensioner records did not receive a pension increase. Similarly for control group PY0076 NYCC current month and PY0108 NYCC current month international pensioners the API routine contained 18,055 records yet only 17,450 appeared on the final report for the pensions increase meaning that 605 pensioner records did not receive a pensions increase. This may have been correct as the pensioner may be receiving pay elements that are not eligible to a pension increase but without NYCC ESS undertaking a reconciliation this cannot be established.

### Agreed Action 4.1

1. Ensure ESS undertakes reconciliations as part of standard increase routine and confirms pensioner numbers in each payroll for NYPF reconciliation.

**Priority**

3

**Responsible Officer**

Head of Pensions  
Administration

**Timescale**

31/03/2020

## 5 New starters

### Issue/Control Weakness

The NYPF is not provided with sufficient information by NYCC ESS to enable it to check the accuracy of pensioner records before the running of the pensions increase.

### Risk

Eligible pensioners may not receive a pension increase.

### Findings

When the NYPF sets up a new pensioner record on ResouceLink they should enter the pensions increase date. This date being the date the member became a pensioner. Not entering the pensions increase date does not prevent the record from being created. When the pensions increase is run in ResourceLink the system is checking to see if there is a pension increase date and if there is and the pensioner is in receipt of a pay element that is eligible to the pension increase one is calculated otherwise no action is taken. NYCC ESS does not provide the NYPF with a report of those pensioner records that do not have a pension increase date recorded on their ResourceLink record. Through the review undertaken by the NYPF after the pensions increase had been processed fifty seven pensioner records were identified that did not have a pension increase date and did not receive an increase that they were due.

The format of the information currently provided to the NYPF for checking does not allow for high risk records to be easily identifiable and subsequently checked for accuracy. When the pension increase reports are run NYCC ESS does not provide the NYPF with a separate report of the pension increases purely for new starters. New starters who receive a pension increase are only eligible to a proportion of it. New starters are included within the pensions increase report containing several thousand lines and as such the NYPF has to filter this report to identify these records.

### Agreed Action 5.1

1. The pension increase date report is now requested as part of the pre valuation work which will be included on the checklist and the instruction manual.
2. Pensions increase date will be added to the increase report to enable automated checking

**Priority**

3

**Responsible Officer**

Head of Pensions  
Administration

**Timescale**

31/12/2019

## 6 Checking of the pensions increase by NYCC ESS

Issue/Control Weakness	Risk
NYCC ESS is not undertaking sufficient checking of the pensions increase reports before they are sent to the NYPF.	The pensions increase may be processed incorrectly resulting in inaccurate payments to pensioners.

### Findings

The NYCC ESS Senior Business Support Officer undertook a random check of the information contained in the pension increase reports downloaded from ResourceLink before sending the information to the NYPF for validation. However no record was maintained of those that were checked.

There is no guidance on how many records should be checked or the type of record to be checked for example checking new starters, ensuring all pay elements have been reported upon and checking a sample from each pay element group to ensure they have been treated and calculated correctly. For the pensions increase for 2017/18 several new pay elements were created on ResourceLink for control group PY0076 NYCC current month and PY0108 NYCC current month international pensioners. There was no checking of the calculations for these new pay element before sending reports to the NYPF.

Several iterations of the reports for control group PY0076 NYCC current month and PY0108 NYCC current month international pensioners were undertaken as the NYPF identified a number of issues through their validation process. The NYPF had to return these as the updated version did not include some pensioners that had been included in a previous version. NYCC ESS was not checking subsequent versions to ensure they captured the full population previously included.

### Agreed Action 6.1

1. To agree and document level of checking required by NYCC ESS prior to passing extracts to NYPF
2. To agree and document how the checking will be recorded and evidenced

<b>Priority</b>	2
<b>Responsible Officer</b>	Head of Pensions Administration
<b>Timescale</b>	31/03/2020

## 7 Pensions increase reports

### Issue/Control Weakness

The pension increase reports do not contain sufficient information to enable the NYPF to undertake meaningful validation checks to satisfy themselves that the pensions increase had been correctly calculated and applied to all eligible pensioner records.

### Risk

The pensions increase may be processed incorrectly resulting in inaccurate payments to pensioners.

### Findings

The pension increase reports produced by NYCC ESS are not of a sufficient level of detail to enable the NYPF to undertake any meaningful validation checks. The reports provided only identify those pensioners and the respective pay elements where a pension increase has been calculated. They do not provide the full picture of a pensioner's pay identifying all the pay elements including those where a pension increase would not be expected to be calculated. The NYPF would be unaware if a pension increase had not been calculated and applied to a pay element when it should have been.

This is of a more pertinent issue with control group PY0076 than with control group PY0079. Control group PY0079 is a diminishing payroll whereas control group PY0076 is growing and includes new starters. It also includes more pay elements and those pensioners who have contributed to the 2014 pension scheme. Not all pay elements are treated in the same way i.e. not all pay elements are eligible to an increase, the pensions increase is capped for some pay elements and in other cases two pay elements have to be added together, then a % increase applied which is only added to one of the two pay elements. These scenarios cannot be checked sufficiently based upon the current reporting format produced by the NYCC ESS.

### Agreed Action 7.1

1. To request additional data items be included within the increase report to enable more automated checking. Additional data items to include pension increase date and total of elements added together for increase purposes.

**Priority**

2

**Responsible Officer**

Head of Pensions  
Administration

**Timescale**

31/12/2019

# 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.

## Follow up of agreed actions

<b>Audit</b>	<b>Finding</b>	<b>Agreed date</b>	<b>Responsible Officer</b>	<b>Name of Officer</b>	<b>Action completed?</b>
Pension Fund Expenditure 17/18	1	31/03/2019	Head of Pensions	Phillippa Cockerill	Done 08/05
	2	31/03/2019	Head of Pensions	Phillippa Cockerill	Done 08/05
	3	31/03/2019	Head of Pensions	Phillippa Cockerill	Delayed until August 2019
	4	31/08/2018	Head of Pensions	Phillippa Cockerill	Done 28/09
	5	30/11/2018	Head of Pensions	Phillippa Cockerill	Done 23/01
	6	31/05/2018	Head of Pensions	Phillippa Cockerill	Done 28/09
	7	31/03/2019	Head of Pensions	Phillippa Cockerill	Done 02/05
	8				Completed at the time of audit
	9	31/03/2019	Head of Pensions	Phillippa Cockerill	Delayed until August 2019
Pension Fund Income 17/18	1	30/09/2018	Head of Pensions/Senior Accountant	Phillippa Cockerill/Amanda Alderson	Done 24/09
	2	30/09/2018	Senior Accountant	Amanda Alderson	Done 24/09
	3	30/09/2018	Senior Accountant	Amanda Alderson	Done 28/09
	4	31/07/2018	Head of Pensions	Phillippa Cockerill	Done 24/09
	5	31/03/2019	Head of Technical	John Raine	Delayed. Ongoing as part of Debt Management project
	6	01/04/2020	Head of Pensions	Phillippa Cockerill	Not yet due
	7	31/03/2019	Senior Accountant	Amanda Alderson	To be covered in discussion below
	8	31/12/2018	Senior Accountant	Amanda Alderson	Response Received to be discussed further with AA
	9	31/12/2018	Senior Accountant	Amanda Alderson	Done 28/03
Pension Fund Governance Arrangements 17/18	1	31/10/2018	Assistant Chief Executive (legal & democratic)	Barry Khan	Action completed confirmed at Pensions Board
	2	31/10/2018	Senior Accountant	Amanda Alderson	Done 23/11
	3	31/10/2018	Head of Pensions	Phillippa Cockerill	Done 14/11
	4	31/08/2018	Head of Pensions	Phillippa Cockerill	Done 3/5



Audit	Finding	Agreed date	Responsible Officer	Name of Officer	Action completed?
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## Pensions Fund Audit Plan 2019/20

	<u>Days</u>
<b>Pension Fund Investments</b>	<b>15</b>
The audit will be looking at processes that have taken place and future plans for transferring investment assets to the BCPP	
<b>Pension Fund Income</b>	<b>15</b>
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.	
<b>Pension Fund Expenditure</b>	<b>15</b>
The audit will review the processes for paying pensions This will include an element of testing in relation to the previous years audit findings.	
Provision to provide support and advice on Pension Fund related audit matters and attendance at Pensions Board	<b>5</b>
<b>Total – North Yorkshire Pension Fund</b>	<b><u>50</u></b>