

## North Yorkshire County Council

### Pension Board

3 October 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 following request from Senior Accountant (Pensions)
Pension Fund Income	15	Final – Reasonable Assurance
Pension Fund Expenditure	15	Final – Limited Assurance

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

The implementation of agreed actions for 2017/18 and 2018/19 audits is shown in summary in the attached appendix 2

#### Audit Plan 2019/20

The audit plan for 2019/20 was approved by the Pensions Board on 18 July 2019. The current status of each audit is as shown below

<u>Audit</u>	<u>Days</u>	<u>Status</u>
Pension Fund Investments	15	Planning in progress
Pension Fund Income	15	Planning in progress
Pension Fund Expenditure	15	Planning in progress

**Recommendation**

Pension Board Members are asked to note this report

Ian Morton,

Audit Manager,

Veritau Ltd.

# Pension Fund Income

## 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  
Service Manager: Senior Accountant  
Date Issued: 24 September 2019  
Status: Final  
Reference: 32200/008

	P1	P2	P3
<b>Actions</b>	<b>0</b>	<b>3</b>	<b>0</b>
<b>Overall Audit Opinion</b>	Reasonable Assurance		

# Summary and Overall Conclusions

## Introduction

The North Yorkshire Pension Fund (NYPF) is one of 89 funds of the Local Government Pension Scheme (LGPS) that are administered locally. As at 31 March 2018 there were 157 contributing employer organisations within the scheme including the County Council. These included 105 scheduled bodies including 61 academies and 52 admitted bodies. 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 Fund is financed by contributions from both members and employers, together with income earned from investments. The total contributions received for 2017/18 on an accruals basis were £150.6m and NYCC being the main employer in the Fund contributed £71.5m. These contributions are paid over to the fund by scheme employers on a monthly basis. Employer contributions are set every three years by the Actuary as part of the Triennial Valuation.

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 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.

## Objectives and Scope of the Audit

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

- Information provided by scheme employers in their year end files was in the correct format and reflected what they had declared on their accompanying checklist; and
- Scheme employers had paid into the NYPF what they have declared in their year end files.

## Key Findings

Scheme employers are required to pay employer and employee contributions collected on behalf of their members to the NYPF. Employee contributions are deducted from salaries and are calculated based upon the pensionable pay of the individual member. There are various

percentage bandings based upon the salary of the employee and whether or not they have elected the 50/50 option. Employer contributions are determined by the scheme actuary on a triennial basis and are also based upon a percentage of pensionable pay. Scheme employers are required to make these payments by the 19<sup>th</sup> of each month e.g. for April salaries these must be paid over by the 19<sup>th</sup> of May etc. They also complete a contribution spreadsheet for the month in question providing a breakdown of employee contributions by banding. These are monitored, updated onto Oracle and reconciled on a monthly and quarterly basis by central finance. A sample of ten scheme employers was reviewed. These were made up of borough, district, unitary authorities, universities, academies and small organisations. No issues were found with these processes for the scheme employers reviewed.

Scheme employers are required to complete a year end return with final salary (where applicable) and Career Average Re-valued Earnings (CARE) year-end information as at 31 March in a notified format (provided by NYPF) no later than 30 April or the next working day. Scheme employers are expected to check the data for accuracy and completeness before submitting to NYPF. These are reviewed by the pension administration team and the information is used to produce annual benefit statements for members. At no point are these year end returns reconciled to the monthly employer and employee contributions. Therefore if the year end return is different from the information provided during the year then the pension accrued during the year will not match the pensions payments received during the year. This represents a particular issue in cases where the initial information submitted at the year end is unreliable and amended data is required. If there is a change in pensionable pay identified during the review of year end data then there is a significant risk that the contributions made on a month by month basis do not match the figure that will be used to calculate pension entitlement.

The calculation of employee contributions has become increasingly more complex as a result of banding and now that additional payments are included in pensionable pay. Employee contributions are paid based upon the rate applicable to their pensionable pay in the previous year and therefore could be collected at an incorrect rate if the salary for the current year is higher or lower than the previous year. Based upon a full analysis of the 10 employers in our sample we have identified 492 employees who may have paid the incorrect contribution rate. However, based upon each employer reviewed the overall difference is relatively low, with some employers potentially paying more than required and others less. In practical terms it would be very difficult to amend contribution rates once the actual final salary is known particularly as there would also be PAYE and NI implications. As the contribution rate for the individual is then amended the following year in most cases the impact on the individual will be minor and potentially self-balancing. This risk to the Pension Fund therefore appears relatively low, and the approach taken reasonable in terms of practicalities.

Our initial testing compared the actual employees' pension contributions paid during the year against the actual salary recorded in the final year end statement. This identified a number of issues, although most related to employees who had moved bands, and were therefore paying an incorrect rate as above. However our testing also highlighted employees paying the correct percentage employee contribution rate for their salary but the employer was potentially not deducting the correct amount. The year end return template for 2018/19 has been amended to include some additional verification which will highlight the issues identified by audit. There is an expectation that the scheme employer would rectify any errors in payments to the pension fund following any review. It will be necessary to monitor resubmitted returns to ensure the issues have been rectified correctly, and to ensure any additional payments due are received from the employer.

On a similar basis there may also be issues with Employer contributions. Currently employer contributions in monthly returns are reconciled at an employer level. However, there is a potential where a different salary is entered on the annual return for an individual that the Employers contribution in respect of that individual is not accurate.

From the year end returns reviewed it was found that some scheme employers were not completing them in the way that the NYPF expected them to be completed even though they were declaring on their checklist that they had.

## **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 Year end returns – employer contributions

### Issue/Control Weakness

Without a periodic reconciliation the information provided by employers cannot be fully relied upon.

### Risk

Financial loss to the NYPF.

### Findings

Each month scheme employers pay over to the NYPF their employer contribution which is a percentage of the total pensionable pay for that month. There is no breakdown of this figure so it cannot be identified by central finance how much employer contributions was paid for each individual employee. There is validation within this spreadsheet that would highlight anomalies if the amount of employer contribution was not compatible with the total payroll figure for that month. On an annual basis scheme employers complete a return that is sent to the NYPF administration team. This return requires employers to identify the pensionable pay for each individual employee.

There is no periodic reconciliation between what scheme employers pay over to the NYPF through their monthly employer contributions monitored by central finance and the sum of pensionable pay for all individual employees declared in their annual returns submitted to the pension administration team. Such a reconciliation would confirm whether or not employers had been paying the correct amount of employer contribution.

For a sample of ten scheme employers the sum of pensionable pay for each employee for both the main scheme and the 50/50 scheme was calculated and a calculation made of the amount of employer contribution that should have been paid to the fund by each employer for the year based upon their percentage contribution rate. In all cases there were differences ranging from underpayments of £2,590 to overpayments of £15,027. Some of these differences are of low value and could be attributed to roundings but not in all cases.

### Agreed Action 1.1

The monthly spreadsheet issued to employers is locked down so that when the employer inputs the total pensionable pay for the month it calculates the correct total of employer contributions due. The money received each month is checked against the spreadsheet provided and discrepancies clarified with the employer. At year end finance total up the 12 monthly spreadsheets received to arrive at an annual total. Those employers who require an accounting schedule are checked annually by the Actuary who checks cash flow in and out and contributions are run through validations and tolerances. Clarification is provided where differences are identified outside of the agreed tolerances.

**Priority**

2

**Responsible Officer**

Head of Pensions  
Administration and  
Senior Accountant

**Timescale**

30/11/2019

At each valuation the above cash flow checks are undertaken but using actual membership

movements and data to provide a more accurate check.

1. A reconciliation check will be undertaken between the Finance total pensionable pay and the Administration total pensionable pay figure
2. A reconciliation check will be undertaken between the Finance total employee contributions and the Administration total employee contributions figure
3. A tolerance of 10% difference will be applied
4. Discrepancies above the tolerance will be queried with employers

The automation of reconciliations between the monthly contribution spreadsheets and employer files will be looked into as part of the Administration System project. The Fund is reassured however, following a review of the sample tested, that none of the discrepancies in employer contributions are material and are in most cases are well under 1% of the total contributions.



## 2 Employee Contributions

### Issue/Control Weakness

Without a periodic reconciliation underpayments compared to the pension accrued may not be identified.

### Risk

Financial loss to individual members of the NYPF and to the fund itself.

### Findings

We are aware there have been a number of occasions where the NYPF has asked for a further annual return from various employers because of issues found. There is potentially a risk that the corrected information includes a different salary compared to what an individual's pension payments have been based upon during the year. We have attempted to analyse a sample of employers to identify if this difference is significant and from the analysis that has been carried out there does not appear to be any significant underpayment at an employer level, however the potential remains based upon the scale of changes in the year end returns that incorrect payments may take place.

A number of cases were identified where the amount paid is potentially incorrect based upon the final salary as identified in the year end return. The sample of 10 employers reviewed covered 8,214 employees with total pensionable pay of £145,548,402 and total pension payments of £9,306,488. We identified a significant number of cases where pension payments did not match the salary, although 492 of these are due to the actual salary at year end falling in a different contribution band than expected at the start of the year. As the contribution rate for the individual is then amended the following year in most cases the impact on the individual will be minor and potentially self-balancing. However 602 other cases were identified where the contribution rate was correct, but the amount paid as pension contributions was not resulting in an approximate shortfall of £12,087 to the pension fund.

A small sample was reviewed with a member of the administration team where the percentage employee rate was correct based upon the total salary received but the amount of employee pension contributions deducted from that salary was incorrect. The sample consisted of eight who had not paid enough and two who had paid too much, but targeted some of the larger differences. In total we estimated that the NYPF has been underpaid £4,121.35 for this small sample. In each case these had been validated by the NYPF software and did not return an error.

The year end return template for the 2018/19 data has been amended to include some additional verification which would potentially highlight the issues identified by this audit and would require the employer to investigate further and make corrections. There is also an expectation that the scheme employer would rectify any errors in payments to the pension fund.

It will be necessary to monitor resubmitted returns to ensure the issues have been rectified correctly, and to ensure any additional payments due are received from the employer.

## Agreed Action 2.1

Benefits are calculated with reference to the pensionable pay not the contributions paid therefore our primary focus for validation is around this element of the year end return. We query pay increases above 20% and pay decreases above 10%. Contributions paid do not impact the benefits payable as it is a defined benefit scheme. Any shortfall in funding is found at the triennial valuation point and past service deficit is picked up by the employer. Therefore any shortfall in contributions paid will be mopped up as part of the valuation process.

1. Additional validation added to the year-end template:

- a. Calculation of expected CARE pay based on contributions and contribution rates input with requirement for employer to provide clarification for differences above 5%
- b. Check that contributions in main and 50/50 equal total provided
- c. Contribution rates checked against the statutory table and any incorrect rates highlighted
- d. Where full time equivalent pay on the 2008 basis is less than £11,352 an explanation is required

**Priority**

2

**Responsible Officer**

Head of Pensions  
Administration and  
Senior Accountant

**Timescale**

31/03/2020

### 3 Year end returns

#### Issue/Control Weakness

Scheme employers are not completing annual returns in accordance with the requirements of the NYPF resulting in the NYPF having to undertake additional work to put them in the correct format before any validation can then be done on the data.

#### Risk

Financial loss to the NYPF in having to undertake additional work and possible delay in issuing benefit statements to members.

#### Findings

The North Yorkshire Pension Fund (NYPF) Pensions Administration Strategy sets out the administration protocols between employers and the fund. The protocols aim to ensure the cost effective running of the Local Government Pension Scheme (LGPS) and the best service possible for LGPS members. The protocols ensure that the statutory requirements and timescales can be met and must be followed at all times.

Scheme employers (or their payroll contractor/agency for which the employer is responsible) are required to provide the NYPF with final salary (where applicable) and Career Average Re-valued Earnings (CARE) year-end information as at 31 March each year no later than 30 April or the next working day. As part of the process scheme employers are required to complete a checklist acknowledging that the year end information has been provided in the required format, is complete and has been subject to checking by either a 100% check or by a spot check of the data provided. This information is used by the NYPF to produce annual benefit statements for members.

From the sample of year end returns from scheme employers it was found that they were not completing annual returns in the way that the NYPF expected them to be completed even though they were declaring on the checklist that they had. In addition three scheme employers had not submitted their returns within timescales these were submitted on 20/06/2018, 19/06/2018 and 30/05/2018 respectively and one had not completed and returned a checklist.

#### Agreed Action 3.1

1. Year-end process has been made more robust with earlier and more regular communication with employers
2. Overdue returns are chased sooner and more robustly
3. Validations and checks added to the template to ensure formatting of the submitted data is correct
4. Employer relationship role will be used to target problematic employers and re-establish employer workshops and forums
5. Medium term goal is to move to validated monthly employer returns to remove the need for a specific year-end return

**Priority**

2

**Responsible Officer**

Head of Pensions Administration

**Timescale**

31/03/2020

# 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

Audit	Finding	Agreed date	Responsible Officer	Name of Officer	Action completed?
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	This has been postponed until the GMP reconciliation project was more progressed. This project will now be undertaken in the summer of 2019 and procurement has begun.
	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	Yet to contact credit control to agree this.
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

Audit	Finding	Agreed date	Responsible Officer	Name of Officer	Action completed?
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Audit	Finding	Agreed date	Responsible Officer	Name of Officer	Action completed?
	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 reviewed in 19/20 testing
	8	31/12/2018	Senior Accountant	Amanda Alderson	To be reviewed in 19/20 testing
	9	31/12/2018	Senior Accountant	Amanda Alderson	Done 28/03
Pension Fund Expenditure 18/19	1	31/12/2019	Head of Pensions Administration	Phillippa Cockerill	Not yet due
	2	31/12/2019	Head of Pensions Administration	Phillippa Cockerill	Not yet due
	3	31/12/2019	Head of Pensions Administration	Phillippa Cockerill	Not yet due
	4	31/03/2020	Head of Pensions Administration	Phillippa Cockerill	Not yet due
	5	31/12/2019	Head of Pensions Administration	Phillippa Cockerill	Not yet due
	6	31/03/2020	Head of Pensions Administration	Phillippa Cockerill	Not yet due
Pension Fund Income 18/19	1	30/11/2019	Head of Pensions/Senior Accountant	Phillippa Cockerill/Amanda Alderson	Not yet due
	2	31/03/2020	Head of Pensions/Senior Accountant	Phillippa Cockerill/Amanda Alderson	Not yet due
	3	31/03/2020	Head of Pensions Administration	Phillippa Cockerill	Not yet due