



Pension Fund Expenditure

North Yorkshire County Council

Internal Audit Report 2021/22

Business Unit: Central Services
Responsible Officer: Corporate Director – Strategic Resources
Service Manager: Head of Pensions Administration
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	P1	P2	P3
Actions	0	0	1
Overall Audit Opinion	Substantial 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.

Until 31 March 2021, North Yorkshire County Council Employment Support Service (NYCC ESS) provided the payroll function to the North Yorkshire Pension Fund (NYPF) through ResourceLink (RL). However, from 1 April 2021, payments are made directly from the Altair LGPS platform.

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 that:

- Payments of pension made using Altair LGPS platform are accurate, timely, agree to supporting documentation held and are appropriately authorised.
- Bank account changes are verified and there is evidence of the checks made to minimise the risk of payments to a fraudulent bank account.

Key Findings

The migration from RL to Altair, which took place during 2020-21 was undertaken by Heywoods, the supplier of the Altair system, and officers of NYPF and NYCC's Employment Support Services (ESS). The pension payment information for around 21,000 NYPF pensioners was taken from RL and uploaded into Altair's test system. Staff in ESS and NYPF tested this data several times to ensure the amount paid to each NYPF pensioner using Altair, would be the same amount which would have been paid by RL. This process involved the use of parallel running of these systems, and several comparisons of the amounts calculated for payment by each system to each pensioner, the total number of NYPF pensioners paid and the total amount paid to all NYPF pensioners. During February 2021, extracts from both RL and Altair test systems showed that Altair paid the same as RL in all cases, with the exception of 214 cases, where it paid less than RL, by up to 20 pence. The decision was then made to go ahead with the migration from April 2021. We tested a sample of 10 of the 214 cases where there was a small adjustment and found that these had been corrected in Altair, by the Head of Pensions Administration during 2021.

The first payments were made using Altair in April 2021. However, when the BACS file for the first payment run in April 2021 was submitted, it became apparent some payments to building society accounts weren't going to be made correctly as they weren't accompanied by 'roll numbers'. NYPF were unable to test the full BACS process through to the payment stage as part of the testing process, as it would have paid pensioners twice for the same month, so this issue was not identified during parallel processing. The payment run was still made but it included some payments without 'roll number' details. Some building societies rectified this issue internally, but others returned payments to NYPF. NYPF contacted the pensioners involved and correctly resolved the payment issue. No similar issues have taken place since and building society payments have all been processed correctly.

NYPF pensioners receive an annual percentage increase of their pension in April. The increase due to be applied in April 2021 was 0.5%. The increase was uploaded into Altair which updates each member's Administration Record. These were checked for correctness, then creating an extract file which was sent to ESS for them to update the payroll record in the test system. These were checked by ESS and once verified as correct, input to the live Altair payment system. We checked a sample of 20 large annual pension payment values in Altair to determine if they had been correctly paid using the 2021 annual increase of 0.5% and found all 20 cases had been increased by the correct amount.

Records of new NYPF pensioners are uploaded by NYPF staff into Altair, which calculates the amounts of annual pension and tax-free cash payments to be paid as well as creating or updating the member's status in the system. NYPF Administration check and authorise them and import them into Altair's payroll module. This should ensure the members' records and the calculations are correct. We tested a sample of 12 high value new pension payments and found each had been created in Altair by a NYPF officer and the calculations and entitlement checked and authorised by a senior officer, with the records showing the initials of the two officers who created and checked the amounts to be paid in each case. We also found the entitlement and the amounts paid matched to the administration record in Altair.

Overpayments of pension can occur, although NYPF makes the vast majority of payments in arrears, which should minimise the number and value of overpayments. Pension payments are made on the last working day of the month, although there are a small number of payments paid in advance on the 6th of each month, for the whole of that month. Overpayments are normally identified through receipt of returned mail, a returned bank payment or NYPF being notified of the death of a member. Once notification is received, NYPF suspend pension payments immediately. If a pensioner dies, they are paid until the date of death. We tested a random sample of 10 overpayments from Altair created during 2021-22. We found that all 10 had been established due to the death of the pensioner, with the information received through either 'Tell Us Once' or by receipt of a death certificate. Each had been processed promptly and accurately to minimise the value of the overpayment created.

NYPF's Debt Recovery Policy states that if an overpayment is less than £100, it will be written off. If it exceeds £100, an invoice is to be issued through Credit Control & the Sundry Debtors System, and in cases where the member has died, the invoice is sent to the executor of the pensioner's estate. ESS undertake the overpayment recovery process. We tested a sample of 10 overpayments processed by Altair, and the recovery action on each of them was taken in accordance with the NYPF Overpayment Recovery Policy. Seven, totalling £284.32, were in respect of overpayments which were less than £100 and were correctly written off. Another 2 had an overpayment greater than

£100 and were correctly invoiced, and subsequently paid. The remaining case was also processed promptly, and it resulted in no overpayment.

The process of transferring the pension payment system from RL to Altair included an initiative to get pensioners to receive their payslips and P60 electronically. All pensioners were contacted 3 times by letter, in December 2020, March 2021 and June 2021, with the letters saying that NYPF is to move to electronic payslips, but that pensioners can request a paper version instead. In August 2022, NYPF had around 21,000 members, with only 102 pensioners in receipt of paper payslips and P60. All new retirement applicants receive an application pack, which includes a section for options to receive paper or electronic payslips / P60s. The latter requires the applicant to provide an email address as part of setting up their online NYPF account. There is also an option for each member to amend the method of receipt of payslips on a later date. The NYPF website includes details of how pensioners can opt for paper payslips, although this is on the payslip page not the front page. Pensioners in receipt of paper payslips only receive them where the amount of pension paid differs from that paid the previous month by £5 or more. Electronic payslips make a significant saving in postage costs in addition to the cost of paper and officer time associated with paper payslips. It is estimated that the postage saving alone is currently around £140,000 per annum.

The system used to process changes to pensioners' bank accounts, should contain suitable controls to ensure these can't be amended by anyone other than the pensioners, to minimise the risk of fraudulent changes being made and payments made to an incorrect bank account. Most changes are made by the pensioner themselves via the self-service process and this relies on the system controls to ensure changes can only be made by the pensioner. When the NYPF is contacted by letter, email or telephone the process used includes obtaining correct responses to 3 security questions. This process generally is compliant with best practice, but the information available to the fund could be obtained by fraudsters, so a level of risk remains. Confirming changes promptly by letter would help to reduce the risk of a fraudulent change.

Overall Conclusions

A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

1 Processing of Bank Account Changes

Issue/Control Weakness

The process to request a change to a member's bank account does not fully comply with best practice.

Risk

Fraudulent bank account changes are made with future payments not being made to the correct account and losses accruing to NYPF

Findings

For a number of years there has been attempted fraud where fraudsters claim to represent a creditor and seek to change the creditor's bank account details so that they obtain future payments made to the creditor. As additional controls are put in place to verify bank account changes for creditors, the fraudsters have moved on to other payments such as pension and payroll payments.

Around 270 of the 360 annual bank account changes are made directly by the pensioner using the NYPF self-service process. This relies upon systems access controls to prevent fraudulent changes. However, changes can also be made by claimants via email, letter and telephone. Contact made using email and letter requires the member to provide 3 forms of security information (National insurance Number, Payroll Reference Number and Date of Birth). If incorrect information is provided, NYPF will either, write to the member by letter or email (where the change was requested by email) using the address or email address held in Altair, not the one provided in the email received requesting the change of bank account, to advise the pensioner that a bank account change had been requested but refused because the security information provided was incorrect.

Where a bank account change has not been made through the NYPF self-service process, NYPF confirm by email if the pensioner has requested the change by email or by letter if the pensioner requested the change by letter. Annually, there are around 90 bank account changes requested not using the self-service process. It is very difficult to remove all risk in these cases as often limited information is held by the pension fund. To minimise the risk that the change is fraudulent, NYPF should write to all pensioners where the change has been made not using the self-service process, advising them of the change and to contact NYPF if the change was not made by them. If the letters are issued promptly after making the change, and if a change has not been initiated by the pensioner, it could leave adequate time for the pensioner to contact NYPF to stop payments being made to the new bank account, and also reduce the risk of potential fraudulent payments being made.

Agreed Action 1.1

Amend bank account change process to include acknowledgement back to the pensioner of the change by letter, where the portal hasn't been used to make the bank account change.

Priority

3

Responsible Officer

Head of Pensions Administration

Audit Opinions and Priorities for Actions

Audit Opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Our overall audit opinion is based on 4 grades of opinion, as set out below.

Opinion

Assessment of internal control

Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

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.

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