



NY Pension Fund Income North Yorkshire Council Internal Audit Report

Business Unit: North Yorkshire Pension Fund
Responsible Officer: Corporate Director Strategic Resources
Service Manager: Head of Pension Administration
Date Issued: 21st September 2023
Status: Final
Reference: C1000/001

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



Summary and Overall Conclusions

Introduction

The North Yorkshire Pension Fund (NYPF) is one of 90 funds that make up the Local Government Pension Scheme (LGPS). North Yorkshire Council (NYC) is the statutory administering authority for the NYPF; it administers the benefits and invests the assets of the Fund. The purpose of the Fund is to provide retirement benefits specified by the LGPS regulations for staff working for local authority employers, and other employers admitted by agreement, in the North Yorkshire area.

As of 31st March 2022, there were 32,155 active contributing members, 38,672 deferred members and 27,206 pensioners, making a total membership of 98,033. Employee and employer contributions came to £145.7m and transfers in came to £18.5m, meaning the total receipt was £164.2m. Cashflow from investment activities was £4m, leading to a total surplus of £9.540m.

The NYPF is currently rolling out an online returns system, i-Connect, to enable employers to make monthly returns electronically and ensuring that the NYPF's data is updated more regularly than once a year as per the previous system. As of April 2023, 50% of employers (including NYC, City of York Council and the North Yorkshire Police Force who are the three largest employers in the fund) were enrolled on the system, making up 75% of members.

Objectives and Scope of the Audit

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

- Correct and timely payments are received from employers and are regularly reconciled to Oracle and the NYPF bank account.
- Strain payments from employers are monitored to ensure the deficit is paid in full within agreed timescales.
- Processes are in place for monitoring and recording the receipt of income from member transfers in from previous employment.
- Quality of returns is monitored and the i-Connect roll out is being monitored to ensure returns are being processed effectively.
- Where employers fail to provide accurate information on time, policies are followed including the consideration of potential penalty or mediation and support.

Key Findings

Business Support staff provide a significant administration function to the Pension Fund. Up to December 2022, the pension fund relied on one support officer to carry out core administration tasks including monitoring employer contributions, issuing strain payment invoices and processing transfers into the fund. When that employee was forced to take extended leave of absence, the pension fund's administrative activity was significantly impacted as there was not another officer trained to assume the role and certain activities were not carried out within the normal timescales. However, at the point of testing, we could confirm that all processes had been brought up to date. Resilience measures have been put in place to ensure that suitable resources are now available in the case of long term sick leave

or other absences. A second business support officer has been recruited to share the role and procedural notes are in the process of being created to provide further resilience.

A contribution spreadsheet template is sent to all employers prior to the beginning of each new financial year. Employers are required to make payments by the 19th of the following month. Formulae within the spreadsheets identify if the amount of employer contribution received is correct based upon their percentage contribution rate, and any variance between the expected and actual payment received. The spreadsheets providing information on employer and employee pension contributions should be received monthly, and the payments accurately recorded. We confirmed through testing a sample of 10 employers that this process is carried out but we found that some contributions and payments had to be recorded late or recoded because they were not submitted in the correct month. The late entries were down to late submissions from employers and which were not chased up until the return of the Business Support Officer from extended sickness leave.

We have confirmed that reconciliations between the employer contributions received and the NYPF general ledger were completed for each month of the year and that any issues were investigated and resolved with a record included on the reconciliation.

Members who have retired early cause a strain on the fund and are identified through a weekly report from the Altair Pensions System. We confirmed through a sample of 10 early retirement cases that processes were in place to ensure that strain payments were calculated regularly, that invoices were raised quarterly, and that early retirements were recorded and reconciled regularly.

Members who wish to transfer the value from their previous pension provider complete a transfer application form as part of their new employment induction process. We examined a sample of 10 transfers in, received from previous pension providers and found they were supported by documentation received from the previous pension providers. Transfers into the fund should be recorded upon notification of their arrival and coded into the financial system correctly. Transfer income that is posted to the suspense account should be journalled to the correct code as soon as possible. We confirmed that transfer receipts were accurately recorded and allocated with the full details necessary to complete the transfer. We also confirmed that the holding accounts were regularly reviewed and that income was recoded as soon as possible.

The Pension Fund has an electronic submission system for employer contributions which is used by 50% of employers representing 75% of members. Roll out to all employers is ongoing. The i-Connect system does not validate the submitted data, therefore the Pension Fund administration team perform checking procedures to ensure the submitted data is reasonable and that the pension calculations are accurate. We were able to obtain some assurance that the checking process is carried out for both employers submitting on the i-Connect system and using the previous spreadsheet template method. However these checks are time-consuming and labour intensive, and are often carried out over several months after submission.

We confirmed that employers with outstanding payments are pursued using the Council's debt recovery process. Employers who do not submit data on time should incur penalties including fines according to the Pension Fund's Charging Policy. The Pension Fund's policy is to promptly chase outstanding information and to charge non-compliant employers if they continue to be late after one month. The policy

gives the Pension Fund officers discretion to offer support if employers are experiencing difficulties and try to resolve problems in lieu of pursuing charges. We found that this latter course of action was preferred in all cases and that attempts to negotiate with employers are moderately successful in ensuring that data submissions are made on time. Pension Fund officers prioritise getting outstanding data in by the end of the financial year. We reviewed a sample of 10 employers who were behind, some by more than four months, in submitting data and found that the approach being used was ultimately successful but a result was that employers who were consistently late then began the following year behind on the required submissions, thereby perpetuating the cycle. As cash submissions from employers are received in lump sums, the accompanying data is required to properly distinguish and record employer and employee contributions as well as other related contributions. For large employers, the data is needed to identify to which specific organisation the contributions apply. Therefore, delays in receiving the data result in delays in administrative activities with the potential to impact on cash flows.

Overall Conclusions

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. Our overall opinion of the controls within the system at the time of the audit was that they provided Reasonable Assurance.

1. Action taken to chase late submissions is not recorded.

Issue/Control Weakness

Action taken to chase up late submissions is not properly logged, thereby preventing Pension Fund staff from effectively monitoring the employers' response and taking prompt action to escalate the situation if necessary.

Risk

Income may be lost if it cannot be properly identified due to missing data submissions.

Findings

NYPF business support staff monitor employers to ensure they submit payroll data and cash payments on time each month. The Pension Fund Charging Policy states that late submissions should be chased within the month after the late submission was noted and then in 10 working day intervals. After 30 days, the employer may incur a penalty. A log is kept of employers who require further chasing with details of what action needs to be taken. We found that while employers were being chased, this was not always timely (at times up to 4 months after the submissions had stopped coming through) and that logs of action taken were not made of each case. This has made it difficult to identify how an employer has been chased and has contributed to delays in getting information and payment on time in order to properly administer the fund. The delay in chasing employers was due to an important member of the team responsible for chasing employers being absent during this period. Documentation for action that might have been taken in her absence could not be provided.

The results of our testing have shown that while controls exist to chase up late employer submissions, they are not carried out in accordance with the timescales set out in the Charging Policy to result in a satisfactory resolution. The main issue is that queries are not properly logged, thereby making it impossible to verify that all possible action was taken to chase late payments and to resolve outstanding issues. Further evidence shows that action has been taken to chase employers, though not always within the timeframe specified by the policy. The action is held in email chains but not properly logged, which would provide the best audit trail and most effective method of ensuring repeat late submissions are effectively monitored.

Agreed Action 1.1

The arrangements have been changed so that there is cover in the case of absence; a revised charging policy was approved by the PFC on 30 June 2023, which has been adhered to since that date.

Priority

3

Responsible Officer

Senior Fund Accountant

Timescale

30 June 2023

2. Penalties for late employer submissions are not enforced.

Issue/Control Weakness

Evidence suggests that the pension team is not following agreed procedure as laid out in the policy. The result is an ineffective control over late submissions and payments.

Risk

The NYPF is not able to properly monitor its income leading to loss of funds and poor reputation with members.

Findings

The Pension Fund has a policy for chasing up late submissions that aims to ensure outstanding employer returns and payments are recovered as soon as possible after the month when they were due. Due to the aforementioned team member absence, a more pragmatic approach was taken to chasing arrears whereby chasing employers is prioritised for the end of the financial year with the aim of getting all outstanding items issued before the year end closure. Management prefers to work with employers through dialogue and compromise rather than by strict enforcement of the penalties policy. However, evidence shows that some employers have not paid or submitted data spreadsheets for more than four months. Late submissions make it harder to monitor the pension fund's income stream and may result in additional costs for the pension fund in terms of staff time and delays in investing those funds. There is also a risk that the use of penalties becomes more difficult to justify if the policy is rarely enforced.

Agreed Action 2.1

The arrangements have been changed so that there is cover in the case of absence; a revised charging policy was approved by the PFC on 30 June 2023, which has been adhered to since that date.

Priority

3

Responsible Officer

Senior Fund Accountant

Timescale

30 June 2023

3. Control weakness for checking data submitted by employers

Issue/Control Weakness

Strong controls are not in place to mitigate the risk of employers submitting inaccurate or fraudulent pension contributions data.

Risk

Employers could submit deliberately false or incorrect pension data, leading to loss of income for the NYPF.

Findings

We confirmed that employers submit data each month via the online i-Connect system. This data is automatically downloaded from i-Connect to the Pension Fund administration system (Altair) where it can only be accessed by running a report. The i-Connect system does not have an inbuilt validation control to check the data so Pension Fund administration officers run reasonability tests (investigating entries that are 20% over or 10% under the previous year's values) and check the calculated pension payments for each employee member for reasonableness. They then investigate outlier values with the employer. This process requires several months to complete and so is only carried out once a year at year end. This means that data submitted throughout the year cannot be checked on an ongoing basis, making it harder to precisely identify errors.

The lack of formal controls and the time needed to process the data and implement the alternative checks presents a control risk and an inefficient use of resources. Audit software may be able to help convert the data into a more usable format to help speed up the checking process and potentially make it more accurate. The team leader indicated that it would be better to explore this option later in the year when they have all employers on the i-Connect system (the roll-out is still ongoing with c. 70 employers still to enrol).

Agreed Action 3.1

1. To investigate the use of audit software once all employers have been onboarded to i-Connect.

Priority

3

Responsible Officer

Head of Pensions Administration

Timescale

29 March 2024

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.

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.