

INTERNAL AUDIT REPORT

PENSION FUND EXPENDITURE
NORTH YORKSHIRE PENSION FUND (NYPF)

	Critical	Significant	Moderate	Opportunity
Findings	0	0	0	0
Overall audit opinion	Substantial Assurance			

Status: Final

Date issued: 22 October 2024

Responsible officer: Head of North Yorkshire Pension Fund

INTRODUCTION

The Local Government Pension Scheme (LGPS) is a statutory scheme for local authority employees, operated under the Local Government Pension Scheme Regulations issued by the Central Government Department for Levelling Up, Housing and Communities. North Yorkshire Council (NYC) is the administering authority responsible for the Scheme within the geographical areas of North Yorkshire and the City of York.

In addition to employees working in local government, several other public, education and voluntary sector employees are members of the LGPS. Private contractors engaged in local authority work are also able to participate in the scheme.

Pensioner payments have been made directly from the Altair LGPS platform since April 2021. During 2022-23 the North Yorkshire Pension Fund (NYPF) made a total of £106,333m in monthly payments to its pensioners. NYPF also paid £25,917m in Commutation and Lump Sum retirement benefits, £3,321m in Lump Sum Death Benefits and £14,515m of transfers on members' behalf to other pension providers and these are not included in the monthly pension payments.

OBJECTIVES AND SCOPE

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

- ▲ processes are in place to ensure payments of commutation and lump sum retirement benefits are completed accurately and in a timely manner with appropriate authorisation.
- ▲ processes exist to ensure that lump sum death benefits are calculated accurately and promptly, appropriately authorised prior to payment being made in accordance with the scheme's regulations, including payments to spouses and children.
- ▲ processes exist to ensure that members' requests to transfer their benefits to another pension provider are checked for authenticity and appropriately validated, calculated accurately and promptly, before being appropriately authorised prior to payment being made in accordance with the scheme's regulations.

KEY FINDINGS

Clear processes were in place to ensure payments of commutation and lump sum retirement benefits are completed accurately and in a timely manner with appropriate authorisation.

Requests from members of NYPF for payments of Commutation and Lump Sum Retirement Benefits were received into the team by email or post and recorded within the Altair Pensions System. It is then allocated to a staff member to process which involves checking pension regulations and the LGPS database to determine if the member has accumulated any other LGPS benefits elsewhere. A quotation is produced and checked, by a Senior Officer, of the amount of Commutation or Lump Sum to which the member is entitled and this is sent to the member as a Retirement Statement¹. The employee selects the most suitable option, completes the declaration and bank account details, and returns this to the NYPF. Information is checked, recorded in Altair and allocated for processing. Processing includes checking the amount of the Commutation or Lump Sum to the quotation letter and updating the members pension record in Altair, which calculates the amount to be paid in the next payment run. For the sample of Commutations and Lump Sums reviewed as part of this audit, we found all had been processed accurately and in accordance with these procedures.

One-off Death Grants are payable if a member dies in service. These can be made to the partner, children or any other beneficiary. Once NYPF is notified of a death in service, a leaver's form must be received from the employer's payroll service giving the date of death, supported by a death certificate and details of the next of kin. The information received is recorded on the members record in Altair. Checks are made to confirm the correct information has been received and to request any additional information prior to the benefit due being assessed. There is a formal checklist to determine the beneficiaries. Senior Officers will review all paperwork related to a request, as and when required for complex cases. Once the benefit has been calculated, it is placed onto the weekly spreadsheet for payment. Regular payments can be made to children upon the death of a parent, who was a member of the NYPF. These payments will continue until at least the age of 18 or if the child remains in full time education or an apprenticeship, until the age of 23. Payments to a child may continue for life where the child is incapacitated. All Death Grants to both Spouses and Children that we tested (including those who are receiving payments for life) had been processed in accordance with appropriate procedures.

¹ The retirement statement includes details of the maximum lump sum and calculations showing how the monthly pension is reduced to create a larger lump sum payment.

Processes exist to ensure members' requests to transfer their benefits to another pension provider are appropriately checked, validated and calculated accurately and promptly. The Local Government Pension Service (LGPS) can receive requests from their members and other pension providers to have pension funds transferred to another provider. This is a member driven process, with confirmation of the members request required before any information is released to any pension provider. If a member of the NYPF takes up subsequent employment with a LGPS provider, they can contact the NYPF to advise them that a member of NYPF has joined their LGPS on a specific date and is requesting details of the pension information held by NYPF. This information allows the member to decide if they want to transfer their pension benefits to the new provider. The member completes an election form and returning it to the new provider. They then forward the completed form to NYPF, where it is recorded in Altair and the procedures for processing a transfer are completed.

Transfers to private pensions schemes require the member to request a Cash Equivalent Transfer Value (CETV) from NYPF. In these cases, the member must have ceased paying in to the NYPF scheme. A transfer information pack is sent to the member by NYPF, highlighting the risks of potential pension scams, but the final decision is the responsibility of the member. Transferring to another scheme requires a letter of authority to be signed by the member and confirming they have taken financial advice about a potential transfer. These are recorded in Altair, linked to the members pension record, and allocated to a member of staff to process. NYPF can then liaise directly with the private provider and advise them of the amount of the CETV. The process undertaken from this stage onwards is the same as for LGPS transfers out. We checked a sample of transfers to private providers, and we found all been processed in accordance with these procedures.

OVERALL CONCLUSIONS

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

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 four grades of opinion, as set out below.

Opinion	Assessment of internal control
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.

Finding ratings

Critical	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Significant	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Moderate	The system objectives are not exposed to significant risk, but the issue merits attention by management.
Opportunity	There is an opportunity for improvement in efficiency or outcomes but the system objectives are not exposed to risk.

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.