



Pension Fund Income

North Yorkshire County Council

Internal Audit Report 2020/21

Business Unit: Central Services
Responsible Officer: Corporate Director Strategic Resources
Service Manager: Head of Pension Administration
Date Issued: 28 September 2021
Status: Final
Reference: 32200/010

	P1	P2	P3
Actions	0	0	1
Overall Audit Opinion	Substantial 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 2020 there were 157 contributing employer organisations within the scheme including North Yorkshire County Council. These included 111 scheduled bodies including 76 academies and 46 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 2019/20 on an accruals basis were £120m and NYCC being the main employer in the Fund contributed £48.2m. 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.

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:

- Correct and timely payments were received from employers that were regularly reconciled to Oracle and to the NYPF bank account.
- For those members who retired early where there was a strain on the fund payments from employers these were monitored to ensure the deficit was paid in full within agreed timescales.
- Processes were in place for monitoring and recording the receipt of income from member transfers in from previous employment.
- Support and guidance was being provided to employers to improve the quality of returns and the effectiveness of this support and guidance can be measured.
- Where employers fail to provide accurate information policies were followed including the consideration of potential penalty or further action or support.

The audit included a follow up the findings from the 2018-19 report to ensure these have been actioned. Due to the impact of Covid 19, we were unable to access the Altair Pensions System, to assess the accuracy of the records held within it by comparison to records of the income received within the General Ledger and bank statements.

Key Findings

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.

From a sample of 10 employers from April 20 to January 21 most returns had been submitted on time. However, Craven District Council submitted a late return in 7 of the 10 months examined. The amounts in the contributions spreadsheet matched the value of the payments recorded on each employers' monthly return and to the amounts received in the NYPF bank account. There were six variances in respect of our sample, between the amount on the returns and the amount paid. These were resolved promptly in three cases and were caused either by, employers not including some of the employee contributions in the return but the payment included the additional contributions, or the opposite effect occurring. Three in respect of Craven DC for July, November and January, have not been resolved.

Reconciliations are undertaken between the employer contributions received and the NYPF general ledger quarterly. Testing a sample of reconciliations identified that discrepancies were investigated and resolved as appropriate, including ensuring amounts received have been allocated to the correct employer's cost centre. We examined the quarter 2 reconciliation for the 2020-21 financial year. We checked 20 large amounts and found they had been correctly recorded in the reconciliation, in 18 of the 20 cases. The remaining two amounts had been identified during the reconciliation, with notes added giving reasons for the variances, including details of the action being taken.

Members who have retired early cause a strain on the fund and are identified through a weekly report from the Altair Pensions System. We examined a sample of 10 cases of early retirements during 2020-21 and found the amount of the invoices and the records held by Business Support agreed with the supporting documentation from the employer and the records held by NYPF. In each case within the sample payment had been received from the employers, within the agreed 30 days from the date of the invoice, apart from one which was paid 36 days after the date of the invoice.

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. The amount received agreed with the documentation, was processed promptly and allocated to the correct employer's general ledger code. A sample of 10 transfers initially allocated to the suspense account, had all been rectified promptly.

The annual returns include checklists which are filled automatically. If employers do not complete all the necessary boxes in each section of the return, it will be highlighted in the checklist, and cells are locked so employers cannot delete columns. This includes a 'year-end checklist' which the employer must fill in, which requires employers to sign and date the bottom of this, otherwise the checklist will still show as incomplete. The 'year-end template' is sent to employers in January. There are further monthly reminders by email until April. If NYPF has not received the employer's template by 30 April, NYPF's Employer Relations Team will contact the employer by telephone, and will provide advice regarding the completion of the template. The ongoing support and guidance available to employers from NYPF's Employer Relations Team has improved the level of compliance with our work highlighting only a small number of inaccurate and late returns. The Pensions Administrator, has advised us that in their view, there have been no major issues during 2020-21.

The NYPF introduced a Charging Policy in the 4th quarter of 2018-19, to try and reduce the number poor quality returns by some employers, by potentially charging them if this practise continued and didn't improve. However, no charges have been applied for late and incorrect returns, with the exception of one employer who was charged in the 2nd quarter of 2019-20. There have been no charges levied

during 2020-21 for late, incorrect or non-formatted data being provided by employers to NYPF. Our work has identified some minor issues where employers could have been charged, particularly Craven DC, but they haven't been. This was the result of a decision made by the Head of the Pension Service, but this decision hasn't been formally approved by the Pensions Board or communicated to employers. However the issues with Craven DC have created additional work for the pension fund.

The 2018-19 audit highlighted that a reconciliation check was not undertaken between the total contributions received and the total pensionable pay for employees. We have been advised this is undertaken by the Actuary as part of the valuation process, with any discrepancies identified, resolved with Business Support and employers. A shortfall in contributions will also be resolved as part of the valuation process. This is completed by Business Support who have a process in place to ensure contributions are correct. Calculations of expected contributions and contribution rates input now have a requirement for each employer to provide a clarification for differences above 5%. Contribution totals are checked to ensure the total provided, agrees with contribution rates checked against a statutory table, with incorrect rates highlighted and rectified with employers and where full time equivalent pay is less than a threshold based upon 2008 rates, an explanation is required from employers.

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 Charges for Incorrect, Inaccurate and Late Submission of Data have not been made

Issue/Control Weakness

The charging policy has not been applied or formal approval obtained not to apply policy

Risk

Additional expense is incurred by NYPF as a result of issues with employers.

Findings

The NYPF introduced a Charging Policy in 2019 to address poor quality returns. The LGPS regulations enable pension funds to recover any additional costs associated with the administration of the scheme incurred as a result of poor performance by an employer. This includes charges for late, incorrect and missing data, such as starter and leaver notifications. NYPF charges employers quarterly, where total charges for each employer exceed £50. The option to charge for incorrect and late returns was first introduced in the 4th quarter of 2018-19. However, no charges have been applied for late and incorrect returns, with the exception of one employer who was charged in the 2nd quarter of 2019-20.

There have been no charges levied during 2020-21, partly as a result of the impact on employers as a result of the Covid-19 pandemic. If the charging policy had been strictly applied the total of potential fines at the end of quarter 2 2020-21 would be £84,895. NYPF works to support employers in submitting the correct data promptly. It is intend to move from the current system where employers submit monthly returns using spreadsheets to online monthly employer returns. It is hoped that charging will become obsolete as it is intended that this will reduce the likelihood of incorrect returns. The monitoring system will become automated enabling NYPF to issue reminders to employers electronically to ensure submissions are timely.

Employers' monthly returns are to be received by NYPF by the 19th of the following month. We tested returns made by a sample of 10 employers, for April 2020 to January 2021. All returns had been submitted on time for 4 employers, with 5 of the remaining 6 submitting slightly late on either one or two occasions only. However, Craven District Council submitted a late return in respect of 7 of the 10 months examined. The returns for April 2020, September 2020 and January 2021, were 35, 46 and 61 days late respectively.

The value of each return matched the amount paid to NYPF each month for 8 of the 10 employers selected. For one employer there was a discrepancy in one month that was resolved promptly. The other, Craven DC, has three issues which remain unresolved, relating to the amounts stated in the monthly remittances for July and November 2020, of £92.45 and £2,314.24 respectively. Business Support has approached Craven DC on several occasions, and again in March 21, about these differences, but they remain unresolved. Also for the January 2021 payment, Craven DC has not provided an updated workbook so the January payment cannot be recorded properly within NYPF's systems.

The Pension Fund aims to work with employers to improve the quality of returns. However the charging policy is in place and should be applied in cases where there are repeated issues. Decisions not to apply the policy should be approved, and the reasons

communicated to employers to ensure a change in future behaviour.

Agreed Action 1.1

1. Any future decisions regarding charging will be communicated to employers. It is anticipated charges will no longer be applicable with the rollout of i-Connect as data will be submitted and received monthly.
2. The Fund's employer charging policy will be applied from September 2021 onwards regarding any outstanding late/missing monthly contributions payment and/or the return of the supporting documentation for the contributions payment.

Priority

3

**Responsible
Officer**

Head of Pension
Administration /
Senior Accountant

Timescale

31 March 2022

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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