

**North Yorkshire County Council**

**Pension Board**

**18 January 2018**

**Internal Audit Plan**

**Purpose of Report**

To provide the Pension Board with an update on internal audit activity

**Audit Plan 2016/17**

Details of the planned audits for 2016/17 are shown in the table below

Audit	Status	Assurance level
Pension Investments	Complete	High Assurance
Pensions Income	Complete	Substantial Assurance
Pensions Expenditure	Complete	Reasonable Assurance
Altair IT System	Complete	Substantial Assurance

A copy of the Pensions Expenditure final report is attached as **Appendix 1**

**Audit Plan 2017/18**

The Internal Audit Plan for 2017/18 was approved at the Board meeting on 20 July 2017. The current progress of work for the 2017/18 plan is detailed below

<b>Audit</b>	<b>Days</b>	<b>Status</b>
<p><b>Pension Fund Governance Arrangement</b></p> <p>The audit will review the governance arrangements for the pension's fund, including compliance with CIPFA guidance and pensions fund regulations. This will include a review of the Annual report, and the issue of Benefits statements to scheme members.</p>	<b>15</b>	<b>Discussion draft issued</b>
<p><b>Pension Fund Income</b></p> <p>The audit will review the processes in place for the collection of income from member organisations and the information provided to enable the calculation of benefits under the various schemes. This will include a follow up of previous years audit work on the quality of data provided by scheme employers</p>	<b>15</b>	<b>In progress</b>

<b>Pension Fund Expenditure</b> The audit will review the processes for paying pensions, in particular reviewing payment of new pensions and changes to pension entitlement.	<b>15</b>	<b>In progress</b>
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**Recommendation**

Pension Board Members are asked to note this report and the attached Internal Audit Report

Ian Morton,

Audit Manager,

Veritau Ltd.



# Pension Fund Expenditure

## North Yorkshire County Council

### Internal Audit Report 2016/17

Business Unit: Central Services  
 Responsible Officer: Corporate Director – Strategic Resources  
 Service Managers: Head of Pensions Administration  
 Date Issued: 9 October 2017  
 Status: Final  
 Reference: 32220/010

	P1	P2	P3
<b>Actions</b>	<b>0</b>	<b>2</b>	<b>1</b>
<b>Overall Audit Opinion</b>	Reasonable Assurance		

# Summary and Overall Conclusions

## Introduction

The Local Government Pension Scheme 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.

The North Yorkshire Pension Fund uses the Altair system for administration purposes. This system has the means of providing a payroll function however these are made on their behalf by the North Yorkshire County Council Employment Support Service through ResourceLink.

## 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:

- appropriate processes were in place so that once notified of the death of a pensioner payments were stopped promptly and overpayments recovered;
- PP1 amendment forms (a form requesting amendments to be made to a pensioner's payroll record within ResourceLink) sent to Employment Support Services were actioned in a timely manner; and
- prior to the pensioners payroll being finalised and payments made there was a process of validation.

## Key Findings

The key findings identified in this audit include:

- for those responsible for checking exception reports there is no guidance explaining what needs to be checked and why;
- the NYPF are not always providing ESS with copies of death certificates and Tell Us Once Notifications to enable them to end a deceased pensioner's record and as such make the correct payment to the estate or recoup any overpayment; and
- the present arrangements in the NYPF for monitoring the pensions of dependants are not sufficient to prevent overpayments from being made.

It was identified in the previous audit that there is no reconciliation process between the NYPF Altair system and the NYCC ESS ResourceLink system for record management purposes. An action was agreed that that was due for implementation by 31 May 2017.

ESS will not end a record until they have received a copy of the death certificate, but will suspend the record until they receive clarification. In some cases the NYPF is unable to obtain a death certificate particularly in cases where they receive information from other sources and are not notified of the death directly from the next of kin or a solicitor. It was previously reported that for cases where a death certificate cannot be obtained the NYPF and ESS need to establish a protocol to process and end records so that they can be ended promptly and are not suspended for periods of time. There is an action plan in place to address this issue which has yet to be fully implemented. A further case was identified during the review this year 3501386101 who died on 11 November 2016. The NYPF requested a copy of the death certificate however the next of kin has failed to provide one. The latest case note on the pensioner's Altair record dated 13 March 2017 states "Still no reply, allow a further four weeks". Documentation was sent to ESS on 31 January 2017 and as per procedures they suspended the record to prevent further payments from being made. However £181.20 had been overpaid for the period up to 31 December 2016 which can be recovered. The longer it takes to end the record then there is less likelihood that the overpayment could be recovered from the estate.

## **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 Exception reports

### Issue/Control Weakness

Without documented guidance detailing specifically what needs to be checked and why there is the possibility that records may be omitted from the sample reviewed that actually may warrant special attention.

### Risk

Financial loss to the NYPF.

### Findings

Six exception reports are downloaded each month from ResourceLink for the pensioners payroll:

- net pay advance recovery;
- calc NYCC pen (reporting upon NI categories that have changed or are not categorised correctly);
- high net pay (net pay above £1,500);
- low net pay (net pay less than £1.00);
- rejections; and
- court orders.

These are reviewed by members of the dedicated ESS pensioner's payroll team who undertake a random 10% check from each report. Each report is highlighted with those checked. It was advised by the ESS Administrator that as part of the checking process the previous three payroll payments are also reviewed to ensure there are no large discrepancies between each of the payments.

The reports for October and November were reviewed. The High Net Pay report returned 447 and 459 records respectively. A number of these records were on going payments and appeared on both reports whereas others were new and did not appear on the previous report, a 10% sample had been reviewed from each. On further examination it was noted that there were 29 records that appeared on the exception report for November that did not appear on the exception report for October. Of these records only 8 had been highlighted as checked. The Low Net Pay exception report returned 59 and 63 records respectively many of which were on going payments and appeared on both reports, a sample of 20% had been reviewed from each. In the majority of instances different records had been checked each month.

The Calc NYCC Pen exception report for October returned 44 records mainly associated with those in receipt of a dependant pension. Here their age did not correlate with that of a pensioner and as such were highlighted on this report as "Employee between 16 and 21 on an incorrect NI Category" some 40 records. It was reported in the previous audit report that this exception report is not made available to the NYPF Team Leader so that they can check these records against the monthly download from the Altair system for dependant pensioners. This situation remains as before in that it is not forwarded to the NYPF nor has the NYPF Team Leader requested it.

Exception reports are produced for a reason and clear documented guidance needs to be maintained that details the purpose for running these

reports, detailing specifically what needs to be checked and why. Through having such guidance those involved in the review of these reports can make informed decisions as to how many records and which records should be checked.

### Agreed Action 1.1

Agreed. The following will be implemented:

1. Ensure ESS Manager has implemented clear documented guidance detailing purpose of the exception reports and the checking required on each.
2. Establish process for provision of the monthly “Employee between 16 and 21 on an incorrect NI Category” exceptions to the Administration Team via the shared area.

**Priority**

2

**Responsible Officer**

Head of Pensions  
Administration

**Timescale**

31 March 2018

## 2 Processing deceased pensioner records.

### Issue/Control Weakness

The NYPF are not providing ESS with all the information they require to end a deceased pensioner's record.

### Risk

Financial loss to the NYPF.

### Findings

Deceased pensioner records are ended on ResourceLink by a member of the ESS pensioner's payroll team based upon information provided by the NYPF. From the sample of ten deceased pensioner records reviewed there were issues with three. In two cases the NYPF had received copies of the death certificate and in one case had received information from the Tell Us Once Notifications website however in none of these cases had they passed that information onto ESS. The case notes on the Altair record for each pensioner had been updated to say that this information had been received yet there was no record that this documentation had been passed to ESS. On reviewing the information received by ESS through the Lagan system it was evident that this documentation had not been provided to them.

Based upon procedures ESS had suspended each record to prevent further payments being made and recalled any Bacs payments due to be made however in the case of:

- 3510860534 who died on 22 September 2016 £961.59 is due to the estate as the Bacs payment for September was recalled;
- 3702383758 who died on 19 October 2016 £67.76 has been overpaid which can be recovered as procedures allow for any payment over £50 to be recovered; and
- 3571837173 who died on 19 December 2016 £436.59 is due to the estate as the Bacs payment for December was recalled.

In the above cases had the NYPF provided ESS with the required documentation these pensioner records could have been ended promptly and invoices raised to recoup overpayments or make the necessary payment to the estate. As it is no further payments have been made and the outstanding balances have not been dealt with.

The Administrator within ESS responsible for processing deceased pensioner records maintains a spreadsheet that she updates and forward to the NYPF each month. As at March 2017 there were 77 pensioner records including the three identified above listed as waiting for death certificates from the NYPF before ESS could proceed further to end the record. The oldest entry was for a pensioner who was recorded as having died on 27 January 2015. The NYPF needs to ensure it provides all the necessary information to ESS to enable them to end a record and make the correct payment or recoup any overpayment.

### Agreed Action 2.1

Agreed. The following will be implemented:

Priority

2

1. ESS has been provided with access to Altair so they can find the death certificates themselves. Need to re-establish this as part of agreed death process.
2. Clear up of outstanding death certificate backlog is underway.
3. Review of process to take place to ensure administration keep on top of certificate requests.

**Responsible Officer**

**Timescale**

Head of Pensions  
Administration

31 March 2018

### 3 Dependant pensions

#### Issue/Control Weakness

The present arrangements for monitoring the pensions of dependants are not sufficient to prevent overpayments from being made.

#### Risk

Financial loss to the NYPF.

#### Findings

It was previously reported that dependant pensions were monitored within the NYPF on a monthly basis by one designated member of staff, the NYPF Team Leader, using a spreadsheet and that the whole process was manual with no automated safeguards in place should monitoring not be undertaken. This was found to still be the case however there is an action plan which when fully implemented will introduce more automation into the process.

As part of the review this year a sample of recently ceased or on going dependant pensions was reviewed and testing undertaken to ensure there was a completed NYPF Supplementary Application Form For Payment Of A Child's Pension on file authorised by the university/training provider and providing start and end dates for the respective courses. These courses generally last for either three or four years. For those where the pension had recently ended each had been paid up to the end date of the respective course as identified on the authorised form.

For those where the pension was in payment in all but one instance there was a form on file indicating the dependant was attending a course that was on going. For one the form that had been received on 7 May 2015 indicated that the dependant had been offered a place at university to commence September 2015 to summer 2019. It had not been certified by the university as the form had been completed too early. There was no follow up to establish whether or not they went there or actually continued in further education after the age of 18. In this case a dependant pension was being paid where there was no evidence held on file by the NYPF that they were in further education through the completion of the appropriate form authorised by the university.

#### Agreed Action 3.1

Agreed. The following will be implemented:

1. A full review of all processes within the administration function will take place in due course to establish areas of weakness and make the necessary improvements.
2. Cross training of other members of the team will ensure cover is available for the Team Leader.
3. Document the existing process to identify areas for improvement.
4. Stricter monitoring of dependant children's pension.

Priority

3

Responsible Officer

Head of Pensions  
Administration

Timescale

31 March 2018

# 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.

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