

Item: 7.2

Monitoring and Audit Committee: 8 June 2023.

Internal Audit Report: Pension Administration.

Report by Chief Internal Auditor.

1. Purpose of Report

To present the internal audit report on processes and controls relating to Pension Administration.

2. Recommendations

The Committee is invited to scrutinise:

2.1.

The findings contained in the internal audit report, attached as Appendix 1 to this report, reviewing arrangements in place to ensure that processes and controls for pension administration within the Council are operating effectively, in order to obtain assurance that action has been taken or agreed where necessary.

3. Background

3.1.

The Local Government Pension Scheme (LGPS) is a tax approved, defined benefit occupational pension scheme. Orkney Islands Council is the administering authority responsible for overseeing the LGPS for Council employees and for employees of various other scheduled and admitted bodies who have been allowed to participate in the Scheme.

3.2.

In the Orkney scheme, on 31 March 2022 there were 2,124 active members and 1,161 pensioners.

3.3.

The objective of this audit was to review whether processes and controls for pension administration within the Council are operating effectively.

4. Audit Findings

4.1.

The audit provides substantial assurance that processes and controls relating to Pension Administration are well controlled and managed.

4.2.

The internal audit report, attached as Appendix 1 to this report, includes three low priority recommendations regarding the Pension Administration Strategy and appointment letters for casual staff. There are no medium or high priority recommendations made as a result of this audit.

4.3.

The Committee is invited to scrutinise the audit findings to obtain assurance that action has been taken or agreed where necessary.

5. Corporate Governance

This report relates to the Council complying with governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

There are no financial implications associated directly with the recommendations in this report.

7. Legal Aspects

Complying with recommendations made by the internal auditors helps the Council meet its statutory obligations to secure best value.

8. Contact Officer

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9. Appendix

Appendix 1: Internal Audit Report: Pension Administration.



Internal Audit

Audit Report

Pensions Administration

Draft issue date: 13 March 2023

Final issue date: 19 April 2023

Distribution list:	Service Manager Payroll & Pensions Head of Finance Corporate Director for Enterprise and Sustainable Regeneration
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Audit Opinion

Based on our findings in this review we have given the following audit opinion.

Substantial

The framework of governance, risk management and control were found to be comprehensive and effective.

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

The objective of this audit was to review whether processes and controls for pensions administration within the Council are operating effectively.

We have not identified any significant weaknesses in processes carried out and our review provides substantial assurance over the control environment for pensions administration.

Based on our review of selected sample transactions the small pensions administration team works diligently and effectively to provide a high-quality pensions service to both scheme members and employers and ensures members receive their correct pension benefits entitlement.

Key service standards are set by the Pension Fund Sub-committee. Service levels have been maintained during the current financial year to date, with performance standards met in the majority of categories. For the period from 1 April to 31 December 2022, in categories where performance standard targets have been set, 549 of 555 records (99%) were processed within their standard target time. From our review, in the 6 instances where the performance standard was not met, these records were processed just outwith the standard.

The report includes 3 recommendation which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via Pentana Risk.

Total	High	Medium	Low
3	0	0	3

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

The Local Government Pension Scheme (LGPS) is a tax approved, defined benefit occupational pension scheme and the scheme regulations are made under the Public Service Pensions Act 2013, and in the case of the LGPS (Transitional Provisions and Savings) (Scotland) Regulations 2014, under the Superannuation Act 1972. Prior to 1 April 2015 benefits under the scheme were based on members' length of membership and final salary. Since 1 April 2015, benefits are worked out using career average revalued earnings (CARE) rather than final salary. The LGPS covers Local Government and other organisations which have been accepted as admitted bodies to the scheme. In the Orkney scheme, on 31 March 2022 there were 2,124 active members and 1,161 pensioners.

The area of pension contributions is complex, with a number of changes resulting from the introduction of the 2015 LGPS Scheme including changes to the basis of the pension, accrual rates, contribution rates, contribution flexibility and pension retirement age.

This review was conducted in conformance with the Public Sector Internal Audit Standards.

Audit Scope

The scope of this audit included a review of the following:

- Policies and processes operating within the Council towards pension administration.
- That starters and leavers to the scheme are properly recorded, authorised and accurately recorded.
- Contributions made into the scheme are properly administered, authorised, promptly received, correctly calculated, and accurately recorded.
- Payments made to retired pensioners are properly administered, authorised, promptly made, correctly calculated, and accurately recorded.
- Transfers into the scheme are properly administered, authorised, promptly received, correctly calculated, and accurately recorded.
- Transfers out of the scheme are properly administered, authorised, promptly paid, correctly calculated, and accurately recorded.
- New retirals are properly notified of their entitlements, benefits are correctly calculated in accordance with scheme conditions, are accurately recorded and are properly authorised.
- Payments on death of retired pensioners are only made after receiving suitable evidence of the death, are correctly calculated, authorised, and are paid to the correct recipient.
- Benefits paid to widows/widowers as a result of a death in service are correctly calculated, authorised, and are paid to the correct recipient.

Audit Findings

1.0 Policies and Procedures

- 1.1 The Local Government Pension Scheme (Scotland) Regulations 2018 (the regulations) state that an administering authority may prepare a written statement of the authority's policies as it considers appropriate ("its pension administration strategy").
- 1.2 The Orkney Islands Council's Pension Administration Strategy was adopted by the Pension Fund Sub-committee of the Council at its meeting held on 14 June 2017.
- 1.3 The regulations require that where an organisation has a Pension Administration Strategy it must keep it under review. The Pension Administration Strategy has not been reviewed since its adoption.
- 1.4 Our review has found that matters that should be included within the Pensions Administration Strategy, required by the regulation, are included within the Strategy. There has not been a material change in the Council's policy for pension administration since the strategy was adopted. However, the Strategy should be reviewed. Some references should be updated where they are made to legislation which has since been revised.

Recommendation 1

- 1.5 The regulations require the Council to publish its Pension Administration Strategy. The Strategy is not accessible through the Council's website.
- 1.6 The Council's Pension Administration Strategy should be added to the other pensions policy documents listed on the Council's website.

Recommendation 2

- 1.7 Scheme members' records are maintained on Aquila Heywood's pensions administration system known as Altair. Every current and former employee of the Council who has a pension entitlement in the fund is included in the Altair system.
- 1.8 The Council's ResourceLink payroll system is used to pay pensioner benefits. The pensions administration team is restricted to read only access to the payroll system, with amendments being made to pensioner records via a formal notification process between the Pensions and the Payroll Teams.
- 1.9 The pensions administration team uses one of 31 checklists depending on the type of record being processed.
- 1.10 Staff within the pensions administration team demonstrated a good understanding of correct procedures.
- 1.11 Auto enrolment into the pension scheme is a mandatory requirement for all employees who are aged 22 or over and earn over £10,000 a year, or pro rata in any pay period (2022/23) and are under state pension age. The Council's payroll system flags for each employee where auto enrolment is mandatory. Staff who are eligible for the LGPS and earning less than the threshold may be enrolled into the LGPS on a voluntary basis.

- 1.12 At the time of our review appointment letters for casual/relief staff do not promote the option to join the LGPS. It is recommended that appointment letters incorporate information regarding the LGPS.

Recommendation 3

2.0 Starters to the LGPS

- 2.1 A sample of 35 people starting employment with the Council, in the current financial year, from the payroll system, were selected for testing.
- 2.2 For the 22 instances selected where auto enrolment was mandatory, all 22 members of staff were enrolled into the LGPS. In the 6 instances where auto enrolment was not mandatory, no employee voluntarily registered to the LGPS.
- 2.3 In the 7 instances where employees of the Council were not eligible to join the LGPS, due to being able to join other public service pension schemes, mainly teachers, all were correctly not enrolled into the LGPS.
- 2.4 All 22 starters to the LGPS were recorded promptly onto the Altair system, contribution rates were correctly calculated, and checklists fully completed. Appropriate instructions and supporting documentation were uploaded into the Altair system. Generally, all relevant data was accurately recorded onto the Altair system. In 1 instance a recorded start date on Altair was shown as 2022 rather than 2023. This had no effect towards the member's contribution or entitlement and has now been updated on Altair by the pensions administration team.

3.0 Leavers from LGPS

- 3.1 A sample of 35 leavers from the Council in the current financial year, based on records from the payroll system were selected for review. 25 of this selection were members of the LGPS.
- 3.2 For all 25 leavers from the Council, their updated details were promptly and accurately recorded into Altair. Appropriate supporting instructions and documentation has been uploaded onto the Altair system. Checklists for all leavers from the LGPS were completed and the correct action carried out to each instance.

4.0 Transfers into the LGPS

- 4.1 A sample of 10 from 33 transfers of existing pension money into the LGPS from new employees were selected for review. In each instance the amount of money transferred into the LGPS was correct and the transfer value checked by pensions administration as being correct. All transfers were made within the required time limit of 12 months of the employee joining the LGPS. Appropriate required documentation, including the employee's transfer request, confirmation that the employee wished to go ahead, and checklists have been loaded into Altair.

5.0 Transfers out of the LGPS

- 5.1 All 3 transfers of pension money from the LGPS to other pension schemes were reviewed. For each of the three transactions, the correct amount of money was promptly transferred after the pensions administration team had double checked the final transfer amount. Appropriate required documentation, including the employee's transfer request,

confirmation that the employee wished to go ahead, and checklists have been loaded into Altair.

6.0 Taking of Advance Voluntary Contributions (AVC) previously made.

- 6.1 Members may have paid Additional Voluntary Contributions (AVCs) into the LGPS in previous years. A sample of 6 of 7 AVCs taken by members of the scheme were selected for review.
- 6.2 In all 6 instances the amount taken was correctly processed and checked. The transactions were correctly recorded on Altair and documentation from Prudential, who manage the AVC element of the scheme, is retained on Altair.

7.0 Refund of Contributions from LGPS

- 7.1 If an employee leaves or opts out of the scheme before the two-year qualifying period, they are able to claim a refund of their contributions.
- 7.2 A sample of 5 from 13 refunds from the LGPS were selected for review. In each of the five instances the member was eligible for a refund due to being an employee with less than 2 years of service. The amount of the refund was correctly calculated, and a refund checklist completed. Appropriate notification was received from the person requesting the transfer and the receiving fund which has been loaded onto Altair. A transfer out checklist was completed in each instance.

8.0 New Retirals

- 8.1 A sample of 12 from 81 new retirements within the scheme during the current financial year were selected for review. In each instance, the member was provided with an estimate of their pensions benefit which was checked by the pension team. Where an initial amount was due this was paid correctly, new retiral checklists were completed where the retirement directly followed employment and records were correctly updated on the Altair system.

9.0 Death in Service

- 9.1 At the time of our review, 3 members within the scheme had died in service during the current financial year. In each instance, benefit entitlements were calculated by the Altair system and checked by the pension administration team, adequate information was obtained to allow the payments to be paid to the correct recipient and the payment due correctly made and recorded. Appropriate records were uploaded onto the Altair system.

10.0 Death not in Service

- 10.1 A selection of 11 out of 25 members within the scheme who had died, but not in service, during the financial year were reviewed. In each of the 11 records reviewed the pensions administration team acted upon official notification of the death, checks were made on the National Insurance (NI) register to ensure a death grant was not paid elsewhere, spouse benefits were calculated and checked by the pensions administration team, adequate evidence was received and recorded to pay benefits payments, where applicable, which were correctly authorised and made to a confirmed bank account.

11.0 Key Performance Indicators

11.1 Administration performance to key service standards, set by the Pension Fund Subcommittee, which in turn are based on national performance standards are measured by reports generated from the Altair system. A summary of performance against standard, for records processed between 1 April to 31 December 2022 is shown in Figure 1.

Category	Records Processed Within Standard	Number of Working Days	Records Processed	Percentage Processed Within Standard
New Entrant	203	10	203	100%
Leaver	126	10	127	99%
Pension Estimates	93	10	95	98%
Retirement	81	5	81	100%
Transfer In	30	10	33	91%
Transfer Out	3	10	3	100%
Refunds	13	5	13	100%
Totals	549		555	99%

Figure 1

11.2 The pensions administration team have maintained high level performance standards during the 2022/23 financial year. This being achieved by the team despite the Service Manager (Payroll and Pensions) position being vacant for approximately three and a half months during the 9-month period.

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1) The Pension Administration Strategy should be reviewed.	Low	Agreed – the Pensions Administration Strategy will be reviewed and updated.	Service Manager (Payroll & Pensions)	30 September 2023
2) The Pension Administration Strategy should be uploaded onto the Council's website.	Low	Agreed, the Pensions Administration Strategy will be made available on the Council's webpage	Service Manager (Payroll & Pensions)	30 September 2023
3) It is recommended that appointment letters for casual staff incorporate information regarding the LGPS.	Low	Agreed – The template for appointment letters for casual staff will be updated to include clarification that they will not automatically join the LGPS but, should they wish to do so, they should contact Payroll and Pensions to seek further guidance.	Service Manager (HR Operations)	Already actioned.

Key to Opinion and Priorities

Audit Opinion

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.