

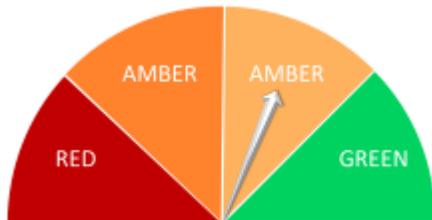
Flintshire Internal Audit

Audit Report

Title: 21/22 Pensions Administration & Contributions
Portfolio: External
Issued Dated: January 2022
Report No: 30-2021/22
Report Status: Final

Internal Audit engagements are conducted in conformance with the Public Sector Internal Audit Standards.

Audit Opinion



1 Executive Summary:

Introduction and Scope:

The Clwyd Pension Fund (CPF) Administration and Contributions review is being carried out as part of the Internal Audit Strategic Plan for 2021/22 which has been agreed with Chief Officers and approved by the Council's Governance and Audit Committee.

Flintshire County Council (the "administering authority") is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme ("the LGPS"). The Fund comprises around 48 employers with active members, and approximately 49,000 scheme members (including active members, deferred and pensioner members).

The Administration Strategy sets out the administering authority and the employers responsibilities under the Scheme, and outlines the performance standards which employers are expected to meet to ensure the delivery of a high quality, timely and professional administration service. Although an Administration Strategy has been in place since 2016, it has recently been revised and updated to reflect the evolution in the ways of working within the Fund over time. The revised Administration Strategy was approved by the CPF Committee in March 2021.

The review has identified the pension administration and contribution processes have been aligned to the approved Administration Strategy. Key controls relating to the management of pensioner payroll and other payments were tested and are working as expected. A business case for the recruitment of an additional FTE within the payroll team was recently approved to introduce enhanced controls and facilitate a complete separation of duties relating to the oversight and reconciliation of monthly payroll payments. These controls are working as expected.

Due to the COVID 19 pandemic, a number of changes have been made to

Audit Opinion:

In each report we provide management with an overall assurance opinion on how effectively risks are being managed within the area reviewed. Appendix A of the report details our assurance levels:

Assurance:	Explanation
Amber Green - Reasonable	Reasonable Assurance – Key Controls in place but some fine tuning required •Some refinement or addition of controls would enhance the control environment •Key objective could be better achieved with some relatively minor adjustments Conclusion: key controls generally operating effectively.

The table below highlights the number and priority of agreed actions to be implemented.

Priority	High (Red)	Medium (Amber)	Low (Green)	Total
No.	0	1	2	3

operational processes to facilitate business continuity whilst members of the team are working from home. These changes were risk assessed, considered and deemed adequate by the committee and the board and were included in the independent advisor annual report dated July 2020. Testing also identified that expected controls have continued to operate whilst the service has been working from home.

Lastly, separation of duties forms part of the member payment process and is part of the task processing within the Altair system. As part of the payment task, the information is processed for the member to receive payment by one member of the operations team, this is then reviewed by a different member of the operations team and finally approved by the manager. The Altair system has an audit trail on who has completed each task of the approval process and the date this took place.

One medium finding has been raised relating to KPI monitoring. Two low level findings have been raised in relation to the employer performance oversight and reporting, and evidencing all variances highlighted in the payroll reports have been reviewed and rectified.

Testing has identified the controls to be appropriate as reflected above, and an Amber Green (Reasonable) assurance rating has been reported.

2 Summary Findings:

Areas Managed Well	Areas for Further Improvement
<ul style="list-style-type: none"> • The Clwyd Pension Fund (CPF) Administration Strategy was reviewed and approved by the CPF Committee in March 2021. • Key risks associated with the Pensions and Administration and Contributions service have been identified in the respective risk register. Regular updates are provided at CPF Committee on underperforming risks and actions taken to address. • The controls in place to oversee the management of member payroll and other payments are adequate. • Three of the four suggestions made by Audit Wales (AW) in the last audit have been rectified. The suggestion in relation to the reconciliation between I-connect and contributions is being reviewed as part of this year’s AW review. • Data is being gathered to oversee employer delivery in line with SLA and legal requirements. • Enhanced controls introduced as a result of the recent approved restructure are operating as expected. • Separation of duties has been incorporated into the member payment process. • Changes made to processes to facilitate the prolonged working from home due to the COVID 19 pandemic were documented, impact assessed and approved. 	<ul style="list-style-type: none"> • Key Performance Indicators which are utilised to oversee timeliness and accuracy of data processed in line with legal requirements and established timescales by the administering authority indicate underperformance. An action plan to address areas of underperformance is not in place. • The employer performance reports and accompanying letter are not clear in advising what actions are required by the employer and the timescales for performance improvement prior to the escalation process being applied. • Spreadsheets utilised within Pensions Finance to capture the reconciliation of member payments do not easily evidence all variances identified have been addressed. Documented procedures are not in place for the reconciliations completed by the Pensions Finance Team.

3 Action Plan:

Priority	Description
High (Red)	Action is imperative to ensure that the objectives of the area under review are met.
Medium (Amber)	Requires action to avoid exposure to significant risks in achieving the objectives of the area.
Low (Green)	Action encouraged to enhance control or improve operational efficiency.

No.	Findings and Implications	Agreed Action	Who	When
1 (A)	<p>KPI Monitoring</p> <p>The Clwyd Pension Fund (CPF) Administration Strategy applies to all employers in the Fund and it sets out the expected levels of administration performance of both the administering authority and the employers within the Fund, the expected communication methods for transferring data and information between the employer and the Fund, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.</p> <p>Key performance indicators (KPIs) have been agreed within the Fund's Administration Strategy to ensure timeliness and accuracy of data processed in line with legal requirements and established timescales by the administering authority.</p> <p>It is important that KPI performance data drives improvement or corrective actions which in turn impact on the assessment of risk and how well these are being managed.</p> <p>Each KPI measures the following:</p> <ul style="list-style-type: none"> • The legal timescale that must be met • The overall timescale for the process (including any time taken by employers and/or scheme members) 	<p>The management team (comprised of the Pensions Administration Manager and the team leaders) will strengthen the link between KPIs, actions and risk assessment by ensuring that documentation is available in relation to why the KPIs have not been met and defining more specific actions. Appropriate comments will be added to the risk register and Committee reports at a high level.</p> <p>Reporting on KPI 10, 12 and 13 has only taken place since the September Committee meeting. We had been collecting the data since April but the reports were only finalised in September for us to populate and report progress. We therefore haven't had enough time or opportunity in these specific areas to improve given the staff recruitment/training issues at the same time. It is acknowledge that this will need to be addressed going forward.</p> <p>The individual KPIs and their associated targets to be reviewed for adequacy. Where changes are identified, amendments will be made to the CPF Administration Strategy and reporting. Action plans to be devised to address underperformance.</p>	Karen Williams	30 June 2022

No.	Findings and Implications	Agreed Action	Who	When
	<ul style="list-style-type: none"> The timescale relating to the Clwyd Pension Fund administration team only once all required information has been received <p>A review of the latest KPI dataset (Aug 21) has identified performance across all three categories is inconsistent against set targets and although improvements have been observed since its introduction in January 2019, the number of KPIs consistently achieving the targeted timescales is low.</p> <p>KPI performance update forms part of the Administration and Communication reports presented at the CPF Committee on a quarterly basis. Explanations are provided to the fund on the reasons for underachievement. However, actions have not been defined and measured against to be able to evidence and improve KPI performance in line with expectations within the strategy.</p> <p>It is acknowledged due to the nature of the processes that achievement for some of the KPIs is outside of the funds control as further information is required from the employer or employee. However, the Clwyd Pension Fund element targets have been set to measure timescales once all required information has been received.</p> <p>For the period tested (Jan 21 to Aug 21), the Clwyd Pension Fund element targets have been achieved 38 out of a possible 81 times (46.91%). 4 of the 13 KPIs measured have never achieved the target of 90%. They are:</p> <ul style="list-style-type: none"> KPI 3- Obtain transfer details for transfer in, and 	<p>URN 03266</p>		

No.	Findings and Implications	Agreed Action	Who	When
	<p>calculate and provide quotation to member</p> <ul style="list-style-type: none"> • KPI 10- Calculate and pay a Refund of contributions • KPI 12- Calculate and Notify member of Deferred Benefits • KPI 13- Initial letter acknowledging death of member <p>We reviewed the Administration and Communications risk register (Aug 21) to identify the root cause for the underperformance of the KPIs and the specific actions taken to address this.</p> <p>Specifically the KPIs which refer to the Clwyd Pension Fund Element would be captured in Risk 1-Unable to meet legal and performance expectations due to staff issues or under Risk 3- Unable to meet legal and performance expectations due to external factors.</p> <p>Both of these risks are within the desired risk state in the most recent version of the risk register making it difficult to see the impact of under performance of the KPIs on risk assessments.</p> <p>Failure to link KPIs to strategic/ operational risks and the timely identification of mitigating actions to address underperformance may lead to the fund not achieving its overall objectives as well as a potential increase in legal breaches.</p>			
2 (G)	<p><u>Employer Performance Oversight</u></p> <p>Reporting has been established to start measuring employer performance in line with the responsibilities agreed in the Pension Administration Strategy and the respective employer SLA agreements.</p>	<p>Establish a process to deal with underperformance with clear timescales for improvement.</p> <p>Development of employer's oversight report to</p>	Karen Williams	30 June 2022

No.	Findings and Implications	Agreed Action	Who	When
	<p>Employer data gathering started at the beginning of the financial year 2021. The employer performance reports were introduced in November 2021 in line with the service level agreements. Currently monthly employer performance reports are completed for each individual employer which displays performance for the month and the performance since April 2021.</p> <p>Testing identified the established letter which accompanies the report sent to employers is generic and does not differentiate between those who are underperforming versus those who are achieving set targets. It is also not clear from the reporting or the letter what actions are required by the employer and the timescales for performance improvement prior to the escalation process being applied.</p> <p>It is acknowledged that action for improving employer performance rests with the employers, however the lack of targeted reporting of the performance information by CPF poses a risk underperformance will not be addressed in a timely manner further impacting the achievement of the Funds agreed KPIs.</p>	<p>report overall performance over time for all employers. Comparisons can be drawn amongst employers to assist with identification of areas of best practice.</p> <p>We will need to balance this with the need to manage effective relationships with our employer clients.</p> <p>URN 03258</p>		
3 (G)	<p><u>Finance Reconciliation Evidence and Documented Procedures</u></p> <p>A number of controls are in place to oversee the processing of member payments. The processing of member cases is completed in the Altair system by the Pensions operations team.</p> <p>Monthly reporting is generated from Altair and reconciled by the pension's payroll team to ensure accuracy. Payments relating to Lump Sums, Death Grants and</p>	<p>A review to be completed of the current reconciliation process to identify a way of evidencing all accounts captured by the payroll report have been reconciled. Timescales to be introduced to address any variance discrepancies. A meeting to be held monthly between pensions finance, payroll and operations to go over variances and agree outcomes for cases. Reconciliation procedures followed by the Finance team to</p>	Paul Vaughan	30 June 2022

No.	Findings and Implications	Agreed Action	Who	When
	<p>transfer outs are also sent to Pensions Finance to reconcile against the ledger. Should any variances be identified due to miscoding, value or timing of payments this will be sent back to the Payroll or Operations team for further investigation and rectification.</p> <p>Spreadsheets are utilised within Finance to capture the reconciliation of the payments referred above. A sample of 10 entries from the Lump Sum, Death Grants and Transfer outs reports was completed and traced to the reconciliation spreadsheet with no issues identified.</p> <p>The current process does not easily evidence the reconciliation of all entries within the monthly payroll reports. Without reperforming all reconciliations for the year, internal audit is unable to advise that the variance spreadsheets are complete. Testing also identified that some variances which were returned to the operations team for investigation were still outstanding and some dated back to periods 4 and 5 2021/22. Management has advised if this is not addressed in the same period, these variances would be addressed as part of the year end reconciliation of accounts.</p> <p>Documented procedures are not in place for the functions completed by the Pensions Finance team to ensure continuity of service in the event a member of the team is unavailable or to assist with the training of new staff.</p> <p>Failure to have a robust reconciliation process supported by documented procedures may lead to increased pressures being put on the team when completing annual final accounts.</p>	<p>be fully documented.</p> <p>URN 03267</p>		

4 Distribution List:

Name	Title
Karen Williams	Accountable Officer Responsible for the Implementation of Agreed Actions
Neal Cockerton	Chief Executive
Phil Latham	Head of Clwyd Pension Fund
Karen Williams	Pensions Administration Manager
Debbie Fielder	Deputy Head of Clwyd Pension Fund
Paul Vaughan	Pensions Fund Accountant

Appendix A – Audit Opinion:

The audit opinion is the level of assurance that Internal Audit can give to management and all other stakeholders on the adequacy and effectiveness of controls within the area audited. It is assessed following the completion of the audit and is based on the findings from the audit. Progress on the implementation of agreed actions will be monitored. Findings from **Some** or **Limited** assurance audits will be reported to the Audit Committee.

Assurance	Explanation
Green - Substantial	<p>Strong controls in place (all or most of the following)</p> <ul style="list-style-type: none"> • Key controls exist and are applied consistently and effectively • Objectives achieved in a pragmatic and cost effective manner • Compliance with relevant regulations and procedures • Assets safeguarded • Information reliable <p>Conclusion: key controls have been adequately designed and are operating effectively to deliver the key objectives of the system, process, function or service.</p>
Amber Green – Reasonable	<p>Key Controls in place but some fine tuning required (one or more of the following)</p> <ul style="list-style-type: none"> • Key controls exist but there are weaknesses and / or inconsistencies in application though no evidence of any significant impact • Some refinement or addition of controls would enhance the control environment • Key objectives could be better achieved with some relatively minor adjustments <p>Conclusion: key controls generally operating effectively.</p>
Amber Red – Some	<p>Significant improvement in control environment required (one or more of the following)</p> <ul style="list-style-type: none"> • Key controls exist but fail to address all risks identified and / or are not applied consistently and effectively • Evidence of (or the potential for) financial / other loss • Key management information exists but is unreliable • System / process objectives are not being met, or are being met at an unnecessary cost or use of resources. <p>Conclusion: key controls are generally inadequate or ineffective.</p>
Red – Limited	<p>Urgent system revision required (one or more of the following)</p> <ul style="list-style-type: none"> • Key controls are absent or rarely applied • Evidence of (or the potential for) significant financial / other losses • Key management information does not exist • System / process objectives are not being met, or are being met at a significant and unnecessary cost or use of resources. <p>Conclusion: a lack of adequate or effective controls.</p>