

London Borough of Hammersmith & Fulham

Final Report

Pensions Administration - Audit

May 2017

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1. Introduction

Surrey County Council (SCC) was awarded the contract under a s101 Agreement to manage the Pension Administration arrangements for Kensington & Chelsea and Hammersmith & Fulham Councils in April 2015 for a period of four years. SCC already had a s101 Agreement to provide Pension Administration arrangements for Westminster City Council (WCC) since September 2014.

The general powers of a local authority to delegate its functions include delegation to another authority. Delegation involves one authority taking over more or less entirely from another the provision of a particular function, but even where payment is made, represents a reorganisation of administrative responsibilities between different public bodies. The power is found in s101 LGA1972 (or s19 LGA 2000 for Executive Functions).

On 1 April 2014, the new Local Government Pension Scheme (LGPS) came into effect, replacing the final salary scheme with a Career Average Revalued Earnings (CARE) scheme for future benefit accrual.

The new Scheme:

- has a normal pension age equal to state pension age (minimum age 65)
- gives a pension for each year at a rate of 1/49th of pensionable pay received in that year
- provides increased flexibility for members wishing to retire early
- allows members to pay reduced contributions as an alternative to opting out (though benefits build up at a slower rate)
- provides for previous years' CARE benefits to be inflation proofed in line with the Consumer Prices Index while the member is still paying in
- requires members to have at least 2 years' membership to qualify for pension benefits.


Surrey County Council have provided Pension Administration services to Westminster City Council (WCC) since September 2014. The Council's previous administration service provider was the LPFA. The boroughs of Kensington & Chelsea (RBKC) and Hammersmith & Fulham (LBHF) decided to terminate their shared Pension Administration contract with Capita on 31 August 2015 in favour of an arrangement with Surrey County Council. The new Pension Administration contract for these two Councils began in April 2015, and the live operational service started on 1 September 2015. This agreement may be terminated at any time by either party giving the other party not less than twelve months' notice in writing, such notice not to expire before 1 September 2017. The client function for this service is undertaken by the officers within the Councils' retained HR function, which is a shared service for RBKC and LBHF.

Following the implementation of a new financial management system in April 2015 (Agresso), there have been some delays and inaccuracies with the transfer of LGPS information between the new Managed Services Provider (BT) and the Pensions Administration Service (SCC).

2. Executive Summary

2.1 Assurance Opinion

The table below provides an overview of the adequacy and the effectiveness of the controls across the project using a RAG rating to highlight the degree of control weakness. It also indicates the number and priority rating of any recommendation raised as a result of the review.

	Nil	Limited	Satisfactory	Substantial
Audit Opinion				

2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made. The Action Plan at Appendix 1 details the specific recommendations made as well as agreed management actions to implement them.

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			High	Medium	Low
Policies, Procedures and Plans			0	0	1
Starters, Leavers and Amendments			1	0	0
Transfers			1	0	0
Payment of Pensions			0	0	0
Access Controls and Data Transfer			0	0	0
		Total	2	0	1

Please refer to the Appendix 2 for a definition of the audit opinions and recommendation priorities.

3. Summary of Findings

This audit focused on the operations undertaken by Surrey County Council (SCC) who provide the pensions administration service to the London Borough of Hammersmith & Fulham, the Royal Borough of Kensington & Chelsea and Westminster City Council. Pension information managed by Surrey County Council is highly dependent on accurate and timely information provided by the Council's HR/Payroll provider (BT) as well as by the payroll providers of admitted/scheduled bodies. As such a number of the audit tests that would provide assurance on the accuracy and completeness of the pensions administration system, could not be undertaken due to issues regarding the accuracy of reporting from BT which are well known to all three councils and are being actively managed.

Although the audit identified that a number of the controls in place for calculating, processing and maintaining the scheme as operated by SCC are appropriate, the weaknesses in the information being provided by BT has impacted on the assurance opinion given to this review. In our opinion, **Limited Assurance** can be given to Members, the Chief Executives, the Town Clerk and other senior officers that the controls relied upon at the time of the audit were suitably designed, consistently applied and effective in their application.

The key findings and an assessment of controls are summarised below:

Application of and compliance with control framework to address risks identified

- All three boroughs have established and are operating a local Pensions Board as defined by section 5 of the Public Service Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme (LGPS) Governance Regulations 2013.
- All three boroughs have signed a Delegation Agreement with Surrey County Council to provide the boroughs with their Pensions Administration service.
- An end to end process map has been developed but parts have been superseded by the Standard Operating Procedures, which are in the process of be reviewed and have not yet been formally agreed with BT. (A recommendation has been raised).
- The three councils have developed a "Pension Administration Strategy" document and it reflect roles and responsibility between the Administrating Authority and the Employers. However, these have not formally been approved by RBKC and WCC. (A recommendation has been raised).
- On examining a sample of 60 retirement grants (20 from each of the three councils) the grants calculated were found to be accurate and complete to ensure the lump sum payments (1/80th) were correctly calculated. An in depth reconciliation and calculations were undertaken in the following areas and no significant issues were identified:
 - Post 65 retirement;
 - Early Retirement reduction;
 - Annual pension reduction (to obtain larger lump sum) & additional annual increase in lump sum;
 - The multiplier agreed with LGE scale;
 - Pension increase due to inflation since deferred / frozen.
- On examining a sample of 30 deceased pensioners (10 from each council) it was found that;
 - All had valid death certificate.
 - The two death in service were correctly calculated; and
 - All the remaining had appropriate calculations and correspondence.
- According to the reports provided by SCC it was identified that RBKC had no Transfers "In" during 2015/16 or this year up to September 2016. Westminster City Council had one Transfer in 2015/16 and only one transfer in to September 2016. In the case London Borough of Hammersmith & Fulham no transfers in 2015/16 and four up to September 2016.

However, these figures do not reflect the actual Transfers In, as according to SCC the transfers have been on hold since April 2015 due a combination of technical issues and awaiting for new government Actuary Department's delayed guidelines for calculating Transfers. In October 2016 audit were informed that SCC are now working through them. However, Audit were unable to identify whether what numbers are involved and what progress is being made as no exemptions reports were provided by SCC to verify or test this area. (A recommendation has been raised).

- BT is required to provide to the Pension Administrators of the three Councils (SCC) a year end file and monthly starters, leavers and change files. The year-end file is statutory obligation and has been blighted by data errors and a series of agreed deadlines that have been missed by BT for the correct data to be provided to SCC. (A recommendation has been Raised).
- BT has failed to provide any monthly files of starters, changes and leavers to SCC from April 2015. BT indicated to the Council's HR services that it is likely to able to supply a monthly file to SCC from May 2017. LGPS scheme member changes / amendments will not be identified until the annual report sent by BT is reconciled by each of the three boroughs. (A recommendation has been Raised).
- SCC is registered member of the Information Commissioner's Office (ICO) and therefore, the controls relating data protection are in compliance with the commissioner's requirements.

4. Acknowledgement

We would like to thank the following members of staff for their time and assistance during the review:

- Operations Manager - Pensions (SCC)
- Pension Services Manager (SCC)
- Business Operations (SCC)
- Bi borough Pensions Manager (LBHF & RBKC)
- Pensions and Payroll Officer (WCC)
- Senior Pensions/Payroll Advisor (WCC)
- HR & Payroll Consultant (LBHF & RBKC)
- HR (LBHF & RBKC)
- Managed Services HR Payroll Project Manager (LBHF & RBKC)

Appendix 1: Management Action Plan

1. Policies, Procedures and Legislations – Procedure Notes

Priority	Issue	Risk	Recommendation
Low	<p>An end to end process map has been developed but has not been formally approved.</p> <p>The Standard Operating Procedures have been produced, which cover the BT element of the process, but they are in the process of being reviewed and have not been formally agreed with BT.</p> <p>The three Councils have developed a “Pension Administration Strategy” and it reflects roles and responsibility between the Administrating Authority and the Employers. However, these have not been formally approved by RBKC and WCC. LBHF’s has already been approved by the Pensions Sub-Committee.</p>	<p>A lack of formalised procedural guidance increases the risk of that a non-standard approach will be used.</p>	<p>To ensure the operational procedures are undertaken correctly and all staff are aware of their formal roles and responsibilities the following documents should be approved by senior management and the relevant partners:</p> <ul style="list-style-type: none"> - The Swim Lanes/ End to End process map - The Standard Operating Procedures (SOPs) - The Pension Administration Strategy document for RBKC and WCC
Management Response			
<p>We will work with the MS ICF team to review the end to end process maps and ensure they are fit for purpose and implemented. This will be implemented within 9 months, the team’s’ priorities are currently on BT data starters, leavers, changes and the production of Annual Benefit Statements.</p> <p>WCC and RBKC do have a draft PAS (Pensions Administration Strategy) which due to other pressures on the retained Pension team has not been finalised and brought before the relevant Pensions Board / Committee. WCC agrees it should have this signed off at the next Board which is currently showing as the 10th July, however we may have to delay the implementation of it until an agreed date, I would suggest 1st September this will allow us time to notify the appropriate parties. RBKC’s Pensions Board has already seen the draft PAS and it is now due to go to the RBKC Investment Committee for approval on 13 September 2017.</p>			

Responsible Officer	Deadline
Heads of HR	31/12/2017

Appendix 1: Management Action Plan

2. Transfers In & Out

Priority	Issue	Risk	Recommendation
High	<p>Due to a delay in receiving guidance from the government's Actuary's Department, transfers in and out of the pension scheme were not processed between April 2015 and late 2016.</p> <p>Although a small sample of transfers were available to review, SCC were unable to provide Audit with details of the number of outstanding requests therefore, Audit could not undertake any substantial testing to verify the accuracy of transfer system and the communications with pension scheme members.</p> <p>Whilst it is noted that the delays in processing transfers was outside of the control of SCC, there was no evidence that appropriate communications were provided to scheme members.</p>	<p>Transfers in are not identified promptly and transfer out values are incorrectly calculated not paid promptly or authorised appropriately</p>	<p>HR Management should ensure that SCC can provide the number of transfer (in and out) requests received and should include performance monitoring on the processing of these as part of the monthly monitoring of the SCC service.</p> <p>Transfer requests should be processed in a timely and accurate manner and where there are delays, clear information should be provided to the individual concerned and copies retained on the SCC system.</p> <p>HR Management should ensure that SCC have appropriate systems & records in place to demonstrate that they informed scheme members of the status of any changes requested.</p>
Management Response			
<p>LGPS transfers in/out are complex and each case is different. Now that the revised GAD regulations have been released to authorities enabling them to calculate transfers. SCC has completed approximately 20% of the backlog for all three boroughs and the KPIs we have in place with Surrey reflect this action and progress being made.</p> <p>We will ensure is that SCC is keeping members informed of the progress of any interfund adjustments. This will be part of our regular service reviews with Surrey.</p> <p>Our Improvement plan with BT is focusing on generating more meaningful end to end data. This report will show the "inputs" being transferred from BT to Surrey and can be added to the "outputs listing" that is already being supplied by Surrey</p> <p>This way, on a monthly basis the administering authority will have:</p> <ol style="list-style-type: none"> i. Inputs from BT (the largest HR/Payroll Provider). ii. Outputs from Surrey – as we have now. Additionally, WCC have requested to receive monthly, rather than quarterly, data reports from Surrey. iii. There is the action to add volumetric data to those Surrey lines that presently do not contain this information. 			

Responsible Officer	Deadline
Heads of HR	01/11/2017 for full resolution (dependant on BT delivery)

3. Starters, Leavers and Amendments

Priority	Issue	Risk	Recommendation
High	<p>BT is required to provide to the Pension Administrators of the three Councils (SCC) with a year-end file.</p> <p>However, the year-end file, a statutory requirement, was not produced by BT in April 2016. BT made several attempts to produce this report but each time the data provided was inaccurate and a series of agreed deadlines for the correct data to be provided were missed.</p> <p>As at April 2017, BT's latest year end file still had a number of errors and as result the Annual Benefit Statements for 300 RBKC, 400 LBHF and 250 WCC scheme members have yet to be issued. HR Management have advised the Pensions Regulator of this issue and have identified a solution which is being worked on during April-May 2017 by the Councils' Pensions Subject Matter Experts and BT.</p> <p>BT has also failed to provide any monthly files of starters, changes and leavers to Surrey County Council from April 2015. BT has indicated to Council's HR services that it is likely to able to supply a monthly file from May 2017.</p> <p>Because of the above issues, it was not possible to undertake any meaningful testing of the completeness of SCC data and so no assurance could be given that the pensions administrator's records were accurate and complete.</p>	<p>Non-compliance with government and Council regulations.</p> <p>Starters, leavers and amendments are not properly recorded.</p>	<p>It is noted that the issues regarding the 2015-16 year-end file and monthly updates from BT are well documented and the Councils actions to correct the errors and achieve an appropriate and accurate level of service from BT are on-going.</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> (a) Full documentation is retained by the Councils' HR teams to support the actions taken to correct the incorrect pension records; (b) Any changes which will impact on the 2016/17 year-end pensions data are verified with BT with due dates agreed; (c) The accuracy of the year-end pensions file for 2016/17 is reviewed in good time prior to the deadline for submission to enable corrections to be processed without delay; (d) If the monthly file of starters and leavers file cannot be provided by BT to SCC when agreed, the Councils should identify what actions are required to address this; (e) Any changes to process, responsibilities or methodology as a result of the correction of the 2015/16 year-end data and the lessons learned must be documented in a timely manner and agreed by the Councils and their service providers (BT and SCC).
Management Response			

All 5 parts of this recommendation cover the approach we must have and we will be ensuring that BT adhere to for the 15/16 and 16/17 EOY files plus the monthly files.

One of the key issues has been the transfer of data (Starters/Leavers/Changes) from the Councils' payroll provider BT to Surrey. There are two interfaces relating to this:

- The year-end interface has been seen before by Surrey and is being updated for comments that have been fed back.
- The Joiners interface has not yet been seen by Surrey.
- Even when these interfaces are live there are still known issues that will not be included within them. These will be "fixed" over the longer term.

Both BT Interfaces to Surrey were expected to be operational by the 31st March. This date has significantly slipped for the Joiners data and we are awaiting a revised timeline from BT. Their first runs, which will be in the 2016/17 financial year, will be for updates not migrated to date.

These interfaces are then due to run monthly. However:

- a. There needs to be confirmation that the interface has run and the data contained in the initial runs is correct.
- b. The Council will ask Surrey once the interface has been run if they are happy with the data and formats to close off the "transaction".
- c. If Surrey are not happy with the outputs, the Council will endeavour to get Surrey and BT into a room together the following week to run through the issues, and set out a quick timescale for when the interface will be fit for purpose and operational, and monitor progress against the revised plan.

There is a separate deliverable relating to BT's failure so far to deliver to the necessary quality in respect of the provision of correct data for the 950 Tri-Borough scheme members who have yet to receive an Annual Benefit Statement (ABS) as well as the provision of corrections to known errors on the original file that was used to issue 2015-16 ABS's in August 2016. This data has been promised by BT for the end of May 2017, which is over one year overdue. Tri-Borough subject matter experts are working closely with BT to ensure that BT delivers these corrections and that the resulting data file meets the necessary quality standards to enable SCC to update scheme members' 2015-16 year-end data accurately.




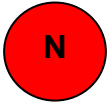
Once live, these interfaces will resolve a number of the problems being experienced at the moment.

Part of this recommendation is caught up in the commercial discussions that are going on so we are dependent on these having a successful outcome

Responsible Officer	Deadline
Heads of HR	01/09/2017 for full resolution (dependant on BT delivery)

Appendix 2: Definition of Assurance Opinions and Recommendation Priorities

In order to help put the audit opinion and recommendation priority ratings in context the following tables detail the current ratings used by Internal Audit.

Rating	Description
	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and no material errors or weaknesses were found.
	While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
	Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.
Priority	Description
High	Recommendation addresses fundamental weaknesses, which seriously compromise the effective accomplishment of the system's objectives. Risks presented by the control weaknesses could be damaging in the short term. The management action required should be implemented as soon as possible, certainly within 0-3 months.
Medium	Recommendation addresses serious weakness, which affect the reliance to be placed on the system. Risks presented by control weaknesses could be damaging in the medium term. Management action is required within 0-6 months.
Low	Recommendation addresses minor weaknesses, or suggests a desirable improvement. Risks presented by control weaknesses are unlikely and inconsequential. Management action is recommended to address concerns within 0-9 months.

Appendix 3: Audit Scope, Limitations & Inherent Risks

Outline Scope		
Ref	Audit Area	Coverage
01	Policies, Procedures and Plans	Staff act consistently in compliance with legislative and management requirements. The Council receives on-going assurance that SCC have adequate and up-to-date service continuity provision.
02	Starters, Leavers and Amendments	Starter, leaver and amendment forms are accurately completed in a timely manner. Starter, leaver and amendment forms are appropriately authorised by delegated officers, and updated on Surrey County Council system, in a timely manner.
03	Transfers	Transfer in and out payments are appropriately calculated and authorised prior to being processed.
04	Payment of Pensions	Only valid and accurate pension payments are made and this is in a timely manner; including lump sum payments & initial pension, payment due to deceased members, spouse's Pension, refunds of contributions and deferred benefits; as well the annual updating exercise to pension rates.
05	Access Controls and Data Transfer	Adequate access controls are in place to ensure staff have unique usernames and passwords which are changed on a regular basis. Only valid data is transferred to SCC and this data is transferred in a complete, accurate and timely manner.

Limitations to the Scope of the Audit

The limitations to the scope of the audit

- The work will be undertaken using a risk based approach and testing will be on a sample basis to verify compliance;
- The audit will not include testing Additional Voluntary Contributions;
- The audit will exclude the Teacher's Pension Scheme arrangements; and
- The audit review will not provide absolute assurance that material error; loss or fraud does not exist.

Inherent Risks

The risks listed below are **potential** inherent risks which are common for any system of this type:

- Non- compliance with government and Council regulations.
- Starters, leavers and amendments are not properly recorded.
- Transfers in are not identified promptly and transfer out values are incorrectly calculated not paid promptly or authorised appropriately.
- Pension payments are not made to legitimate pensioners.
- Deceased pensioners are not identified promptly.
- Management does not monitor risks on a regular basis.
- Data transferred to Surrey County Council (SCC) is invalid, out of date incomplete or inaccurate.
- All key accounts are not subject to appropriate reconciliations to ensure data integrity.
- All data held by SCC is not kept securely.
- Fund members are not communicated with in accordance with legislation

Appendix 4: Timetable and Distribution List

It is the responsibility of the auditee to ensure identify all officers that should receive a copy of this report.

Stage	Date
Exit Meeting / End of Fieldwork	18 April 2017
Draft Report Issued	27 April 2017
Responses Received	15/05/2017
Final Report Issued	15/05/2017

Audit Team
Senior Audit Manager:
Senior Auditor:
Sponsor
Debbie Morris (Shared Services Director for Human Resources for RBKC & LBKF)
Lee Witham – Director of People Services (WCC)

Copy recipients:

- Pensions Manager LBHF & RBKC
- Pensions / Payroll Officer WCC
- Senior Pensions/Payroll Advisor WCC
- Director of Human Resources
- HR & Payroll Consultant LBHF & RBKC
- Managed Services HR Payroll Project Manager LBHF & RBKC
- ICF Manager WCC
- ICF WCC

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Recommendations for improvements should be assessed by management for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

This report is prepared solely for the use of Audit Committees and senior management of the London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea and Westminster City Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.