

# **SURREY COUNTY COUNCIL INTERNAL AUDIT REPORT**

<p><b>Review of Pension Administration</b></p> <p><b>2013/14</b></p>
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**Additional circulation list:**

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Chairman of the Council Overview and Scrutiny Committee	Nick Skellet
Risk and Governance Manager	Cath Edwards
Audit and Governance Committee	All
External Auditor	Grant Thornton UK LLP

**Glossary:**

SCC - Surrey County Council

LGPS - Local Government Pension Scheme

Altair - SCC Pensions Administration Software

SAP - Surrey County Council Accounting Software

**Audit opinions:****Effective**

Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.

**Some Improvement Needed**

A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.

**Major Improvement Needed**

Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.

**Unsatisfactory**

Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

## 1. INTRODUCTION

- 1.1 Local Government Pension Scheme (LGPS) is one of the largest public sector pension schemes in the UK with 4.6 million members. It is a nationwide scheme that is considered to be a valuable part of the pay and reward package for employees working either in local government or other employers participating in the scheme.
- 1.2 The Surrey Pension scheme is administered locally for participating employers through 99 regional pension funds in the country and the Surrey Pension Fund administered by Surrey County Council (SCC) is one of them. Pension payments in 2012/13 had an annual cost of £94m to over 20k pensioners. The Local Government Employers who work with local authorities, regional employers and other bodies to lead and create solutions on pay, pensions and the employment contract, provide a National LGPS website on their behalf.
- 1.3 The Surrey Pensions Fund has a membership of 75,851 consisting of 30,023 current employees, 28,256 deferred pensioners and 20,572 pensioners as shown in the Surrey Pension Fund 2012/13 Annual Report.
- 1.4 Legislation was introduced in the Pensions Act 2008 to encourage people to save for their retirement. All employers in the UK are required to automatically enrol their workers into a workplace pension subject to the individuals meeting certain requirements. Surrey County Council being one of the largest employers was allotted an automatic enrolment date of 1 April 2013. The other 120 employers in the Surrey Pension Fund will have their own staging dates according to the number of employees they employ spanning from April 2013 until October 2017. In addition the Pensions team manages the pension records for the Firefighters' Pension Scheme.
- 1.5 A review of Pension Administration was included as part of the 2013/14 Annual Internal Audit Plan and was undertaken in line with the Terms of Reference included at Annex A. This report sets out the findings of the review.

## 2. WORK UNDERTAKEN

- 2.1 Discussions were held with key staff associated with the day-to-day operations of the scheme. The systems in operation were reviewed. Documents were examined and a sample of members in the scheme selected for audit testing purposes.
- 2.2 Testing was carried out to provide assurance regarding lump sum payments, independent reconciliation of pension contributions, segregation of duties and the auto enrolment process.

## 3. OVERALL AUDIT OPINION AND RECOMMENDATIONS SUMMARY

- 3.1 **Opinion:** The findings of the audit support the audit opinion of: **Effective**
- 3.2 Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
- 3.3 **Recommendations analysis:** There were no recommendations arising from this review.

#### 4. MANAGEMENT SUMMARY

- 4.1 On 1 April 2013, all Surrey County Council employees who were not already members of the LGPS were automatically enrolled into the pension scheme, subject to meeting the following criteria;
- earn over £9,440 a year
  - aged 22 or over and
  - under the State Pension age.
- 4.2 Prior to automatic enrolment SCC had a total of 19,743 employees in the LGPS. 1,652 eligible employees were auto enrolled on 1 April 2013 of which 642 employees have since opted out. Testing suggests auto enrolment is appropriately administered.
- 4.3 No significant findings have been identified during the course of this work. The controls over pension administration for both Surrey LGPS and fire fighters in Surrey Pension Scheme payment and accounting are evaluated as adequate, appropriate and effective.
- 4.4 In view of the findings of the Internal Audit review, which are set out in more detail in section 5 below the audit opinion is: **Effective**.

#### 5. FINDINGS

##### Deduction Rates

###### Findings

- 5.1 The information relating to deductions from payroll is held on SAP, the County's accounting and payroll system. Deductions of pension contributions are coded and automatically calculated by SAP for SCC employees. Data, including contribution rates is interfaced from SAP to Altair.
- 5.2 A sample of 15 individuals' contribution rates, five from the fire service and 10 from the rest of SCC were tested to confirm that the correct rate of deduction had been applied. Testing identified one employee who commenced employment in January 2014 that has a SAP payroll record but no record on Altair. Discussions with the Pension Administration officers indicate this is due to timing of the interface. This will be processed in the next monthly interface from SAP.

##### Checking and Authorisation in the Pensions Administration Team

###### Findings

- 5.3 The auditor examined a sample of 13 transactions including pension changes, lump sum payments and transfers to confirm that changes are subject to satisfactory checking and authorisation prior to final processing. All vouchers are duly authorised, three separate officers are assigned responsibility for the preparing, checking and authorising of payments. A segregation of duties and authorisation process prior to payment is in operation and evidenced. Copies of payment calculations and the associated approval are saved in Altair against the individuals' records.

## Pension Fund Transfers and Payments

### Findings

- 5.4 A sample of ten new pensioners were tested to confirm that consistent checks are made on new starters and to ensure accuracy of data between SAP and Altair. A 'New Starter Checklist' has been completed for nine records and data was accurate between the systems.
- 5.5 The auditor found one new pensioner had not been set up on Altair. The individual is entitled to a widow's pension under the 1954 Pension Scheme Regulations. Altair is unable to automatically complete the calculations to create a record. This type of pension is a rare occurrence and the record will be created manually by a Pension Administration officer.
- 5.6 The results provide assurance regarding the accuracy of pension data between the two systems.

## Change in Working Hours

### Findings

- 5.7 The auditor tested a sample of five individuals who had changed their working hours during the course of 2013/14 to ensure the changes had been correctly recorded on SAP and Altair. Testing identified two records where the working hours recorded were inconsistent between the systems. However, the auditor is assured that inconsistencies are identified and updated when the change of hours interface from SAP to Altair is processed. Further checking is undertaken by the Pension Administration team at year end including checks on leaver status, pensionable pay to contributions and working hours history identifying any unusual changes in employee working hours.

## Auto-enrolment

### Findings

- 5.8 On 1 April 2013, all Surrey County Council employees who were not already members of the LGPS were automatically enrolled into the pension scheme, subject to meeting the following criteria;
- earn over £9,440 a year
  - aged 22 or over and
  - under the State Pension age.
- 5.9 Prior to automatic enrolment SCC had a total of 19,743 employees in the LGPS. 1,652 eligible employees were auto enrolled on 1 April 2013 of which 642 employees have since opted out.
- 5.10 The auditor tested a sample of 10 individuals who have opted out of the Pension scheme. All 10 records agreed between Altair and SAP providing assurance that individuals who have opted out are correctly recorded on Altair and deductions are not made from the payroll.

- 5.11 Employee services undertake a monthly manual exercise to identify individuals who meet the automatic enrolment requirements. The information is held on a spreadsheet which is uploaded onto Altair by the Pension Administration team to ensure auto enrolment is processed on a rolling basis. The auditor extracted a SAP report of individuals who had reached the eligibility criteria for auto enrolment since 2 April 2013.
- 5.12 A sample of 5 individuals were tested to provide assurance the process is accurately identifying individuals to auto enrol into the LGPS. All records tested were either enrolled in the pension scheme or had opted out.
- 5.13 The auto-enrolment process is to be repeated every three years with eligible post holders including those who have previously opted out of the scheme, being auto enrolled again. For SCC this will be on 1 April 2016.
- 5.14 A revised LGPS will be implemented with effect from 1 April 2014. The new LGPS will be a Career Average Revalued Earnings scheme with an accrual rate of 1/49th and a revaluation rate of Consumer Prices Index. This area will be included as part of the Audit Plan for 2014/15.

## **6. ACKNOWLEDGEMENT**

- 6.1 The assistance and cooperation of all the officers involved in the completion of this audit is greatly appreciated.

## **TERMS OF REFERENCE**

### **Review of Pension Administration 2013/14**

#### **BACKGROUND**

Local Government Pension Scheme (LGPS) is one of the largest public sector pension schemes in the UK with 4.6 million members. It is a nationwide scheme that is considered to be a valuable part of the pay and reward package for employees working either in local government or other employers participating in the scheme. The scheme is administered locally for participating employers through 99 regional pension funds in the country and Surrey Pension Fund (SPF) administered by Surrey County Council (SCC) is one of them. The Local Government Employers (LGE) who work with local authorities, regional employers and other bodies to lead and create solutions on pay, pensions and the employment contract, provide a National LGPS website on their behalf.

#### **PURPOSE OF THE AUDIT**

The main objective of this review is to ascertain and provide assurance on whether or not the internal controls in place for the administration of pension contributions and payments are sufficiently robust.

The review will determine the adequacy of specific controls in the following areas:

- arrangements in place for setting up new joiners to Surrey's LGPS and the Surrey Fire Pension scheme;
- the deduction of contributions for both schemes;
- monitoring the receipt and accounting for pensions contributions from SCC and admitted bodies;
- the transfer of data changes from SAP to ALTAIR;
- checking and authorising the various changes to and payment of pensions by the Pensions Administration Team;
- the accuracy of information being transferred between Altair and SAP systems;
- arrangements for making amendments to records in the Pension System (Altair) and the pension payroll (SAP);
- the authorisation of the BACs runs

#### **WORK TO BE UNDERTAKEN**

The audit included annual testing required for Internal Audit's own assurance providing responsibilities on the sound operation of key financial controls.

#### **OUTCOMES**

The findings from this review will form a report to Surrey County Council management with an overall audit opinion on the effectiveness of systems in place and recommendations for improvement if required. Subject to availability of resources, and the agreement of the auditee, the audit will also seek to obtain an overview of arrangements in place for:

- Data quality and security;
- Equality and diversity;

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- Value for money;
- Business continuity; and
- Risk management

The outcome of any work undertaken will be used to inform our future audit planning processes and also contribute to an overall opinion on the adequacy of arrangements across the council in these areas.

### **REPORTING ARRANGEMENTS**

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Supervisor:	Diane Mackay, Performance Manager
Report to:	Carmel Millar
Audit Ref:	KF20 / 2013/14