



# Business Assurance and Risk Management

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## Pension Fund Administration - FINAL

### **Auditors**

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## Management Summary

### Introduction

The Pension Fund Administration audit is being undertaken as part of the 2022/23 Internal Audit plan. The pension administration processes for Buckinghamshire and Milton Keynes Fire Authority (BMKFA) are carried out by an external service provider, West Yorkshire Pension Fund (WYPF). WYPF utilise an internally developed pension system called UPM to manage the pension administration process, maintain member profiles and record invoices for overpayments.

Following a tendering exercise undertaken in October 2015, the Authority moved the administration of the firefighters' pension schemes from Buckinghamshire County Council (as was) to WYPF in January 2016. The contract was awarded for 65 months (5 years and five months) and extended for three years in 2021.

### Audit Objective

Internal Audit's objectives for this audit are

- To provide an evaluation of, and an opinion on, the adequacy and effectiveness of the system of internal controls that are in place for the creation, management and outputs of the Authority's Pension Fund Administration.
- To provide assurance that there are adequate arrangements in place that ensure achievement of the programme goals, effective management and reporting of the progress and risks for all projects being delivered across the Authority.

This will serve as a contribution toward the overall opinion on the system of internal control that the Chief Internal Auditor is required to provide annually. It also provides assurance to the Section 112 officer that financial affairs are being properly administered.

### Scope of work

It should be noted that the provider (WYPF) received their audit, and we have received a copy of the audit report. However, we have not placed reliance in that report. The agreed scope of this audit was:

- Policies, Procedures and Training
- System Access, Data Security, and Integrity
- Service Level Agreement with External Customers
- Opt-in/out and Transfers
- Employee and Employer Contributions
- Reconciliations
- Performance Monitoring
- Risk Management and Fraud Risks

This audit only considered the controls in place at the time of the audit.

**Table 1: Overall Conclusion**

Overall conclusion on the system of internal control being maintained	<b>Substantial</b>
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RISK AREAS	AREA CONCLUSION	No. of High Priority Management Actions	No. of Medium Priority Management Actions	No. of Low Priority Management Actions
Policies, Procedures and Training	Substantial	0	0	0
System Access, Data Security, and Integrity	Substantial	0	0	0
Service Level Agreement with External Customers	Substantial	0	0	0
Opt-in/out and Transfers	Substantial	0	0	0
Employee and Employer Contributions	Substantial	0	0	0
Reconciliations	Substantial	0	0	0
Performance Monitoring	Substantial	0	0	0
Risk Management and Fraud Risks	Substantial	0	0	1
<b>Total</b>		<b>0</b>	<b>0</b>	<b>1</b>

Appendix 1 defines the grading for each of the conclusions given.

## **Policies, Procedures and Training**

Six policies, procedures, and statements are related to Buckinghamshire's Pension Fund (BPF) Administration. These are:

- The BPF Administering Authority Discretionary Policy,
- BPF Communication Policy Statement,
- BPF Data Improvement Plan,
- BPF Governance Compliance Statement,
- BPF Pension Administration Strategy and Charging Schedule and
- BPF Reporting Breaches of Law Policy.

The LGPS Regulations 2013 and subsequent amendments govern how the pension scheme is administered. We confirmed that all six are available on the Council's website. Following the LGPS Regulations 2013, the administering authorities are required to develop a pension administration strategy to define the following:

- The procedures for liaison between administering authority and participating employers.
- The required performance levels for both the administering authority and participating employers and action to be taken where targets are not met.

We confirmed that the Council developed a Pension Administration Strategy. However, the latest version published on the Council's website is dated July 2020 and updates were made to the LGPS Regulations in 2021. Therefore, the Strategy should be reviewed to reflect any changes and ensure it is up to date. The BMKFA Pensions Officer indicated that the Council administers policies and procedures and that the Fire Authority is not involved in reviewing or updating the policies. Therefore, a recommendation was not raised.

We also confirmed that there are a number of local procedural guidance documents for BMKFA staff to process transactions relating to pension in a correct, complete, and timely manner. This is done via the 'iConnect' system, a secure platform that automates the submission of LGPS pensions data. Process notes are also provided by WYPF for training on calculations, checking data and uploading files to WYPF.

When relevant updates are made to legislation, trends and the service, staff are made aware through intranet articles. During our fieldwork, we confirmed that the most recent communication was relevant to the Annual Benefits Statement (ABS) for 2022, published in September 2022. Also, the Council's team offered a training session and advertised twice on the Authority's intranet. However, there were no opt-ins to the drop-in training.

## **System Access, Data Security, and Integrity**

Pension-related information is pulled from iTrent (the Authority's payroll system). This is then uploaded onto iConnect and sent to the Council concerning pension contributions. The Authority's Pensions Officer indicated that only three staff members have access to iConnect. These are the Pensions Officer, the Payroll Officer at the Authority, and the Council's Pensions System Controller. This was confirmed by reviewing a report listing users and relative system access. We also confirmed that accounts are password protected.

We noted that the iConnect system guidance document does not stipulate the frequency of which passwords must be renewed. The Pensions Officer indicated that iConnect system admin rights (including password changes) sit with the Council. The Fire Authority do not have any control or input on the guidance against

how frequently passwords should be updated. Although we have not raised a finding, the Authority could liaise with the Council's Pensions System Controller to assess whether admin rights could be granted to the Authority to enforce password updates.

### **Service Level Agreement with External Customers**

Following a tendering exercise undertaken in October 2015, the Authority moved the administration of the firefighters' pension schemes from Buckinghamshire County Council (as was) to WYPF in January 2016. The contract was awarded for 65 months and extended for a further three years in 2021, covering May 2021 to May 2024.

A Service Level Agreement (SLA) is in place between the Council and other employers, which runs coterminous with the Council's financial year. This year's commenced on 1 April 2022. The agreement states that 'the 2022 version of the SLA incorporates changes to previous versions, resulting from changes to the LGPS Regulations and internal processes'.

Among others, the SLA includes the following areas:

- New entrants,
- Opt-outs,
- 50/50 section,
- Reduction in Pay,
- Changes,
- Monthly Contributions,
- Year-end Return,
- Additional Contributions,
- Absences,
- Change of Payroll Provider,
- Estimates,
- Leavers and Retirement Death in Service.

### **Opt-in/out and Transfers**

The government requires that all employers provide a workplace pension scheme and automatically enrol employees who meet their criteria. This is called 'automatic enrolment', and a form is not required to enrol the eligible employees on the scheme. However, the employees must sign an opt-out form to be removed from the scheme.

At the Authority, the Payroll team automatically enrolls all new joiners eligible for the pension scheme. We obtained a report listing all staff at the FA and their respective pension status. This report lists all staff at the Authority and identifies those who opted out (more details below) and those who are not eligible for auto-enrolment, such as those earning less than £10k per annum or agency staff.

We confirmed that the remaining staff is listed in the report with detailed pension IDs. Additionally, there is a three-year auto-enrolment requirement for all eligible staff members to be re-enrolled into the pension scheme. BMKFA are undergoing an auto-enrolment in November 2022, per the three-year requirement. The

previous auto-enrolment was undertaken in November 2019. As part of this previous exercise, we obtained evidence of an email sent to a staff member in December 2019 informing them of re-enrolment into the pension scheme.

Individuals who meet the criteria for auto-enrolment can opt out of the scheme by completing the opt-out form. We obtained a report of all individuals who opted out of the pension scheme as of October 2022. There were 10 instances in total. From this, we selected a sample of five employees and confirmed evidence was retained on file of the completed opt-out form. We additionally confirmed through a review of payslips that they opted out promptly, and four employees paid no contributions in the following month.

One of the individuals tested opted out in June 2022 and the request was processed in July. As the employee was in the scheme for under three months, the Authority's Payroll Team refunded their pension contributions, not WYPF. This was evidenced on their payslip as back pay. I-Trent does not have this option on the system, so the Payroll team refunded the contribution using a different function.

The Pensions Officer indicated that, apart from the opt-in and opting-out of staff members, all other administration is undertaken by WYPF. Therefore, there is no specific report of all transfers in and out and adjustments for the last 12 months.

### **Employee and Employer Contributions**

Reconciliations are undertaken monthly by the Pensions Team at the Authority between the contributions calculated from iConnect and the payment request from WYPF.

We selected a random sample of 12 employees from November 2021 to April 2022. For each case, we confirmed that the employee contribution calculated from iConnect reconciled with the amount paid by the employee in their monthly payslip.

Additionally, we confirmed that the contribution amounts for each employee sampled are in line with the SLA LGPS Contribution table percentages.

### **Reconciliations**

The BMKFA's Pensions Team also undertake monthly reconciliations between iConnect reports and the amounts required from LGPS. Any differences are noted and investigated.

We obtained evidence of the reconciliations completed between November 2021 to April 2022. We confirmed that reconciliations and spot checks are undertaken monthly. iConnect reports from February, April and May 2022 all reconcile with the amounts requested from LGPS.

The March, June and July 2022 reports pulled from iConnect did not reconcile with the amounts requested from LGPS. Differences between the employees' main contribution, employer's contribution and pensionable pay were highlighted and investigated within the iConnect reports with no apparent subsequent issues.

### **Performance Monitoring**

Under the Service level agreement between BCC and WYPF, it is stated that the performance of the service shall be measured against obligations, standards, targets and benchmarks relevant to the provision of service.

Within two months before the beginning of each Contract year, WYPF will prepare an annual contract review containing an analysis of the service provided and an action plan setting out future measures in response to the review. The BMKFA Fire Fighters Local Pension Board meet monthly to discuss WYPF performance against KPIs, declarations of interest, risk management/register updates and actions from the action log.

BMKFA's Local Pension Board meeting minutes from March 2022 to August 2022 were obtained. It was noted that KPIs for WYPF are reviewed at every meeting.

The meeting minutes were reviewed alongside monthly reports provided by WYPF, which list the specific KPIs and the number of targets met/not met. There were issues in July 2022 where Pension Set Up/Payment of Lump Sum, Retirement Actual and Deferred Benefits Set Up on Leaving did not reach their targets. This was highlighted in the following Pension Board meeting. However, we noted a lack of scrutiny around discussions relevant to the failed KPIs in the minutes reviewed. We were informed that discussions concerning improving KPIs occur. However, the minutes viewed do not evidence this. **(Recommendation 1)**

### **Risk Management and Fraud Risks**

The Overview and Audit Committee on 20 July 2022 presented the corporate risk register to be reviewed and approved. Before this, the Corporate Risk Register was last reviewed by the Overview and Audit Committee at its 16 March 2022 meeting. Since then, it has been subject to review by the Performance Monitoring Board (PMB), at which all the directorate and departmental risk registers were reviewed, and by SMB at its monthly meetings.

Also, Lead Members were consulted during the evaluation process for risks falling within their portfolios of responsibility. The risk register was updated to reflect ongoing monitoring of staffing and financial risks associated with Court rulings concerning firefighter pension schemes.

The risk of the potential impact on staff retirement profile, resourcing to implement changes, and financial impacts due to the Court of appeal ruling have been identified. There are two risk owners, the Lead Member for Finance and Assets and the Information Security & IT Director for Finance & Assets.

The Current treatment is to factor the potential impacts on costs into the future Medium-Term Financial Planning Process and recruitment of dedicated specialist resources to evaluate requirements arising from the Court of Appeal ruling and implement necessary administrative changes. The consequences of the risk being untreated have been documented, and a risk score has been assigned. Compared to the former risk score, the score has decreased in light of the measures taken. Comments, updates and further treatment proposed have been illustrated within the register.

### **Addition of Starters and Removal of Leavers on the pension system**

We selected a sample of eleven starters, for April, May, and June 2022 and reviewed screenshots from the pension portal and confirmed that they had been enrolled on the pension system.

We selected a sample of five leavers to confirm that in each instance a leaver form had been signed off to process their departure and we noted the following:

- We were provided with evidence to confirm that in two cases the leavers had leaver forms completed by Pension Officer.
- Management indicated that in one case the leaver was not entitled to be in the pension scheme as they were on a casual contract.
- In the remaining two cases, management indicated that the employees are part of the Local Government Pension Scheme (LGPS), so no leaver forms are required by the fund. A leaving date on the monthly return is all the Bucks LGPS fund requires. We reviewed the monthly returns and noted that the payroll period end date was 30 April 2022 for these employees.

## Table 2: Detailed Audit Findings and Management Action Plan

Finding 1: Performance Monitoring/KPIs	Risk Rating	Agreed Management Actions
<p>We reviewed the controls around performance monitoring of the service provided by WYPF. We noted that WYPF provides monthly updates to the Authority, and KPIs and performance are discussed as a standing item at each Pension Board meeting.</p> <p>There were issues in July 2022 where Pension Set Up/Payment of Lump Sum, Retirement Actual and Deferred Benefits Set Up on Leaving did not reach their targets. This was highlighted in the following Pension Board meeting. However, there is a lack of evidence concerning scrutiny and challenge within minutes. In addition, no review of whether KPIs are still fit for purpose or whether they should be amended has taken place.</p> <p>If KPIs are not scrutinised in detail, and this is documented in minutes, there is a risk that any underperformance is not being rectified in time. This could lead to continuous poor performance, which could impact the Authority's reputation and/or create financial loss.</p>	<p><b>L</b></p>	<p>A review of the current KPI's with WYPF at the Pension Board to ensure they are fit for purpose. These KPI's will be scrutinised and challenged by the board and minutes documented.</p> <p><b>Officer responsible:</b>                      Pension Officer (Emma Hamilton)</p> <p><b>Date to be implemented by:</b>                      31 December 2023</p>



## Appendix 1: Definition of Conclusions

### Key for the Overall Conclusion:

Below are the definitions for the overall conclusion on the system of internal control being maintained.

	Definition	Rating Reason
<b>Substantial</b>	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	<p>The controls tested are being consistently applied and risks are being effectively managed.</p> <p>Actions are of an advisory nature in context of the systems, operating controls and management of risks. Some medium priority matters may also be present.</p>
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Majority of actions are of medium priority but some high priority actions may be present.</p>
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	<p>There is an inadequate level of internal control in place and/or controls are not being operated effectively and consistently.</p> <p>Actions may include high and medium priority matters to be addressed.</p>
<b>No Assurance</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	<p>The internal control is generally weak/does not exist. Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Actions will include high priority matters to be actioned. Some medium priority matters may also be present.</p>

Management actions have been agreed to address control weakness identified during the exit meeting and agreement of the Internal Audit report. All management actions will be entered onto the Pentana Performance Management System and progress in implementing these actions will be tracked and reported to the Strategic Management Board and the Overview & Audit Committee.

We categorise our management actions according to their level of priority:

Action Priority	Definition
High (H)	Action is considered essential to ensure that the organisation is not exposed to an unacceptable level of risk.
Medium (M)	Action is considered necessary to avoid exposing the organisation to significant risk.
Low (L)	Action is advised to enhance the system of control and avoid any minor risk exposure to the organisation.

## Appendix 2: Officers Interviewed

### The following staff contributed to the outcome of the audit:

<b>Name:</b>	<b>Title:</b>
Asif Hussain	Deputy Director of Finance and Assets
Marcus Hussey	Principal Accountant (Technical Accounting)
Laura Taylor	Principal Accountant (Management Accounting)
Emma Hamilton	Pensions Officer

### The Exit Meeting was attended by:

<b>Name:</b>	<b>Title:</b>
Asif Hussain	Deputy Director of Finance and Assets
Emma Hamilton	Pensions Officer

We are grateful for the cooperation and assistance provided from all the management and staff who were involved in the audit. We would like to take this opportunity to thank them for their participation.

## Appendix 3: Distribution List

### Draft Report:

Mark Hemming	Director of Finance and Assets
Asif Hussain	Deputy Director of Finance and Assets
Laura Taylor	Principal Accountant (Management Accounting)
Marcus Hussey	Principal Accountant (Technical Accounting)

### Final Report as above plus:

Jason Thelwell	Chief Fire Officer
Ernst and Young	External Audit

### Audit Control:

Closing Meeting	14 October 2022
Draft Report	9 December 2022
Management Responses	7 February 2023
Final Report	8 February 2023

## Disclaimer

Any matters arising as a result of the audit are only those, which have been identified during the course of the work undertaken and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that could be made.

It is emphasised that the responsibility for the maintenance of a sound system of management control rests with management and that the work performed by Internal Audit Services on the internal control system should not be relied upon to identify all system weaknesses that may exist. However, audit procedures are designed so that any material weaknesses in management control have a reasonable chance of discovery. Effective implementation of management actions is important for the maintenance of a reliable management control system.

### Contact Persons

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