

OFFICIAL - SENSITIVE

**OXFORDSHIRE COUNTY COUNCIL
INTERNAL AUDIT SERVICES**

**FINAL INTERNAL AUDIT REPORT
TO DIRECTOR OF FINANCE**

PENSIONS ADMINISTRATION 2021/22

Date Issued: 22 February 2022

This report is strictly private and confidential as it may contain details of weaknesses in internal control including financial controls which if this information were to be available to unauthorised persons would create a greater exposure to the risk of fraud or irregularity. This report is not for reproduction publication or disclosure by any means to unauthorised persons.

MANAGEMENT SUMMARY

Introduction

This audit of Pensions Administration was undertaken as part of the 2021/22 Internal Audit plan, agreed by the Director of Finance and approved by the Audit & Governance Committee. The audit was undertaken during the third quarter of 2021/22.

The audit has been conducted in conformance with the Public Sector Internal Audit Standards.

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 to manage and mitigate financial and non-financial risks of the system. This will serve as a contribution towards the overall opinion on the system of internal control that the Chief Internal Auditor is required to provide annually to the Council, and also as an assurance to the Section 151 officer that financial affairs are being properly administered.

Scope of work

The audit activity focussed on the following key risk areas relating to Pensions Administration:

Regulatory Framework: The audit reviewed the controls in place to ensure the Pensions Administration Team are able to keep up to date with and meet regulatory and legislative requirements and considered how staffing levels and training processes are managed to ensure the timely and accurate completion of Pensions Administration processes. Testing also included review of performance reporting and governance arrangements.

Scheme Member Lifecycle: Sample testing was completed on key administration tasks to confirm that they are being completed accurately and on a timely basis, arrangements for ensuring appropriate segregation of duties were also considered.

Scheme Employers: Testing considered the processes in place to ensure that the correct contributions are collected from scheme employers and members and that payments out are made promptly and accurately. No detailed testing was completed in relation to the timeliness of the set-up of new scheme employers, particularly in terms of delays in notification of TUPE or organisational restructures.

Debtor Management: Testing considered the arrangements in place for the monitoring, follow up and recovery of Pensions debts including review of arrangements for the follow up and resolution of matches identified as part of the National Fraud Initiative (NFI).

Overall Conclusion

Overall conclusion on the system of internal control being maintained	G
--	----------

RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
A: Regulatory Framework	G	0	0
B: Scheme Member Lifecycle	A	0	3
C: Scheme Employers	G	0	0
D: Debtor Management	A	0	2
		0	5

Appendix 1 provides a definition of the grading for each of the conclusions given.

Overall, audit testing found that controls and processes in relation to Pensions Administration are strong and working well.

Whilst there have been some resourcing issues which have meant that temporary changes to SLA targets have been needed, performance is now improving and standard SLA targets will be back in place from the start of the new financial year. There have also been some delays in completing vetting checks on scheme employer data, however these are being managed, monitored and reported on regularly. It is expected that all checks required will have been completed in time for year end processes.

There have been delays in the implementation of the Administration to Pay system. Three of eight areas have now been implemented, with the other five due to have been implemented by the end of January 2022. This timetable has slipped, and the project has been put on hold whilst the team complete the strategic planning process which will cover future developments and projects including the implementation of the remaining parts of Administration to Pay. It is intended that this process will introduce strengthened governance which will increase scrutiny and oversight in terms of delivery, and will look at resourcing and timescales to ensure successful implementation.

The Payjour reporting and sign off process, which demonstrates that there has been sufficient review of activities completed in running the pensions payroll by those officers with the highest levels of system access rights, is currently stalled due to technical difficulties in running the report.

There were some improvements in debtor management and debt recovery over the year. Following the successful recruitment of an Office Administrator, with responsibility for debt monitoring and recovery, outstanding debts were followed up between August and October 2021. Unfortunately, following the resignation of the Office Administrator in late 2021, these processes have paused while recruitment of a replacement is progressed.

Follow up – of the three actions followed up on as part of this audit (two from 2020/21 and one from 2019/20), one had been reported as fully implemented but was not found to have been effectively implemented and two have been partially implemented. Where appropriate, re-stated or revised actions have been agreed within this report. Where implementation is ongoing and the original action is still relevant, Internal Audit will continue to monitor implementation through the standard audit follow up process.

DETAILED AUDIT FINDINGS AND ACTION PLAN

Management actions have been agreed to address control weakness identified during the exit meeting and agreement of the draft Internal Audit report. All management actions will be followed up by Internal Audit to confirm implementation. The progress of implementation will be reported to the Audit Working Group, who report to the Council’s Audit & Governance Committee.

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

Priority 1	Major issue or exposure to a significant risk that requires immediate action or the attention of Senior Management.
Priority 2	Significant issue that requires prompt action and improvement by the local manager.
Supplementary Issues	Minor issues requiring action to improve performance or overall system of control.

	Audit Finding, risk exposure and potential impact	Priority	Management Action
1	<p><u>Scheme Member Lifecycle – Delays in Implementation of Admin to Pay</u></p> <p>The Administration to Pay system has not yet been fully implemented. The aim of this system is to increase the efficiency of pensions administration processes' by automating the flow of information from the pensions administration part of Altair to the pensions payroll part of the system.</p> <p>Delays were initially noted within the 2019/20 Pensions Administration audit report, where it was reported that coding issues had pushed back implementation to July 2020. In the 2020/21 Pensions Administration audit report, it was noted that there was a revised timetable in place with full implementation expected by January 2022.</p> <p>Review of the position as part of this audit has identified that although the first three of the eight areas were reported as having been implemented in February and March 2021, the five other areas (due for implementation between May 2021 and January 2022) have not been implemented. Whilst it has been reported that part of the delay has been due to resourcing, there is a lack of clarity over how the lack of progress in implementation is being</p>	2	<p><u>a) Implementation of Remaining Parts Admin to Pay</u></p> <p>Now that priorities have been identified for the business plan for the year, all other project work (which includes implementation of the rest of Administration to Pay) will be reviewed and timetabled as part of the next stage of strategic planning.</p> <p>Officer responsible:</p> <p>Sally Fox, Pensions Services Manager</p> <p>Date to be implemented by:</p> <p>30 June 2022</p>

Audit Finding, risk exposure and potential impact	Priority	Management Action
<p>addressed, or being monitored and escalated to the Pensions Services Manager to ensure that the rest of the project can be progressed in a timely way. The Pensions Services Manager has reported that it is planned that the rest of the system implementation will be included within the strategic plan that the service are in the process of developing. It is planned that the governance structures within this strategic planning process will enable increased scrutiny and accountability in relation to the delivery of the remaining parts of the system and that it will be easier to identify and address any delays. Resourcing will also be reviewed as part of this process to ensure that there is sufficient resource to deliver the rest of the project within the required timescale.</p> <p>It is acknowledged that the Pension Fund Committee are receiving regular updates on the implementation of the project as part of the Administration Report presented at each meeting.</p> <p>In addition to the delays in implementation of the Administration to Pay system, it was noted that for the areas that have been implemented (IFA / Interfund out, TV / transfers out and refunds) the process for the production and circulation of updated staff guidance has not yet been completed.</p> <p><i>Risk:</i> Where there are continued delays in implementation of projects which are anticipated to improve efficiencies, realisation of these efficiencies may be unnecessarily delayed. This could result in increased and unnecessary pressure on the team in completion of scheme member lifecycle tasks.</p> <p>Where the correct process for the production, agreement and circulation of staff guidance on revised processes is not followed, there is a risk that there could be inconsistent practices. There is also a risk that anticipated efficiencies from the revised processes will not be fully achieved.</p>	<p>2</p>	<p><u>b) Process Guidance to be Produced, Confirmed and Communicated</u></p> <p>For the areas of Admin to Pay that have been implemented, process guidance will be produced and circulated for comment. Once agreed, updated training and guidance will be rolled out.</p> <p>Officer responsible: Chris Thompson, Team Leader Pensions</p> <p>Date to be implemented by: 31 March 2022</p>

	Audit Finding, risk exposure and potential impact	Priority	Management Action
2	<p><u>Scheme Member Lifecycle – Technical Issues with Payjour Report</u></p> <p>Previous audits of Pensions Administration noted control weaknesses in relation to the monitoring of tasks carried out by individuals who have access to both sides of Altair (Administration and Payroll). Management actions were agreed in 2017/18, 2018/19 and in 2020/21 that monthly pay journal ('Payjour') reports would be run, showing all tasks undertaken by the members of staff with this access, and would be reviewed and signed off appropriately to evidence effective segregation of duties in the payroll process.</p> <p>Although the management action agreed following the 2020/21 Pensions Administration audit was reported as having been fully implemented in July 2021, since then it has been reported that it has not been possible to get the report to run which has meant that the reporting process and the relevant checks have not been completed.</p> <p><i>Risk:</i> If review of tasks by individuals with access to both the Administrative and Payroll functions of Altair is not completed on a regular basis, potential errors or issues may not be identified and resolved promptly, with the potential for significant financial loss to the Pension Fund.</p>	2	<p><i>Management action 1 from 2020/21 Pensions Administration report re-worded:</i></p> <p><u>Resolution of Technical Issues in Running of the Payjour Report & Resumption of Monthly Sign Off Process</u></p> <p>The issues preventing the running of the Payjour report will be looked into and resolved.</p> <p>Going forward the Payjour report will be run and reviewed on a monthly basis and will be marked off as completed on the payroll checklist.</p> <p>Officer responsible:</p> <p>Sally Fox, Pensions Administration Service Manager</p> <p>Date to be implemented by:</p> <p>31 March 2022</p>
3	<p><u>Debtor Management - Pensions Debtor Follow Up Processes</u></p> <p>The 2019/20 and 2020/21 Internal Audits of Pensions Administration identified an absence of clear process and action being taken in relation to the monitoring and management of pension fund debts.</p> <p>Following on from last year's audit, an Office Administrator was recruited and was made responsible for the debt management and recovery process within the pensions team. Although debt recovery processes have not been formally documented, debt recovery template letters have been created,</p>	2	<p><i>Management action 4 from 2019/20 Pensions Administration Audit re-worded:</i></p> <p><u>a) Pensions Debt Recovery Resource and Process</u></p> <p>Recruitment of a new Office Administrator is underway. This post will be responsible for debt monitoring</p>

Audit Finding, risk exposure and potential impact	Priority	Management Action
<p>and some debt follow up work was undertaken with first and second stage chaser letters sent out in August and cases escalated to the Pensions Services Manager in October. However, at the end of 2021, the Office Administrator resigned, which has meant that the recruitment process for this post needs to start again and debt recovery monitoring and action has stalled.</p> <p>From review of a sample of cases where follow up action had been undertaken, it was noted that there was a case where the letter sent to the debtor chasing payment stated that no payment had been received and that the full invoice total was now due, when the debtor had been paying monthly instalments for several years. As the Office Administrator is no longer in post, it has not been possible to query this with her, however it is noted that a clear understanding of debt history in a case like this is critical for follow up work to be efficient and effective.</p> <p><i>Risk:</i> A lack of clear and appropriate guidance for the monitoring, follow-up, and recovery of Pension debtors may result in processes not being carried out effectively and appropriately by staff. There is also a risk of financial loss as outstanding amounts due to the Fund may not be recovered.</p>	<p></p> <p>2</p>	<p>and recovery.</p> <p>The process for the monitoring, follow up and recovery of pension fund debts, now established, will be formally documented.</p> <p>Officer responsible: Sally Fox, Pensions Services Manager</p> <p>Date to be implemented by: 31 March 2022</p> <hr/> <p><u>b) Review of Recovery Action Taken to Date</u></p> <p>Prior to the new Office Administrator starting in post, current debts and actions taken so far will be reviewed to ensure that any future recovery action taken is appropriate.</p> <p>All relevant information on debt history will be made available to the new Office Administrator and, where relevant, the history of significant / complex debts will be explained.</p> <p>Officer responsible: Sally Fox, Pensions Services Manager</p> <p>Date to be implemented by: 31 March 2022</p>

APPENDIX 1

Grading:	G	A	R
Conclusion on:			
Overall conclusion on the system of internal control being maintained	There is a strong system of internal control in place and risks are being effectively managed. Some minor action may be required to improve controls.	There is generally a good system of internal control in place and the majority of risks are being effectively managed. However some action is required to improve controls.	The system of internal control is weak and risks are not being effectively managed. The system is open to the risk of significant error or abuse. Significant action is required to improve controls.

APPENDIX 2 – OFFICERS INTERVIEWED

The following staff contributed to the outcome of the audit:

- **Sally Fox, Pension Services Manager**
- **Rachael Salsbury, Technical Manager**
- **Julie Skelly, Team Leader (Pensions)**
- **Chris Thompson, Team Leader (Pensions)**
- **Deione Walton, Senior Pension Fund Investment Officer**

Exit Meeting discussions were held with:

- **Sally Fox, Pension Services Manager**

The auditors 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 – FINAL REPORT DISTRIBUTION LIST

The following staff received an electronic copy of the Final Report:

- **Stephen Chandler, Interim Chief Executive**
- **Lorna Baxter, Director of Finance**
- **Sean Collins, Service Manager Pensions**
- **Sally Fox, Pensions Services Manager**

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

Sarah Cox: Chief Internal Auditor

Email: sarah.cox@oxfordshire.gov.uk

Katherine Kitashima: Audit Manager

Phone: 07393001039

Email: katherine.kitashima@oxfordshire.gov.uk