

The Highland Council

Pensions Committee – 14th November 2013

Agenda Item	3
Report No	PC/14/13

Internal Audit Review of Pension Fund Contributions

Report by the Head of Internal Audit & Risk Management

Summary

This report refers to an audit of Pension Fund Contributions which was undertaken as part of the annual plan for 2013/14.

1. Introduction

1.1 Whilst only the Report Summary and the Action Plan is attached for consideration by Members, it should be noted that full copies of reports are available if requested.

Each Internal Audit report contains an audit opinion based upon the work performed in respect of the subject under review. There are five audit opinions which can be provided:

- (i) **Full Assurance:** There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
- (ii) **Substantial Assurance:** While there is a generally a sound system, there are minor areas of weakness 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.
- (iii) **Reasonable Assurance:** Whilst the system is broadly reliable, areas of weakness have been identified 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.
- (iv) **Limited Assurance:** Weaknesses 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.
- (v) **No Assurance:** 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.

2. Final Report – Pension Fund Contributions

2.1 The attached report has an audit opinion of **Full Assurance** with the conclusion that the Pension Fund contribution system operates in accordance within the Council's Membership criteria and the system is reliable. A few minor discrepancies were noted and 1 low grade priority recommendation has been made which is due to be implemented by 31/10/13.

Recommendation

Members are invited to consider the attached Final Report.

Designation: Head of Internal Audit & Risk Management

Date: 24th September 2013

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Background Papers

AUDIT REPORT SUMMARY

Report Title

Finance Service: Pension Fund Contributions

Report No.	Type of Audit	Issue Date	
HK28/006	Systems	Draft Report	11/09/12
		Final Report	17/09/12

1. Introduction

- 1.1 This audit was undertaken as part of the annual plan for 2012/13. The findings from this audit were included within the annual Pension Fund Statement of Internal Control.
- 1.2 The Highland Council is the Administering Authority for operating the Local Government Pension Scheme Pension Fund. The Fund provides pensions for eligible employees of the Council, Comhairle Nan Eilean Siar, and other Scheduled and Admitted Bodies. As at 31/03/12, in addition to the Council and Comhairle Nan Eilean Siar, there were 14 Scheduled and 25 Admitted Bodies within the Fund.

2. Review Objectives

The objectives of the review were to ensure that:

- 2.1 All employees of the Council, Scheduled and Admitted Bodies are members of the Pension Fund. The contributions from all members of the Fund are received promptly and are properly accounted for.
- 2.2 There are appropriate controls operated over any transfers within the Fund to ensure that they are calculated correctly and these are received or paid promptly.

3. Main Findings

The main findings of the review, referenced to the above review objectives, are as follows:

- 3.1 This objective was substantially achieved. The Pension Fund (PF) membership criteria is set out in the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (the Regulations). Scheduled bodies named in the Regulations have the automatic right of admission, whereas Admitted bodies must submit an application, pay for the assessment undertaken by the Actuary and prove that they meet the Regulations' criteria for admission. Any such applications are also approved by the Pensions Committee.

A report is provided by the PF Actuary detailing the changes to each employer's contribution rate for the next 3 years which is then communicated to all employers. They are also informed at year-end of the employer's contribution rate to be applied for the next financial year and it is their responsibility to ensure that this is correctly applied. A spreadsheet is maintained and updated monthly with details of when employer's contributions are paid, and clearly identifies any missing payments. Review of this showed that reasons were provided for significant differences between the expected and actual employer's contribution rates and all sampled payments were recorded within the Council's financial ledger.

However, 2 minor discrepancies were found:

- The record for 1 employer did not include all dates when their contributions were paid.
 - 4 of the sampled payments were processed on different dates to that stated on the Pensions Section's records.
- 3.2 This objective was fully achieved as controls are in place to ensure the Pension Fund transfers are correctly calculated and received/ paid promptly. Discretionary policies apply under the Regulations which were approved by the Resources Committee on 10/06/09.

Transfers of Scheduled and Admitted Bodies in to the Fund are valued by the Actuary to assess the benefits. For employee transfers in to the PF, a set of predetermined factors are applied to calculate the added years' service for the new employee. Transfers out are checked to ensure they meet the transfer criteria before these are processed. All calculations are checked by an independent officer.

4. Conclusion

4.1 This audit found that overall, the Pension Fund contribution system operates in accordance within the Council's Membership criteria and the system is reliable. A few minor discrepancies were noted and as such, 1 low grade priority recommendation has been made. This is due to be implemented by 31/10/13.

5. Audit Opinion

5.1 The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Full Assurance** can be given in that there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.

AUDIT REPORT ACTION PLAN

Report Title

Report No.

FINANCE SERVICE - PENSION FUND CONTRIBUTIONS

HK28/006

The Action Plan contains **1** recommendation as follows:

Description

Major issues that managers need to address as a matter of urgency.

Important issues that managers should address and will benefit the Organisation if implemented.

Minor issues that are not critical but managers should address.

Priority	Number
High	0
Medium	0
Low	1
Total recommendations	1

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2	Low	<p>Minor issues were identified with the accuracy of records relating to the payment of contributions by employers:</p> <ul style="list-style-type: none"> Records for 1 employer did not include all dates when employer's contribution payments were received. 4 of the sampled payments were received on an earlier date than stated on the Pensions section's records. 	<p>Pensions staff should be reminded of the need to ensure that all pension records are maintained accurately and completely, including the date the payments were received/ processed by Income and Recovery Staff.</p>	<p>Relevant staff will be reminded of the requirements.</p>	<p>Payroll and Pension Manager</p>	<p>31/10/13</p>