

Agenda Item	8a
Report No	PC/6/21

HIGHLAND COUNCIL

Committee: Pensions Committee and Pensions Board

Date: 18th March 2021

Report Title: **Highland Council Pension Fund Internal Report – Pension Fund Contributions**

Report By: Corporate Audit Manager

1. **Purpose/Executive Summary**

- 1.1 Details are provided of the audit review of Pension Fund Contributions and a copy of the report is attached.

2. **Implications**

- 2.1 There are no Resource, Risk Legal, Community (Equality, Poverty and Rural), Climate Change/ Carbon Clever or Gaelic implications arising from this report.

3. **Recommendations**

- 3.1 The Committee/ Board is asked to consider the content of the report, the audit opinion provided, and to raise any relevant points with the Corporate Audit Manager.

4. Internal Audit Reports

- 4.1 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.
- 3.2 The audit report has the audit opinion of Full Assurance and concluded that the system for the calculation and processing of Pension Fund Contributions is reliable.

Designation: Corporate Audit Manager

Date: 3rd March 2021

Author: Donna Sutherland

Background Papers:

Internal Audit Final Report

Resources and Finance

Pension Fund Contributions

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	1
Minor issues that are not critical but managers should address.	Low	1

Audit Opinion

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.

Distribution:

Executive Chief Officer, Resources and Finance
Head of Corporate Finance and Commercialism, Resources and Finance
Payroll & Pensions Manager, Resources and Finance
Finance Manager (PPP & Joint Venture), Resources and Finance

Report Ref: HDA08/015
Draft Date: 09/12/20
Final Date: 17/12/20

1. Introduction

- 1.1 The Highland Council is the Administering Authority of the Highland Council Pension Fund (the Fund). The Fund is a Local Government Pension Scheme (LGPS), established to provide retirement and death benefits to employees within the scheme. As at 31/03/20, the Fund provides benefits for those employees of the Highland Council, Comhairle Nan Eilean Siar and 27 other scheduled and admitted bodies that are active members of the Fund.

During 2019/20 the Fund received £61.3m in contributions from 12,820 contributors, together with £1.952m transferred in and £1.702m transferred out of the Fund.

- 1.2 The audit looked at the process for admitting bodies into the Fund and also at how contribution rates are determined. Contribution transactions and transfers in and out of the Fund during the financial year 2019/20 were also examined and this included reference to the Pensions Altair system.
- 1.3 The audit field work was started in March but only completed recently due to coronavirus (COVID-19) delays.

2. Main Findings

- 2.1 *Scheduled and admitted bodies, actuarial valuation and contributions received*

This objective was substantially achieved. Only 1 body had been admitted to the Fund since the last audit was completed in August 2016. An application from WIPRO Holdings (UK) Limited was considered at a meeting of full Council on 15/12/16 and the minutes from this meeting confirmed that the Council agreed the application to join the Fund. There is an Admission Agreement in place between The Highland Council and WIPRO but at the time of the audit evidence that the appropriate indemnity/guarantee had been obtained could not be provided as it is stored in the office and access is currently restricted (See action plan M1).

An actuarial valuation of the Fund is carried out every 3 years and the results of the most recent valuation as at 31/03/17, which included the required minimum employer contribution rates for the period covering 01/04/18 to 31/03/21, were presented to the Pensions Committee on the 08/02/18. The Committee NOTED the presentation and APPROVED implementation of the Funding Strategy Statement with effect from 01/03/18. A sample of 5 employers were selected and all had been formally and promptly notified of contribution rates as set out in the 2017 valuation. For the sampled employers and Highland Council, contribution rate percentages and lump sums applied in 2019/20 were examined and these were found to be in line with those set out in Appendix F of the 2017 Actuarial Valuation report. Employer contributions received are checked against the expected rates on receipt by the Pensions Team on a monthly basis. Contributions should be received into the Pension Fund bank account by the 22nd of each month. The audit found some instances of late payment (generally 2-3 days) amongst the sampled employers, but this is monitored on a monthly basis by the Pensions Team and action taken where appropriate. For the sampled employers, all expected contribution funds had been received for 2019/20.

A sample of 30 active members of the Fund was selected at random (20 part time and 10 full time employees) to check that the correct contribution rate for 2019/20 had been determined as per the guidance¹. For all sampled employees, the correct contribution rate had been determined (by reference to their actual remuneration as at 01/04/19) and this was correct in the Altair pension system and on ResourceLink (for Highland Council employees only).

Employee data, pensionable pay and contribution data is submitted monthly by employers who use the i-Connect direct payroll transfer system and is reconciled to Altair monthly and also at year-end. For those employers not using i-Connect the data is submitted annually and is reconciled to Altair prior to year-end. Currently 24 out of 29 employers, including Highland Council, use i-Connect. The year-end reconciliations for all

¹ Scottish Public Pensions Agency Employer Guidance for the Assessment of Member Contribution Rates Version 13 Issued March 2019

sampled employers were examined and had been completed satisfactorily. There had been some delays in the year-end work carried out for Highland Council payrolls in terms of matching employee data between payroll and Altair. A contributing factor to this has been a lack of staffing resource within the Pensions Team due to staff absence and delays in receiving permission to recruit to a vacant post (now recruited). However, these delays have not impacted on the contributions received into the Pension Fund or the resulting employee benefits.

As part of the year-end process, employers are asked to complete and return a Certificate of Assurance in order to verify that they have followed the appropriate guidance in relation to pension fund contributions. Although all of the 5 sampled employers had been asked to return a Certificate, only 1 had done so. This had not been followed up due to less staff being available for completion of year-end processes as mentioned above. For the sampled employers, there was no evidence that the requirements set out in the Certificate had not been complied with (See action plan L1).

2.2 *Transfers in and out*

This objective was fully achieved. During 2019/20 there were 48 transfers in and 49 transfers out of the Fund and a review of 5 of each was undertaken. All transfer in requests were made within 12 months of the employee being admitted to the Fund and all were made from an eligible scheme. Based on the documentation supplied by the former pension scheme, the information had been correctly input into Altair for all 5 sampled transactions. All transfers out had been completed within 3 months of the guarantee calculation date or where 3 months had passed a new calculation had been undertaken. All of the transaction calculations examined had been checked and authorised by an appropriate senior officer and all had been correctly posted in the financial ledger.

3. **Conclusion**

- 3.1 The system for the calculation and processing of Pension Fund Contributions is considered reliable and no major issues were identified.

4. Action Plan

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
M1	Medium	Evidence that the appropriate indemnity/guarantee had been obtained from WIPRO could not be provided at the time of the audit as access to the office where it is stored would be required.	<p>(i) When access to the office is permitted, evidence that the appropriate indemnity/guarantee had been provided by WIPRO should be submitted to Internal Audit.</p> <p>(ii) All indemnity/guarantee agreements, both those obtained in the future and older agreements, should be stored electronically for ease of reference.</p>	<p>Appropriate assurance will be obtained.</p> <p>Where possible agreements will be stored electronically.</p>	<p>Finance Manager (PPP & Joint Venture)</p> <p>Payroll and Pension Manager</p>	<p>When offices open</p> <p>When offices open</p>
L1	Low	Only 1 out of 5 sampled employers had returned a Certificate of Assurance as part of the 2019/20 year-end process. This had not been followed up as part of year-end processes.	Checks should be carried out to ensure that Certificates of Assurance are obtained from all employers as part of the year-end process going forward.	Certificates of Assurance will be requested annually as part of the year end process.	Payroll and Pension Manager	31/05/21