

Agenda Item	6b
Report No	PC/4/23

HIGHLAND COUNCIL

Committee: Pensions Committee and Pensions Board

Date: 16th February 2023

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

Report By: Strategic Lead (Corporate Audit & Performance)

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. Recommendations

- 2.1 The Committee/ Board is asked to consider the content of the report, the audit opinion provided, and to raise any relevant points with the Strategic Lead (Corporate Audit & Performance).

3. Implications

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

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 report has the audit opinion of Substantial Assurance. It was concluded that the system for the calculation, collection and processing of contributions is reliable. However, it was identified that the Altair (pensions system) data is not up to date due to a backlog of contribution records still to be input, with no timetable in place to resolve this.

The action plan at section 4 contains 3 audit findings comprising of 2 medium and 1 low grades. One of these has been addressed and management has agreed appropriate actions to address the remainder. Target dates have been set with the final action due to be completed by 31/10/24.

Designation: Strategic Lead (Corporate Audit & Performance)

Date: 6th February 2023

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	2
Minor issues that are not critical but managers should address.	Low	1

Distribution:

Head of Corporate Finance – Resources and Finance
Technical & Communications Officer – Resources and Finance

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 **Substantial Assurance** can be given in that while there is 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.

Report Ref: HRF08/006
Draft Date: 24/10/22
Final Date: 06/02/23

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 31/03/22, the Fund provided benefits for those employees of the Highland Council, Comhairle Nan Eilean Siar and 24 other scheduled and admitted bodies (employers) that are active members of the Fund.

During 2021/22 the Fund received £66.2m in contributions from 13,613 contributors, together with £1.662m transferred in and £1.903m transferred out of the Fund.

- 1.2 The audit looked at the process for admitting bodies into the Fund and at how contribution rates are determined. Employer and employee contribution transactions and transfers in and out of the Fund during the financial year 2021/22 were also examined.

2. Main Findings

2.1 *Scheduled and admitted bodies*

This objective was fully achieved. There had been 1 application for Admitted Body Status since the last audit was undertaken in 2019/20. The application from West Highland College was considered at a meeting of the Pensions Committee on 22/09/21 and the minutes from this meeting confirmed the application was approved. Discussions are ongoing with West Highland College regarding entry to the scheme and arranging a suitable guarantee and therefore, as they are not yet an official scheme employer, formal preparation of admission documents has not commenced.

2.2 *Contribution rates*

This objective was substantially achieved. An actuarial valuation of the Fund is carried out every 3 years and the results of the most recent valuation as at 31/03/20, which included the required minimum employer contribution rates for the period covering

01/04/21 to 31/03/24, were presented to the Pensions Committee on the 18/03/21. The Committee noted the presentation and approved implementation of the Funding Strategy Statement with effect from 01/04/21. A sample of 3 employers were selected and all had been formally and promptly notified of contribution rates as set out in the 2020 valuation.

Contribution rate percentages and lump sums applied in 2021/22 were in line with those set out in Appendix 3 of the 2020 Actuarial Valuation report for 3 out of 4 sampled employers. It was not possible to verify that monthly employer contributions for NHS Highland were paid at the correct rate as they do not use i-Connect and do not provide gross pensionable pay data monthly (See action plan M1). However, the Pensions Team carry out appropriate monthly checks which give assurance that contribution rates are broadly correct. An example of the check done for March 2022 was provided to confirm this and the annual return for NHS provided assurance that employers contributions were as required. All sampled employer contributions were received and had been paid into the Fund bank account by the 22nd of the month following the month that they were deducted from the employees' pay.

A sample of 30 active members of the Fund was selected (20 part time and 10 full time employees) to check that the correct contribution rate for 2021/22 had been determined as per the relevant guidance¹. For all sampled employees, the correct contribution rate had been determined (by reference to their actual remuneration as at 01/04/21) and this was correct in the Altair pension system and on ResourceLink payroll system (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 at year-end. For those employers not using i-Connect the data is submitted annually and is reconciled to Altair prior to year-end. For the 2021/22 financial year, 22 out of 26 employers, including

¹ SPPA Employer Guidance for the Assessment of Member Contribution Rates Version 15 Issued March 2021

Highland Council, were using i-Connect and this has increased to 24 in 2022/23. The year-end reconciliations for all sampled employers were examined and had been completed satisfactorily. The annual submission of data for 2 of the employers not using i-Connect had not been submitted until August 2022 which meant that there was limited time to carry out the required checks and upload to Altair prior to the production of annual benefits statements on 31/08/22. The Pensions Team are actively working with NHS Highland and UHI to move them to i-Connect (See action plan M1).

The previous audit found that all employers were asked to complete a Certificate of Assurance as part of the year end process to verify that they had followed the appropriate guidance in relation to pension fund contributions, but only 1 out of the 5 sampled employers had done so. For 2022/23, these had only been requested from those employers not using i-connect as the monthly and year-end checks carried out by the Pensions Team give assurance that employers are fulfilling their obligations (See action plan L1).

Across all employers, approximately 2,396 records (out of a total of 36,672 records with liability) are pending on i-connect and further action is required to amalgamate or calculate a benefit before contributions can be loaded to Altair. One consequence of this is that contributions for some "undecided" leavers have not yet been uploaded to Altair for Highland Council payrolls and therefore a full year end reconciliation has not been carried out. This backlog is due to additional administrative complexities from the introduction of the career average pension scheme on 01/04/15, ongoing staffing issues and because of the way in which post IDs are handled by the Highland Council payroll/HR system (each time an employee post ID changes on the payroll/HR system, due to a change in manager or Integra cost code, a separate pensions record is required on Altair). Procedures have now changed to ensure that these pending records are dealt with monthly, therefore preventing such a backlog occurring in the future (see action plan M2).

2.3 *Transfers in and out*

This objective was fully achieved. There are detailed documented procedures for all types of transfers in and out of the pension scheme. During 2021/22 there were 49 transfers in and 124 transfers out of the Fund and a review of 5 of each was undertaken. All sampled transfer in requests were from an eligible scheme, were made within 12 months of the employee being admitted to the Fund and had been entered correctly on Altair. All sampled transfer out requests had been completed within 3 months of the guaranteed calculation date. All sampled transactions 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, collection and processing of employer and employee contributions is considered reliable and no major issues were identified. There is an issue with a backlog of records where further action is required before the contribution data can be uploaded to Altair, but this has not impacted on monthly payroll contributions being collected for these employees. However, it does mean that Altair does not accurately reflect their entitlements and there is currently no timescale for getting this matter resolved.

4. Action Plan

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
M1	Medium	24 out of 26 employers are now using i-Connect to transfer employee data, pensionable pay, and contribution data monthly. The Pensions Team are actively working with the remaining 2, NHS Highland and UHI, to move them to i-Connect.	NHS Highland and UHI should be required to use i-Connect as soon as possible to submit monthly pensions contribution data. This will negate the need for annual returns to be submitted and will enable more accurate monthly checks to be carried out.	Discussions are ongoing with UHI and NHS Highland regarding the implementation of i-Connect and Fund officers will provide support as required. A review of progress of the use of i-Connect across Employer organisations will be completed in 2023.	Technical & Communications Officer	31/12/23
M2	Medium	There are approximately 2,396 records where action is required to be undertaken to ensure records are up to date. Some uploading of contributions for "undecided" leavers has not happened for Highland Council payrolls has meant that a full year end reconciliation has not yet been carried out for Highland Council payrolls.	(i) The staffing risk within the Pension Fund Risk Register should be reviewed to ensure that the current control is up to date and is able to effectively manage the current staffing risks, both at management and operational level, within the Pensions Team.	(i) The 2023/24 Service Plan includes a proposed new structure (to be approved by Pensions Committee on 16/02/23). The Service Plan sets out a structure with additional posts for Pensions Administration, and a team focussed on addressing backlogs. The aim of the proposed structure is that the Pensions Administration team will be adequately resourced with staff who have the requisite knowledge and skills to complete tasks in line with regulatory requirements. If the structure is approved by Committee, recruitment can be commenced.	Head of Corporate Finance	30/06/23

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
M2 Cont.			(ii) The backlog of leavers/ retirements/ deaths and re-employment/ aggregation cases should be addressed, and a full year-end reconciliation carried out as soon as possible	(ii) The next couple of years are shaping up to be busiest ever experienced with increased statutory requirements and it is key that the team address the backlogs that have increased since the CARE scheme commenced on 01/04/2015. As noted above, the Service Plan 2023/24 includes a proposal for a team specifically focussed on addressing backlogs. The 2023/24 Service Plan also includes budget to implement Member Self Service (MSS). This would enhance customer service and reduce some pressures on the Pensions Administration team.	Head of Corporate Finance	30/06/23
			(iii) It is understood that changes are being made to the way in which post IDs are managed which should resolve this issue. This should be implemented urgently therefore reducing the number of records requiring action before being uploaded to Altair going forward.	(iii) The Pensions Administration team are working closely with the project team responsible for the implementation of the new financial & HR/Payroll system to ensure compatibility and that efficiencies are gained through new functionality. The plan is that new developments in i-Connect are used to improve the contribution receiving and reconciliation process.		Head of Corporate Finance
L1	Low	For 2022/23, Certificates of Assurance had only been	In light of the move to i-Connect and the submission of data	Agreed. The checks in place provide assurance without the	Head of Corporate Finance	Complete

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
		requested from those employers not using i-Connect.	monthly rather than annually, the practice of asking employers to complete annual Certificates of Assurance should be reconsidered. If no additional assurance is found to be gained, and considering ongoing staffing pressures, then it can be discontinued for i-Connect employers.	need for employers to provide certification. The Pensions Administration team will stop asking for Certificates of Assurance from employers on i-Connect.		