



# **Internal Audit Report**

**CFA015 – CFA Pensions 2021/22**

**Final Report Issued: 20 May 2022**

Internal Audit is an independent appraisal function that reviews the Council's activities, both financial and non-financial. Internal Audit provides a service to the whole Council in order to provide assurance on the arrangements for risk management, internal control and corporate governance, and to provide advice to support achievement of best practice.

All audit work has been conducted in conformance with the Public Sector Internal Audit Standards (PSIAS), as reflected in the Internal Audit Manual.

The auditors involved in the work have no links to the subject matter of this audit or relationships with the clients that could compromise the impartiality or objectivity of the work undertaken.

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Mazars, FINAL report only

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## Scope of the Audit

A review of CFA Pensions has been undertaken in accordance with the 2021/22 Internal Audit Annual Plan.

Responsibility for policy on the pension schemes rests with the Home Office whilst the administration and payment of individual pensions and benefits is the responsibility of fire and rescue authorities.

There are three main pension schemes for firefighters in England

- The Firefighters' Pension Scheme 1992 (FPS 1992) - which came into effect on 1 March 1992. This scheme was closed to new member on 6 April 2006.
- The New Firefighters' Pension Scheme 2006 (FPS 2006) - which came into effect on 6 April 2006.
- The Firefighters' Pension Scheme 2015 (FPS 2015) – which came into effect on 1 April 2015 and is the occupational pension scheme available to operational firefighters first appointed on or after 1 April 2015 or who are transferred from an earlier version of the Scheme.

The two previous Schemes (FPS 1992/2006) continue in force for firefighters who were serving before 1 April 2015 and who are eligible to remain members of their earlier Scheme. They also continue in force for the previous pension rights of "transition members".

The audit focused on the systems and procedures in place within the Pensions and Payroll section of Cleveland Fire Authority, in order to provide assurance on the administration of the fund with a view to ensuring the accuracy, completeness and timeliness of payments due to and from the fund and compliance with Home Office circulars and other guidance.

The audit objectives focused on the effectiveness of controls employed in the administration of the pension fund administration to ensure that:

- there are effective arrangements in place to identify and comply with changes in the pension scheme/legislation;
- new scheme members (including transfers in) and transfers out of the scheme are processed and recorded completely and accurately and in accordance with scheme rules;
- calculation of members retirements are processed accurately and in accordance with scheme rules;
- employer/employee contributions are calculated and processed accurately;
- The assessment of data risks and implementation of appropriate controls are in accordance with CFA policies and procedures that are fully compliant with current Data Protection & GDPR guidance
- The Fire Authority has a Local Pension Board and complies with the statutory requirements.

The audit scope did not include a review of the governance and management of investment of the fund nor a review of the CLG return as this is audited separately by Mazars.

The audit covered transaction during the period 1 April 2021 - 28 February 2022.

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## Opinion

The overall opinion is that **Satisfactory Assurance** can be provided that the risks identified are well controlled. This opinion is based on the result of Work Done shown below.

**Legislation** - effective arrangements are in place to ensure the service is aware of and reacts to changes in legislation and to communicate such changes to members of the Pension Scheme.

An amendment to the firefighter pension schemes regarding changes to remove age discrimination from the firefighter pension scheme in relation to the transitional protection for members of previous schemes has recently been subject to public consultation.

The consultation was on the amendments required to implement the Prospective Remedy including moving all active members to the reformed scheme and making consequential changes to scheme regulations in line with The Public Service Pensions & Judicial Offices Bill (PSPJO).

Following enquiry, the auditor was advised that there is no immediate impact as the remedy legislation is still to be published and the deadline for this is October 2023. In the meantime, the Authority are considering the financial impact of paying immediate detriment cases in accordance with the LGA/FBU Immediate Detriment Framework and Home Office Guidance however no decision has as yet been made by the Authority.

It was also confirmed that all active members were moved to the reformed scheme on 1 April 2022 which was actioned internally on both HR and Payroll systems. Contribution rates were also amended, XPS have updated their systems and that members have also been notified of the change.

Detailed guides and relevant forms are available to all members via the XPS website.

**Membership** - Nine new starters were identified as not being in the pension scheme for the period reviewed. A random sample of three employees were selected for testing and in all instances, signed opt out forms had been completed.

Using Integra, the auditor extracted details of all transfers in and out of the pension schemes since the last audit was completed. There were no transfers out of the scheme during the period reviewed.

Integra showed that there had been a total of two transfers into the pension scheme. Paperwork was in place to support the transfer.

**Lifecycle Events** - a sample of retirement payments were selected for testing which found that:

- All calculations appear correct. As the auditor does not possess the technical knowledge to verify the accuracy of calculations relating to LSI and CPD amounts used to determine the resultant pension entitlement the figures used on the XPS final calculation documentation were used.
- Payments were issued directly from XPS with evidence retained on Integra
- Tax deductions were correctly calculated.
- All calculation documentation completed by CFA pension staff contained signatures of the officer undertaking the calculation and also the officer checking the calculations.

CFA Pensions are also provided with monthly reports of payments to pensioners to ensure they are paid in accordance with the calculation sheets.

**Contributions** – a random sample of members from all schemes were selected for testing. In all instances, contribution rates were correct.

A sample of members paying AVCs were also selected for testing. Documentation was provided to support all additional voluntary contributions reviewed.

**CLG Return** – the return is audited by Mazars and was not included in the programme of work for this audit.

**Information Governance** - three systems are utilised for the processing of CFA pensions; ResourceLink, Integra and the XPS Heywood System.

No testing was undertaken regarding ResourceLink and Integra as both systems are subject to separate individual audits.

As noted in the 2019/20 audit, IT controls relating to the Heywood system is co-ordinated by XPS with employees having different access levels dependent on their roles within the team. Access is restricted by User ID and password. Daily backups are undertaken which are retained on a server located in a separate building as well as on the Disaster Recovery server.

As previously recorded, evidence that the Heywood system is GDPR compliant was provided as part of the 2019/20 audit. The report provided an overview of the approach to information security and quality which included the following statement: *a full standard recertification audit is carried out every 3 years, following which our QMX and ISO certifications are reviewed.* As the report was produced in May 2019 and is not due for review until May 2022, assurance has been allocated to the work previously undertaken and reported.

An Authority wide Information Asset Register is maintained which contains details of information retained and associated retention periods. Compliance with Information Governance/GDPR requirements are addressed via a separate Information Governance audit.

An agreement For the Provision of Firefighter Pension Administration and Pension Payroll Services is in place.

**Local Pension Board** - there is a Local Pension Board in place who meet quarterly. Terms of Reference are reviewed annually and were presented to members for ratification at the meeting held in October 2021. The Terms of Reference state that the *Board shall as a minimum meet four times per year, considering that quarterly meetings are recommended good practice.*

A review of meeting minutes confirmed that Board membership appears to be in accordance with Terms of Reference and includes two employer and two employee representatives as well as an officer with detailed knowledge of the law relating to pensions. Minutes confirmed that all meetings are quorate and that training is provided to Board Members on an ongoing basis.

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Where Risks are recorded in the Result of Work Done column below as not achieved, a Finding and associated Recommendation has been added to the Action Plan (referenced in the final column).

<b>Risk</b>	<b>Result of Work Done</b>	<b>Reference to Issue in Action Plan</b>
1. The Scheme(s) may not be operated in accordance with statutory requirements or defined conditions if effective arrangements are not in place to identify and comply with changes in the Pension Scheme and/or legislation.	Objective Achieved	
2. There may not be accurate details relating to members of the scheme(s) if new starters, transfers in and out of schemes are not accurately processed and recorded.	Objective Achieved	
3. Calculation of members retirements may not be accurate or in accordance with scheme rules.	Objective Achieved	
4. Employer/employee contributions may not be calculated and processed accurately.	Objective Achieved	
5. The service may not comply with CLG requirements if the pensions fund balances and future expectations are not actively monitored and accurately reported.	N/A	
6. Significant financial penalties may be incurred if the service is in breach of GDPR requirements.	Objective Achieved	
7. Non-compliance with regulations in relation to the Local Pension Board's Terms of Reference.	Objective Achieved	

## **Action Plan**

***Testing undertaken did not identify any risks of a level that required inclusion in an Action Plan***

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