



# **Internal Audit Report**

## **CFA Pensions**

**Final Report Issued: 16<sup>th</sup> December 2020**

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.

### **Audit Team:**

#### **Head of Audit & Governance**

Noel Adamson

Tel: 01429 523173

Email: [noel.adamson@hartlepool.gov.uk](mailto:noel.adamson@hartlepool.gov.uk)

#### **Managing Auditor**

Catherine Magog

Principal Auditor

Tel: 07825 272793

Email: [catherine.magog@hartlepool.gov.uk](mailto:catherine.magog@hartlepool.gov.uk)

#### **Lead Auditor**

Mark Collins

Senior Auditor

Tel: 01429 523632

Email: [mark.collins@hartlepool.gov.uk](mailto:mark.collins@hartlepool.gov.uk)

### **Distribution:**

Chris Little, Treasurer (CFA)

Karen Winter, Assistant Chief Fire Officer Strategic Planning and Resources

Lyn Younger, Head of Finance and Procurement

Michelle Richardson, Human Resources Manager

Bev Parker, Democratic and Administration Manager

Christine Chisholm, Senior Head of People

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## Scope of the Audit

A review of CFA Pensions has been undertaken in accordance with the 2019/20 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.

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 DCLG 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:

- Adequate arrangements are in place to identify and comply with changes in the pension scheme(s) and/or 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 HBC policies and procedures that are fully compliant with current Data Protection and 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.

## 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 identify and implement changes in legislation and communicate such changes to members of the Pension Scheme.

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

### Membership

Testing identified only 2 employees who had decided to opt out of the pension scheme. In both cases, an 'opt out' form had been completed.

There have been no transfers out of the scheme in the current financial year.

The auditor identified 5 employee who have transferred into the scheme.

Testing found that:

- a 'previous pension / employment history' form has been completed by the employee;
- Signed option forms are completed by scheme members confirming that having considered details provided, they agree to transfer accrued pension rights.
- documentation supporting the calculation of the transfers verifies that the correct amount has been transferred into the scheme.

### Life Cycle Events

Procedure notes checklists are in place to ensure that all operational tasks are completed.

A sample of 10 leavers who had received pension payments was selected for testing. It was found that:

- calculations are correct and in accordance with scheme criteria;
- pensionable service / pensionable pay agree with details recorded on Resourcelink;
- payments are appropriately authorised on Integra or sent direct from XPS;
- tax is deducted correctly .

The auditor does not possess the technical knowledge to verify the accuracy of calculations of LSI, CPD. Assurance was obtained from XPS that such calculations are correct.

Calculation documentation provided did not include evidence of signature of officers undertaking the calculation and checking steps of the process to demonstrate there is a division of duties, however, the auditor was advised that the original versions of the documentation include signatures and versions retained by the service are copies that do not include signatures.

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

#### Contributions

Testing of a sample of 20 members found that employee / employer contributions are correct.

Using Resourcelink reports and XPS AVC 12 employees with AVC were identified. A sample of 5 was selected. All employees had completed an 'Options Election Form'.

Monthly reconciliation between Resourcelink and Integra is undertaken by CFA Finance.

Testing confirmed that employees / employers contributions on Resourcelink agree with Integra.

#### CLG Return

The return is audited by Mazars and was not included in the programme of work for this audit.

#### Data Security

IT systems in use:

- ResourceLink;
- Integra;
- XPS Heywood System

Access to Resourcelink / Integra is controlled by HBC corporate arrangements and is reviewed in other audits.

Access to the Heywood system is restricted to Police and Fire Service Pension Staff with XPS. Employees have different access levels dependent on their roles within the team.

Access is restricted by userid and password.

System / data backups are undertaken daily and retained on a server in a separate building and also on the Disaster Recovery server.

The system is protected from security threats by virus checkers installed and maintained by Middlesborough Council IT Services.

Arrangements for ensuring Information Security and GDPR Compliance are detailed in SLA documentation.

### Local Pension Board

Terms of Reference are reviewed annually for the Local Pension Board. They were last adopted at the meeting of 20<sup>th</sup> November 2019.

Review of minutes of meetings confirmed that membership is in accordance with Terms of Reference and includes 2 representatives of employer and employees as well as an officer with detailed knowledge of the law relating to pensions.

Meetings are quorate i.e. attended by at least 1 employee and 1 employer representative and agendas follow

Terms of reference state that the Board should as a minimum meet four times per year, considering that quarterly meetings are recommended good practice. The Board only meet twice per annum.

There is evidence in minutes that training is provided to Board Members on an ongoing basis.

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>
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/Legislation.	Objective achieved	N/A
There may not be accurate details relating to Members of the scheme if new starters, transfers in and out of the scheme are not accurately processed and recorded.	Objective achieved	N/A
Calculation of members retirements may not be accurate or in accordance with scheme rules.	Objective achieved	N/A
Employer / employee contributions may not be calculated and processed accurately.	Objective achieved	N/A
The service may not comply with CLG requirements if the pensions fund balances and future expectations are not actively monitored and accurately reported.	Not reviewed	N/A
Significant financial penalties may be incurred if the service is in breach of GDPR requirements	Objective acheievd	N/A
Non-compliance with regulations in relation to the Local Pension Board's Terms of Reference.	Objective achieved	N/A



## **Action Plan**

All risks identified are managed at an acceptable level.

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