

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	25 June 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2107 Pensions Payroll
REPORT NUMBER	IA/AC2107
DIRECTOR	N/A
REPORT AUTHOR	Colin Harvey
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Pensions Payroll.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of Pensions Payroll.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required

9. APPENDICES

9.1 Internal Audit report AC2107 – Pensions Payroll.

10. REPORT AUTHOR DETAILS

Colin Harvey, Chief Internal Auditor (Interim)
Colin.Harvey@aberdeenshire.gov.uk
(01467) 530701



Internal Audit Report

Pension Fund

Pensions Payroll

Issued to:

Steven Whyte, Director of Resources
Jonathan Belford, Chief Officer - Finance
Fraser Bell, Chief Officer - Governance
Laura Colliss, Pension Fund Manager
Marie Mclean, Benefit Administration Manager
External Audit

EXECUTIVE SUMMARY

Background

The Local Government Pension Scheme is governed by the Public Service Pension Act 2013 and by the Local Government Pension Scheme (Scotland) Regulations 2018 (and associated amendments). The North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) are administered by Aberdeen City Council within the Local Government Pension Scheme Regulations.

As at 31 March 2020, the NESPF is the third largest LGPS Fund in Scotland in asset size at £4,367 million, with over 69,000 members (26,275 active paying members; 22,156 pensioners; 17,965 deferred members no longer paying into scheme; 3,021 frozen leavers due refund of contributions) and 50 participating employers. The ACCTF was created in October 1986 for employees of the former Passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen; as at 31 March 2020 it had 1,632 members and net assets of £308.8 million.

The Funds are used to pay pensions, lump sum benefits and other entitlements to Scheme members and their dependents. The funds to pay these benefits are built up from contributions from both employees and employing bodies, together with interest, dividends and rent from investments.

Objective

The objective of this audit was to provide assurance that appropriate arrangements are in place to ensure the accuracy and appropriateness of payments made to scheme members. This involved testing of new and on-going pensions, and transfer and termination of pension payments.

Assurance

In general, appropriate arrangements are in place to ensure the accuracy and appropriateness of payments, and pension payments reviewed were accurate on the whole. However, improvements to procedures have been recommended, particularly for trivial lump sums payments, where a sample payment reviewed was made in error, to a former scheme member.

Findings and Recommendations

NESPF has written procedures covering a number of aspects of payroll administration. However, procedures did not cover the use of a new payroll system module (Enhanced Admin to Payroll) used to establish pension payroll records, as agreed in the last Pensions Payroll Internal Audit, or the necessary checks prior to creating new pension payroll records. A recommendation graded Significant within the audited area was raised with the Service to ensure procedures are complete and up to date.

Two new pensions reviewed were not supported by employer paperwork confirming the date the employer reported the member joined the scheme; it was therefore not possible to verify the accuracy of the length of membership for the purposes of verifying pension benefits awarded. The Service advised information is provided to members at retirement so any historical data issues can be addressed. However, to avoid overpayments in error, a recommendation graded Significant within the audited area was raised with the Service to gain assurance from employers of the date members joined the pension fund, where employer returns are absent.

A one-off trivial lump sum reviewed, had scheme membership of less than two years,

meaning the member was ineligible for this pension payment. Instead, the former member's pension contributions should have been returned; this resulted in an overpayment. Recommendations graded Significant within the audited area were raised with the Service to review trivial lump sum payments to identify all payments to former members where length of service was less than the required two year minimum, to recover any related overpayments, and to implement a system of control to avoid reoccurrence of this issue.

A comprehensive system of checks is in place prior to processing pension payrolls for payment. Since home working commenced, as a result of Covid-19 restrictions, 'electronic signatures' have been in use to evidence review of pension calculations and payment checks. In general, checks were evidenced by electronic signatures however a January payroll had no evidence of review. Whilst electronic signatures are endorsed by the UK Government, it is acknowledged by the UK Government that there are issues on the security and technology of electronic signatures that require further consideration from suitably qualified experts. Issues include the fact these signatures can be copied and applied to documents by individuals other than the signatory in certain cases. A recommendation graded Significant within the audited area was raised with the Service to ensure it can demonstrate that segregation of duties has been applied in all relevant processes.

A sample of bank changes reviewed were supported. However, it was noted a number of changes were processed by a single officer increasing the risk of fraud or allegations of fraud. A recommendation graded Significant within the audited area was raised with the Service to ensure that changes to bank details are subject to review.

Management Response

The Service has established procedures covering the new module for establishing payroll records. The Service has also agreed to review trivial commutation lump sum payments for the last 12 months to identify any overpayments and to review its procedures in relation to these payments. Where fund start dates are absent from NESPF records, these will be sought from the respective employer when the member retires. In addition, Senior Pension Officers have been reminded of the requirement to evidence segregation of duties in relevant processes and the Service has agreed to review the processing arrangements for changes of bank details.

1. INTRODUCTION

- 1.1 The Local Government Pension Scheme is governed by the Public Service Pension Act 2013 and by the Local Government Pension Scheme (Scotland) Regulations 2018 (and associated amendments). The North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) are administered by Aberdeen City Council within the Local Government Pension Scheme Regulations.
- 1.2 As at 31 March 2020, the NESPF is the third largest LGPS Fund in Scotland in asset size at £4,367 million, with over 69,000 members (26,275 active paying members; 22,156 pensioners; 17,965 deferred members no longer paying into scheme; 3,021 frozen leavers due refund of contributions) and 50 participating employers. The ACCTF was created in October 1986 for employees of the former Passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen; as at 31 March 2020 it had 1,632 members and net assets of £308.8 million.
- 1.3 The Funds are used to pay pensions, lump sum benefits and other entitlements to Scheme members and their dependents. The funds to pay these benefits are built up from contributions from both employees and employing bodies, together with interest, dividends and rent from investments.
- 1.4 The administering authority has delegated powers from the Council to the Pensions Committee and to senior Council officers, and the Fund is regulated by the Pensions Regulator.
- 1.5 The NESPF Pension Fund Manager reports to Aberdeen City Council's Chief Officer - Finance and is currently responsible for approximately 35 Pensions staff operating in six distinct sections: Benefits, Accounting, Investment, Governance, Employer Relations and Systems.
- 1.6 The objective of this audit was to provide assurance that appropriate arrangements are in place to ensure the accuracy and appropriateness of payments made to scheme members. This involved testing of new and on-going pensions, and transfer and termination of pension payments.
- 1.7 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Jonathan Belford, Chief Officer - Finance, Laura Colliss, Pension Fund Manager and Marie Mclean, Benefit Administration Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Procedures

- 2.1.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance that correct and consistent instructions are available to staff, important in the event of an experienced employee being absent or leaving.
- 2.1.2 NESPF has written procedures covering payroll pay runs, immediate payments, deferred pensions and leavers. There are also checklists in place for monthly tasks undertaken by the Service and payroll system procedures contained within the Altair Help files. The Service advised in February 2019, following the previous Pensions Payroll Internal Audit AC1725, that procurement of the “Enhanced Admin to Pay” payroll system module, required procedures to be updated to reflect new system functionality relating to the creation of new pension payroll records. However, revised procedures have yet to be formalised since this module went live in October 2020.
- 2.1.3 Pension benefits (lump sum payments and monthly benefits) are calculated by the pension payroll system following input of the retirement date and details of final pay by a Pensions Officer (PO). Completed calculation sheets are prepared by the PO and subsequently checked and signed as reviewed by the Senior Pensions Officer, prior to creating any new pensioner payroll accounts to enable payment. In addition, prior to the first pension payment a test payslip is also prepared by the PO and reviewed by the Senior Pensions Officer, with both officers signing the test payslip to indicate preparation and review respectively when satisfied with the accuracy of the test payslip. A procedure documenting the calculation checks has been drafted but has yet to be updated to cover test payslip checks.

Recommendation

The Service should ensure procedures are complete and up to date.

Service Response / Action

Agreed. Benefit processing procedures have been updated for EA2P including a video on how to use it. This has been done since the audit began so they were not available at the time of the audit.

Implementation Date

Implemented

Responsible Officer

Pension Fund Manager

Grading

Significant within audited area

2.2 Pension System and Benefit Calculations

- 2.2.1 The pension system is used for administration of scheme members’ accounts and for pensioner payroll payments. The pension system was reviewed by Internal Audit in report AC1827; agreed recommendations relating to system access and password controls, system requirements for review of pension calculations, and contingency planning have been addressed.
- 2.2.2 All eligible employees should be auto-enrolled into the Pension Fund when they start work, with superannuation contributions made from employees’ first pensionable pay. PEN 1 forms are submitted by employers to the NESPF for each new employee joining the Pension Fund; this includes relevant data required to be updated on the pension system, including the date employment began, date of birth, and marital status (for survivor

pensions).

2.2.3 The Service advised that the pension system is configured to calculate pension benefits in line with the Pension Regulations based on a member's date of birth, length of scheme membership, final FTE salary (for final salary elements of the pension benefits) and annual pensionable pay for the financial years since 2015/16 for the Career Average Earnings (CARE) element of the pension calculation. Any employer discretions, such as awarding additional years of membership, have to be applied to the system manually by a Pensions Officer.

2.2.4 Under the LGPS (Scotland) Regulations 2018, a member with a minimum of 2 years qualifying service who attains normal pension age is entitled to immediate payment of a retirement pension without reduction, if the member is no longer employed by the local government employer where the benefits were accrued. In general, pension benefits are calculated in line with the table below. There may also be specific adjustments to benefits in particular cases e.g. early / late retirement, reduced contributions (50/50 pension – half contributions for half the pension accrual) and employer discretions.

	Membership to 31 March 2009	Membership from 1 April 2009 to 31 March 2015	CARE Membership from 1 April 2015 to present
Pension	Final Pay/80 x membership up to 31/3/2009	Final Pay/60 x membership from 1/4/2009 to 31/3/2015	(Average Pensionable Pay since 1/4/2015)/49 x membership from 1/4/2015 to date of retirement
Lump Sum	Final Pay x 3/80 x membership up to 31/3/2009	No automatic lump sum	No automatic lump sum

2.2.5 In April each year, the value of the benefits accrued in scheme pension accounts is revalued in line with HM Treasury Revaluation Orders, which currently use the Consumer Price Index (CPI); the Technical Team are responsible for processing the necessary system update annually. The accuracy of ongoing pensions is considered further in section 2.7 below.

2.2.6 Retirees can opt to take a lump sum payment instead of annual pension benefits (£12 lump sum for every £1 of annual pension sacrificed) up to a maximum amount in line with the following calculation:

$$12 \times (((\text{Unadjusted Annual Pension} \times 20) - (3 \times \text{automatic lump sum}))/56).$$

2.2.7 All employers using the NESPF are required to submit monthly reports via the iConnect portal. These submissions provide data at a scheme member level required to calculate pension benefits, including employee and employer pension contributions and employee pensionable pay for the calculation of CARE benefits. These iConnect submissions are uploaded to member accounts via an interface with the pension system. The Employer Relationship Team reconciles iConnect interface files submitted to a report of the total values uploaded to the pension system.

2.2.8 Reconciliations of interfaces were also reviewed as part of the Payroll System audit AC1827. In general reconciliations were completed regularly and discrepancies were being investigated and resolved. However, they were not being completed for one employer reviewed due to a technical problem generating the required iConnect data from that employer's payroll system; the issue has since been resolved.

2.3 New Pensioners

- 2.3.1 The pension system is configured to identify when a member has become eligible to claim payment of pension benefits. Current contributing scheme members are notified by letter when they reach normal retirement age, whilst deferred scheme members are notified when eligible for reduced benefit payments prior to normal retirement age. Employers are also required to notify the NESPF of retirements at least two months in advance of the retirement, using the PEN 6 form, detailing the date of retirement and type of retirement (Voluntary, Late, Flexible, Early Retirement with Employers Consent, Ill Health, Interest of Business Efficiency, Redundancy). Subsequently the employer is required to confirm the date of leaving and provide pay details relevant to pre-2015 benefits via the PEN 2 cessation form. Where early retirement is on the grounds of ill health, the employer must report Assumed Pensionable Pay via the PEN 2 form for the purposes of determining the ill health retirement pension enhancement and submit form PEN 3.1 Occupational Health Ill Health Retirement Certification - Active Member, which includes eligibility to retire confirmed by an independent registered medical practitioner.
- 2.3.2 No pension payments are made until the NESPF has received notification confirming the employee's decision to retire. When a member retires, calculations are completed by the Service to determine an estimated level of benefits available under the relevant scheme Regulations. A letter is sent detailing the estimated benefits and enclosing option forms to complete. The forms enclosed are: retirement declaration form, member marital status form; bank mandate; commutation option form; early payment form and HMRC declaration form. When the forms are returned, the member is also asked to provide copies of their birth certificate and, where applicable, relevant certificates for their spouse, e.g. spouse's birth and marriage certificate for a married member, and a spouse's death certificate for a widow(er) (where a death has not been notified to NESPF via the mortality tracing service).
- 2.3.3 Once all forms and required evidence have been submitted, and the relevant information has been received from the employer, the actual benefits are re-calculated and input onto the payroll system. These may vary from the original estimate due to changes and additional information obtained in the intervening period. Following review of the pension and retirement grant calculation sheet and the test payslip by the Senior Pensions Officer, a notification letter is sent to the member to let them know the final figures and payment dates.
- 2.3.4 A sample of 20 new pensions (5 who had reached normal retirement age, 5 early retirements, 5 ill health retirements, and 5 trivial commutation lump sums) was selected to ensure that pension benefits were correctly calculated, the retirement was supported by necessary documentation from the scheme member and employer, the pension benefits including lump sum had been correctly calculated, calculations were reviewed by a Senior Pensions Officer prior to award of benefits, the payments according to the pension payroll agreed to the related calculation, and the first pension payment was made timeously. It was also verified that benefits had been adjusted up or down by the appropriate factor for late and early retirements. In addition, where a retirement was due to ill health, it was confirmed that the opinion of a health professional supported the retiral and the relevant 'tier' of ill health was applied in accordance with the scheme. Where a retiree opted for a one-off trivial commutation lump sum it was confirmed pension benefits were less than or equal to £30,000 as required by the Finance Act 2004. With the exception of the following points, the results of testing were satisfactory.
- 2.3.5 NESPF is required to provide retirement estimates within 10 working days of receipt of all information required to calculate the pension, and pensions to be paid in the next available pay run after all relevant information has been received. All new pensions reviewed met this target however two new pensions reviewed experienced delays. One of these related to an early retirement on 1 June 2020 with the first pension payment not made until 14

August 2020 whilst the other related to an ill health retiral on 31 July 2020 with the first payment not made until 15 October 2020.

- 2.3.6 The Service advised the delay for the early retirement case was due to the employer providing the necessary information late, however late payment interest was incurred by NESPF of £66.96, which should only apply when NESPF is at fault (payment is made more than one month after all information received from the employer). The Service advised the ill health retiral was due to a delay receiving notification of the retiral from the employer and a delay by NESPF issuing the options to the member as a result of challenges experienced by NESPF related to Covid home working and an increase in retirals requiring to be processed at this time. Delays paying pensioners, particularly in the case of ill health retirals, risks reputational damage to NESPF.
- 2.3.7 The outcome of an administration review by the scheme actuary and NESPF was reported to the Pensions Committee on 26 March 2021. NESPF agreed to review recommendations to gain efficiencies and improve member outcomes, including: working with employers to improve final pay provision through the monthly i-Connect interface or a new cessation template; review processes with a view to simplify procedures and reduce the number of 'chasers' required; investigate ways of measuring work activity to provide management information for process improvements; and set targets for processing any backlog accumulating because of increasing workload and homeworking.
- 2.3.8 Two new pensions reviewed were not supported by a PEN 1 form or equivalent detailing the date the employer reported the member joined the scheme; it was therefore not possible to verify the accuracy of the length of membership for the purposes of verifying pension benefits awarded. The Service advised that whilst an attempt was made to upload all relevant new start paperwork to the pensions system, not all historic employer paperwork is available. This increases the risk of manual update errors relating to the system date when a member joined the scheme, which would affect the pension benefits awarded to the member and their death beneficiaries.

Recommendation

In the absence of employer returns stating the date a member joined the pension fund, assurance should be sought from the related employers of the date members joined the pension fund.

Service Response / Action

Agreed. This is a historical issue with the examples above being from an employer that had gone through a number of organisational changes and both were over 30 years. This does not affect current data collection practices.

All information on service is provided to the member at retirement so any historical data issues can be addressed at that time. However, all pre-CARE pensioner start dates will now be checked with the employer.

Implementation Date

August 2021 (new procedure to obtain start dates from employers of new pensioners where missing)

Responsible Officer

Pension Fund Manager

Grading

Significant within audited area

- 2.3.9 It was noted that Aberdeen City Council does not use the NESPF PEN 2 cessation form, but uses an adapted version of this form which does not capture assumed pensionable pay required to calculate ill health retiral benefits. However, Aberdeen City Council is

providing this information by email instead.

- 2.3.10 A new pension reviewed, which had been awarded as a one-off trivial lump sum, had scheme membership of less than two years, meaning the member was ineligible for a pension. The Service confirmed that the trivial lump sum commutation pension payment should not have been paid and instead the former member's pension contributions (which was lower) should have been returned. There is currently no system control to prevent a trivial commutation lump sum being calculated where an employee's service is less than the required minimum of two years.

Recommendation

a) Trivial commutation lump sums should be reviewed to identify all payments to former members where length of service was less than the required two year minimum, and any overpayments should be recovered.

b) A system of control should be established to avoid reoccurrence of the award of trivial commutation lump sums to ineligible members.

Service Response / Action

a) Agreed. The service will review payments for the last 12 months.

b) Agreed. These are checked as part of the process, unfortunately this one was missed. The service will review it procedures.

Implementation Date

December 2021

Responsible Officer

Pension Fund Manager

Grading

Significant within audited area

2.4 Cessations and Survivor Pensions

- 2.4.1 There are various ways in which the Service may be notified of a member / pensioner's death including by a relative of the deceased, by a solicitor etc. The Service also uses the services of an independent mortality screening service to perform monthly checks of death notifications relating to scheme members in receipt of payments. A copy of the death certificate is required except where a death has been identified by the screening service.
- 2.4.2 When notice is received that a pensioner has died, their pension payments are suspended in the system and pension account is closed by updating pensioner status to "7:Death". A letter is then issued to the next of kin or solicitor depending on the details held. This letter encloses the relevant forms for spouse, child, death grant and balance of pension payments depending on the circumstances of the death. The death certificate is also requested along with the spouse's certificates where relevant. Sometimes it is not known if there is a spouse or children depending on whether a member of the family has been in touch or if notification is via the screening service. Papers are checked for death notices to trace next of kin. Forms are issued once the appropriate information is known which require copies of member's death certificate, spouse's birth and marriage certificates and eligible children birth certificates. Once survivor details are gathered, a survivor's account is opened in the pensions system which is linked to the deceased's account.
- 2.4.3 In accordance with the LGPS (Scotland) Regulations 2018, where a pensioner dies before age 75 and in accordance with NESPF policy within 10 years of becoming a pensioner, a death grant is paid to the relevant survivor reduced by any commuted lump sum and / or pension payments made to the deceased member.

- 2.4.4 A sample of 5 deaths was selected from a pension system report provided by the Service. The associated records were reviewed to ensure that payments to the deceased member were suspended as soon as the Service was notified, the death was confirmed by the screening service / death certificate / Tell Us Once form; all of the required forms had been completed and returned; the calculations of benefits paid to survivors were checked and accurate.
- 2.4.5 Two of the deceased pensioners had previously transferred in service to NESPF from their respective prior employer's pension funds; prior scheme membership recorded in the pension system for calculation of pension benefits agreed to that reported by the respective employers.

2.5 Guaranteed Minimum Pension

- 2.5.1 A guaranteed minimum pension is the minimum level of pension that an occupational pension scheme has to provide for those employees who were contracted out of the State Earnings Related Pension Scheme (SERPS) on a salary-related basis, between 6 April 1978 and 5 April 1997. The amount is meant to equate to the SERPS pension the scheme member would have received had they not been contracted out of SERPS and is calculated by HMRC. To ensure GMP is accurate the Service advised its GMP records were reconciled to HMRC's records for relevant members in 2018, with the date of reconciliation recorded in each relevant members' pension system records. Four of the five deceased members referred to in paragraph 2.4.4 above were eligible for GMP and all had 2018 reconciliation dates recorded against their pension system record.
- 2.5.2 A complication of GMP is that from 6 April 1988 changes in legislation meant the Guaranteed Minimum Pension elements before and after this date are calculated in different ways. For scheme membership from 6 April 1978 to 5 April 1988, when the Guaranteed Minimum Pension becomes payable, the inflation increase for the GMP element for these years was paid with the state pension. For scheme membership from 6 April 1988 to 5 April 1997 the occupational pension scheme pays inflation increases in line with the consumer price index (CPI) up to a maximum of 3%, with the remainder of any CPI increase over 3% paid with the State Pension. This means the GMP element of pension accrues inflation in line with the increase in CPI up to a maximum of 3%, while the rest of the member's pension increases in line with CPI (no 3% cap). The Service advised the system is tested every time a new software update is applied and annually to ensure GMP inflation is operating as expected. The results of the most recent annual check of inflation applied by the system were adequately documented.

2.6 Write Offs

- 2.6.1 Depending on the timing of a pensioner's death, or on the timing of the notification of the death to the Service, an overpayment of pension benefits may be made. If the notification of the death of a pensioner is received after the payroll has been closed for monthly processing but before noon of the working day before a pension payment is due, the Service e-mails the bank to recall the payment for the deceased. Where notification is received after the pay-run an overpayment will be made.
- 2.6.2 In line with Aberdeen City Council's Financial Regulations, the Pension Fund Manager is authorised to write-off unrecoverable debts up to £10,000, the Chief Officer – Finance is authorised to write off debts up to £25,000, and the Pensions Committee has the authority to write-off unrecoverable debt above £25,000. The Service's debt write-off procedure requires all debts up to £100 to be automatically written off.
- 2.6.3 A register is maintained by the Service of all debts to be written off; these are reviewed annually by the Pensions Fund Manager for the purposes of approving write offs. The

Pensions Fund Manager approved the write off of 2019/20 debts recorded on the register on 6 July 2020; only 8 write-offs exceeded the £100 automatic write-off value and these were all less than £200.

2.7 On-going Pensions

2.7.1 Local Government Pension Scheme benefits for existing pensioners increase each April by the annual change in the consumer price index to September the previous year; the increase is on a pro-rata basis if the pensioner has only been in receipt of pension benefits for less than one year. If inflation is negative in any given year a pension decrease is not applied. The pension increase for April 2020 was 1.7%.

2.7.2 A sample of 20 on-going pensions was selected to ensure the pensions in the payroll system had been increased as required and that the correct amount was paid to the pensioner according to their pension payslip; this was the case.

2.8 Monthly Pay Run

2.8.1 There are five payroll pay groups (001- the main paygroup for all LGPS; CLL- Councillors; 009- Teachers Compensation (Teachers historic early retirement enhancements); N02- First Bus Aberdeen; N01- First Bus Strathclyde legacy payroll). According to the system payroll procedure notes, prior to processing the monthly pay runs for each pay group via BACS, a number of reports must be reviewed to identify any exceptions, including:

- Check for deaths to stop payments to deceased members
- Comparison of annual pension figures per the pensions administration system to relevant monthly payroll elements multiplied by 12. Discrepancies are then reported for investigation.
- Checks that financial codes are accurate (based on paygroup and member status)
- Checks for individuals with pensioner status not in pay group.
- Checks for people on payroll without pensioner status
- Run payroll calculations - highlights all gross and net pay errors >£3,500 per month. Notes required to explain e.g. first payment / tax refund
- Financial Summary Build report – used to check tax adjustments
- Payroll Reconciliation Reports – ensure no cheque payments in movement summary report
- Negative amounts check report – any negative amounts should be removed and investigated
- Payee status report – check all new pensioners picked up when compared to P45 file
- New Payees and Deletions Report
- Previous Employment Gross and Tax Report - shows all previous pay and tax that has been input during the current period
- Changes in gross pay by element since the previous month
- And a second financial code check for payments

2.8.2 Once the exception reports have been reviewed and any exceptions have been resolved / the related payments have been put on hold, the pay runs by pay group are processed for payment by BACS within the payroll system and a BACS Net Pay Certification report is produced by the payroll system for each pay group detailing the number of payments and the total value of payments. This is reconciled to a system generated Movement Summary schedule detailing payments due to be made. Once the BACS payments are processed by the Service, a BACS payment processing provider sends NESPF a BACS authorisation report which is then agreed to the payroll system BACS Net Pay Certification reports.

- 2.8.3 Three monthly pay runs (April 2020, October 2020 and January 2021) were reviewed to ensure BACS submissions were being processed and reviewed by separate authorised members of staff prior to payment, that the BACS payment processing provider BACS authorisation reports reconciled and agreed to the related payroll system BACS reports and that payments were made timeously. All pay runs tested were processed timeously and payments reported by the BACS payment processing provider agreed to the pension payroll system BACS Net Pay Certification reports.
- 2.8.4 However, it was noted the October 2020 and January 2021 pay runs had copied 'electronic signatures' applied to the BACS Net Pay Certification report to indicate which officers had prepared and reviewed pay runs for submission to BACS, and the January 2021 paygroup 009 had been processed by a single officer without review of the pension payroll system BACS Net Pay Certification report. Whilst the Service advised the payroll system is configured to only allow Senior Pension Officers to process the pay run for payment via BACS, a lack of review increases the risk of payment errors.
- 2.8.5 Copied signatures are also used to indicate review of pension calculations and test pay slips prior to creation of new pension accounts. As the signatures can be copied and pasted into the documents there is no way to verify that they have been applied by the authorised signatory themselves. There is therefore a risk of reviews and segregation of duties not having taken place, where it is indicated that they have.

Recommendation

The Service should ensure it can demonstrate that segregation of duties has been applied in all relevant processes.

Service Response / Action

Agreed. The service has always ensured and evidenced segregation of duties however given the period of this audit processes were adapted due to COVID-19 to ensure continued delivery of pensions.

The Pensions Regulator Covid-19 guidance advised that legal validity of electronic signatures has been endorsed by government, along with the legal team at Aberdeen City Council.

The service continues to monitor the enforced working arrangements and intends to revise procedures best on best practice in due course.

The Senior Pensions Officers have been reminded of the correct verification procedure.

Audit Position

Whilst the government endorses the use of electronic signatures it acknowledges there "are issues on the security and technology of electronic signatures that require further consideration from suitably qualified experts". The 'electronic signatures' used to evidence preparation and review of BACS Net Pay Certification Reports were officers' names in a signature-like font, which can be copied. However, it is acknowledged that alternative processes were in operation as a result of Covid-19 restrictions and procedures will now be reviewed.

Implementation Date

March 2022 (revised procedures)

Responsible Officer

Pension Fund Manager

Grading

Significant within audited area

- 2.8.6 Since the January 2021 paygroup 009 had been processed for payment without evidence of review, the exception reports, including member level pay run variances, were reviewed

to ensure there was evidence exception reports had been reviewed prior to payment; testing was satisfactory.

2.9 Changes to bank details

- 2.9.1 Changes and amendments to bank details and addresses are only made by the NESPF on receipt of a signed letter that includes the scheme member's pension reference number / NI number, or online through MyPension, which notifies the Service via email of the change, or via a report from the Bank informing of the change made by a member.
- 2.9.2 Once any changes are made, the NESPF sends a letter to the member confirming the change to verify that the details have been changed correctly.
- 2.9.3 A sample of 5 changes to bank details in 2020/21 was selected for testing, from a system report detailing where scheme members' details had changed, and checks were undertaken to ensure that the member had provided sufficient authorisation of the change, that the changes had been made timeously by Pensions staff, and that a letter was on file to the member to confirm the change of bank details in writing. The results of testing were satisfactory.
- 2.9.4 Separately all bank changes made during 2020/21 were reviewed to ensure separate officers updated the system and approved the changes. Fifty-two exceptions were noted where bank changes were applied to the payroll system without evidence of review.

Recommendation

The Service should ensure that changes to bank details are subject to review.

Service Response / Action

Agreed. When notified of a change of bank details all that is required is to check/update system then send a notification to the member confirming change made.

The 52 exceptions refer to when an officer has received changes made on Members Self Service (MSS), issued the confirmation and gone in and completed all the tasks including the checking task.

The MSS procedure will be reviewed.

Implementation Date

December 2021

Responsible Officer

Pension Fund Manager

Grading

Significant within audited area

AUDITORS: C Harvey
A Johnston
A McDonald

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.