

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	20 June 2025
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2515 – Pension Fund Payroll
REPORT NUMBER	IA/25/008
DIRECTOR	N/A
REPORT AUTHOR	Jamie Dale
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 the Pension Fund 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. CURRENT SITUATION

- 3.1 Internal Audit has completed the attached report which relates to an audit of the Pension Fund 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. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

- 7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council's Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing

those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

8. OUTCOMES

- 8.1 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.
- 8.2 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.

9. 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

10. BACKGROUND PAPERS

- 10.1 There are no relevant background papers related directly to this report.

11. APPENDICES

- 11.1 Internal Audit report AC2515 – Pension Fund Payroll

12. REPORT AUTHOR CONTACT DETAILS

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Internal Audit

Assurance Review of Pension Fund Payroll

Status: Final

Date: 08 May 2025

Risk Level: Corporate

Report No: AC2515

Assurance Year: 2024/25

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

Report Tracking	Planned Date	Actual Date
Scope issued	10-Oct-24	10-Oct-24
Scope agreed	17-Oct-24	11-Oct-24
Fieldwork commenced	04-Nov-24	19-Nov-24
Fieldwork completed	29-Nov-24	21-Mar-25
Draft report issued	20-Dec-24	21-Mar-25
Process owner response	24-Jan-25	29-Apr-25
Director response	31-Jan-25	08-May-25
Final report issued	07-Feb-25	08-May-25
Pensions Committee	20-Jun-25	

Distribution	
Document type	Assurance Report
Directors	Andy MacDonald, Executive Director – Corporate Services
Process Owner	Laura Colliss, Pensions Manager
Stakeholders	Marie McLean, Benefit Administration Manager
	Duncan Kilburn, Senior Pensions Officer
	Bernadette Bularan, Deputy Chief Finance Officer
	Jonathan Belford, Chief Officer – Finance*
	Vikki Cuthbert, Interim Chief Officer – Governance*
Final Only	External Audit
Lead auditor	Kostas Minas, Auditor

1 Introduction

1.1 Area subject to review

The Local Government Pension Scheme (LGPS) is a defined benefit public sector Pension Scheme that was established under the Superannuation Fund Act 1972. It is one of the main public sector Pension Schemes in Scotland and provides members with a range of valuable benefits including an annual pension, lump sum payments and a range of pension provisions for family and other nominated beneficiaries.

The North East Scotland Pension Fund (NESPF) administers the LGPS for 41 employers located throughout the North and North East of Scotland, including Aberdeen City Council.

NESPF was valued at £6.2b at the end of the 2023/24 financial year with nearly 78,000 members. The Aberdeen City Council Transport Fund was previously separate to NESPF but was merged with NESPF on 1 April 2022.

In 2023/24, a total of £198.3m was paid in retirement pensions, retirement lump sums/commutations, and lump sum death benefits (2022/23 - £172.0m).

1.2 Rationale for the review

The objective of this audit is to consider whether arrangements are adequate to start and terminate payments from the pension fund payroll, and to ensure that payments are accurate.

This area was last reviewed in June 2021 when arrangements were found to be adequate in general with recommendations agreed to enhance written procedures, and to enhance control over trivial commutation lump sums; segregation of duties; and changes to bank details.

This has been included in 2024/25 NESPF Internal Audit Plan due to the material value of retirement and death payments and the reputational risk to the Fund should employees and pensioners suffer financially due to inadequate control over these payments.

1.3 How to use this report

This report has several sections and is designed for different stakeholders. The executive summary (section 2) is designed for senior staff and is cross referenced to the more detailed narrative in later sections (3 onwards) of the report should the reader require it. Section 3 contains the detailed narrative for risks and issues we identified in our work.

2 Executive Summary

2.1 Overall opinion

The full chart of net risk and assurance assessment definitions can be found in Appendix 2 – Assurance Scope and Terms. We have assessed the net risk (risk arising after controls and risk mitigation actions have been applied) as:

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

The organisational risk level at which this risk assessment applies is:

Risk Level	Definition
Cluster	This issue/ risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.

2.2 Assurance assessment

The level of net risk is assessed as **MODERATE**, with the control framework deemed to provide **REASONABLE** assurance over the Council's approach to the Pension Fund Payroll.

The Local Government Pension Scheme (LGPS) is a defined benefit public sector Pension Scheme that was established under the Superannuation Fund Act 1972. It is one of the main public sector Pension Schemes in Scotland and provides members with a range of valuable benefits including an annual pension, lump sum payments and a range of pension provisions for family and other nominated beneficiaries.

The North East Scotland Pension Fund (NESPF) administers the LGPS for 41 employers located throughout the North and North East of Scotland, including Aberdeen City Council. In 2023/24, a total of £198.3m was paid in retirement pensions, retirement lump sums/commutations, and lump sum death benefits (2022/23 - £172.0m) via the five payrolls administered by NESPF (001 - main; CLL – Councillors; 009 – Teachers Compensation (historic early retirement); N02 - First Bus Aberdeen; N01 – First Bus Strathclyde Legacy).

Reasonable assurance was available over the following areas reviewed:

- **Ongoing Pensions** – Annual inflationary increases were correctly applied to a sample of five ongoing pensions, in line with HM Treasury Revaluation Order and Guaranteed Minimum Pension (GMP) rules. Income tax was also correctly calculated for the same sample of five ongoing pensions based on the tax codes present in the pension system.
- **New Pensions** – Five new pensioners, covering early, late and ill-health retirals and a voluntary redundancy reviewed were calculated correctly based on system data and the related employer cessation forms.
- **Transfers Out** – Transfer payment values for a sample of five transfers reviewed, were accurately calculated and adequately supported.
- **Data Quality** – In compliance with the Pensions Regulator's General Code of Practice, the Pension Fund has formalised a data quality improvement plan which has actions to improve the quality of data impacting pension calculations; this was reported to the Pensions Committee in December 2024. Also, the 2023/24 annual accounts reported high data quality scores of 98.7% and 99.2% for Pensions System common data (e.g. name, NI number, date of birth) and scheme specific data (i.e. data relevant to calculation of member benefits).
- **Committee Oversight** – In accordance with regulation 57 of the LGPS (Scotland) Regulations 2018, the Pension Fund has a Pension Administration Strategy (PAS) setting out details of

target performance and service standards for the Fund. PAS key performance indicators are being reported quarterly to the Pensions Committee, covering timeliness of key pension administration tasks relevant to pension processing. In addition, a risk register is being monitored quarterly by the Pensions Committee, covering relevant risks, including those related to payment accuracy and fraud.

- **Breaches Register** – The Pension Fund maintains a Breaches Register for breaches of pension and data protection legislation (which are investigated and managed by Aberdeen City Council's Data Protection Team) and payment errors. The register includes consequences of breaches, a related risk assessment, and action to avoid a repeat and any reporting requirement. The Breaches Register is monitored by the NESPF senior management team monthly, and Pensions Committee is updated annually.
- **Reconciliations and Exception Reporting** – BACS payroll net pay payments for all five payrolls across three months in 2024/25 all reconciled to the Pensions System with no material differences (one 60p difference). In addition, relevant pre-payroll checks had been recorded as being completed on the Service's payroll checklist spreadsheet, pre-payroll exception reports were run indicating no member calculation errors were present prior to processing the same three months of payrolls reviewed, and reasons for movements in gross pay are being analysed for payment control purposes.

However, the review identified some areas of weakness where enhancements could be made to strengthen the framework of governance, risk management and control, specifically:

- **Written Procedures** – The Pension Fund has extensive payroll written procedures. However, gaps were noted in documented controls. This included bank account verification alternative evidence; i-Connect exception reporting corrective action; pension benefit and grant calculation checks; how to check the accuracy of transfer out payment values; AVC lump sum overpayment prevention; pre-payroll exception reporting checks; net pay and tax reconciliation requirements; and BACS processing. Where procedures are not clear or complete, this risks inconsistency in approach, business continuity, payment error and potentially fraud.
- **System Access** – Whilst not demonstrated during this review, the Service advised that except for four officers within the Systems team who have superuser access, the Pensions System enforces segregation of duties in creation and authorisation of new pensioner benefits. However, the Service also advised that only five officers are permitted to authorise pension benefits for inclusion on pension payrolls and approve payrolls for payment but presently a further eight officers can do so (in addition to the four Systems team superusers) as well as having the ability to amend and/or delete certain payroll processing actions and the resulting payment history. This unnecessary system access increases the risk of payment error and potentially fraud.
- **Deceased Members** – Payments to a sample of five deceased pensioners were stopped timeously, and final payments to this sample were accurate based on system data and date of death evidence i.e. Tell Us Once notice, death certificate. In addition, survivor payments were accurately calculated. However, whilst the Service advise death notifications are available by various means, including from former employers, the Tell Us Once Service, and the National Fraud Initiative (NFI), 324 members as at April 2025 live permanently abroad or in Northern Ireland, out with the scope of these death notification services. This increases the risk of continued payment of pension benefits to deceased members living abroad, where deaths are not notified by next of kin, risking potential fraud, financial loss for the Fund, and reputational damage. Weakness in current monitoring arrangements, described as taking place weekly, was demonstrated by a £5k write off reviewed during this audit resulting from a failure to detect the death of a pensioner living abroad, with this instead identified almost a year after the death by the NFI exercise.
- **Bank Account Details** – Since November 2024, bank account verification (BAV) requirements have increased with the introduction of BAV functionality within the Pensions System. However, presently the Pensions System does not enforce segregation in preparation and approval of bank account details used at the point they are entered into the Pensions System, relying instead on creation of "checker tasks" for each bank account entered and typed case

notes to indicate review which cannot be verified to the relevant officer. Where segregation in preparation and approval is not enforced, this increases the risk of payment error and fraud.

- **Pensioner Identification** – The NESPF Retirement Form includes a useful checklist of required documentation and certificates that must be submitted by a prospective pensioner prior to a pension being paid. However, the checklists permit photocopies as well as original certificates, increasing the risk of forgery. Also, UK Government Proof of Identity verification guidance indicates you cannot use a single form of identification for an individual, with separate evidence required for proof of name (e.g. original birth certificate) and proof of address (e.g. utility bill within last three months, council tax bill for current council tax year). The risk of impersonation is low at the point of retirement where employer involvement is required. However, it would be prudent to risk assess identification verification adequacy and to ensure arrangements are fit for purpose, particularly in relation to payments not corroborated by a pensioner's employer.
- **Write Offs** – Three (60%) of a sample of five 2024/25 debt write offs relating to deceased former members, ranging from £176 up to £856, were not adequately justified based on records available during the audit and were not approved by the Pension Fund Manager as required i.e. approved by Senior Pensions Officers instead. In addition, whilst two larger value write offs were appropriately approved, one for £3k was due to inadequate checks prior to paying a survivor pension to an ineligible recipient i.e. a co-habitant ineligible since the deceased was already married to another individual. The recipient of the survivor pension must now repay an additional £10k (reduced from £13k). Where survivor pension checks are inadequate, this increases the risk of financial loss as in this case and reputational damage. In addition, tax is not being recovered from HMRC for all write offs for historical reasons, which is a financial loss to the Pension Fund.

Recommendations have been made to address the above risks, including formalising written procedures and delegated payment authority; reviewing and minimising system access; establishing monitoring arrangements for pensioners living abroad. Also, recommendations have been made to enhance controls over pensioner identification; bank account verification; and write offs.

2.3 Severe or major issues / risks

No severe or major issues / risks were identified as part of this review.

2.4 Management response

See comments below each point for identified risks and actions to be taken.

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Moderate
1.1	<p>Written Procedures and Training – Comprehensive written procedures are an essential element in any system of control, providing management with assurance that all staff have access to the necessary information to carry out their duties, especially in the event of an experienced employee being absent.</p> <p>The Pension Fund has many procedures in place to administer the pension payrolls. However, some gaps and areas for improvement were identified as follows:</p> <p><u>Bank Account Verification (BAV)</u></p> <p>Since August 2024, the Pensions System has been upgraded to include Bank Account Verification (BAV) functionality, which is used to verify new pensioner bank account details and any changes to bank account details.</p> <p>A basic spreadsheet procedure is in place with a “treatment” description of how officers should respond to the various “detail” warning messages from the BAV system. However, the “treatment” descriptions are not always clear, and do not always include specific alternative bank account evidence requirements, or details of who should provide this, where a bank account verification warning message appears. Examples of unclear “treatment” actions include:</p> <ul style="list-style-type: none"> • Account matched to individual at previous address - <i>“Check: Recent address change, Correspondence address, Care home. Ask if not sure. (Override if all OK and was a refer or fail)”</i>. • Unable to verify account details to address - <i>“For where a pensioner has sent in the change or returned retiral forms write out to request further information e.g. bank statement. For a bank initiated change send usual letter confirming change and note on letter that verification failed, probably due to new account”</i>. • Can't match bank account details to person - <i>“For where a pensioner has sent in the change or returned retiral forms write out to request further information e.g. bank statement. For a bank initiated change send usual letter confirming change and note on letter that verification failed, probably due to new account. If paired with “Bank account details matched to individual for a live account at current address” override as probably joint account”</i>. <p>This lack of clarity increases the risk an incorrect bank account will be accepted leading to payment error and potentially even successful fraud.</p> <p><u>i-Connect Validation Checks</u></p> <p>Employee data relevant to pension benefit calculations is updated in the Pensions System via monthly “iConnect” transmissions from employers. This includes the relevant employee’s full name, address, national insurance number, contact details, date of birth, date joined the fund, annual pensionable pay, equivalent final pay, and superannuation contributions.</p> <p>Once a submission has been processed by an employer, procedures state NESPF is notified and if there are any rejected employee superannuation contributions, these need to be investigated, and the Pensions System manually updated for the missing contributions. The Service advises that erroneous changes to data reported via iConnect affecting pension calculations are detected via exception reporting including misreported date of births, changes to dates individuals join the pension fund, or misreported pensionable pay.</p>		

Ref	Description	Risk Rating	Moderate
	<p>However, despite the Service advising it is understood how to identify and respond to such exceptions, procedures are not formalised covering this, risking business continuity, future payment error or potential unmitigated fraud.</p> <p><u>Lump Sum Duplicate Payment Error</u></p> <p>In 2022/23 a member was paid their Additional Voluntary Contribution lump sum twice, resulting in an overpayment of £38k, and this was not identified timeously by Finance, meaning the member no longer has the lump sum to pay the Pension Fund back in full. As a result, a payment arrangement has been established which is intended to enable the outstanding amount relating to the overpaid lump sum to be recovered through future reduced pension payments over a seven-and-a-half-year period.</p> <p>However, there is a risk the pensioner concerned may not survive to fully repay what is owed, risking financial loss and reputational damage.</p> <p>The payment error arose because the AVC provider paid the pensioner their AVC lump sum directly, instead of paying the Council to pay the pensioner, and a duplicate payment was then processed by the Pension Fund without evidence the related income had been received from the AVC provider.</p> <p>The Service advises that this could not happen now since Finance monitor immediate AVC lump sum payments processed to ensure the related income has been received from the AVC provider and if not, they notify the Benefits team to prevent the payment being paid.</p> <p>However, procedures have not been formalised to ensure new control measures are always applied. In addition, it would be preferable if the immediate payment did not enter the Pensions System at all until Finance had communicated income had been received from the AVC provider, rather than the current process, which involves creating the payment and deferring it for an estimated future payment date, relying on subsequent checks that income has been received prior to payment. These issues increase the risk a future duplicate AVC lump sum payments.</p> <p><u>Pension Calculation Validation and Payroll Processing Checks</u></p> <p>The following was also noted in relation to pension benefit calculation and payroll processing procedures:</p> <ol style="list-style-type: none"> 1. Pension Details on Retirement – How to Check Figures Procedure – This details pension calculation checks. However, the procedure focuses on agreeing a system generated pension benefit and retirement grant summary back to a system screen for “Pension Details”. Whilst this may identify system calculation issues, this checking process does not verify figures back to any source documentation where relevant, such as the relevant employer form for final salary and pension service start date. 2. Transfer Out Checks – The procedures for staff require staff to check the accuracy of transfer out values without explanation of how to do so, risking payment error. 3. Pre-Payroll Processing and BACS Processing procedures - These procedures are yet to be finalised for use. 4. Reconciliations Procedure – This procedure was under review at the time of the audit. <p>The above gaps risk the identification, investigation and resolution of payroll anomalies, related payment error and financial loss.</p> <p>IA Recommended Mitigating Actions</p> <p>Pension procedures should be reviewed and where necessary formalised or updated. This should cover bank account verification; i-Connect exception reporting; AVC lump sum</p>		

Ref	Description	Risk Rating	Moderate
	overpayment prevention; pension benefit, grant and transfer out calculation checks; pre-payroll checks; reconciliations; and BACS processing.		
	Management Actions to Address Issues/Risks		
	<p><i>As previously mentioned, the bank account verification process is new and is still being understood and documented. The procedure will continue to be reviewed, and documentation updated.</i></p> <p><i>The guides held for checking errors and data for i-Connect will be reviewed and revised.</i></p> <p><i>A process is being developed for the lump sum overpayment prevention along with the Accounts team.</i></p> <p><i>The pre-payroll checks and bacs processing procedures are in the final stages and the reconciliation procedure is contained within the full Altair Payroll Procedure document although it is in the process of being reviewed and split out into a separate document.</i></p> <p><i>On the job training takes place to cover calculations however calculation procedures will also be reviewed to determine if any updates are needed.</i></p>		
	Risk Agreed	Person(s)	Due Date
	Yes	Benefit Administration Manager	30/09/2025

Ref	Description	Risk Rating	Moderate
1.2	<p>System Access – Secure System access controls are essential over any payment system to prevent unauthorised changes affecting payments made.</p> <p>Whilst evidence was not shared during this review, the Service advised Pensions System enforces segregation of duties in creation and authorisation of new pensioner benefits, with Payroll Senior users prevented by the system from authorising pension benefits they have had any involvement in creating or amending, and Payroll Officers prevented from authorising new pensioner benefits for inclusion on future payrolls. Also, the Service advised once authorised by a Payroll Senior, changes to the pension record within the Pensions System are prevented by the system and creation of BACS files to process payments is restricted to Payroll Seniors.</p> <p>The exception to this is the four “Client” superusers within the Systems team who can undertake any task within the Pensions System.</p> <p>According to the Service, only five officers are required to authorise payroll payments (batch payments up to £12m all five officers and immediate payments – Benefits Admin Manager £550k and Senior Pensions Officers £268k). However, presently eight additional officers have the same “Payroll Senior” access, enabling payroll payments to be authorised, as well as having the ability to amend and/or delete certain payroll processing actions and the resulting payment history.</p> <p>Where access permissions for any payment system are not aligned with officer roles and responsibilities and are excessive, this increases the risk of payment error and fraud.</p>		
	IA Recommended Mitigating Actions		
	System access rights should be reviewed and minimised in line with officer delegated authority, roles and responsibilities.		
	Management Actions to Address Issues/Risks		

Ref	Description	Risk Rating	Moderate
	<i>System access roles will be reviewed to ensure that those who do not use certain access also do not have that access.</i>		
	Risk Agreed	Person(s)	Due Date
	Yes	Systems Manager	30/06/2025

Ref	Description	Risk Rating	Moderate
1.3	<p>Deceased Members – To ensure full pensions do not continue to be paid to the bank accounts of deceased former members and mitigate the associated risk of fraudulent access to such payments, it is essential deaths are adequately monitored, and payments ceased.</p> <p>Payments to a sample of five deceased pensioners were stopped timeously, and final payments to this sample were accurate based on system data and date of death evidence i.e. Tell Us Once notice, death certificate. In addition, payments to survivors were accurately calculated.</p> <p>However, whilst the Service advise death notifications are available by various means, including from former employers, the Tell Us Once Service, and the National Fraud Initiative, presently 324 Pensioner members live permanently abroad or in Northern Ireland, out with the scope of these death notification services.</p> <p>This increases the risk of continued payment of pension benefits to deceased members, fraudulent access to these overpayments, financial loss, and reputational damage.</p> <p>The Service advised there is an existing checking process done periodically. However, this system did not identify a sample overpayment of £5k reviewed relating to a deceased member living abroad which had to be written off. Whilst this was picked up by the NFI exercise, this was almost a year after the related pensioner's death.</p> <p>This increases the risk of financial loss, should similar issues occur in other death benefit cases.</p> <p>IA Recommended Mitigating Actions</p> <p>The Service should enhance death monitoring arrangements for all pensioners, including those living abroad, and ensure related monitoring activity is recorded and reviewed.</p> <p>Management Actions to Address Issues/Risks</p> <p><i>An existence checking exercise is done periodically to check that all overseas members are still alive.</i></p> <p><i>We are looking to introduce digital identification checks and are in consultation with external parties to establish this.</i></p>		
	Risk Agreed	Person(s)	Due Date
	Yes	Benefit Administration Manager	31/03/2026

Ref	Description	Risk Rating	Moderate
1.4	<p>Bank Account Details – Bank account details used for making payments to pensioners are received by various means including via retirement forms for new pensioners or via the member's online portal or by letter for bank account changes.</p> <p>Since August 2024, the Pensions System has been upgraded to include Bank Account Verification (BAV) functionality, which is used to verify new pensioner bank account details and any changes to bank account details. The Pensions System supplier's BAV guide indicates this is achieved by using Credit Reference Agencies' live feeds, to verify bank account details are valid in combination with sort code entered, and that the account is live and matches to the individual concerned, at the current address (or otherwise).</p> <p>On submitting a BAV request, the potential result "status" options are as follows:</p> <ul style="list-style-type: none"> • Pass – The information matches records held by BAV third party data processor as described above. • Refer – Some of the information provided matches records held by BAV third party data processor e.g. account number may match to individual, but address doesn't. • Fail – No match. <p>The above results are accompanied by related "Detail" commentary, either confirming basis of a "Pass", or expanding on reasons for "Refer" or "Fail" status. The user can select "Pass (Overridden)" where a result other than "Pass" is returned to make payment with the bank account details submitted for verification.</p> <p>Four bank account changes since August 2024 were reviewed to confirm they were adequately supported, and this was confirmed to be the case.</p> <p><u>Review of Bank Account Changes</u></p> <p>The Service has advised that bank account changes are initially processed by the Systems Team, who amend the bank account details, run the BAV process and create a "checking task" for every bank change for a Senior Payroll officer to review the change.</p> <p>A Senior Pensions Officer advised that outstanding "checker tasks", including where bank account details have not been verified are run prior to processing the payroll for payment. This was evidenced in the payroll checklist (all groups) spreadsheet for 2024/25 with a related task to do so i.e. <i>"check the checker group to make sure all payroll tasks have been processed"</i>.</p> <p>All four samples reviewed that occurred since BAV was introduced, had system typed notes within the "Case Comments and Task Description" section, indicating more than one officer had been involved in the change in bank account details.</p> <p>Whilst the "checker task" helps ensure segregation of duties, there is still a risk a bank account change could be processed by an officer with privileged system access and the related "checker task" not created, circumventing the need for review of the change. If feasible, it would be preferable if the system enforced segregation in the preparation and review of bank account changes applied to member accounts to reduce the risk of payment error and fraud.</p> <p>IA Recommended Mitigating Actions</p> <p>Segregation in preparation and review of bank account changes, with review by a delegated officer, should be enforced by the Pensions System.</p> <p>Management Actions to Address Issues/Risks</p> <p><i>Presently we do not believe the system is capable of enforcing segregation in preparation and review of bank account changes / the creation of new bank accounts. However, we will liaise with the system provider and investigate.</i></p>		

Ref	Description		Risk Rating	Moderate
	Risk Agreed Yes	Person(s) Systems Manager	Due Date 31/07/2025	

Ref	Description		Risk Rating	Moderate
1.5	<p>Identification Procedures – In any payment process, adequate payee identification procedures are necessary to mitigate the risk of fraud.</p> <p>The NESPF Retirement Form includes a useful checklist of required documentation and certificates that must be submitted by a prospective pensioner prior to a pension being paid. This includes a member's birth certificate in all cases, and supplementary documentation as applicable, including a marriage/civil partnership certificate, spouse's death certificate for survivor pension and death grant, divorce decree if divorced to remove eligibility to survivor pension.</p> <p>In all sample pensioners reviewed (except those transferred out of the Fund) copy birth certificates were on file and marriage certificates where applicable. However, the checklists permit photocopies as well as original certificates, increasing the risk of forgery. Also, UK Government Proof of Identity verification guidance¹ indicates you cannot use a single form of identification for an individual, with separate evidence required for proof of name (e.g. original birth certificate) and proof of address (e.g. utility bill within last three months, council tax bill for current council tax year).</p> <p>The risk of impersonation and fraud is low on retirement where employer verification is required. However, there is a greater risk for other payments not corroborated by a pensioner's employer.</p>			
	IA Recommended Mitigating Actions			
	The Service should risk assess identification verification adequacy and ensure arrangements are fit for purpose, particularly in relation to payments not corroborated by a pensioner's employer, such as payment of survivor pension benefits.			
	Management Actions to Address Issues/Risks			
	<i>We are currently investigating digital ID checks for our online system Engage but it is not practical to check all pensioners.</i>			
	Risk Agreed Yes	Person(s) Benefit Administration Manager	Due Date 31/03/2026	

Ref	Description		Risk Rating	Moderate
1.6	<p>Write Offs – Depending on the timing of notification of a death to the Pension Fund, an overpayment of pension benefits may be made. In line with Aberdeen City Council's Scheme of Governance, the Pension Fund Manager is authorised to write-off unrecoverable debts up to £10k, the Chief Officer – Finance is authorised to write off debts up to £25k, and the Pensions Committee has the authority to write-off unrecoverable debt above £25k. The</p>			

¹ Bona Vacantia – Proof of identity checklist guidance (<https://www.gov.uk/government/publications/proof-of-identity-checklist/proof-of-identity-checklist>)

Ref	Description	Risk Rating	Moderate
	<p>Service's debt write-off procedure requires all debts up to £100 to be automatically written off.</p> <p>However, three (60%) of a sample of five 2024/25 debt write offs relating to deceased former members, ranging from £176 up to £856 (gross values), were not adequately justified based on records available during the audit and were not approved by the Pension Fund Manager as required. In addition, whilst two larger value write offs were appropriately approved, both highlighted control weaknesses.</p> <p>One was for £3k agreed as the Pension Fund was at fault and did not carry out necessary checks prior to paying a survivor pension to an ineligible recipient i.e. a co-habitant where the deceased was already married to another individual. The Service advises it would not be possible to mitigate this risk further however the error has resulted in a £3k write off and the recipient of the survivor pension having to repay an additional reduced amount of £10k.</p> <p>Where survivor pension checks are inadequate, this increases the risk of financial loss as in this case and reputational damage. The other write off appropriately approved was for £5k and the related control weakness is considered under 1.3 above.</p> <p>The Service advised that tax is not being recovered for all write offs for historical reasons. This should be addressed to avoid financial loss to the Pension Fund.</p>		
IA Recommended Mitigating Actions			
<p>a) The Service should ensure all write offs over £100 are appropriately justified and authorised.</p> <p>b) The Service should review and where possible enhance survivor pension controls to mitigate the risk of ineligible award of survivor pensions.</p> <p>c) The Service should recover overpaid tax from HMRC where feasible for prior unrecovered overpayments and as a matter of course for all overpaid tax in future.</p>			
Management Actions to Address Issues/Risks			
<p>a) <i>Two of the sample were both legacy First Bus members from Strathclyde. The overpayment limit for these is an inherited £250 because they are paid differently to NESPF only members. The overpayment policy has been amended to show this as it was not previously shown in the policy. The final issue within the sample was approved as required. Documentation has been put into the Teams Channel.</i></p> <p>b) <i>This is being reviewed in order to make the controls more robust.</i></p> <p>c) <i>Process is being reviewed.</i></p>			
Risk Agreed	Person(s)	Due Date	
N/A to a)	N/A	Implemented	
Yes to b) and c)	Benefit Administration Manager	31/08/2025	

4 Appendix 1 – Assurance Terms and Rating Scales

4.1 Overall report level and net risk rating definitions

The following levels and ratings will be used to assess the risk in this report:

Risk level	Definition
Corporate	This issue / risk level impacts the Fund as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual Issue / Risk Rating	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, which could result in, for example, a material financial loss. Action should be taken within three months.
Severe	This is an issue / risk that could significantly affect the achievement of one or many of the Council's objectives or could impact the effectiveness or efficiency of the Council's activities or processes. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.

5 Appendix 2 – Assurance review scoping document

5.1 Area subject to review

The Local Government Pension Scheme (LGPS) is a defined benefit public sector Pension Scheme that was established under the Superannuation Fund Act 1972. It is one of the main public sector Pension Schemes in Scotland and provides members with a range of valuable benefits including an annual pension, lump sum payments and a range of pension provisions for family and other nominated beneficiaries.

The North East Scotland Pension Fund (NESPF) administers the LGPS for 41 employers located throughout the North and North East of Scotland, including Aberdeen City Council.

NESPF was valued at £6.2b at the end of the 2023/24 financial year with nearly 78,000 members. The Aberdeen City Council Transport Fund was previously separate to NESPF but was merged with NESPF on 1 April 2022.

In 2023/24, a total of £198.3m was paid in retirement pensions, retirement lump sums/commutations, and lump sum death benefits (2022/23 - £172.0m).

5.2 Rationale for review

The objective of this audit is to consider whether arrangements are adequate to start and terminate payments from the pension fund payroll, and to ensure that payments are accurate.

This area was last reviewed in June 2021 when arrangements were found to be adequate in general with recommendations agreed to enhance written procedures, and to enhance control over trivial commutation lump sums; segregation of duties; and changes to bank details.

This has been included in 2024/25 NESPF Internal Audit Plan due to the material value of retirement and death payments and the reputational risk to the Fund should employees and pensioners suffer financially due to inadequate control over these payments.

5.3 Scope and risk level of review

This review will offer the following judgements:

- An overall **net risk** rating at the **Cluster** level
- Individual **net risk** ratings for findings.

5.3.1 Detailed scope areas

As a risk-based review this scope is not limited by the specific areas of activity listed below. Where related and other issues / risks are identified in the undertaking of this review these will be reported, as considered appropriate by IA, within the resulting report.

The specific areas, with a focus on payroll, to be covered by this review are:

- Written Procedures, Policies and Training
- System Access
- New Pensions
- Ongoing Pensions
- Cessation and Death Benefits
- Transfer of Pensions
- Administration, Reconciliation and Payment Control
- Changes to Bank Details
- Write Offs
- Reporting, Governance and Scrutiny

5.4 Methodology

This review will be undertaken through interviews with key staff involved in the process(es) under review and analysis and review of supporting systems, data, documentation, and paperwork. To support our work, we will review relevant legislation, policies, procedures/guidance and strategic plans.

Due to hybrid working practices, this review will primarily be undertaken remotely via electronic meetings and direct access to systems and data, with face to face contact and site visits to premises to obtain and review further records as appropriate.

5.5 IA outputs

The IA outputs from this review will be:

- A risk-based report with the results of the review, to be shared with the following:
 - Fund Key Contacts (see 1.7 below)
 - Audit Committee (final only)
 - External Audit (final only)

5.6 IA staff

The IA staff assigned to this review are:

- Konstantinos Minas, Auditor (**audit lead**)
- Andy Johnston, Audit Team Manager
- Jamie Dale, Chief Internal Auditor (**oversight only**)

5.7 Fund key contacts

The key contacts for this review across the Fund are:

- Jonathan Belford, Chief Officer – Finance
- Laura Colliss (**process owner**)
- Marie McLean, Benefit Administration Manager

5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	10-Oct-24
Scope agreed	17-Oct-24
Fieldwork commences	04-Nov-24
Fieldwork completed	29-Nov-24
Draft report issued	20-Dec-24
Process owner response	24-Jan-25
Director response	31-Jan-25
Final report issued	07-Feb-25

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