



**ORKNEY**  
ISLANDS COUNCIL

**INTERNAL AUDIT**

**Pensions Administration**

**Audit Report**

**2017/18**

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**Distribution :**  
Head of Finance  
Pensions Manager  
Audit Scotland

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## EXECUTIVE SUMMARY

Our audit found that there were robust systems and procedures in place with regard to the administration of the Orkney Islands Council (OIC) Local Government Pensions Scheme (LGPS).

In particular, audit work indicated that:-

- Transfers in to the scheme are properly administered, authorised, promptly received, correctly calculated and accurately recorded.
- Transfers out of the scheme are properly administered, authorised, promptly paid, correctly calculated and accurately recorded.
- New retirals are properly notified, benefits are correctly calculated in accordance with scheme regulations, are accurately recorded and are properly authorised.
- Payments on death of retired pensioners are only made after receiving suitable evidence of death, are correctly calculated, authorised, and are paid to the correct recipient.
- Benefits paid to widowers as a result of death in service are correctly calculated, authorised, and are paid to the correct recipient.

However, our audit also found that:-

- Although checks are in place to identify that all starters, leavers, new pensioners and deceased pensioners are complete within the system, a full reconciliation between the payroll system and the pension system has yet to take place.
- Although the Pensions section is small and they work very closely together, there is no formal document detailing the levels of authorisation and approval required for each staff member in respect of the administration of transfers, reconciliations and other relevant administration duties.
- The report includes recommendations which have arisen from the audit. The numbers of recommendations are set out in the table below under each of the priority headings. The priority headings assist management in assessing the significance of the issues raised.

Total	High	Medium
2	0	2

- Responsible officers will be required to update progress on these agreed actions via Aspireview.
- The assistance provided by officers contacted during the course of the audit is gratefully acknowledged.

**BACKGROUND**

The Local Government Pension Scheme (LGPS) is a tax approved, defined benefit occupational pension scheme and the scheme regulations are made under the Public Service Pensions Act 2013, and in the case of the LGPS (Transitional Provisions and Savings) (Scotland) Regulations 2014, under the Superannuation Act 1972. Prior to 1 April 2015 benefits under the scheme were based on members' length of membership and final salary. Since 1 April 2015, benefits are worked out using career average revalued earnings (CARE) rather than final salary. The LGPS covers Local Government and other organisations which have been accepted as admitted bodies to the scheme. In the Orkney Islands Council Pensions Fund there are currently 1776 Council employees who are active members and 166 members from admitted bodies.

The area of pension contributions is complex, with a number of changes resulting from the introduction of the 2015 LGPS Scheme including changes to the basis of the pension, accrual rates, contribution rates, contribution flexibility and pension retirement age.

**AUDIT OBJECTIVES**

The audit is being carried out as part of the Internal audit plan for 2017/18, and the Council's external auditors will review the work carried out.

The audit included review of the systems and controls in place with regard specifically to the administration, authorisation, calculation and recording of: -

- (a) Transfers into the LGPS
- (b) Transfers out of the LGPS
- (c) New Retirals
- (d) Deaths of retired pensioners
- (e) Death in service.
- (f) New entrants and leavers.

Audit work was also undertaken on general controls and legislative obligations.

**1. Audit Findings**

- 1.1 Historically, manual systems have been used for the administration of the LGPS within OIC. As such, it has not been possible to reconcile starters, leavers, and new and deceased pensioners in the pensions system with those on the payroll system.
- 1.2 Since 2011, however recognising the manual nature of the system, monthly checks have been developed to ensure that the Pensions section has received all the relevant information from the Payroll section.
- 1.3 Currently the Pensions section is implementing a new Pensions Administration Database and once this is complete this should enable reconciliations between this system and the Payroll system to be carried out. Further information on the progress of this system is outlined in 1.6.
- 1.4 Once all information has been input into the new Pensions Administration Database, a reconciliation should take place between this system and the Payroll system for the year ended 31 March 2017. Going forward, these reconciliations should take place on a regular basis.

***Recommendation 1***

- 1.5 Although the Pensions section is small and they work very closely together, there is no formal document detailing the levels of authorisation and approval required for each staff member in respect of the administration of transfers, reconciliations and other relevant administration duties.

***Recommendation 2***

- 1.6 As mentioned in section 1.3, the Pensions section is implementing a new Pensions Administration Database called Altair. Progress at the time of the audit is as follows:-
- All current pensioners have been input and the system has calculated the annual pensions increase for April 2017.
  - All deferred pensioners have been input and the system has generated the annual benefit statement for these.
  - The basic information of all active members, such as name, address and NI number have been input.
  - Current work involves inputting more detailed information for active members such as service history, salaries, and pension contributions.
  - The system, with complete information, is expected to be up and running, by the end of 2017.

	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
	<b>General</b>			
1.	Once all information has been input into the new Pensions Administration Database, a reconciliation should take place between this system and the Payroll system for the year ended 31 March 2017. Going forward, these reconciliations should take place on a regular basis.	Pensions Manager	Once the Altair Pensions System has been populated with the service records of the active members it should be possible to carry out regular quarterly reconciliations between the pensions system and the payroll system.	31 March 2018
2.	A formal document detailing the levels of authorisation and approval required for each staff member in respect of the administration of transfers, reconciliations and other relevant administration duties should be developed.	Pensions Manager	An authorisation and approvals hierarchy will be developed so that the segregation of duties can be followed and evidenced on working papers.	31 March 2018

Priority	Assessment
<b>High</b>	<ul style="list-style-type: none"> <li>• Key control absent or inadequate;</li> <li>• Serious breach of regulations;</li> <li>• Significantly impairs overall system of internal control;</li> <li>• No progress made on implementing control;</li> <li>• Requires urgent management attention.</li> </ul>
<b>Medium</b>	<ul style="list-style-type: none"> <li>• Element of control is missing or only partial in nature;</li> <li>• Weakness does not impair overall reliability of the system;</li> <li>• Recommendation considered important in contributing towards improvement in internal controls;</li> <li>• Management action required within a reasonable timescale.</li> </ul>

**Note:**

It should be recognised that where recommendations in the action plan are not implemented there may be an increased risk of a control failure. It should be noted however that it is the responsibility of management to determine the extent of the internal control system appropriate to their area of operation.