

Internal Audit Final Terms of Reference

Pensions Contributions

To: Sawan Shah (Head of Pensions)
Cc: Ravinder Jassar (Deputy Director of Finance)
Minesh Patel (Corporate Director Finance and Resources)
From: Darren Armstrong (Head of Audit and Investigations)
Date: 24 August 2023

Introduction and Ownership

The purpose of this Terms of Reference is to set out our approach and work programme for a review of pensions administration. This review is being undertaken as part of the 2023/24 Audit Plan as agreed by the Council's Audit and Standards Advisory Committee in March 2023. This plan was developed following an assessment of the main risks facing the Council as documented in our Internal Audit risk assessment.

The Council has identified Pension Fund as a Finance and Resources departmental risk where there is a risk that due to poor investments or a global economic downturn, Brent Pension Fund assets fail to deliver returns in line with the anticipated returns over the long-term, and as a result the Fund cannot meet its liabilities.

Sawan Shah (Head of Pensions) will take ownership of this review and will be responsible for agreeing the Terms of Reference. Ravinder Jassar (Deputy Director of Finance) will also be consulted.

Background

The employers that contribute to the Council's pension fund include the Council, schools, academies, admission bodies (outsourced contractors who apply to be admitted) etc. As at the end of March 2023, there were 88 employers (with different payrolls) that make contributions to the pension fund.

The contributions process is managed by the Council. This includes receiving contributions from employers into the Council's bank account, receiving the monthly contributions returns from employers and reconciling the returns to the bank and the general ledger.

Other elements of pensions administration process are outsourced to the Local Pensions Partnership Administration (LPPA), such as administering the member records (i.e. processing starters, leavers, opt-outs, benefits calculations, and refunds).

Service Objective

Administration of the pension scheme aims to ensure that pension contributions are collected from all active members, pension benefits are paid accurately and on time to all eligible pensioners and transactions are properly recorded in the underlying systems and accounts.

Audit Objective

The objective of this audit is to provide assurance on the effectiveness and robustness of the control framework for the Council's arrangements for the pensions' contributions management process.

Audit Scope

The audit will focus on key controls in place to mitigate the following potential risks:

Sub-processes	Key Risks
Roles and responsibilities	<ul style="list-style-type: none"> • If roles and responsibilities relating to the pensions administration process have not been clearly defined between the Council and LPPA, and performance against a Service Level Agreement (between the Council and LPPA) is not monitored, key roles or responsibilities may not be undertaken effectively, which could result in failure to comply with the Pension Regulator's Code of Practice, leading to reputational and financial risk for the Council due to possible fines.
Contribution data - employer and employee (LPPA)	<ul style="list-style-type: none"> • If contributions data is not received, is inaccurate or is not timely, then incorrect member records could be stored within the system, which could result in inaccurate pension payments and reputational risk for the council. • If any issues or complaints regarding the pensions administration and contributions process are not investigated and resolved, this could result in inaccurate contributions or reputational risk for the council.
Contribution receipts (employer and employee)	<ul style="list-style-type: none"> • If contribution receipts (into the Council's bank account) from employers are not received in line with statutory deadlines, and/ or are not reconciled, then this may lead to an incorrect valuation of liabilities/benefit payments, which may result in reputational risk and financial loss to the Council due to potential for fines from the Pensions Regulator.
Monitoring and reporting	<ul style="list-style-type: none"> • If the Council does not maintain adequate oversight of the services provided by LPPA, then it may not receive the agreed level of service, resulting in member complaints and reputational risk. • If relevant committees/ senior management do not receive adequate reporting (including around performance, exception reporting and late payments), then they may not have the necessary information to make informed decisions, which could lead to failure to achieve strategic objectives.

Limitations of Scope

Our work will be limited to the sub-processes and risks outlined in the table above.

Any observations we may report are limited to those identified through the course of our work and are not intended to represent an exhaustive list of all potential issues or considerations. Our work is not designed to ensure compliance with all laws and regulations. Fraud, error, or non-compliance with laws and regulations may occur and not be detected. Furthermore, the scope of our work does not constitute assurance over compliance with any laws and regulations.

This audit will look at controls relating to pensions contributions only.

As part of the scope of the audit we will not provide assurance over:

- core pensions administration processes (i.e. starters, leavers, amendments to bank accounts etc.);
- the accuracy of actuarial employer and employee contribution rates and calculations;
- investments relating to the pension fund.

Previous Audits of Pensions

- 2019/20 – Investments and Strategic Asset Allocation
- 2017/18 – Fund Administration

Audit Approach

The internal audit approach is developed through an understanding of the risk and management controls operating within the agreed scope.

The following procedures will be adopted:

- Identification of the risks within each area which threaten the achievement of objectives;
- Identification and evaluation of the controls in place to address these risks; and
- Testing of the operating effectiveness of the controls in place to address these risks.

The final outputs of this audit will be an internal audit report.

Timetable

Fieldwork start	16 October 2023
Fieldwork completed	01 December 2023
Closing meeting	01 December 2023
Draft report to client	10 days after closing meeting
Response from client	5 days after draft response
Final report to client	3 days after management approval