

Final Internal Audit Report

Pension Scheme Administration

December 2024

Distribution: Pensions Manager
Pension Accountant
Head of Pensions & Treasury
Head of Finance (Resources/ACE)
Governance Officer & Audit Liaison for Resources Directorate
Director Finance and Deputy S151 Officer
Corporate Director, Resources & S151 Officer

Assurance Level	Issues Identified	
Substantial	Priority 1	0
	Priority 2	2
	Priority 3	0

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Forvis Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Forvis Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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1. Introduction

- 1.1 The Croydon Pension Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS is a statutory scheme and is underpinned by regulations laid down by the Government, including the LGPS Regulation (2013), the LGPS Transitional Regulation (2014) and the LGPS Investment Regulation (2016). Staff pensions are secure and the benefits they will receive on retirement are based on membership in the scheme, accruing with every year they are a member. This type of scheme is called a Defined Benefit Scheme.
- 1.2 Croydon Council's (the Council) membership covers all Council staff including support staff in schools and a number of staff that are part of the Admitted Bodies into the Croydon Pension Fund (the Fund). The Fund also has staff from a number of colleges and academies. Teachers' and NHS staff have their own scheme and are not part of the Croydon Pension Fund LGPS.
- 1.3 The Croydon Pension Fund is run by the Council. This means that the Council is the "administering authority" in the LGPS Regulations. As an administering authority the Council discharges its duties in respect of maintaining the Fund through the work of the Pensions Committee. Its term of reference include all matters relating to the investment and management/administration of the Fund. Members of the Pensions Committee subscribe to a Knowledge and Skills framework that ensures they have access to training and support in taking decisions. In addition, the Pension Committee is supported by officers and external advisers, independent professional observers and scheme members.
- 1.4 The Council use the Altair system to manage pension administration. Key Performance Indicators (KPIs) are monitored based on data produced by Altair and presented to the Pension Committee for quarterly reviews.
- 1.5 This audit was part of the agreed Internal Audit Plan for 2024/25.

2. Key Issues**Priority 2 Issues**

A formal training plan or strategy was not in place and as such records were not retained to document the training completed by the team. **(Issue 1)**

Examination of records relating to ten undecided leavers found that one had not been followed up or actioned. At the time of our fieldwork there were 430 undecided leavers from the bulk December 2023 run which had still not been actioned. **(Issue 2)**

3. Actions and Key Findings/Rationale

Control Area 1: Legislative, Organisational and Management Requirements

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 1				
2	<p>Training needs are identified as part of the personal development process and captured in objective setting and record as part of the mid-year and year-end review.</p> <p>We will ensure these are recorded centrally going forward. This will be implemented by the end of the financial year 2024/25.</p>	<p>Expected Control</p> <p>Training relating to the management and performance of pension administration is clearly defined. All training, provided by the Council, or external parties, is monitored, with records of attendance held.</p> <p>Finding/Issue</p> <p>The Pension Manager stated that training on pensions administration is provided to new starters and continuous training is provided to all staff. However, this was done on an ad hoc basis and was not formalised in a training plan or strategy.</p> <p>The Council had no training log or documented monitoring in place to track what training employees on the Pensions team have undertaken.</p> <p>The Pensions Manager explained that training was provided to employees internally, by the Council, and externally, by the Local Government Association (LGA). However, neither of these types of training were recorded centrally, and any certificates awarded from training courses were held personally by the attendee, meaning these could not be provided for review during the audit.</p>				
	<table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Pensions Manager</td> <td>31 March 2025</td> </tr> </tbody> </table>	Responsible Officer	Deadline	Pensions Manager	31 March 2025	<p>As the Pensions team did not maintain a record of training sessions held, a review of training records to ensure they were up to date could not be performed.</p> <p>Risk</p> <p>Where training is not recorded and monitored by the Council, there is a risk that staff may not have received appropriate skills or knowledge, and the Council may not be</p>
Responsible Officer	Deadline					
Pensions Manager	31 March 2025					

aware of any further training needs or when training has expired. This may be impact on the effective administration of pensions across the Council and member bodies.

Control Area 3: Undecided Leavers

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 2				
2	<p>Review of the case identified in the report shows issues throughout the process. There has been a change of processes since this case, but team members involved have been made aware for the purposes of ‘lessons learnt’.</p> <p>We have developed procedures to deal with ‘<i>next day transfers</i>’ in order to reduce the number of leaver tasks the team have to process. Training on this for the pensions team has been scheduled for November 2024.</p>	<p>Expected Control</p> <p>When an employee leaves the pension scheme and the reason for their departure is not clear, they are marked as an undecided leaver. Checks are carried out to ensure they are given the correct options on what to do with their pension contributions, as these may be different depending on factors such as the length of service or reason for departure. When undecided leavers have been identified, the Council ensures they are reviewed and actioned in a timely manner.</p> <p>Finding/Issue</p> <p>An examination of the documentation for a sample of ten undecided leavers found that one undecided leaver had not had the leaving date provided by the employer. Discussions with the Pensions Team identified that the Council has treated this employee as having left the scheme; however, this had not been followed up with the employer.</p> <p>A review of the open and closed cases, from a report of undecided leavers from before December 2023, generated by Altair, showed there was 430 unresolved open cases of undecided leavers at the time of Internal Audit fieldwork.</p> <p>The Pensions Team Leader advised the team were working through these; however, due to the work required to complete this work, the expectation was that these will take in excess of a year to clear.</p> <p>Risk</p> <p>When undecided leavers are not managed and reported there is a risk that incorrect pension benefits may be paid out, or that members of the pension scheme will be given incorrect information about their pension options. This can result in both financial loss</p>				
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for the pension scheme, as well as reputational damage in the event that members are given incorrect information.

AUDIT TERMS OF REFERENCE

Pension Scheme Administration

1 INTRODUCTION

- 1.1 The Croydon Pension Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS is a statutory scheme and is underpinned by regulations laid down by the Government. Staff pensions are secure and the benefits they will receive on retirement are based on membership in the scheme, accruing with every year they are a member. This type of scheme is called a Defined Benefit Scheme.
- 1.2 Croydon Council's (the Council) membership covers all Council staff including support staff in schools and a number of staff that are part of the Admitted Bodies into the Croydon Pension Fund (the Fund). The Fund also has staff from a number of colleges and academies. Teachers' and NHS staff have their own scheme and are not part of the Croydon Council Pension Fund LGPS.
- 1.3 The Fund is run by the Council. This means that the Council is the "administering authority" in the Local Government Pension Scheme Regulations. As an administering authority the Council discharges its duties in respect of maintaining the Pension Fund through the work of the Pensions Committee. Its terms of reference include all matters relating to the investment and management/administration of the Fund, Members of the Committee subscribe to a Knowledge and Skills framework that ensures they have access to training and support in taking decisions. In addition, the Pension Committee is supported by officers and external advisers, independent professional observers and scheme members.
- 1.4 The Pension Manager, and the team provide benefit administration services to members and participating employers. The Head of Pensions, and the team, manage the pension fund investments and accounts, as well as providing support to the Trustees in their stewardship of the fund.
- 1.5 This audit is part of the agreed Internal Audit Plan for 2024/25.

2 OBJECTIVES AND METHOD

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
 - Walkthrough the processes to consider the key controls;
 - Conduct sample testing of the identified key controls, and
 - Report on these accordingly.

3 SCOPE

3.1 This audit, focused on Pension Scheme Administration was undertaken as part of the 2024/25 Internal Audit Plan. The specific scope included the following areas and recommendations:

Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	1	0
Payments Made to Pensioners and Contributions Received to the Fund;	0	0	0
Undecided Leavers	0	1	0
Pension Data	0	0	0
Monitoring and Reporting	0	0	0
Total	0	2	0

Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk,
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified issues are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

Statement of Responsibility

We take responsibility to London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Forvis Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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