

|  |  |
| --- | --- |
|  |  |
|  |  |
|  | **The Police and Crime Commissioner for Cleveland and the Chief Constable Cleveland Police** |
|  | **Assurance Review of Pensions Administration** |
|  | **August 2019** |
|  | **FINAL** |
|  |  |

|  |
| --- |
| **Executive Summary** |

|  |  |  |
| --- | --- | --- |
| **OVERALL ASSURANCE ASSESSMENT** |  | **OVERALL CONCLUSION** |
|  |  | |  | | --- | | **Pension administration processes, procedures, staff and working relationships are well established and embedded and working as intended.** | |
|  |  |  |
| **SCOPE** |  | **ACTION POINTS** |
| The review considered the arrangements for the management and control of the administration of pensions.  It included obtaining assurance that the pension records are correct i.e. the information that Cleveland Police hold is correct and is transferred correctly to XPS and vice versa and then processed correctly.  The review covered the Police Pension Scheme only. Middlesbrough Council Internal Audit Services audit the Teesside Pension Fund (LGPS). |  | |  |  |  |  | | --- | --- | --- | --- | | **Urgent** | **Important** | **Routine** | **Operational** | | **0** | **0** | **0** | **0** | |

|  |
| --- |
| **Management Action Plan - Priority 1, 2 and 3 Recommendations** |

| **Rec.** | **Risk Area** | **Finding** | **Recommendation** | **Priority** | **Management**  **Comments** | **Implementation**  **Timetable**  **(dd/mm/yy)** | **Responsible**  **Officer**  **(Job Title)** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| No recommendations were made. | | | | | | | |

|  |
| --- |
| **Operational Effectiveness Matters** |

| **Ref** | **Risk Area** | **Item** | **Management**  **Comments** |
| --- | --- | --- | --- |
| No Operational Effectiveness Matters were identified. | | | |

|  |
| --- |
| **Detailed Findings** |

**Introduction**

1. This review was carried out in July 2019 as part of the planned internal audit work for 2018/19. Based on the work carried out an overall assessment of the overall adequacy of the arrangements to mitigate the key control risk areas is provided in the Executive Summary.

**Background**

1. XPS Administration provide Police Pensions Administrative Services for Cleveland Police.

**Materiality**

1. There are 2,285 members to the value of £3.4m on the Cleveland Police Pension Scheme.

**Key Findings & Action Points**

1. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. Recommendations for improvements should be assessed for their full impact before they are implemented.

**Scope and Limitations of the Review**

1. The review considered the arrangements for the management and control of the administration of pensions. It included obtaining assurance that the pension records are correct i.e. the information that Cleveland Police hold is correct and is transferred correctly to XPS and vice versa and then processed correctly. The review covered the Police Pension Scheme only. Middlesbrough Council Internal Audit Services audit the Teesside Pension Fund (LGPS).
2. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

**Disclaimer**

1. The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

**Risk Area Assurance Assessments**

1. The definitions of the assurance assessments are:

|  |  |
| --- | --- |
| **Substantial Assurance** | There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved. |
| **Reasonable Assurance** | The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved. |
| **Limited Assurance** | The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved. |
| **No Assurance** | There is a fundamental breakdown or absence of core internal controls requiring immediate action. |

**Acknowledgement**

1. We would like to thank staff for their co-operation and assistance during the course of our work.

**Release of Report**

1. The table below sets out the history of this report.

|  |  |  |
| --- | --- | --- |
| **Date draft report issued:** | 2nd August 2019 |  |
| **Date management responses received:** | 2nd August 2019 |  |
| **Date final report issued:** | 5th August 2019 |  |

1. The following matters were identified in reviewing the Key Risk Control Objective:

|  |
| --- |
| **Directed Risk: Failure to direct the process through approved policy & procedures.** |

* 1. XPS Administration (XPS) provide Police Pensions Administrative Services for Cleveland Police.
  2. Cleveland Police utilise a third party provider, Sopra Steria, for the back office financial arrangements that includes payroll services.
  3. The initial contract was with Kier Business Services Ltd who were taken over by XPS in September 2018. The contract commenced from 1st April 2018 for a period of four years with no option to extend. The Schedule Two order form was reviewed during the audit and was found to be clear, comprehensive, in line with expectation and signed by both parties (customer and contractor) in advance of commencement of the contract.
  4. During the course of the audit the Specification and Statement of Requirements: Provision of Pension Administration Services CPC-0001629 document (“Specification”) was provided and reviewed. The Specification document was found to be in line with expectation with the central element of the Specification being the Service Level Agreement / Key Performance Indicators Schedule that is structured as follows:
* KPI No
* Key Performance Indicator (Measure)
* Required Service Level (Standard)
* Service Credits
* Notes
  1. There are a range of 27 KPIs that are detailed in the table below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Death of a Scheme Member | Deferred Benefits | Divorce Cases | Estimates | General Enquiries |
| Refunds | Retirement Options | Retirement Actual | Payment of commuted lump sums | Transfers In (Calculation) |
| Transfers In (Payment request) | Transfers Out (Calculation) | Transfers Out (Payments) | Variations | Annual Benefit Statements |
| Annual Pension Saving Statements | Payment of Pension Benefit OR Notification of Pension Benefits | P60 | Loss of Service & Pension Benefits | National Fraud Initiative |
| Home Office Statistical Report | Audit | Pension Board | Pensions Regulator Requirements | Data Protection Regulations |
| Pensions Dashboard | Annual Benefit Statements |

* 1. The Finance Department is provided with a Service Delivery Report (cumulative) on a monthly basis from XPS that includes the following: overview; urgent matters; regulations and guidance – monthly; headlines; additional work; complaints; common data; performance charts; and monthly analysis tables.
  2. The XPS Service Delivery Report for the year 2018/19 was reviewed during the course of the audit. The monthly analysis tables are structured as follows: Service, KPI, Days, Minimum Target, Average Case Time (days), PPS, NPPS, total (cases), within target, and actual performance comments. The tables are directly aligned with the 27 KPIs as are the performance charts. The actual performance against the KPI targets is very strong with no service delivery issues.
  3. Lord Hutton published his public sector pensions report in March 2011 with the objective to make a series of recommendations for public sector pensions. There was a Governance and transparency recommendation that required Pension Boards at scheme and local level.
  4. During the course of the audit the Cleveland Police Pensions Management Board meeting minutes from the start of 2018 were reviewed, specifically 18th January 2018, 19th April 2018, 8th November 2018, 14th February 2019 and 14th June 2019. The minutes highlighted that the meetings typically cover the following: Risk register; KPIs; Complaints; breaches of law; and Data quality issues/GDPR. The meetings are well attended with representatives from Cleveland Police, Sopra Steria and XPS with contributions from the range of attendees. The minutes are comprehensive, capture the decisions made and the actions agreed and are in line with expectation.

|  |
| --- |
| **Compliance Risk: Failure to comply with approved policy and procedure leads to potential losses.** |

* 1. Interviews with the Sopra Steria Head of Finance and Payroll Business Partner determined that XPS go above and beyond the SLA/KPIs and that the relationship is positive and well established. Interviews with the XPS Service Delivery Manager and the Systems and Payroll Manager echoed the comments of Sopra Steria and advised that there is regular telephone and email two way communications to resolve any issue that arise. Both parties added that there have been no material errors in recent years. This is in addition to the robust KPI target performance highlighted in paragraph 11.7 above.
  2. The Pensions system is called ALTAIR and was introduced in April 2019. It is a cloud based system that is hosted by Aquila Heywood and administered by the XPS Systems Team. During the course of the audit the system security was reviewed and found to be strong with desktop access security, Ping identity and very strong password complexity.
  3. The ALTAIR management toolkit groups the user roles and then applies the permissions. XPS hold the rights to amend, create and delete Sopra Steria staff user rights and can also send the password link so that the user can reset the user password.
  4. Back-ups of the ALTAIR system are undertaken on a nightly basis by Aquila Heywood. Should a recovery event occur they guarantee back up four hours from the previous night. XPS are working with Aquila Heywood to get real-time mirroring to mitigate the risk of data loss.
  5. There have been no disaster recovery issues in recent times. A full disaster recovery test was undertaken in September 2018 on the old system. There hasn’t been a disaster recovery test undertaken on ALTAIR. XPS are required to undertake a disaster recovery test every 12 months and this is being scheduled in line with the requirement.
  6. There is a secure portal that allows XPS to transfer files to Sopra Steria and vice versa. The Secure File Transfer Protocol (SFTP) is on an https encrypted site and provides an audit trail that was reviewed during the audit and found to provide appropriate granular detail.
  7. The pension members can access their pension information via the Member Portal: *XPS My Own Pension*. The Member portal is password and security questions controlled and includes a live calculation facility.
  8. The Police Pension Scheme (PPS) year-end returns 2019 guide produced by XPS was reviewed during the audit. The guide was found to be comprehensive, clear and in line with expectations. The guidance includes the following key elements: legal responsibilities and deadlines; provision of information and why we need it; data format; field specification and terminology; absence periods and their effects; and example calculations
  9. The Sopra Steria Payroll Manager completes the Police Pensions Schemes Year End returns. The Scheme and Finance returns were submitted to XPS on the secure portal in advance of the deadline dates as follows: Scheme - submitted 16th April 2019 (deadline 3rd May 2019) and Finance - submitted 24th May 2019 (deadline 31st May 2019). The returns were reviewed during the course of the audit and found to be in line with guidance and supported by an oracle payroll extract, XPS template and query folder.
  10. There were a handful of queries on the year-end returns that were timing based that were resolved by the Sopra Steria and XPS staff.
  11. Event reports are provided by XPS to Sopra Steria for the annual HMRC submission. The events include: lump sum – unauthorised payment change; crystallisation value; and event 22 (over annual allowance).
  12. There are established and readily available to staff Sopra Steria payroll pension checklists that includes processes for starters, leavers and variations (over 10%).
  13. A walkthrough test was undertaken for a new starter (2060936). A PPS pensions form is sent by HR to Payroll who set the starter up on the Oracle system. The form (including start date and start salary) is entered onto the ALTAIR system that links to XPS. The form is input by the Payroll Assistant and is independently checked by another member of the Payroll Team. The starter form and any associated documents is scanned to the secure portal that XPS can access. If there are any queries XPS raise them with Payroll. The Payroll Assistant maintains a new starter spreadsheet that includes start date, salary and updates. A quarterly report of new starters is generated and checked by the Payroll Manager. The test established that starter checklist was followed and the process is robust.
  14. A walkthrough test was undertaken for a leaver (173478). The HR Department provide Payroll with a leavers form that has been approved by the Chief Constable and Head of HR. The leavers salary information is entered onto the ALTAIR system by the Payroll Assistant that links to XPS. The forms come back from XPS and the letter with the pensions options is generated. Payroll communicate with the Officer so that they can sign the options form. The Payroll Assistant works out the pensionable pay for the last three years and the salary for the last year is sent to XPS. A breakdown of the lump sum paid is supplied by XPS. The leaver form and any associated documents is scanned to the secure portal that XPS can access. If there are any queries XPS raise them with Payroll. The test established that leaver checklist was followed and the process is robust.
  15. A sample of five leavers for the last 12 months from August 2018 were randomly selected as follows: 180382, 173763, 173910, 173478, 173828 and reviewed with the XPS Service Delivery Manager. The leavers were found to have been accurately processed and supported by the required documentation.
  16. A salary variation walkthrough test of a salary variation (202695) was undertaken and found to have been undertaken in line with the checklist.
  17. Testing of the production of the annual benefits statements was undertaken for the following five members: 201499, 174174, 173270, 2060281 and 2060281. The sample was random from statement generate from 1st April 2019. No issues were noted.

---------------