



Pension Fund Administration
Middlesbrough Council (Teesside Pension Fund)
Internal Audit Report

Business Unit: Finance
Responsible Officer: Director of Finance
Service Manager: Head of Pensions Governance and Investments
Date Issued: 6 August 2024
Status: Final
Reference: F1120/003

| | P1 | P2 | P3 |
|-----------------------|-----------------------|----|----|
| Actions | 0 | 0 | 1 |
| Overall Audit Opinion | Substantial Assurance | | |

Summary and Overall Conclusions

Introduction

Teesside Pension Fund (TPF) is financed through contributions from employers and employees, based upon a percentage of pensionable pay, and supplemented by earnings from fund investments. The TPF's assets, after payment of benefits, are invested as directed by the Pension Fund Committee.

The day-to-day running of the TPF is delegated to the Director of Finance of Middlesbrough Council who is responsible for implementing the strategies and policies set by the Pension Fund Committee. The Director delegates responsibility to the Head of Pensions, Governance and Investments who oversees two groups. The Pensions Administration Team is responsible for the calculation and payment of pension benefits and for looking after employer interests in the TPF. This function is currently outsourced and is delivered by XPS Administration.

The Pensions Governance and Investments Team manages the investment of the TPF in conjunction with the advice of TPF's external investment advisors and provides support to the Pension Fund Committee and Teesside Pension Board (TPB). The TPB assists Middlesbrough Council, as the Administering Authority, to:

- a) secure compliance with the regulations, any other legislation relating to the governance and administration of the scheme, and requirements imposed by the Pension Regulator in relation to the scheme; and
- b) to ensure the effective and efficient governance and administration of the TPF.

The 2023/24 XPS Administration service delivery report confirmed that as of Q4 total membership was 82,213, broken down as follows:

- 26,220 Actives
- 28,180 Deferred
- 24,384 Pensioners
- 3,429 Widow/Dependent.

Every three years the TPF has a health check known as the valuation. The latest health check was undertaken in 2022 and confirmed that the TPF had a surplus of £684m relative to the liabilities, meaning that the funding level (the value of assets divided by the liabilities) was 116%.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that:

- Pensions Administration is operated in accordance with relevant legislation and agreed processes, and that support and guidance is provided to employers to ensure the quality of returns.
- Payments of pension made using Altair LGPS platform are accurate, timely, agree to supporting documentation held and are appropriately authorised.
- Bank account changes are verified and there is evidence of the checks made to minimise the risk of payments to a fraudulent bank account.

Key Findings

We were provided with evidence and explanations to confirm that pension administration is being operated in accordance with relevant legislation and that processes ensure any changes in legislation are identified and acted upon promptly. We confirmed that TPF pension administrators are notified of legislation changes by the Local Government Association and using the Perspective platform ¹. In 2023-24, three statutory instruments were successfully processed by the Technical Manager, changes were defined and implemented, and relevant administration teams and other stakeholders were informed of the changes in a timely manner.

The TPF Governance policy and the Communication policy were last reviewed in December 2021 which is within the stated 3-year review period. The TPF Pensions Administration Strategy states that it should be reviewed annually by the administering authority; however, the last review to take place was in December 2021.

Pension administrators have provided support and guidance to all scheme employers with details of data quality expectations and advice on how to address errors before submitting. Timescales are also provided to ensure that employers are aware of when they must submit the information by. A communication plan was issued to employers on 20th February 2024 instructing them on the scheme communication, timeline and data quality expectations for end of year submissions. Contact details for further advice and an opportunity to attend a drop-in session and virtual training were also provided. A review of the TPF board minutes confirmed that all employers had submitted their data within the required 15th May timescale.

A review of the Employer Contributions Spreadsheet, where the pension administration team records contributions from scheme employers, has shown that it is updated and maintained as income is received on a monthly schedule. Reconciliations are undertaken each month between the Employer Contributions Spreadsheet, Business World and TPF bank account. The process includes a report which

¹ Perspective is a platform containing timeline regulations and pensions related materials covering the Local Government Pension Scheme Regulations.

notifies staff of any discrepancies requiring attention. At the time that this audit report was issued we had not received confirmation as to whether there are any current unresolved discrepancies relating to employer contributions for 2023/24.

Each year, pension payments to members are increased in line with inflation. A review of this process has confirmed that a provisional pension increase is run ahead of the rise to identify errors before the increase is made live. Pensions are paid out to members as part of the monthly payroll run and are reconciled each month by headcount and checks that new leavers and starters are correct as per the Movement Summary report.

Newly retired members are provided with a pensions option form and the monthly payments are calculated and signed off by the new retiree then balanced against the payroll. Where there have been errors in the calculation, the administration team identifies and corrects them promptly.

Processes are in place to identify overpayments to members and to leavers. Net deduction plans are set up where necessary with the member to recoup overpayments.

The pension administration team use the Lexis Nexis system to check that requests for changes to members' bank details are genuine. Further documentation is also required as evidence. Staff have access to up-to-date guidance to use Lexis Nexus. Testing confirmed that Lexis Nexus checks are used in all cases where relevant. The only exceptions were for overseas bank accounts and power of attorney requests where different processes apply. The testing confirmed that the required processes were also complied with for each case we reviewed. Where a Lexis Nexus scan fails, further evidence is requested from the member and the change is not processed until all security checks have been passed.

The process of making bank detail changes includes a separation of duties between making the checks and processing the new data. Testing has shown that bank change requests are processed as promptly as possible to ensure they are relevant for the next payroll run. requests which are received after the cut-off date are deferred to the next month's payroll run.

Overall Conclusions

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. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

1 The Administration Strategy has not been reviewed annually.

Issue/Control Weakness

A key governance document has not been reviewed within the required timescales.

Risk

Policies and procedures fail to provide adequate and up to date guidance for staff involved in pensions administration.

Findings

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the TPF, is required to draw up a statement(s) of policy concerning communications with members and Scheme employers, and a governance policy which sets out the procedures for the governance of the TPF. The regulations also provide the conditions and regulatory guidance surrounding the production and implementation of an Administration Strategy. The TPF publishes its communications policy and its governance policy on its website. The Administration Strategy is available via the Teesside Pension Fund Committee's meeting minutes. All three documents were last reviewed by the Teesside Pension Fund Committee in December 2021 along with the training policy, the conflict of interest policy, the risk management policy, the procedures for reporting breaches of law and the fund officer's scheme of delegation.

The Administration Strategy states that it should be reviewed annually but we have not seen any evidence that this has been undertaken since December 2021. At this committee meeting, it was stated that, as a charging policy and other changes had been made to the strategy, it would be sent out to employers for consultation and would be resubmitted to the committee for review if any substantial changes had been made. As this has not happened, it is possible that the consultation process did not result in any substantial amendments to the strategy. We have reviewed this document and we have not found any information that is out of date. However, it is important that the strategy is reviewed in line with agreed review timescales in order to identify any changes in legislation or working practices that may impact on its content.

Agreed Action 1.1

The Administration Strategy will be reviewed, updated if necessary, and presented to the next Pension Fund Committee (25 September 2024) for approval.

Priority

3

Responsible Officer

Head of Pensions, Governance and Investments

Timescale

30 September 2024

Audit Opinions and Priorities for Actions

Audit Opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Our overall audit opinion is based on 4 grades of opinion, as set out below.

Opinion Assessment of internal control

| | |
|-----------------------|--|
| Substantial Assurance | 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. |
| Reasonable Assurance | 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. |
| Limited Assurance | 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. |
| No Assurance | 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. |

Priorities for Actions

| | |
|------------|--|
| Priority 1 | A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management. |
| Priority 2 | A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management. |
| Priority 3 | The system objectives are not exposed to significant risk, but the issue merits attention by management. |

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INTERNAL AUDIT REPORT

TEESSIDE PENSION FUND INVESTMENTS

MIDDLESBROUGH COUNCIL

Status: Final

Date issued: 18th March 2025

Responsible officer: Director of Finance and Transformation

| | Critical | Significant | Moderate | Opportunity |
|-----------------------|------------------------------|-------------|----------|-------------|
| Findings | 0 | 0 | 2 | 0 |
| Overall audit opinion | Substantial Assurance | | | |

INTRODUCTION

With over 6.1 million individual members and around 18,000 participating employers, the Local Government Pension Scheme (LGPS) is one of the largest public sector pension schemes in the UK. All staff employed in local government can join the LGPS scheme.

Investment or pensions committees are the most common decision-making bodies in LGPS schemes. In 2023/24, the Teesside Pension Fund Committee met 4 times.

The Committee's responsibilities include approving the Teesside Pension Fund's investment strategy statement and setting investment targets ensuring that they are aligned with the Teesside Pension Fund's risk appetite; monitoring the performance of Border to Coast; and selecting, dismissing, and monitoring the Teesside Pension Fund's advisors; including investment consultants.

The Teesside Pension Fund's Calls and Distributions (also called the Drawdown) process, is the ongoing recording of the investments, made by Teesside Pension Fund, in other companies. The process also tracks the transactions between the Teesside Pension Fund and the investment companies such as capital, payments, and the eventual settlement with the companies that Teesside Pension Fund has invested in once the investment period has come to an end.

The Teesside Pension Fund's risk register highlights various risks, including those relating to investments underperformance, and inability to gather robust, quality, or timely data from Border to Coast. The risk register is presented to the Committee at least annually, normally presented to the to the March Committee each year.

OBJECTIVES AND SCOPE

The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that:

- ▲ Calls and Distributions are undertaken in accordance with agreed processes and are appropriately authorised.
- ▲ Teesside Pension Fund's risk register entries relating to investment risks are regularly monitored, updated, and reported to the Pension Fund Committee in line with agreed processes.

KEY FINDINGS

Our work confirmed that the Calls and Distributions process is being undertaken in accordance with agreed processes and that that transactions are being authorised appropriately. We reviewed the roles performed by both the Pensions and the Governance teams and the process for management to sign off transactions.

We reviewed transactions from across the 2024-25 financial year and we confirmed that there is sufficient evidence to support all stages of the Calls and Distributions process, including the authorisation of the required initiator and approver. We noted an instance where an asset was being managed by the Head of Pension and Investments who would normally approve all transactions. Evidence was provided to show that this had been identified and a countersignature was obtained from the Deputy Head of Pensions, in order to demonstrate independent oversight of this transaction.

We reviewed the processes in place for ensuring the Fund's risk register entries are regularly monitored, updated, and reported to the Pension Fund Committee in line with agreed processes. Currently, the Fund's risk register is reported annually to the Pension Fund Committee and undergoes a review shortly before this takes place. This means that any in-year activities which may impact on the content of the register may not be reflected in a timely manner. The register is included in the agenda meeting pack, as an appendix to a larger document, and is therefore not an easily accessed document. Also, the Pension Fund Committee meeting minutes do not demonstrate that the register has been actively reviewed and considered during these meetings. A more regular reporting schedule, with the register having a more prominent place on meeting agendas would assist in demonstrating a more robust approach to monitoring risks.

Currently there is no regular liaison between the Head of Pensions and Investments and the Council's Risk and Insurance Manager in terms of identifying risk-related issues that may impact on both the Fund's risk register and the Council's strategic risk register.

OVERALL CONCLUSIONS

Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

1 Review of the Fund's risk register

Moderate**Control weakness.**

The Fund's risk register is currently only reviewed and updated once a year, prior to being presented to the Pension Fund Committee.

What is the risk?

The risk register is not updated in a timely manner meaning that new and emerging risks are not identified and mitigated promptly.

Findings

Currently, the Fund's risk register is reviewed by the Head of Pensions and Investments prior to its annual presentation to the Pension Fund Committee, usually in March. As the report is not updated on a more regular basis, any in-year activities that impact on risk management and mitigation may not be accurately reflected within the report in a timely manner.

The risk register is not a standing item on the committee agenda, and it is appended to a larger report that is presented to the committee. Meeting minutes do not demonstrate that the risk register has been actively reviewed. A more regular reporting schedule, with the register having a more prominent place on meeting agendas would assist in demonstrating a more robust approach to monitoring risks.

Agreed action

The risk register will be presented at each quarterly Pension Fund Committee meeting, with any emerging or high risks highlighted for discussion.

Responsible officer: Head of Pensions, Governance and Investments

Timescale: 30th June 2025

2 Lack of co-ordination on risks between the Council and the Fund

Moderate**Control weakness.**

Lack of co-ordination between the TPF risk register and the Council's risk register owners regarding joint risks.

What is the risk?

Risks that relate to both the Council and the Fund are not effectively managed and mitigated.

Findings

The Head of Pensions and Investments is responsible for updating the Fund's risk register. The Council also has its own strategic risk register. There is currently no liaison between the Head of Pensions and Investments and the Council's Risk and Insurance Manager for risk related issues that impact on both registers.

The Council's Risk and Insurance Officer has highlighted his willingness to be involved in a bi-annual review of the Fund's register to ensure that any issues impacting on both registers can be managed in a more co-ordinated manner moving forwards.

Agreed action

A meeting with the Council's Risk and Insurance Officer will be arranged to discuss setting up bi-annual meetings to review the Fund's risk register.

Responsible officer: Head of Pensions, Governance and Investments

Timescale: 30th June 2025

Agreed action

To have bi-annual meetings with the Council's Risk and Insurance Officer to review the Fund's risk register.

Responsible officer: Head of Pensions, Governance and Investments

Timescale: 30th June 2025

Audit opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit. Our overall audit opinion is based on four grades of opinion, as set out below.

| Opinion | Assessment of internal control |
|-----------------------|---|
| Substantial assurance | Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified. |
| Reasonable assurance | Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made. |
| Limited assurance | Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation. |
| No assurance | Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse. |

Finding ratings

| | |
|-------------|--|
| Critical | A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management. |
| Significant | A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management. |
| Moderate | The system objectives are not exposed to significant risk, but the issue merits attention by management. |
| Opportunity | There is an opportunity for improvement in efficiency or outcomes but the system objectives are not exposed to risk. |

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