



Cumbria Shared Internal Audit Service
Internal Audit report for Cumbria Constabulary /
Cumbria OPCC

Audit of Police Pensions

Draft Report Issued: 26th April 2021

Final Report Issued: 12th May 2021

Audit Resources

Title	Name	Email	Telephone
Audit Manager	Emma Toyne	emma.toyne@cumbria.gov.uk	07810532759
Lead Auditor	Janice Butterworth	janice.butterworth@cumbria.gov.uk	07775113426

Audit Report Distribution

For Action:	Ann Dobinson, Head of Central Services Michelle Bellis, Deputy Chief Finance Officer
For Information:	Stephen Kirkpatrick, Director of Corporate Support
Audit Committee:	The Joint Audit Committee which is due to be held on 23 June 2021 will receive the report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.

Executive Summary

Background

This report summarises the findings from the audit of **Police Pensions**. This was a planned audit assignment which was undertaken in accordance with the 2020/21 Audit Plan.

The Constabulary contracts out police pension's administration, this includes the calculation of pensions and lump sums. Following the acquisition of Kier Business Services Ltd in 2018 (the police pension administration provider since 2016) the service is now provided by PS Administration Ltd trading as XPS Administration. A twelve-month contract extension, to March 2022, was approved in September 2020.

Pensions are important to the organisation because they are a significant area of expenditure. Pensions benefits payable total around £39m per year.

Audit Approach

Audit Objectives and Methodology

Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives. Detailed findings and recommendations are set out within the Management Action Plan.

Audit Scope and Limitations

The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsors for this review were Michelle Bellis, Deputy Chief Finance Officer and Ann Dobinson, Head of Central Services. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:

- Follow up of the previous audit recommendation
- Data Quality
- Lump sum Payments
- Refunds

There were no instances whereby the audit work undertaken was impaired by the availability of information.

Assurance Opinion

Each audit review is given an assurance opinion and this provides Joint Audit Committee and Officers with an independent assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.

From the areas examined and tested as part of this audit review, we consider the current controls operating within Pensions provide **Substantial Assurance**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

Summary of Audit Findings and Recommendations

Controls were operating effectively in the following areas:

- Follow up of previous audit recommendation: arrangements are now in place to ensure that, for new starters, there is an independent payslip check to confirm the correct pension contribution rate and the correct pension scheme have been selected. This check is evidenced on standard paperwork completed.
- There is a contract in place for the Administration of the Police Pension Scheme which includes a comprehensive list of roles and responsibilities.
- Central Services Department have documented procedures for internal administration of the Police Pension Scheme.
- There are regular meetings with the pension scheme administrator to discuss service delivery and KPI's. The meetings are minuted, contain notes and actions; the meetings are appropriately attended.
- Checks undertaken prior to authorisation of the monthly pensions' payroll, including lump sum payments, are evidenced on the monthly Team Leader checklist which also serves as a guide to ensure staff are aware of all the required checks.
- Monthly BACS authorisation reports and Payroll certificates (which include pension payroll) are reviewed and approved appropriately. Where errors / warnings are shown on the Payroll Certificate, there is evidence that issues are investigated prior to authorisation.

- Sample testing of new starters confirmed that data prepared for the pension scheme administrator was accurate. Our tests confirmed that the data provided was supported by documentation, independent checks of data were carried out as required, correct pensionable pay, contribution rate and scheme were applied.
- Testing on a sample of leavers confirmed that lump sum payments had been correctly calculated, appropriately authorised, correctly paid and coded in the accounts.
- Pension contribution refunds were sample tested and were found to be eligible for refund with supporting documentation in place to confirm the length of service. Refund value and tax paid are calculated by XPS.

Director of Corporate Support Comments

I am very pleased to observe that the recent Internal Audit review of Police Pensions has achieved a substantial level of assurance with no recommendations being made, recognising the excellent level of controls and governance in place regarding pensions management.

The review highlighted that all previous audit recommendations are now in place to strengthen the checks in place regarding pension provision for new starters.

The report goes on to observe the effective contract and provisions in place around administration of the police pensions scheme and that robust policies and procedures are in place within Central Services.

Crucially, the report also recognises the robust reporting and stringent checks in place to ensure that the pension service continues to be managed effectively.

Independent sample testing undertaken by Internal Audit also confirmed that lump sum payments for leavers had been calculated correctly, appropriately authorised and correctly paid.

The positive findings within this report are a credit to the Central Services & Finance departments who are committed to ensuring that the pensions service continues to be managed effectively.

Stephen Kirkpatrick
Director of Corporate Support
12/05/21.

Audit Assurance Opinions

There are four levels of assurance used, these are defined as follows:

Assurance Level	Definition
Substantial	Sound frameworks of governance, risk management and internal control are in place and are operating effectively. Recommendations, if any, will typically be no greater than advisory.
Reasonable	Frameworks of governance, risk management and internal control are generally sound with some opportunities to further develop the frameworks or compliance with them. Recommendations will typically be no greater than medium priority.
Partial	Weaknesses in the frameworks of governance, risk management and/or internal control have been identified or there are areas of non-compliance with the established control framework which place the achievement of system / service objectives at risk. Recommendations will typically include high and medium priority issues.
Limited	There are significant gaps in the governance, risk management and/or internal control frameworks or there are major lapses in compliance with the control framework that place the achievement of system / service objectives at significant risk. Recommendations will include high priority issues.

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below:

Grading	Definition
High	A recommendation to address a significant gap in governance, risk management or internal control frameworks or to address significant non-compliance with controls in place.
Medium	A recommendation to address a gap in governance, risk management or internal control frameworks or to address aspects of non-compliance with controls in place.
Advisory	A recommendation to further strengthen governance, risk management or internal control frameworks or to improve compliance with existing controls.