

# Internal Audit

## Admission of Employers to the Pension Fund

2021/22

## Overall assurance rating



**Substantial**

## Audit findings requiring action

| Extreme | High | Medium | Low |
|---------|------|--------|-----|
| 0       | 0    | 1      | 1   |

The management of admissions to the Local Government Pension Scheme (LGPS) is operating effectively to mitigate the known risks to the Lancashire County Pension Fund (LCPF).

There is a detailed admissions and terminations policy which was agreed by the Pension Fund Committee and reflects statutory guidance. Admissions to the scheme and academy conversions are recorded in a comprehensive case tracker and managed in line with the policy. Although, the admission process is often not completed on a timely basis, this is mainly due to the time required to resolve technical queries. Risk assessments are carried out on all admissions to assess the financial strength of the prospective employer and help to determine whether a bond is required. Admission agreements are reviewed by legal services and signed by all parties prior to approval of admission to the scheme by the Head of Fund. Going forward, LCPF are intending to review admitted bodies financial strength on a periodic basis, which will further mitigate risks to the LCPF.

| Agreed actions from the audit   | Priority |
|---|----------|
| As required in the admission agreement a process will be developed by LCPF (as the administering authority) to ensure that the admitted body and scheme employer assess the level of risk at no more than an annual interval. This will enable them to determine if a bond/indemnity needs to be introduced/ varied to address the revised risk exposure.                             | ●        |
| LCPF will introduce a timeline that details the expected time to achieve key steps for admissions to the scheme and academy conversions. The timeline will be shared with all relevant parties to ensure that all parties are aware of all key deadlines they are required to comply with, which in turn should increase the likelihood of compliance and improving processing times. | ●        |

## Background

This report summarises the findings from the internal audit of admission of employers to the LCPF. The audit has been undertaken in accordance with the 2021/22 Internal Audit Plan.

## Context

The LGPS is open to two basic types of employers, "Scheduled Bodies" and "Admitted Bodies" which are both covered under Schedule 2 of the LGPS Regulations 2013. When schools are granted 'Academy' status they become a scheduled body. They therefore automatically qualify to participate in the LGPS. Whereas admission bodies do not automatically qualify as employers within the scheme, but the LGPS regulations allow participation for employees of admission bodies, through an admission agreement.

Different types of employers will pose different risks to the LCPF, as such a key objective for the LCPF is to only admit employers where the risk to them is mitigated as far as possible. Certain employers may be required to provide a guarantee or alternative security before entry will be allowed. Since March 2021 LCPF have completed the admission process for two bodies and four new academies have joined the LCPF.

### Previous audit

This area has not been previously audited.



### Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Policy, guidance and training
- Case administration
- Mitigation of risk
- Admission approval
- Scheme Induction

LCPF took over the role of managing admissions in April 2021 prior to this it was managed by LPPA. The scope of the audit only reviewed admissions from this point covering the period from April 2021 to January 2022.

| Area of Coverage               | Commentary  | Assessment |
|--------------------------------|---|------------|
| Policy, guidance, and training | There is a detailed admission and termination policy easily accessible on the LCPF website that was reviewed and approved by the Pension Fund Committee. Prior to approval, scheme employers participating in the LCPF, and the scheme actuary were consulted with and given the opportunity to provide feedback. Detailed information is available on the LCPF website to support and inform prospective employers and academy conversions. This information is also shared again as part of the admission process and academy conversion.   | ●          |
| Case administration            | LCPF have produced documented procedures of the admission process which includes a flowchart of the key steps. A comprehensive tracker is retained which reflects the current position of academy conversions, admissions and cessations. The admissions and academy conversions reviewed as part of this audit met the regulatory criteria for admission to the scheme. Where applicable they were supported by comprehensive application forms. The admissions process and academy conversions are often not completed on a timely basis. However, we do acknowledge that the delays are usually due to the time required to resolve technical queries. | ●          |
| Admission approval             | <p>Prior to approval by the Head of Fund, draft admission agreements are confirmed as accurate with the contractor and the scheme employer (where Lancashire County Council is not the scheme employer).</p> <p>The Head of Fund approves admission to the scheme and receives a summary of the key information from the Senior Pensions Technical Officer to support this. Admission agreements are signed by the scheme employer and contractor and then sealed by Legal Services. Legal Services also ensure that the agreement is executed in line with the applicable statutory provisions.</p>  | ●          |

|                    |  |   |
|--------------------|--|---|
| Scheme Induction   | Both academy conversions and admissions to the scheme receive a welcome letter which includes details on their employer contribution rate and reiterates their obligations. The Senior Pensions Technical Officer ensures that Altair is correct, and the contributions are being paid correctly. Once the process is completed all key documentation is retained in the employer file.  |  |
| Mitigation of risk | <p>As required in the LGPS regulations, risk assessments are completed for all admissions and the conclusions are supported by detailed information which helps determine whether a bond is required. For most admissions reviewed, the small contractor policy criteria had been met. This includes approval from the transferring employer to accept all risks (as detailed in the risk assessment) and for their future service contribution rate to be adopted. The level of risk for these cases tested determined that a bond was only required in one case. There is currently no annual review of admitted bodies and scheme employer's level of risk exposure to LCPF, which contravenes the admission agreement.</p> <p>Academy conversions adopt the future service contribution rate of the Local Education Authority that the academy previously came under. One of the cases tested had previously been given an incorrect contribution rate by LPPA but was identified and corrected by the LCPF.</p> |  |