

# Background and audit objectives

This review is being undertaken at the request of Lancashire County Council's Head of Internal Audit to provide support in delivering a review over the pension administration service provision which is delivered by the Local Pensions Partnership Administration (LPPA).

## Background and audit objectives

Effective Scheme Administration is essential to providing a good quality member experience and to discharge the responsibilities of the scheme manager and pensions board in paying benefits to members. Key objectives that support this experience include the payment of complete and accurate benefits to each member, in accordance with the Trust Deed and Rules, and in line with service level agreement deadlines.

The pension administration service is outsourced and delivered by LPPA who administer pensions administration on behalf of Lancashire County Council and 11 other council, fire and police scheme members who fall under the umbrella of the Lancashire County Council pension scheme. Key activities carried out by LPPA under this remit are to perform the suite of member benefit calculations on behalf of the pension scheme.

The Pensions Regulator Code of Practice 14 sets out a key duty for scheme managers and pensions Boards; *where services are outsourced, scheme managers should be satisfied that internal controls associated with those services are adequate and effective*. Some oversight has been obtained over the services through previous high level reviews of key service elements, however the Pensions Board have recognised they do not have the level of oversight necessary to fully discharge their responsibilities, most notably in benefits calculations.

Therefore the objective of this review is to review and assess the design and operating effectiveness of the processes and controls in place at LPPA for processing benefit calculations arising on retirement, death and transfers out of the scheme.

The objectives and scoping for this internal audit review have been documented in more detail on pages 4 and 5.

# Audit scope and approach

## Scope

### Design effectiveness

Through a series of walkthroughs, we will review the design effectiveness of the manual and automated processes and controls in place in respect to benefit calculations.

Process	Sub-process	Objectives
Retirement	Normal retirement date Early Retirement Late Retirement Ill-Health	<ul style="list-style-type: none"> <li>Only bona fide pensioners are included on the pensioner payroll system.</li> <li>The integrity of data in the system utilised to complete benefit calculations is accurate and complete.</li> <li>Payments are correctly calculated, signed off in accordance with the authority matrix, completed on a timely basis and paid to bona fide pensioners.</li> <li>Benefits paid to pensioners agree to the supporting benefit calculations, and are paid to the bank on a timely basis</li> </ul>
Death	Beneficiary – Spouse Beneficiary – Civil Partner Beneficiary – Child	<ul style="list-style-type: none"> <li>Only bona fide dependents are included on the pensioner payroll system.</li> <li>The integrity of data in the system utilised to complete benefit calculations is accurate and complete.</li> <li>Payments are correctly calculated, signed off in accordance with the authority matrix, completed on a timely basis and paid to bona fide dependents.</li> <li>Benefits paid to beneficiaries agree to the supporting benefit calculations, and are paid to the bank on a timely basis.</li> <li>Deceased pensioners/dependents are removed from the payroll system on a timely basis.</li> </ul>
Transfers Out	Transfers Out	<ul style="list-style-type: none"> <li>Payments are made in line with member instructions.</li> <li>The integrity of data in the system utilised to complete benefit calculations is accurate and complete.</li> <li>Payments are correctly calculated, signed off in accordance with the authority matrix and completed on a timely basis.</li> <li>Benefits paid agree to the supporting benefit calculations, and are paid on a timely basis.</li> <li>Payments are made to a bona fide pension scheme.</li> </ul>

# Audit scope and approach

## Scope

### Operating effectiveness testing

We will test the operating effectiveness of the controls identified during our design effectiveness walkthroughs on a sample basis to ensure that the operating environment is operating as designed.

We will utilise the information gathered during our design effectiveness walkthroughs to develop a testing approach that will focus on areas of risk. The approach to sample selection will be discussed and agreed with the Head of Internal Audit prior to commencing testing.

Process	Sub-process	Sample size
Retirement	Normal retirement date Early Retirement Late Retirement Ill-Health	Sample of 25 normal retirement date Sample of 25 early retirements Sample of 25 late retirements Sample of 25 ill-health retirements
Death	Beneficiary – Spouse Beneficiary – Civil Partner Beneficiary – Child	Sample of 25 beneficiary - spouse Sample of 25 beneficiary – civil partner Sample of 25 beneficiary - child
Transfers Out	Transfers Out	Sample of 25 transfers out.
Total sample size	-	200

# Audit scope and approach

## Limitations of scope

Our assessment will include those matters that we consider relevant based on our understanding of the key risks to the organisation. Our review will be restricted to evaluating the design effectiveness of processes and controls in place in respect to benefit calculations as set on page 4. We will not be performing end to end walkthroughs of each sub-process within the full suite of administration services but will cover processes and controls relevant to the benefit calculations processes as noted above..

Operating effectiveness testing will be limited to the sample sizes and populations as set out on page 5. We will not re-perform any benefit calculations as part of our testing approach.

Any observations we may report are limited to those identified through the course of our work and are not intended to represent an exhaustive list of all potential issues or considerations. Our work is not designed to ensure compliance with all laws and regulations. Fraud, error, or non compliance with laws and regulations may occur and not be detected. Furthermore, the scope of our work does not constitute assurance over compliance with any laws and regulations.

## Audit approach

Our audit approach is as follows:

- Through walkthroughs (via video conference calls) with management and review of relevant documentation obtain an understanding of the processes and controls for the sub-processes as detailed on page 4.
- Identify the key risks relating to benefit calculations.
- Evaluate the design of the controls in place to address the key risks.
- Perform operating effectiveness testing on a sample basis as detailed on page 5.