

Data Flows (Joint work with KPMG)

South Yorkshire Pensions Authority and
Rotherham Metropolitan Borough Council

Audit 2009/10

August 2010



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Introduction

- 1 South Yorkshire Pensions Authority (SYPA) maintains, invests and administers the South Yorkshire Pension Fund Local Government Pension Scheme. It does so on behalf of over 120 contributing employers including four local authorities, police and fire civilian staff and staff at colleges and charitable trusts in the area. The four local authorities of Barnsley Metropolitan Borough Council, Doncaster Metropolitan Borough Council, Rotherham Metropolitan Borough Council (RMBC) and Sheffield City Council account for 73 per cent of contributions to the fund.
- 2 SYPA uses the CLASS-AXIS application system for pension's administration. It also uses an external workflow system to manage the flow of documents through the system. A document imaging system is installed and all correspondence coming into SYPA is scanned. Member documents are held electronically following a project to convert microfilmed records to scanned images.
- 3 Controls around the administration system have been improved over a number of years, partly due to audit recommendations. However the quality of the data in the pensions system is heavily reliant on the contributing employers.

Background

- 4 The Pension Scheme Regulations require contributing organisations to supply information on time. The Pensions Act provides for fines to be levied on pension scheme administrators when information is not processed in a timely manner.
- 5 The administering authority may draw up an administration strategy which could contain service levels with employers for the supply of data. The strategy document would also allow the administering authority to levy additional administration charges on poorly performing employers.
- 6 Inaccurate or incomplete data will lead to wrong pensions' calculations for members and an incorrect valuation of the Pension Fund, which could mean higher or lower than necessary employers' contributions being fixed.
- 7 Pension schemes are required to issue an annual statement of benefits to contributors and the LGPS regulations require such a statement to be issued to those members with a deferred pension. An unacceptable level of queries is generated if the benefit statements are based on poor quality data.
- 8 The Pension Fund provides members with information on what options are available to them. There are many variables and the best option is not always obvious. Members will have the opportunity to make a more informed choice on what is best for them if the options presented to them are calculated on the basis of sound information.
- 9 If processes for passing information to SYPA are robust then:
 - employees will be given correct information on which to make decisions on their pension choices, and their benefits will be calculated correctly;
 - payments to retirees will be on time and Council staff will have a good 'pension experience' in their last contact with their employer;
 - the Council will not be fined or incur additional charges for the late delivery of information;
 - there will be no material impact on the valuation of the fund and correct charges will be levied on contributing authorities;
 - queries to the Pension Fund will be at an acceptable level; and
 - production of Annual Benefit Statements and year-end processing will not be delayed unduly.

Audit approach

- 10 The Audit Commission is the appointed auditor of SYPA and KPMG is the appointed auditor of RMBC. This report is based on the Audit Commission's review of SYPA and KPMG's review of RMBC.
- 11 We reviewed the processes and procedures in place at RMBC for passing electronic and manual data to the SYPA and we considered the timeliness and accuracy of outputs from these.
- 12 The work was carried out by:
 - interviewing members of staff at RMBC and SYPA; and
 - reviewing relevant documentation.
- 13 The key lines of enquiry for this review are detailed in Appendix 1.

Main conclusions

Findings

- 14 Rotherham Metropolitan Borough Council (RMBC) has made significant efforts to improve its performance in relation to providing pension data to South Yorkshire Pensions Authority (SYPA). The introduction of automated systems has contributed towards this and has enabled RMBC to be the best performing metropolitan authority in South Yorkshire.
- 15 However, whilst RMBC is recognised as being the 'top performer', the provision of timely and usable pension data to SYPA is not consistent or routine. The risks of this, to RMBC and SYPA, include:
 - the annual benefits statement for RMBC staff may be wrong;
 - new retirees may not receive the correct pension or it may be late; and
 - RMBC may be paying the wrong amount in contributions to SYPA due to inaccurate actuarial valuations.
- 16 RMBC and SYPA should work together to ensure information is provided in accordance with the service level agreement.

Detailed report

Resources

- 17 SYPA is situated in Regent Street, Barnsley. There are SYPA staff based at RMBC who have specific responsibility for RMBC pensions related issues. They receive training on new legislation and other relevant changes; and have the skills and knowledge to provide the agreed service to RMBC. Staff at both SYPA and RMBC have the skills and knowledge to provide an effective service to members.
- 18 However, as at 31 March 2010, SYPA reported to its Corporate Planning and Governance Board (CP&G) there were 711 un-notified leavers with some going as far back as 1997/98. This number has reduced, from 1,154 in April 2009; whilst this is a clear improvement, progress needs to be maintained to clear the backlog within a reasonable time.

Recommendation

- R1** SYPA and RMBC should consider whether there are sufficient resources to clear the backlog of work.

Data quality

- 19 RMBC does not always meet the targets to provide timely and accurate information to SYPA. This creates a risk that the pension scheme liabilities may be under or overvalued as SYPA cannot calculate member benefits accurately and the actuary receives incorrect information.
- 20 SYPA and RMBC have a Service Level Agreement (SLA) which states, 'the employer is responsible for the accurate and timely provision of information to the Administering Authority'. The agreed standards in the SLA for changes to members' details are as follows.
- New Starters: eight weeks (56 days).
 - Change in circumstances: four weeks (28 days).
 - Leavers: eight weeks (56 days).
 - Retirees: four weeks (28 days).
 - Death in service: two weeks (14 days).
- 21 The actual times are reported to SYPA's Corporate Planning and Governance (CP&G) Board. During 2009/10, RMBC failed to meet the SLA standards for leavers and achieved it for new starters and miscellaneous changes in only one quarter. It met the standard for retirements every quarter and almost met it for death in service. Table 1 summarises the performance of RMBC against the SLA in 2009/10.

Table 1 RMBC performance against the SLA in 2009/10

RMBC has mixed performance against the SLA

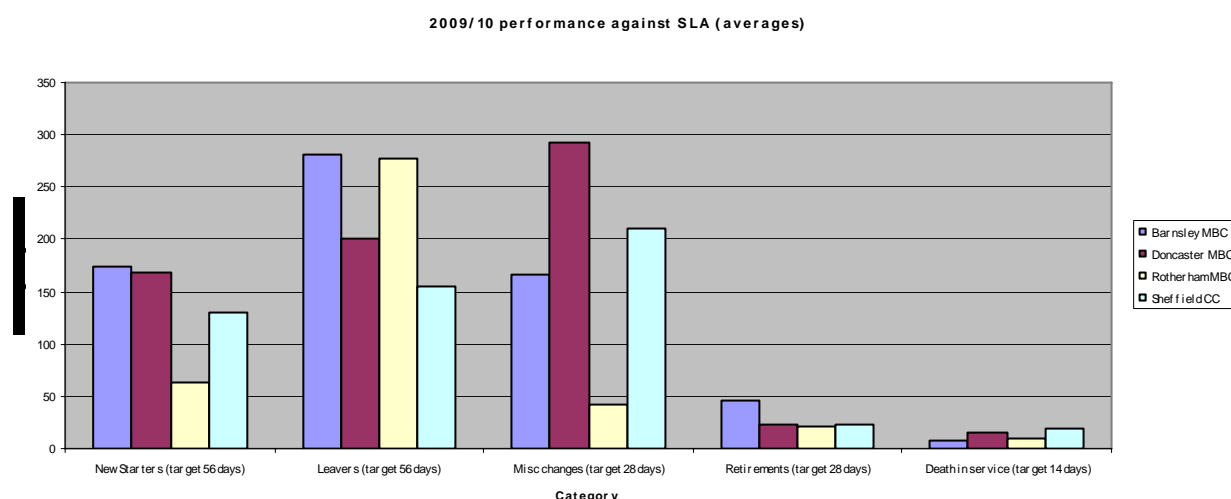
	Average days taken to send information			
	Qtr 1	Qtr 2	Qtr 3	Qtr 4
New Starters (target 56 days)	97	31	64	60
Leavers (target 56 days)	214	237	328	333
Misc changes (target 28 days)	47	45	29	48
Retirements (target 28 days)	23	23	19	21
Death in service (target 14 days)	10	none	21	7

Source: Employers performance against SLA reports to SYPA CP&G Board.

- 22** There is wide variation in the figures in some quarters. For example in quarter one, the average time for new starters was 97 days, this decreased to 31 in quarter two but increased again to 64 in quarter three. The average days for leavers has increased from 214 to 333 days during the year.
- 23** Compared to the other South Yorkshire MBCs, with the exception of information relating to leavers, RMBC performs better than the rest. Comparison of each MBC's average performance against the SLA for 2009/10 is summarised in figure 1 below and shown in detail at Appendix 2.

Figure 1 South Yorkshire MBC's Performance against the SLA

With the exception of information relating to leavers, RMBC performs better than the other South Yorkshire MBCs



Source: Employers performance against SLA reports to SYPA CP&G Board (average of four quarters performance).

Detailed report

- 24 The significant backlog of work, as reported to SYPA's CP&G Board at 31 March 2010, was 711 un-notified leavers, some of which go back to 1997/98. It is noted that RMBC have agreed an action plan with SYPA to clear the backlog over two years and there is evidence that this is taking effect (for example the backlog of un-notified leavers was 1,154 in April 2009).
- 25 RMBC's failure to fully comply with the SLA, when taken as a whole with other South Yorkshire MBCs, has potential risks.
- SYPA cannot accurately calculate the annual benefit statements for members.
 - New retirees may not receive the correct pension or it may be late.
 - Incorrect employer contributions may be set due to inaccurate actuarial valuations. (Our work has not set out to quantify any values in this respect).
- 26 The SLA provides for the following penalties.
- Persistent failure to comply with the requirements for the paying over of contributions will result in the Administering Authority taking the action required of Scheme Administrators by the Pensions Act 1995. That requirement is to inform the Pensions Regulator.
 - SYPA reserve the right to notify the entire membership in the event of serious or persistent failure.

Recommendations

- R2** SYPA and RMBC should work together to understand the source of the data and ensure it is accurate and useful in identifying the underlying problems.
- R3** RMBC officers should report performance against the SLA to Those Charged with Governance at RMBC.
- R4** RMBC and SYPA should be able to demonstrate that contributions paid and received, respectively, are correct.

Reconciliations

- 27 RMBC pays contributions to SYPA each month and an annual reconciliation of contributions is required to be carried out and provided to SYPA by 31 May each year. SYPA received the 2009/10 reconciliation in a usable format on 24 June 2010 which was after the deadline.
- 28 RMBC submitted what it perceived to be fully reconciled figures to SYPA before the end of May. At the beginning of June SYPA Officers alerted the Authority with an issue relating to an external payroll supplier's data. RMBC allocated a resource to the external supplier to work through and reconcile their information where there were discrepancies but, due to lack of access to the external supplier's systems, this caused difficulties.

- 29 It is recognised that using data from an external payroll supplier has a direct effect on the Authority's final annual reconciliation and is a weakness in the overall controls. RMBC is therefore working with the external supplier on a monthly basis to identify variances to contribution and pensionable pay data, requesting evidence of corrective action where appropriate. In addition a 'year-end procedures' workshop is to be arranged for Autumn 2010 to inform the external supplier's knowledge and processes.
- 30 Risks of completing the reconciliation late include:
- SYPA will be unable to guarantee the timely issue of annual benefit statements for current members of RMBC for that year; and
 - SYPA will be unable to guarantee the accuracy of information provided to the actuary for completing the triennial valuation of the fund, resulting in potential inaccurate employer contribution rates being set.
- 31 The SLA states, 'a written response to any query, except those queries resulting from the annual year-end routines, raised in writing by the Administering Authority will be provided within 2 weeks of its receipt'. Whilst this doesn't directly relate to SYPA, there are times when SYPA responds verbally to queries raised by RMBC. This poses risks of misinterpretation and does not provide an adequate audit trail.

Recommendation

- R5** SYPA and RMBC should respond in writing, within two weeks, to pensions queries. Where not confidential, SYPA responses should be shared with other employers.

Communication

- 32 There is good communication within RMBC, SYPA, and with members of each organisation. The Authorities pro-actively review processes to ensure effective and accurate capture of information. The development and level of automation of pension processes is extremely high and continues as part of the overall transformation programme.
- 33 Notification of changes to employee's data is a recognised problem area in a large organisation with dispersed worksites. RMBC is seeking to help educate the workforce responsible for this workflow through the use of Directorate Forums and workshops.
- 34 However, there is an opportunity to strengthen communications between Those Charged with Governance at SYPA and the equivalent body at RMBC. Such strengthening could facilitate better monitoring of performance against the SLA.
- 35 SYPA's CP&G Board plays a key part in monitoring the performance of SYPA and the districts (including RMBC) against the SLA. However the minutes of CP&G Board meetings are unclear on how issues relating to poor performance against the SLA are being responded to.
- 36 SYPA routinely issues Pension Matters, a newsletter for employers in the South Yorkshire Pension Fund. This is written in clear, understandable language with links to other guidance.

Detailed report

- 37** SYPA have launched a new website for employers, EPIC (Employer Pensions Information Centre). This site contains key contacts, frequently asked questions, membership information and other reference material.

Recommendation

- R6** Minutes of the CP&G Board should provide sufficient detail to enable the reader to understand the course of any actions taken in response to poor performance against the SLA.

Way forward

- 38** This report has been discussed with officers at SYPA and RMBC and the recommendations in the action plan attached at Appendix 3 have been agreed. The report and action plan will be presented to SYPA CP&G Board and the Audit Committee at RMBC and we will follow up the implementation of actions in the coming months.

Appendix 1 – Key lines of enquiry

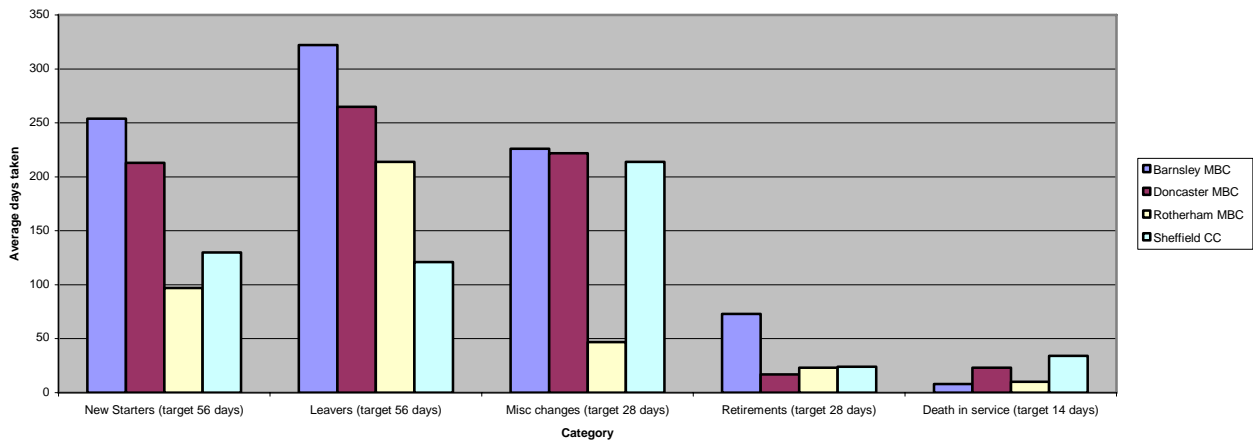
1 Resources – staff have the capacity, skills and knowledge to provide an effective service to members	Satisfactory / Unsatisfactory
<p>1.1 Pensions Authority resources</p> <ul style="list-style-type: none"> • The Pensions Authority has the capacity, skills and knowledge to provide the agreed service to its clients; • There are staff at the Pensions Authority who have specific responsibility for the Council; • Pensions Authority staff visit the Council on a regular basis; and • Staff receive training on new legislation and other relevant changes 	<p>Partial</p> <p>Satisfactory</p> <p>Satisfactory</p> <p>Satisfactory</p>
<p>1.2 Council HR/payroll resources</p> <ul style="list-style-type: none"> • There are adequate HR and payroll resources to manage the pensions work flow; • Staff understand how their work impacts on pensions, and how the Council’s discretionary policies affect pension entitlement; • Staff receive training in pensions, both at induction and as part of professional development; • Staff have a good understanding of pension’s regulations. • There is clarity of roles and responsibilities throughout the retirement process; and • There are controls in place where work has been outsourced. 	<p>Partial</p> <p>Satisfactory</p> <p>Satisfactory</p> <p>Satisfactory</p> <p>Satisfactory</p> <p>Partial</p>
<p>2 Data quality – processes in place at the Council and the Pensions Authority contribute to good quality data in the pension administration system</p>	
<p>2.1 Timely data</p> <ul style="list-style-type: none"> • Information on new starters, leavers and employee changes is passed to the Pension Fund on a timely basis; • Information is timely and provided in accordance with the SLA. • There is no permanent backlog of outstanding queries; • Any Council or Pensions Authority project work is discussed at the planning stage; and • Pensions for new retirees are paid on time. 	<p>Unsatisfactory - leavers</p> <p>Partial - others</p> <p>Partial</p> <p>Unsatisfactory</p> <p>Satisfactory</p> <p>Satisfactory</p>

<p>2 Data quality – processes in place at the Council and the Pensions Authority contribute to good quality data in the pension administration system</p>	
<p>2.2 Accurate, valid and consistent data</p> <ul style="list-style-type: none"> • There are controls in place to ensure accurate information is provided in accordance with the SLA. • Year-end reconciliations are accurate, timely and in accordance with the SLA. • Member queries are dealt with in a timely manner; • Queries generated by Annual Benefits Statements are reducing year-on-year; • Leaver forms are completed to a consistently good standard; and • Members are given correct information on which to make pensions decisions. 	<p>Partial</p> <p>Satisfactory - Council</p> <p>Unsatisfactory - External supplier</p> <p>Partial</p> <p>Satisfactory</p> <p>Partial</p> <p>Partial</p>
<p>2.3 Complete data</p> <ul style="list-style-type: none"> • Historic HR/payroll data is complete and easily accessible; • Standard forms are in use throughout the Council to capture employee data; • Breaks in service are notified to the Pensions Authority; and • Paperwork for new starters is passed to the Pensions Authority. 	<p>Partial</p> <p>Satisfactory</p> <p>Satisfactory</p> <p>Satisfactory</p>
<p>3 Communication – there is effective communication within the Council, with members and the Pensions Authority</p>	
<p>3.1 Council communication</p> <ul style="list-style-type: none"> • There is communication between the HR and payroll departments; • Actions agreed at meetings with the Pensions Authority are communicated to those responsible in the Council; • The Council is proactive in communicating with members of the scheme and staff have a 'good pension experience'; • The Council attends meetings with the Pensions Authority on a regular basis; and • Weaknesses are reported to those charged with governance and action is taken. 	<p>Satisfactory</p> <p>Partial</p> <p>Satisfactory</p> <p>Satisfactory</p> <p>Unsatisfactory</p>
<p>3.2 Pensions Authority communication</p> <ul style="list-style-type: none"> • There are nominated points of contact for specific services; • The Pensions Authority disseminates information to the contributing authorities on a timely basis so that the authorities are aware of current and future requirements; • The Pensions Authority arranges regular meetings with the Council and with the Council and other contributing authorities; and • Authority communicates with the Council in 'plain English'. 	<p>Satisfactory</p> <p>Satisfactory</p> <p>Satisfactory</p> <p>Satisfactory</p>

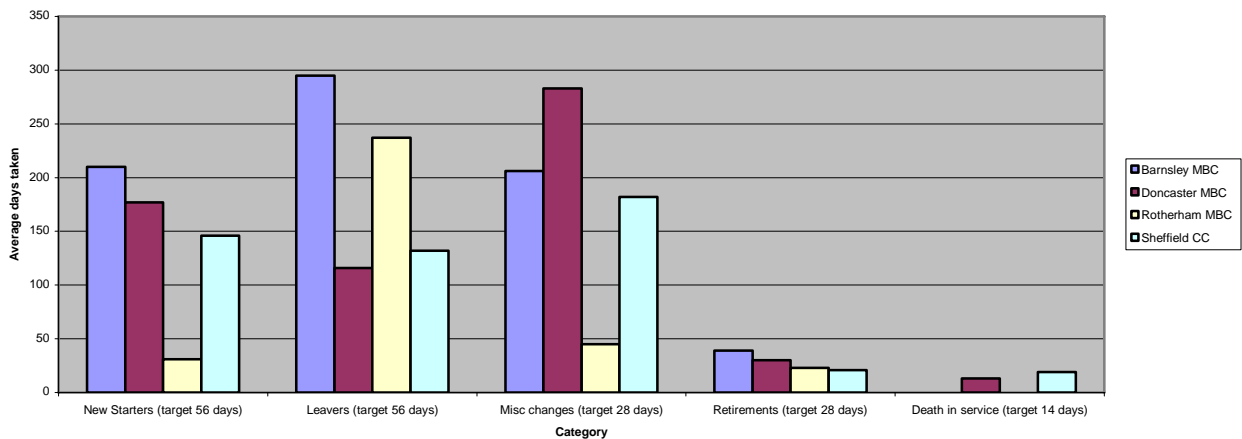
Appendix 2 – Performance against SLA compared to other South Yorkshire MBCs

All South Yorkshire MBCs are failing to routinely meet the targets as specified in the SLA for sending information to SYPA. However it is noted that, with the exception of information relating to leavers, Rotherham MBC performs consistently better than the other MBCs.

Quarter 1 performance against SLA

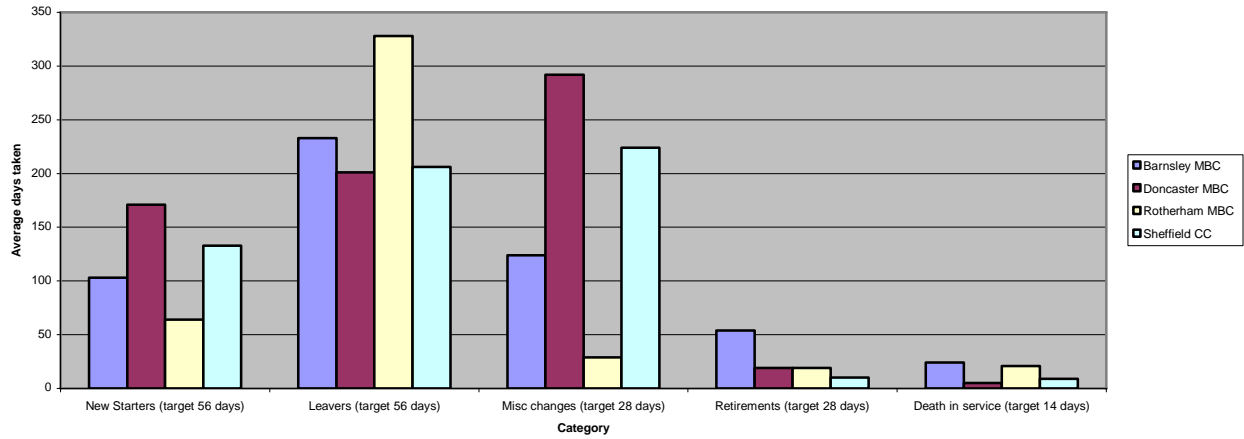


Quarter 2 performance against SLA

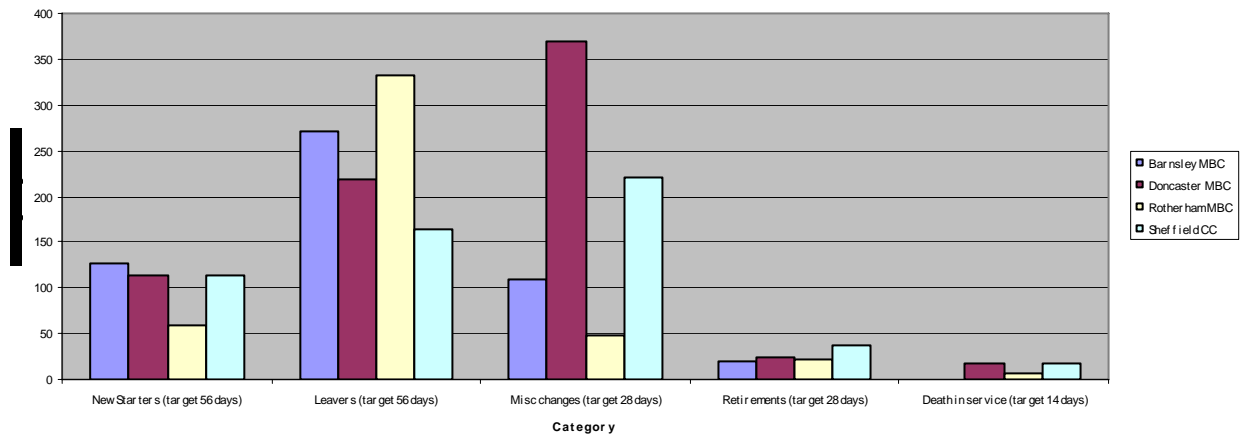


Appendix 2 – Performance against SLA compared to other South Yorkshire MBCs

Quarter 3 performance against SLA



Quarter 4 performance against SLA



Appendix 3 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed?	Comments	Date
7	R1 SYPA and RMBC should consider whether there are sufficient resources to clear the backlog of work.	3	RMBC	Agreed	RMBC were advised in 2009 of a backlog of 1,344 un-notified leavers. An action plan to clear the backlog over two years was agreed with SYPA. The plan is on track and at July 2010 there are 504 outstanding cases. It is anticipated the remaining cases will be cleared by March 2011.	Clear by 31 March 2011
9	R2 SYPA and RMBC should work together to understand the source of the data and ensure it is accurate and useful in identifying the underlying problems.	3	RMBC	Agreed	The SLAs count days from the date of the event. Local Authorities can only process documentation from the date received and processed through payroll. Timely notification is therefore vital as there is no contingency within the SLA deadlines. A range of issues have been identified in quarter one 2010/11. Details have been provided to the Audit Commission / KPMG and are available if required. In addition, leaver statistics include the backlog cases and 'skew' the data. It would be helpful if the backlog cases were separated out from the current cases as it would make the statistics more meaningful.	Ongoing

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed?	Comments	Date
9	R3 RMBC officers should report performance against the SLA, to Those Charged with Governance at RMBC.	3	RMBC	Partially agreed	Performance statements are produced via monthly Client Report to RMBC Client Officer detailing current caseload and the backlog cases. Reports reflect the performance of the payroll process from the point the data is received into the office. This will not match the SYPA SLA that measures the period from the date of the event ie leaving date.	Ongoing
9	R4 RMBC and SYPA should be able to demonstrate that contributions paid and received, respectively, are correct.	3	RMBC	Agreed	RMBC takes seriously the requirement for balanced reconciled contribution data. RMBC has never missed a payment due date and all contributions for RMBC are fully reconciled. Some schools in the Borough buy their payroll service from an external supplier and there are recognised issues in relation to the quality and timeliness of their data. RMBC does not have access to the external supplier's systems and is unable to provide anything other than a notional validation of information provided. This notional validation is undertaken each month on contributions received from the external supplier and also on the year-end data. The Authority is working with the external supplier to help improve knowledge and quality of data.	Ongoing

Appendix 3 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed?	Comments	Date
10	R5 SYPA and RMBC should respond in writing, within two weeks, to pensions queries. Where not confidential, SYPA responses should be shared with other employers.	3	SYPA / RMBC	Agreed	SYPA will respond to written queries in writing and where not confidential will publish any responses, felt to be beneficial to other employers, via announcements on EPIC.	Ongoing
11	R6 Minutes of the CP&G Board should provide sufficient detail to enable the reader to understand the course of any actions taken in response to poor performance against the SLA.	3	SYPA	Agreed	The minutes of the CP&G Board will be improved to record any actions taken by Members in response to poor performance.	Ongoing

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

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