

The Report of the Comptroller and Auditor General on the 2011-12 Civil Superannuation accounts

Introduction

1. The Cabinet Office: Civil Superannuation Accounts 2011-12 report the financial results of the Principal Civil Service Pension Scheme (PCSPS) and a number of other small public sector pension schemes. I am appointed auditor of these Accounts under the Government Resources and Accounts Act 2000.
2. I have qualified my opinions in two respects:
 - A qualification of my opinion relating to the regularity of benefit payments. My audit sought assurance that benefit payments made by the PCSPS were in accordance with the Scheme rules. The Cabinet Office has not retained, or provided me with, sufficient records to give this assurance ahead of the statutory deadline for laying the accounts before Parliament. I am therefore limited in my ability to confirm that all pensioners, or other beneficiaries, have received their correct entitlements.
 - A limitation in the scope of my opinion relating to the truth and fairness of the valuation of the pension liability. I sought assurance that the pension liability of £144 billion was a reasonable estimate based on the Scheme's membership records. The evidence presented to me was insufficient to support, in all material respects, this liability.

Background

3. The PCSPS is an occupational scheme, which at 31 March 2012 had 523,000 active members, 365,000 deferred members and 622,000 individuals receiving benefits. In the year ended 31 March 2012, the Scheme received £3.1 billion of contributions and other income, and paid out £4.9 billion, with Parliament funding the balance.

Qualification relating to regularity of benefit payments

4. Pension awards under the PCSPS are linked to a member's length of qualifying service and pensionable earnings. As part of my audit I test whether the service history data used by the Cabinet Office to calculate benefits are accurate, and thus whether individuals have received their correct award. Last year the Cabinet Office could not provide me with sufficient evidence to demonstrate that this was the case and I therefore qualified my regularity opinion on the 2010-11 Superannuation Accounts.
5. This year, as in 2010-11, I selected a sample of benefit payments and asked the Cabinet Office to provide employment or other primary records to support the awards. I was not able to confirm some six per cent by value of the payments I tested. Of this unsupported value, the main issues elements related to these types of cases:
 - The Cabinet Office did not provide any primary evidence to support the award. These were for members who had previously left the Scheme and deferred their award.
 - Primary records did not agree to, or were insufficient to support, the payment calculation.
6. These findings were a significant improvement over the prior year, when a quarter, by value, of the payments could not be supported. Nonetheless, as the Cabinet Office has not given me sufficient supporting information to materially validate the payment awards made in year, I have again qualified my regularity opinion in this respect.

Limitation on scope relating to the pension liability

7. The Accounts show a liability of £144 billion, which represents the amount that the Scheme estimates it will need to pay to current members in the future.
8. The Cabinet Office engaged an actuary to provide a valuation of the liability as at 31 March 2012. I was able to satisfy myself that the Cabinet Office and actuary's assumptions, and the methodology for calculation, were reasonable. However, as was the case for the prior year valuation as at 31 March 2011, the Cabinet Office did not provide sufficient records to give me assurance over the quality of the membership data used to calculate the pension liability. As such, the evidence presented to me was insufficient to support, in all material respects, this liability. I have again limited my opinion on the financial statements in this respect.

Factors related to the qualifications

Governance and Delivery Model

9. From 1 April 2010 the Cabinet Office launched a programme to transform and modernise the administration of civil service pensions. At that date the Cabinet Office Accounting Officer delegated responsibility for the management of the schemes to a Scheme Management Board. Delivery of pension administration was moved from an employer managed model, through which employers could engage one of seven authorised providers, to a single centrally managed function, MyCSP, governed by a Service Level Agreement with the Scheme Management Board.
10. In my report on 2010-11 Superannuation Accounts, I noted that these changes had resulted in an improved structure with better operational and risk management. I considered, however, that there were some weaknesses in the model which contributed to the circumstances under which I had qualified the Accounts:
 - The Board's operational role, including its focus on planning for the mutualisation of MyCSP, did not give it the capacity to take full ownership of financial matters and the accounts in 2010-11. In addition, there was no Finance Director, or other senior finance official, directly responsible for Civil Superannuation.
 - The change in relationship between employers and the administration function exposed the lack of a robust system of records management, including clarity over roles and responsibilities.
11. In March 2012, the Cabinet Office Finance Director was appointed to the Scheme Management Board and was formally delegated responsibility for managing resources under the Civil Superannuation estimate, including preparation of its Accounts. This has improved financial control, including processes for providing evidence to support pension payments. There has also been a clarification in roles and responsibilities with respect to records, which in part follows the move to a full contractual relationship with MyCSP Ltd when it was mutualised in May 2012.
12. Despite the improvements outlined, the Cabinet Office could not provide records for all the cases I selected. It appears that records, some of them old, have not consistently been retained where members have moved within, or left, the Civil Service and that this is a particular issue where government bodies have closed.

Scheme data

13. Employers are responsible for providing accurate data to the Scheme Administrator on their employees. In 2011, the Scheme Management Board commissioned the Cabinet Office internal audit to undertake a programme of audits to review employer systems and assess data reliability. This was intended to supplement the existing system of assurance that relied solely on self-certification by the employers.
14. I am pleased to note that a full programme of employer audits commenced in 2012. The audits conducted so far support my concerns, identifying some differences between the data held at employers and that by the Scheme. The audits also highlighted significant variation in the strength and consistency of controls at employers. This work is enabling the Cabinet Office to map processes with the aim of standardising and strengthening controls across the Scheme going-forward.

Changes to Civil Service Pensions and the Scheme Administrator

15. The PCSPS and its administration continues to undergo a period of significant change, which may increase the risks identified by my audit:
 - Scheme rules have been modified with all awards to be based on a career average salary as from April 2015. This increases the importance of the systematic retention and maintenance of staff records, which could be needed to be held over several decades.
 - MyCSP Ltd is contracted to undertake a programme of service transformation. This will include the restructuring of its operations, standardisation of systems, and the development of new IT infrastructure. The Cabinet Office should ensure that the risks of the complex data transfer operation and data cleansing exercise are carefully managed.

Actions required to secure improvement

16. The Cabinet Office should continue to develop and implement its programme with employers and MyCSP to improve record-keeping and improve systems and processes, including addressing the issues I have outlined. It should as part of that programme identify gaps in its historic records and take practicable action to address these.
17. The Cabinet Office has agreed the need to take such action to address the issues I have raised.

Amyas C E Morse

*Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP*

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