

## **The Report of the Comptroller and Auditor General to the House of Commons**

### **Introduction**

1. The Cabinet Office: Civil Superannuation Accounts 2012-13 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. In both 2010-11 and 2011-12, I qualified my opinions in two respects:
  - A qualification of my opinion relating to the regularity of benefit payments. My audits sought assurance that benefit payments made by the PCSPS were in accordance with the Scheme rules. The Cabinet Office had not retained, or provided me with, sufficient records to give this assurance. I was therefore limited in my ability to confirm that all pensioners, or other beneficiaries, had 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 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 estimate.
3. For the year ended 31 March 2013, I have given clear opinions on the regularity of benefit payments and the truth and fairness of the pension liability. Whilst some payments could not be supported by primary records, I do not consider the amount to be material to the account as a whole.
4. However, while my clear opinion reflects that the level of irregularity is not material during 2012-13, there are still underlying problems regarding the management and retention of Scheme data. The remainder of this report sets out the underlying issues and upcoming changes that increase the need for effective improvement.

### **Background**

5. The PCSPS is an occupational scheme, which at 31 March 2013 had 510,000 active members, 369,000 deferred members and 638,000 individuals receiving benefits. In the year ended 31 March 2013, the Scheme received £3.1 billion of contributions and other income, and paid out £5.1 billion, with Parliament funding the balance.

### **Regularity of benefit payments**

6. As part of my audit I seek assurance that benefits paid by the Scheme have been correctly calculated and awarded in accordance with the Scheme rules. Under the Scheme arrangements, employers are responsible for collecting and transferring to the Scheme Administrator complete and accurate data on members' service and earnings history, which are used to calculate awards. The

Cabinet Office, as the accountable department for the Scheme, should ensure that these arrangements are operating effectively.

7. The results of my audit in 2010-11 and 2011-12 gave me significant concerns over the robustness of the systems and controls put in place by both the Cabinet Office and employers to ensure the integrity of data. I sought to test a sample of benefit payments and asked the Cabinet Office to provide employment or other primary records to support the calculation of the awards. The Cabinet Office could not provide me with sufficient evidence to support the calculations and I therefore qualified my regularity opinion on the Civil Superannuation accounts in both 2010-11 and 2011-12.
8. For my audit of the 2012-13 Accounts I selected a further sample of payments. However, in light of the results of my previous audits and continuing evidence from the Cabinet Office's Internal Audit of weaknesses in the Scheme's assurance systems, this year I sought primary evidence directly from employers to validate the payments. I was only able to fully confirm all data in 45% of the cases I examined. The remaining cases consisted of cases where:
  - Primary evidence to support the award did not exist or could not be located. In all cases, these were for members who had previously left the Scheme and deferred their award. Over fifteen per cent of all sampled cases, or over a quarter of deferred cases, could not be supported at all.
  - Primary records did not agree to, or were insufficient to support, the payment calculation. These cases are split almost evenly between members who deferred their award and those who took their benefits on retirement, but the largest unsupported amounts were all from deferred cases.
  - The payment calculation had been performed incorrectly in a small number of cases.
9. However, the nature of the identified limitations is such that, in my assessment, the financial consequences are not material. Much of the information that was missing or inaccurate was historic and therefore has a proportionately smaller impact on an award. Unsupported amounts were only five per cent by value of the total value of awards coming into payment for the first time (equivalent to 0.6 per cent of total benefits paid). Therefore, I have given a clear regularity opinion on the 2012-13 Accounts. However, I remain concerned that the Scheme's systems were not sufficient to provide me with satisfactory assurance in their own right and that I found pensioners, albeit a small number, who had received incorrect pension awards.

#### **Valuation of the pension liability**

10. The Accounts show a liability of £162 billion, which represents the amount that the Scheme estimates it will need to pay to current members in the future. The Cabinet Office engaged the Government Actuary's Department to provide a valuation of the liability as at 31 March 2013. I was able to satisfy myself that

the Cabinet Office and actuary's assumptions, and the methodology for the calculation, were reasonable.

11. For the valuations as at 31 March 2011 and 31 March 2012, 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.
12. In the current year, the improvements in the results of my sample testing and additional evidence and analysis I was able to obtain from the Government Actuary's Department have provided me with the necessary assurance that the membership data was sufficient to calculate the pension liability. I have therefore removed the limitation on my opinion over the truth and fairness of the valuation of the pension liability for both 31 March 2012 and 31 March 2013.

### **Changes in Scheme governance and administration**

13. 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 (now Civil Service Pension Board). Pension administration was transferred from seven employer-managed providers to a single centrally managed function, MyCSP, governed by a Service Level Agreement with the Scheme Management Board.
14. These changes improved operational and risk management, but there were weaknesses in the model which contributed to the circumstances under which I qualified the Accounts in 2010-11 and 2011-12:
  - The Board's operational role did not give it the capacity to take full ownership of financial matters and the accounts, and there was no 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 and data management.
15. 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. The Cabinet Office Audit Committee now considers Civil Superannuation as a standing item and has closely monitored and challenged actions being taken by management to address the concerns identified by my audit.
16. There has additionally been a clarification in roles and responsibilities with respect to records, which in part followed the move to a full contractual relationship with MyCSP Ltd when it was mutualised in May 2012.

## Underlying issues to be resolved

### *Scheme data*

17. The Cabinet Office requires the Accounting Officers of employers covered by the Scheme to sign a Participation Agreement setting out their roles and responsibilities. Accounting Officers are required to provide an annual certificate of compliance. In 2011, the Civil Service Pensions Board (formerly the Scheme Management Board) commissioned Cabinet Office internal audit to undertake a programme of audits to review compliance with Participation Agreements including systems for the collection and transfer of data, in order to independently supplement the existing 'self-certification' system of assurance.
18. A comprehensive programme of employer audits commenced in 2012 and a full annual assurance report was produced for 2012-13. The report's findings support my concerns regarding inaccuracies in data and loss of records, and indicate widespread control weaknesses around data integrity. All of the employers audited during 2012-13, including the Cabinet Office itself, received a red rating from internal audit over the robustness of the process of self-certification by Accounting Officers.
19. Internal audit found that, in addition to the lack of records for deferred and pensioner awards, there are control weaknesses that impact on the pension records of current active members (i.e. those still in employment). A significant number of pension records were found to be incomplete, particularly when staff move between employers, there is a machinery of government change, or there is a transfer of HR functions. If left unresolved, control weaknesses over active members could cause errors when these members retire or leave service and defer their award.
20. In some employers there are no data validation controls in place to ensure changes to employee records were complete, accurate and valid, and accurately transferred to the Scheme Administrator. Comparison of Administrator and Employer datasets revealed mismatches in key areas such as scheme type, date of birth, date entered scheme, and date entered service for some employers.

### *Retention of records by employers*

21. Guidance published by The National Archives says "documents bearing on pension entitlement should generally be kept for 100 years from date of birth." We found that public sector employers were often not aware of this centralised guidance and it is therefore not followed. In addition, some employers have data retention guidelines that are inconsistent with the guidance, most commonly deleting data after seven years. As such, member records, some of them old, have not been consistently retained where members have moved within, or left, the Civil Service. This is particularly common where government bodies have closed or been involved in machinery of government changes.

22. The Cabinet Office has not exercised effective oversight or control over the retention of records by employers. It should show leadership to ensure that, as a condition of membership of the Scheme, employers follow the published guidance.

#### **Actions by the Cabinet Office to secure improvement**

23. The Cabinet Office Accounting Officer and Civil Service Pensions Board have approved a Records Improvement Action Plan to address issues that I identified in my audits. This Plan, which includes actions for the Cabinet Office, employers and the Scheme Administrator, has been endorsed by the Civil Service HR People Board, formed by the HR Directors of each Department. The key elements of the plan are:

- revised requirements for bodies on record keeping;
- a data cleansing programme, starting with 65,000 high priority members but to be extended to all active membership records;
- enhanced automatic checks within the new Compendia pensions administration system to be introduced in July 2014;
- a continuing programme of internal audits; and
- a fundamental review of the Accounting Officer Certificate assurance framework with more direct links to Departmental and Shared Service Centre control objectives.

24. Long term improvements depend on the Cabinet Office and other stakeholders across the Civil Service implementing this Plan. The Cabinet Office cannot deliver improvement unilaterally. To successfully address the issues I have raised and prevent incorrect pensions being paid in future, Scheme employers need to engage with the Cabinet Office's attempts to improve record keeping and data management.

#### **Upcoming changes that increase the need for effective improvement**

25. The PCSPS and its administration continue to undergo a period of significant change, including.

- The government's shared service agenda will see many Scheme employers transfer their HR functions, in whole or in part, to shared service centres from late 2013. This is an opportunity for improved control of records, but there is a risk that historical records may not be retained or be able to be accessed following the transfer. The Cabinet Office should ensure that records from before the transfer remain complete and accessible.
- The pension payroll function, currently operated by Capita Hartshead, is being taken over by MyCSP Ltd in 2014. At this date MyCSP will also introduce the new Compendia IT system which will replace the Penserver system that has been used by the Scheme since 2002. It is vital that the transfer of deferred and pensioner data from Capita, and data on active

membership on Penserver, is carefully managed to maintain the completeness and accuracy.

- Currently, the majority of award calculations only require salary data for the last three or twelve years of the member's service. Scheme rules have been modified with all awards to be based on a career average salary from April 2015. Following this change, salary data will be required for all years of service. This increases the need for systematic retention and maintenance of accurate staff records, which could be required to be held over several decades.

26. Such changes increase risks to the retention and provision of evidence to support accurate benefit payments and the accounts, and it is vital that the Cabinet Office ensures that such risks do not manifest.

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