

Cabinet Office: Civil Superannuation 2010-11

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

Introduction

1. The Cabinet Office: Civil Superannuation Accounts 2010-11 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. Furthermore, I have found a small number of cases where incorrect payments were made.
 - 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 £136 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 2011 had 564,000 active members, 352,000 deferred members and 604,000 individuals in receipt of benefits. In the year ended 31 March 2011 the Scheme received £3.4 billion of contributions and other income, and paid out £4.6 billion, with the balance being funded by Parliament.

Qualification relating to regularity of benefit payments

4. Pension awards under the PCSPS are linked to a member's length of qualifying service and salary. I tested whether the service history data used by the Cabinet Office to calculate benefits were accurate, and thus whether individuals had received their correct award.
5. 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 a quarter, by value, of the payments I tested. Of that quarter, the main elements related to:
 - cases where the Cabinet Office did not provide any evidence to support the award. A significant proportion of these were for members who had left the Scheme and deferred their award; and
 - cases where primary records did not agree to, or were insufficient to support, the pension calculation. As the Cabinet Office did not explain these differences I could not establish whether they were due to:

- inaccurate pensions data which had led to incorrect awards,
- a failure to maintain records; or
- a failure to locate, or provide records that had been retained.

6. In addition, there were a small number of cases where individuals had not received the correct award because there were inaccuracies in the data.

7. As the Cabinet Office has been unable to provide me with sufficient supporting information to fully validate the pension awards made in year, I have qualified my regularity opinion in this respect.

Limitation on scope relating to the pension liability

8. The Accounts show a liability of £136 billion which represents the amount that the Scheme estimates it will need to pay to current members in the future.

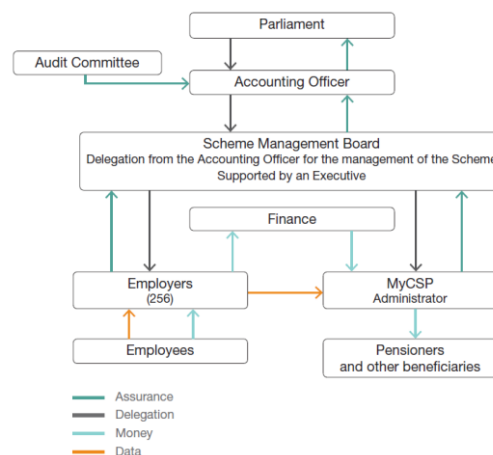
9. The Cabinet Office engaged an Actuary to provide a valuation of the liability as at 31 March 2011. I was able to satisfy myself that the assumptions made by the Cabinet Office and the Actuary, and the methodology for calculation, were reasonable. However, the Cabinet Office did not provide sufficient 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 and I have limited my opinion on the financial statements in this respect.

Factors related to the qualifications

Governance and Accountability

10. From 1 April 2010 the Cabinet Office revised the governance framework and administration arrangements of the Civil Superannuation Estimate. The new structure is shown below (Fig 1).

Figure 1. Civil Superannuation Governance and Accountability



11. The Cabinet Office Accounting Officer delegated responsibility for the management of the schemes to a Scheme Management Board. This delegation is wide and, although accountability cannot be delegated, the responsibilities broadly cover the Accounting Officer duties.

12. The Scheme Management Board has strengthened operational and risk management. In particular, the centralisation of the administration function under a Service Level Agreement with the Board is an improved structure. However, the Board's operational role does not give it the capacity to take full ownership of financial matters and the accounts. Capacity has been a particular issue over the last year due to the heavy demands of, and focus on, the planned mutualisation of MyCSP, as detailed below.
13. In addition, the Scheme Management Board, and therefore the Civil Superannuation Vote, sits outside the structures of the main Cabinet Office, including its Departmental Board. This has some implications for the Scheme Management Board's ability to exercise stewardship of resources:
- the Scheme Management Board does not have a formal relationship with the Cabinet Office Finance Directorate which operates Civil Superannuation's financial systems. There is no Finance Director, or senior finance officer, directly responsible for Civil Superannuation.
 - the Scheme Management Board does not have an audit committee. The Cabinet Office Audit and Risk Committee covers the Civil Superannuation Estimate and is attended by the Head of the Scheme Executive. However, the Committee does not provide assurance to the Scheme Management Board and reports directly to the Accounting Officer.
14. For the year ended 31 March 2011, the Scheme Management Board was not asked to provide confirmation that the new arrangements were operating effectively in all respects.

Relationship with employers

15. Assurance over the quality of the Scheme's data has been limited to self-certification by employer Accounting Officers that they have provided accurate data and contributions. No independent validation has been undertaken.
16. The Scheme Management Board has commissioned the Cabinet Office internal audit function to undertake audits of employer systems and the reliability of data. Early pilots have now been completed. Going forward this will provide better evidence on data quality.

Change in delivery model

17. On the 1 April 2010, MyCSP was established as a single administrator for the Scheme. This moved the delivery of pension administration from an employer managed service, through which employers could engage one of seven authorised providers, to a centrally managed function governed by a Service Level Agreement with the Scheme Management Board.
18. The change in structure has loosened the links between the administrator and employers. Prior to April 2010, administration centres would liaise directly with employers to provide evidence for audit or other purposes. From 2010-11 MyCSP drew a firm line between themselves and employers, making it harder to locate information and exposing the lack of a robust system of records management.

19. Employers maintain employment records for their staff. However, MyCSP, on behalf of the Cabinet Office, should hold current and historic records. It was apparent that MyCSP did not know what records it held and it, or its precursors, may have lost or destroyed some that should have been retained.

The future of MyCSP and Civil Service Pensions

20. The PCSPS is to undergo a period of significant change over the coming years, which may increase the risks identified by my audit.

- Plans are already well advanced to transfer the MyCSP administration function to a mutual joint venture. MyCSP will be contracted to provide services to the Cabinet Office, and this will require a greater clarity over responsibilities for records and data.
- The new arrangements include provision for the development of new IT infrastructure. This requires a complex data transfer operation which necessitates a data cleansing exercise.
- Scheme rules will be modified with all awards to be based on a career average salary. This increases the importance of the systematic retention and maintenance of staff records, which could be needed to be held over several decades.

21. The Cabinet Office and Scheme Management Board have agreed the need to take 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

26 January 2012