



Sanctum AE Compliance Check Overview & Recent Projects

Sanctum AE Compliance Check

A Sanctum Auto Enrolment Compliance Check involves analysing payroll files to establish whether employees have been auto-enrolled correctly and whether correct employee and employer pension contributions have been made.

An audit report is produced that clearly identifies any processing errors and compliance failures at an individual employee level for each pay period, taking account of opt outs and scheme leavers.

The report provides the employer with evidence that they have taken their AE responsibilities seriously and have actively looked to ensure that any compliance errors are found and corrected.

Where problems are found, Sanctum are able to re-run AE, if necessary from the staging date, and identify the corrections required to make an employer compliant with AE legislation.

Specifically, the checks carried out include:

- Checking individual pension contributions are not below statutory levels
- Checking that postponement was applied correctly
- Identifying failures to auto-enrol employees correctly
- Identifying over payments and missing employees
- Identifying the value (before compensation for investment returns) of any employee financial detriment

The process includes:

- Understanding how the auto enrolment scheme has been set up, including whether postponement has been applied, what % pension contributions have been used and which salary definition has been applied
- Analysing payroll data for each of the pay periods that are being checked by uploading payroll data to the Sanctum system and analysing what should have happened according to AE legislation and the AE options chosen, against what actually happened

- Producing an audit report identifying which employees should have been auto-enrolled into a pension, what employee and employer contributions should have been and an analysis of any differences between what actually happened and what should have happened

Examples of recent projects:

- **Re-ran AE for multiple divisions of a the UK business of a global brand**
 - Multiple issues identified
 - Sanctum introduced to client by a large EBC
 - Confirmed incorrect AE basis applied for c.500 employees
 - Postponement non-compliant due to inconsistency of application & communication
 - Banded earnings incorrectly applied
 - Contribution rate increases applied late
 - Re-ran AE from staging date to calculate pension contribution corrections
 - Identified system / process changes needed to help prevent future problems
 - Worked with EBC partner to produce calculations / evidence to explain issues & corrective actions needed
- **Re-ran AE for 800 employee private equity owned services business**
 - Multiple compliance failures identified, including system and personnel issues
 - Three different schemes impacted
 - Incorrect rates and certification basis had been applied
 - Compliance failures due to underpayments and significant overpayments
 - Re-ran AE for all schemes to calculate corrections for underpayments and identify overpayments Employer pension contribution shortfalls of c.£120K & overpayments of c. £250K identified
 - EBC partner provided support to client to correct ongoing issues
 - Failures due to combination of payroll system and personnel issues
- **Compliance check for multiple UK divisions of a global automotive brand**
 - Sanctum was engaged by a 'Tier 1' Accountant / Consultancy
 - Re-ran AE from staging date for each division to re-calculate pension contributions
- **Compliance check for a FTSE 100 employer with 20,000+ employees**
 - Client required an independent AE compliance 'Health Check'
 - Sanctum was engaged by a 'Tier 1' Accountant / Consultancy.
 - Confirmed AE processes and calculations were correct
 - Produced report for pension scheme trustee & governance board
- **AE system check for a 'tier 1' UK payroll provider**
 - Checked the accuracy of the payroll AE module
 - Confirmed accuracy of system calculations
 - Identified minor data errors and rounding differences
 - Audit results were shared with TPR

- **Re-ran AE for a 1000+ employee engineering business from the staging date**
 - Multiple issues identified
 - Confirmed incorrect AE basis applied for c.500 employees
 - Banded earnings also incorrectly applied
 - Employer pension contribution shortfalls of £500,000 identified
 - Re-ran AE from staging date to calculate pension contribution corrections
 - Identified pension provider software failure to auto-enrol employees at 22
 - Advised on system / process changes to help prevent future problems
 - Produced board report to explain issues & corrective actions

- **AE re-run for a manufacturing business with c.400 employees**
 - Multiple issues found
 - Incorrect employer and employee contributions started following a change of personnel in the payroll department
 - Employer pension contribution shortfalls of c.£90,000 identified
 - Human error confirmed as cause of the ongoing AE errors
 - Errors started to occur in BAU AE processes two years after staging
 - Re-ran AE for an 18 month period and produced corrections
 - Data used for calculation of compensation for investment returns

- **Checked AE compliance for a technology business as part of an acquisition**
 - Checked AE compliance as part of the integration of an acquisition
 - Confirmed AE calculations were correct
 - Minor data issues resulting from human errors were corrected
 - Opt out processes failed. Some opted out employees were still contributing to scheme
 - Opt outs corrected and employee repayments calculated

- **Re-ran AE for a 500 employee business in the construction sector**
 - Multiple issues found
 - Employee & employer pension contribution calculation errors
 - Differences identified between pension contributions calculated and the contributions received by pension provider
 - Re-ran AE from staging date to produce pension contribution corrections
 - Provided data for calculation of additional investment return compensation
 - Recommended system & process changes to prevent future errors
 - 90% of issues were due to ongoing human errors

What motivated employers to check / fix their AE problems now?

- New FD's & HRD's reviewing pension & AE arrangements
- A combination of re-enrolment and the April 2018 AE rate increase is driving employers to review AE – especially those who suspect they have problems
- Businesses that suspect that they have compliance issues becoming increasingly concerned about the enforcement focus by tPR
- M&A preparation / due diligence to eliminate risk and the need for warranties to cover potential hidden AE liabilities that are not currently checked during annual audits
- tPR are using Payroll RTI data from HMRC to identify employers with potential AE compliance failures and publicising that they now visit employers un-announced to carry out compliance checks
- Cases have been reported of tPR being accompanied during unannounced checks by other agencies (e.g. HMRC & DWP National minimum wage and VAT enforcement teams) where non-compliance is suspected
- Sanctum's EBC Partners are offering Sanctum AE Compliance checks as a door opener for new business, pension scheme reviews and for on-boarding new clients
- Sanctum has been used to resolve historic compliance problems when new pension schemes / systems are being implemented
- Sanctum's ability to check and resolve issues where AE compliance problems are found

What size/types of employer have engaged Sanctum?

250 to 2000 employee sized businesses are the most common. The smallest we have checked had 120 employees, the largest had more than 30,000 employees.

In our experience, mid-sized businesses tend to have the most issues. They are large enough that an AE problem can have a significant financial impact, but they are unlikely to have in house AE expertise.

The majority of the issues we find are a result of human errors (especially where there have been changes to personnel) rather than system failures.

The biggest concern we encounter, especially from medium and large businesses, is the risk of brand damage that could result from an AE problem becoming known. This is often a greater concern than any financial impact when issues are found.

The sectors where we have seen most problems are retail, construction, engineering, hospitality, automotive & travel.

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