
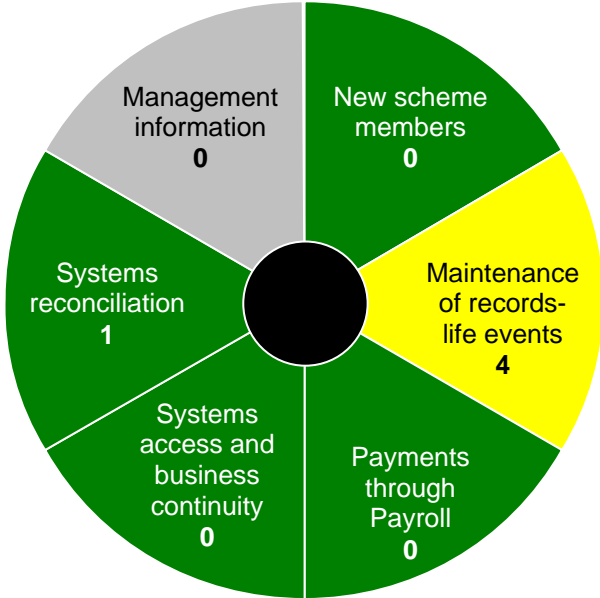






Final Internal Audit Report 2010/11 – Pensions Services Administration (KFS11)

1. Executive Summary



<p>Department: Finance</p> <p>Audit Sponsor: Peter Lewis, Interim Assistant Director - Financial Strategy</p> <p>Distribution List: Peter Lewis; Jody Evans, Pensions Services Manager; Joel Ellner, Team Manager; Cllr Rodney Bass, Chairman of Essex Pension Fund Board; Martin Quinn, Head of Investments; Margaret Lee, Director for Finance; Louise Wishart, Audit Commission.</p> <p>Date of last review: April 2010</p>	<p>Overall Opinion</p> <p>SUBSTANTIAL ASSURANCE </p> <p>Direction of Travel</p> <p>NA - the scope is not consistent with our prior audit</p>	<p>Number of Control Design Issues Identified</p> <p>0 Critical</p> <p>0 Major</p> <p>0 Moderate</p> <p>2 Best Practice</p>	<p>Number of Control Operating in Practice Issues Identified</p> <p>0 Critical</p> <p>0 Major</p> <p>2 Moderate</p> <p>1 Best Practice</p>	<p>Number of Recommendations</p> <p>5 Made</p> <p>0 Rejected</p> <p>N/A Critical Rejected</p> <p>N/A Major Rejected</p>
<p>Scope of the Review and Limitations:</p>	<p>This audit reviewed maintenance of pension member scheme records; payroll and lump sum payments; systems access, business continuity and systems reconciliations.</p> <p>The Pension Fund banking arrangements and bank reconciliation were out of the scope of this audit as they were covered in a separate audit review. Management information has been excluded in view of the scheduled review by Hymans Robertson.</p>			
<p>Critical and Major Findings and Recommendations</p> <p>There are no critical or major recommendations.</p> <p>The previous recommendation made in the 2009/10 Internal Audit review of preparing new starters' reconciliations has been implemented. The other recommendations relating to management information will be addressed as part of the Hymans Robertson review.</p>	<p>Each risk area for this review is shown as a segment of the wheel. The key to the colours on the wheel is as follows:</p>  <ul style="list-style-type: none">  Critical priority Control Design or Control Operating in Practice issues identified  Major priority Control Design or Control Operating in Practice issues identified  Moderate priority Control Design or Control Operating in Practice issues identified  No / Minor Control Design or Control Operating in Practice Issues identified 			



Auditors: Tione Bowazi, Craig Clawson Fieldwork Completed: 7 January 2011 Draft Report Issued: 27 January 2011 Management Comments Expected: 10 February 2011 Management Comments Received: 15 February 2011 Final Report: 22 February 2011		Issues raised and officers responsible for implementation:							
			Name	Critical	Major	Moderate	Best Practice	Total	Agreed
			Matt Mott	0	0	1	0	1	1
			David Golding	0	0	0	1	1	1
			Daniel Chessell, Joel Gandy. Team Managers	0	0	1	2	3	3
		Releasing Internal Audit Reports: All distributed draft and final reports remain the property of the respective Director and the Director for Finance. Approval for distributing this report should be sought from the relevant Director. Care must be taken to protect the control issues identified in this report. Risk Management: The management of the following risks has been reviewed in this audit. Where appropriate, the Audit Sponsor is responsible for adding new risks identified to the relevant risk register.							
Risk Ref	Risk				Risk Already Identified		Risk Managed		
Registered Risks Reviewed									
PF0001	Systems access and Business Continuity: Loss of connectivity causing an inability to deliver a service for Pensions administration and Pensioner payroll which may lead to claims being made against the Pension Fund and loss of reputation.				Yes		●		
PF0002,	Systems reconciliation: System errors will not be identified leading to errors or omissions in the transfer of data between the Axis modules.				Yes		●		
Unregistered Risks Identified & Audited									
N/A	New scheme members: New scheme members (including transfers in) are not authorised, processed and recorded completely and accurately; and in accordance with scheme rules resulting in failure to comply with the Pension Fund regulations. Supporting documentation for members is not retained resulting in failure to demonstrate members have met the requirements of the scheme.				N/A		●		
N/A	Maintenance of records- Life events: Scheme members' records (including transfers out, retirement, death, deferred membership and changes to working hours, salary and contributions) are not authorised, processed and recorded completely and accurately; and in accordance with scheme rules resulting in failure to comply with the Pension Fund regulations and potential for incorrect pension calculations.				N/A		●		
N/A	Payments through Payroll: New members to the payroll system are not authorised, processed and recorded completely and accurately and in accordance with scheme rules resulting in incorrect and/or illegitimate payments being made to pensioners or dependants and individuals who are no longer eligible. Notifications of deaths are not received and actioned promptly resulting in overpayments of pensions and the potential for fraudulent payments. The recovery of pension overpayments is not managed resulting in financial loss to the Pension Fund. Amendments to payroll data are not authorised, processed and recorded completely and accurately; and checked for accuracy resulting in over/underpayments. Management information and checks on the payroll process are inadequate resulting in errors and fraudulent payments going undetected. Lump sum payments are not authorised and processed correctly resulting in incorrect or potentially fraudulent payments.				N/A		●		

Risk Ref	Risk	Risk Already Identified	Risk Managed
Unregistered Risks Identified & Audited			
N/A	<p>Systems access and Business Continuity: Access to AXIS and payroll systems and data is not controlled and restricted to relevant staff, leading to systems and data being amended and/or fraudulently manipulated by unauthorised people.</p> <p>Pension Fund data is not held securely resulting in loss or theft of data.</p>	N/A	●
N/A	<p>Systems reconciliation: Reconciliations between the Pension Fund payroll system and the general ledger are not performed regularly resulting in errors going undetected and inaccurate financial reporting.</p> <p>Reconciliations of payroll, payment file and BACS are not carried out resulting in erroneous and/or fraudulent payments being made.</p> <p>Returned monies are not properly recorded, managed and reconciled resulting in failure to account for such monies and detect any errors.</p>	N/A	●
N/A	<p>Management information: This area will not be reviewed in view of the upcoming Hymans Robertsons review.</p>	N/A	N/A

2. Basis of our opinion and assurance statement

Risk rating	Assessment rationale
 Critical	<p>Major financial loss – Large increase on project budget/cost: (Greater of £1.0M of the total Budget or more than 15 to 30% of the departmental budget). Statutory intervention triggered. Impacts the whole Council. Cessation of core activities. Strategies not consistent with government's agenda, trends show service is degraded.</p> <p>Failure of major projects – elected Members & Corporate Leadership Team are required to intervene. Intense political and media scrutiny i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council, Members or officers.</p> <p>Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance. Mass strike actions etc.</p>
 Major	<p>High financial loss – Significant increase on project budget/cost: (Greater of £0.5M of the total Budget or more than 6 to 15% of the departmental budget). Service budgets exceeded. Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome medium term difficulties.</p> <p>Scrutiny required by external agencies, Audit Commission etc. Unfavourable external media coverage. Noticeable impact on public opinion.</p> <p>Serious injuries or stressful experience requiring medical treatment, many work days lost. Major impact on morale & performance of more than 100 staff.</p>
 Moderate	<p>Medium financial loss – Small increase on project budget/cost: (Greater of £0.3M of the total Budget or more than 3 to 6% of the departmental budget). Handled within the team. Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service action will be required.</p> <p>Scrutiny required by internal committees or Internal Audit to prevent escalation. Probable limited unfavourable media coverage.</p> <p>Injuries or stress level requiring some medical treatment, potentially some work days lost. Some impact on morale & performance of up to 100 staff.</p>
 Best Practice	<p>Minimal financial loss – Minimal effect on project budget/cost: (< 3% Negligible effect on total Budget or <1% of departmental budget)</p> <p>Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines.</p> <p>Internal review, unlikely to have impact on the corporate image.</p> <p>Minor injuries or stress with no work days lost or minimal medical treatment. No impact on staff morale.</p>
Level of assurance	Description
Full	Full assurance – there is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be Advice and Best Practice.
Substantial	Substantial assurance – whilst there is basically a sound system of control, there are some areas of weakness, which may put the system/process objectives at risk. There are Moderate recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any Major recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
Limited	Limited assurance – there are significant weaknesses in key areas in the systems of control, which put the system/process objectives at risk. There are Major recommendations or a number of moderate recommendations indicating significant failings. Any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
No	No assurance – internal controls are generally weak leaving the system/process open to significant error or abuse. There are Critical recommendations indicating major failings.

Auditors' Responsibilities It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.



3. Recommendations and Action Plan


	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions
Operating Effectiveness - Completeness of records on Axis					
1.	<p>A Pension overpayment was made to surviving dependants due to incomplete hour changes information on Axis. The overpayment has been recovered.</p> <p>It is the responsibility of the member's employer to submit hour changes and these are scanned onto the member's records.</p> <p>The leaver's form submitted does not state current hours worked, only pay to date and annual FTE salary. The salary figures are checked to determine the accuracy of details held on Axis.</p> <p>Auditor's note It is noted that hour changes are now submitted by disc for most employers. Employers are responsible for reconciling hours held on Axis and their database when they change to submitting hour changes on disc. The hours information held on AXIS for those members whose hour changes had not been communicated to Pensions Administration before the disc process was introduced, and where the validation process by the employer was not carried out before the disc system was implemented, may not be accurate.</p>	<p>Financial /Reputational</p> <p>Where employers have not notified Pensions Administration of changes in hours, this can lead to inaccurate pension payments.</p>	<p>The leavers' form should be amended to include hours worked so that it provides a basis for accuracy check.</p>	<p>● Moderate</p>	<p>Agreed: Yes</p> <p>Action to be taken: Please be aware that the employers have a statutory obligation to provide timely data, we are only as good as the data provided. We will amend the PN1 form to include a section where the employer has to confirm the members hours and weeks worked at the point of leaving.</p> <p>However this issue is aimed at the employer</p> <p>Additional Resources Required for Implementation: Yes</p> <p>We need to re design the PN1 form. We need to communicate the change of form to employers. We need to distribute the form to employers. This may include employer visits by members of Pensions Services.</p> <p>Responsible Officer: Matt Mott</p> <p>Target Date: 31 December 2011</p>

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions
Operating Effectiveness - Documents verification					
2.	<p>Audit testing identified the following instances where evidence of documentation was not recorded on Axis:</p> <p><i>a) Transfers Out</i> One out of ten transfers out tested had no evidence of date of birth verification. Although this was shown to have been verified by the current employer there was no evidence of such recorded on Axis. The date of birth as the basis of calculation has been confirmed to be correct.</p> <p><i>b) Retirements</i> One out of twenty retirements tested had no election form (PN107d) for reduced lump sum benefits on file. Evidence of the member's agreement to reduce lump sum could not be evidenced. It was noted that there are various forms in use for the same process and none of the forms had the member's signature to evidence the agreement of a reduced lump sum.</p> <p><i>c) Deferred benefits</i> Two out of ten deferred benefits had no evidence of manager review for members who deferred their benefits in April and May 2010. This has resulted in pension statements not being sent to members.</p>	<p>Governance/Reputational</p> <p>Scheme members' records of transfers out are not authorised, processed and recorded completely and accurately; and in accordance with scheme rules resulting in failure to comply with the Pension Fund regulations and potential for incorrect pension calculations.</p>	<p><i>a) Transfers Out</i> The date of birth verification and evidence of check should be recorded on Axis.</p> <p><i>b) Retirements</i> Where forms are not received this should be followed up and scanned on Axis before payment is made.</p> <p><i>c) Deferred Benefits</i> Deferred benefits statement should be issued within the set timeframe.</p>	<p>● Moderate</p>	<p>Agreed: Yes Action to be taken:</p> <p>a) We may introduce an additional stage within the task process that prompts the person calculating any benefits to confirm if the DOB has been verified. In this case the DOB had been verified but not noted on the member's record. <u>The correct transfer was paid</u></p> <p>b) We are reviewing the letters and election forms that are needed before paying any retirement benefits. However in this case the member was aware of the reduction as an estimate of his pension benefits was enclosed with his retirement forms. He returned the forms knowing his benefits would be reduced. <u>The member received the correct benefits as per his estimate.</u></p> <p>c) From 1 April 2010 to 14 February 2011 we have calculated 7472 deferred benefits, this is a 40% increase on the previous year, and for every deferred benefit calculated a task was generated. We are reviewing the task procedure and we are going to introduce sending an initial letter to the member</p>

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions
	<p>Auditor's Note We recognise that a large number of deferred benefits had been processed in 2010.</p>				<p>within 10 working days of Pensions Services receiving leaving details informing them of a right to a benefit, this will meet our obligation. The high numbers involved this year relate to the valuation and delayed notifications by employers.</p> <p>Additional Resources Required for Implementation: No</p> <p>Need to re design task management to incorporate letter stage</p> <p>Responsible Officer: Daniel Chessell, Joel Ellner, Team Managers</p> <p>Target Date: 31 August 2011</p>

4. Advice and Best Practice

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions
Control Design - Manual checking process					
3.	It was also observed that the final calculation check of pension was printed off, checked and then scanned on Axis. It is not necessary to scan the paperwork on Axis as the process of checking is fully recorded within Axis.	Governance Unnecessary processes can cause heavy workload and therefore inefficiencies in processing tasks.	Consideration should be given to ceasing the practice of scanning the calculations check on Axis. A checklist can be adopted to be used by the reviewer to check that all the necessary paperwork is complete and accurate.	 Advice and Best Practice	Agreed: Yes Action to be taken: This is in place from a previous external audit who felt it would complete the picture to scan on the checking sheet. No change will be implemented at this stage Additional Resources Required for Implementation: No Responsible Officer: Daniel Chessell, Joel Ellner, Team Managers Target Date: Completed
Operating Effectiveness - Date of birth verification					
4.	Two out of twenty new starters on the pension payroll module had no evidence of date of birth verification. This was subsequently verified to have been carried out by their previous employers.	Governance Scheme members' records are not recorded completely and in accordance with scheme rules resulting in failure to comply with the Pension Fund regulations.	Date of birth verification should be recorded on Axis when it has been carried out by another employer and birth certificate is not held.	 Advice and Best Practice	Agreed: Yes Action to be taken: We may introduce an additional stage within the task process that prompts the person calculating any benefits to confirm if the DOB has been verified. In this case the DOB had been verified but not noted on the member's record. Additional Resources Required for Implementation: No

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions
					Responsible Officer: Daniel Chessell, Joel Ellner, Team Managers Target Date: 31 August 2011
Control Design - Reconciliation process					
5.	<p>Monthly reconciliations of the general ledger to Axis are currently prepared in Excel. Data from the two sources is matched on an excel worksheet. A sorting option is used to identify matching transactions and the matched transactions are moved to a separate spreadsheet. The process appears to be long and time consuming.</p> <p>There are areas within the payroll process where calculations are completed using Axis reports. Due to the format of the reports the calculations have to be completed manually which can therefore be time consuming.</p>	Financial Reconciliations between the Pension Fund payroll system and the general ledger are not performed regularly resulting in errors going undetected and inaccurate financial reporting.	Consideration should be made to use Advanced Excel options of V-lookups which can make the process less tedious and also be a more efficient use of resources.	 Advice and Best Practice	Agreed: Yes Reconciliation are performed regularly and sent to Corporate finance on a monthly basis Action to be taken: Will investigate options to speed this process Additional Resources Required for Implementation: No Responsible Officer: David Golding Target Date: 31 August 2011

5. Controls Assessment Schedule

New scheme members Risks:

New scheme members (including transfers in) are not authorised, processed and recorded completely and accurately; and in accordance with scheme rules resulting in failure to comply with the Pension Fund regulations.

Supporting documentation for members is not retained resulting in failure to demonstrate members have met the requirements of the scheme.

Control	Control In Place?	Action Plan Ref.
Defined process is in place to authorise and admit new starters and complied with. New scheme members are entered onto AXIS accurately and receive a notification of membership in a timely manner.	Yes	
Genus forms have been entered accurately. PN10 have been received and agreed.	Yes	
Defined processes for admitting new members are in place and complied with in accordance with Scheme regulations.	Yes	
Documentation received and completed for individuals transferring in is recorded on the system and retained. All quotations, calculations, notifications to scheme members and payments are checked by management before payment.	Yes	
All documentation relating to manually added scheme members is recorded and notifications sent to scheme members timely.	Yes	

Maintenance of records- Life events Risks:

Scheme members' records (including transfers out, retirement, death, deferred membership and changes to working hours, salary and contributions) are not authorised, processed and recorded completely and accurately; and in accordance with scheme rules resulting in failure to comply with the Pension Fund regulations and potential for incorrect pension calculations.

Control	Control In Place?	Action Plan Ref.
All records are supported by appropriate documentation. Input and output checks are undertaken and review of records is done by a manager. Documents are retained in accordance with agreed policy.	Yes	
Procedure notes describing all key processes which are followed by staff.	Partially	3
Transfers out have been calculated in accordance with scheme rules, approved by a manager and all documentation retained.	Partially	2
Defined process for including members (retirees) to the payroll system is in place to ensure they are appropriately authorised, processed and recorded completely and accurately and in accordance with the scheme rules.	Partially	4
Deferred pensions are independently checked and authorised before they are brought into payment. Documentation is retained.	Partially	2
Documentation is received and retained on notification of death in accordance with regulations and all related documentation is retained.	Yes	

Control	Control In Place?	Action Plan Ref.
Overpayments identified are recovered in accordance with set policy.	Partially	1

Payments through Payroll Risks:

New members to the payroll system are not authorised, processed and recorded completely and accurately and in accordance with scheme rules resulting in incorrect and/or illegitimate payments being made to pensioners or dependants and individuals who are no longer eligible.

Notifications of deaths are not received and actioned promptly resulting in overpayments of pensions and the potential for fraudulent payments.

The recovery of pension overpayments is not managed resulting in financial loss to the Pension Fund.

Amendments to payroll data are not authorised, processed and recorded completely and accurately; and checked for accuracy resulting in over/underpayments.

Management information and checks on the payroll process are inadequate resulting in errors and fraudulent payments going undetected.

Lump sum payments are not authorised and processed correctly resulting in incorrect or potentially fraudulent payments.

Control	Control In Place?	Action Plan Ref.
Procedure notes and guidelines around payroll processes are in place and readily available to staff.	Yes	
Separation of duties exists between setup of new pensioners and processing of payroll.	Yes	
All new members to the payroll system are authorised by management.	Yes	
Amendments to payroll data are in writing and promptly recorded and authorised by management.	Yes	
Amendments report is run and checked before BACS file is sent for payment	Yes	
Pension entitlements, including regular payments, lump sum payments and payments due on death of a member are correctly calculated in accordance with legislation and agreements.	Yes	
A register of death notifications is maintained and where applicable overpayments are annotated on the register.	Yes	
Payments schedules are established and payment runs are processed in accordance with set timeline.	Yes	
Payments are independently checked, properly authorised, supported by appropriate documentation and calculations are correctly applied.	Yes	
Basic checks are performed on dates, control totals, new payees and deletions before payroll is authorised.	Yes	
BACS file reports are reconciled with movement's summary and the report is checked for errors.	Yes	

Control	Control In Place?	Action Plan Ref.
Reconciliation is performed of payroll, payment file and BACS are performed monthly and signed off by management.	Yes	

Systems access and Business Continuity Risks:

Loss of connectivity causing an inability to deliver a service for Pensions administration and Pensioner payroll which may lead to claims being made against the Pension Fund and loss of reputation.

Access to AXIS and payroll systems and data is not controlled and restricted to relevant staff, leading to systems and data being amended and/or fraudulently manipulated by unauthorised people.

Pension Fund data is not held securely resulting in loss or theft of data.

Control	Control In Place?	Action Plan Ref.
Access rights and restrictions are in line with business need and ensure segregation of duties.	Yes	
Controls over passwords, regular password changes, account lockout after failed attempts are in place and administered.	Yes	
Regular backup of core data is taken and tests are done of recovery.	Yes	
Regularly tested Business continuity/Disaster recovery plans are in place if critical systems are unavailable and tested regularly.	Yes	

Systems reconciliation Risks:

System errors will not be identified leading to errors or omissions in the transfer of data between the Axis modules.

Reconciliations between the Pension Fund payroll system and the general ledger are not performed regularly resulting in errors going undetected and inaccurate financial reporting.

Reconciliations of payroll, payment file and BACS are not carried out resulting in erroneous and/or fraudulent payments being made.

Returned monies are not properly recorded, managed and reconciled resulting in failure to account for such monies and detect any errors.

Control	Control In Place?	Action Plan Ref.
Procedure notes describing key processes which are followed by staff in performing reconciliation.	Partially	5
A reconciliation between the AXIS modules is carried out to ensure that all data transferred between modules is complete and there are no system errors.	Partially	5
Reconciliations between the Pension Fund payroll system and the General Ledger are performed monthly and signed off by management.	Yes	
Pension control account are reconciled monthly and evidenced as reviewed by a senior official.	Yes	

Management information Risks:

This area was not audited in view of the upcoming Hymans Robertsons review.

Control	Control In Place?	Action Plan Ref.
Key Performance Indicators are monitored and reported to Senior Management.	Not Tested	
Management reports are generated from AXIS and documentation is available to support the reports.	Not Tested	