Final Internal Audit Report 2009/10 – Pensions Administration KFS10

1. Executive Summary

Department:	Overall Opinion	Number of Control Design issues identified	Number of Control Operating in Practice issues identified	Number of Recommendations
Pensions Services **Audit Sponsor:** Mark Hobson, Head of Essex Shared Services; **Distribution List:** Mark Hobson, Head of Essex Shared Services; Jody Evans, Pensions Services Manager; Janet Tanfield, Operations, Communications & Development Manager; Margaret Lee, Chief Financial Officer, Louise Wishart, Audit Commission, Cllr Rodney Bass, Chair of Pensions Board **Date of last review**: March 2009	**SUBSTANTIAL ASSURANCE** **Direction of Travel** The control environment has improved since our prior audit. ↑	0 Critical 0 Major 2 Moderate 0 Best Practice	0 Critical 0 Major 2 Moderate 4 Best Practice	8 Made 0 Rejected n/a Critical Rejected 0 Major Rejected

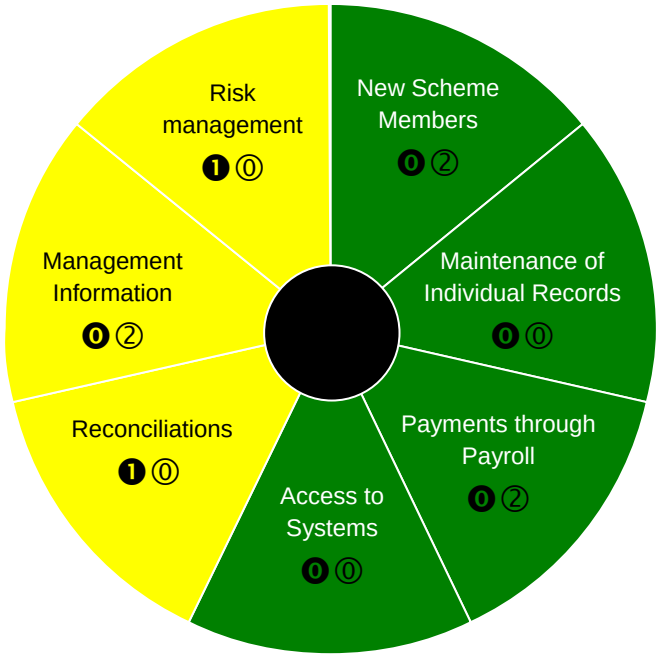
Scope of the Review:	This audit reviewed the maintenance of pension scheme member records, payments through payroll, systems access including business continuity and management information within Pensions Services.
Limitations:	None.

Critical and Major Findings and Recommendations

There were no critical or major findings in this review.

The control environment has improved since our last review, the recommendations mainly relate to management information.

The processes around pension's administration and pension's payroll are well controlled.



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:

- 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

Auditor:
Craig Clawson & Mark Parirenyatwa
Fieldwork Completed:
9th March 2010
Draft Report Issued:
13th March 2010
Management Comments Expected:
13th April 2010
Management Comments Received:
15th April 2010
Final Report: 20th April 2010

Issues raised and officers responsible for implementation:

Name	Critical	Major	Moderate	Best Practice	Total	Agreed
Jody Evans	0	0	2	0	2	2
Janet Tanfield	0	0	1	0	1	1
Helen Pennock	0	0	1	2	3	3
Dan Chessell & Joel Ellner	0	0	0	1	1	1
David Golding	0	0	0	1	1	1

Risk Register Updates:

The Audit Sponsor is responsible for updating all findings relating to registered risks and for ensuring that unregistered risks have been incorporated within the Council's risk register.

The following new risks need to be added to the Council's risk register:

Registered Risks Reviewed

Risk Ref	Risk	Risk already identified	Risk managed
CRG0008	There are no procedures and processes to ensure that administration of the Fund and payments are not interrupted due to systems failure and/or corruption of data.	Yes	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 individual records** 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 and any one off death or lump sum payments** 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	
N/A	**Access to the systems** 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.	N/A	
N/A	**Reconciliations** 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. Reconciliations between the AXIS modules is not carried out resulting in incomplete data being transferred and system errors not being identified.	N/A	
N/A	**Management information** Management information is inadequate and incomplete resulting in poor performance management of the pensions and payroll systems.	N/A	

2. Basis of our opinion and assurance statement

Risk rating	Assessment rationale
Critical	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. 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. Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance. Mass strike actions etc.
Major	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. Scrutiny required by external agencies, Audit Commission etc. Unfavourable external media coverage. Noticeable impact on public opinion. Serious injuries or stressful experience requiring medical treatment, many workdays lost. Major impact on morale & performance of more than 100 staff.
Moderate	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. Scrutiny required by internal committees or Internal Audit to prevent escalation. Probable limited unfavourable media coverage. Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale & performance of up to 100 staff.
Best Practice	Minimal financial loss – Minimal effect on project budget/cost: (**< 3%** Negligible effect on total Budget or **<1%** of departmental budget) Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines. Internal review, unlikely to have impact on the corporate image. Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale.

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 Response and Agreed Actions
Operating effectiveness - Authorisation of new members to the payroll system					
1.	The payroll system is an integrated module of AXIS. The input of new starters on the AXIS payroll module is not reconciled to the output from the new starters' module on AXIS each month to demonstrate all data has been transferred between the modules and there are no system errors.	**Financial** System errors will not be identified leading to errors or omissions in the transfer of data between the AXIS modules.	Monthly reconciliations should be performed between authorised new starter records on the new starters' module of AXIS and the input to the payroll system module on AXIS to ensure all authorised records are transferred correctly and the integrity of data on AXIS is not compromised due to system errors or failure.	Moderate	**Agreed:** yes **Action to be taken:** Two reports are now in place to enable reconciling of new payee's between the two areas. This will commence in April 2010, with a sign off process in place. **Additional Resources Required for implementation:** no **Responsible Officer:** Janet Tanfield **Target Date:** 30 April 2010
Operating effectiveness - Key Performance Indicators					
2.	There is no formal monitoring of Key Performance Indicators (KPI); therefore Pensions Services cannot produce accurate performance management reports to Heads of Service.	**Governance** Inefficient processes are not identified through KPI monitoring resulting in poor performance.	Management Information Reports on KPI's should be produced and monitored on a regular basis to identify strengths, weaknesses and performance within Pensions Administration processes. The frequency of monitoring the KPI's should be	Moderate	**Agreed:** yes **Action to be taken:** An independent review of Pensions Services will take place during 2010/11 as per Pension Board requirements. It will also be agreed the level of management information which the Pension Board will require on a ¼

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Response and Agreed Actions
			determined by Senior Management as some KPI information may not be as beneficial as others if monitored too frequently. Once the performance targets are agreed for each indicator, the management reports produced should provide the following information; • Number of tasks processed; • Number of tasks completed within target; • Number of tasks completed after target with explanations as why target was not met; • Number of tasks outstanding due to third party involvement (where applicable).		basis The Axis system will then have specified KPI's integrated to provide the Management Information. **Additional Resources Required for implementation:** unknown at this stage **Responsible Officer:** Jody Evans **Target Date:** 31 July 2010 to agree potential requirement of management information/KPI's
Operating effectiveness - Management Reporting					
3.	Management Reports are not based on automated data from the AXIS System, the information from AXIS is collated manually by a Pensions Officer from AXIS	**Governance** Poor performance is not detected as Management Reports can be	As Pensions Services should only be reporting on performance when all information from third parties has been received a new	Moderate	**Agreed:** yes **Action to be taken:** Following on from the previous item once KPI\Management information agreed reports will be written within

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Response and Agreed Actions
	Reports and input into a Management Report in excel format. There is no adequate audit trail in place as the Management Report can not be re-generated independently. The reports provided to management are currently based on the task completion to indicate how well the team is performing; however, there are no explanations on the reports to explain why some tasks are still outstanding.	manipulated to show a better reflection of performance.	task detail should be implemented within the AXIS System for when all third party information has been received and for when a task is complete. By doing this a report of all the related tasks can be generated from the AXIS System thus allowing the Pensions Team to monitor exactly how long it takes for a task to be processed once all third party involvement is complete.		the system to produce the information without manipulation Investigation will be needed to see if possible. **Additional Resources Required for implementation:** unknown **Responsible Officer:** Jody Evans **Target Date:** in line with previous item - 31 July 2010 to agree potential requirement of management information/KPI's
Operating effectiveness – Risk Management					
4.	There were three risks identified as part of this review that have not been included in the ECC risk register.	**Financial & Governance** Risks are not identified and escalated in a timely manner resulting in managers being unaware of the risks to which ECC is exposed leading to ineffective use of resources.	Where appropriate the audit sponsor should add the risks identified on page 2 of the report to the ECC risk register and monitor these risks on a timely basis.	Moderate	**Agreed:** yes **Action to be taken:** These 3 risks will be placed on the Essex Risk Register for 2010/11 **Additional Resources Required for implementation:** no **Responsible Officer:** Helen Pennock **Target Date:** 30 June 2010

4. Advice and Best Practice

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Response and Agreed Actions
Operating effectiveness – Payroll procedure notes					
5.	It was identified that there are version controls on almost all the pensions' payroll procedure notes. However, it was identified that the procedure notes do not show review dates.	**Operational** Inconsistent or incorrect and out of date procedures may be followed by officers resulting in incorrect procedures being followed.	In addition to version controls, procedure notes should be dated.	● Advice and Best Practice	**Agreed:** yes **Action to be taken:** Going forward review dates will be recorded **Additional Resources Required for implementation:** no **Responsible Officer:** David Golding **Target Date:** Ongoing
Operating effectiveness - Notification of deaths - overpayments					
6.	It was identified that the Assistant Team Manager - Pensions Management Team maintains a spreadsheet, where all notifications of deaths are recorded. The spreadsheet also shows whether an over/underpayment has been made and records invoice numbers where applicable. Audit testing identified that there was an overpayment of £26.48 and an invoice was not raised in contravention of procedure notes, which require invoices to be raised for overpayments in excess of £10.	**Financial** Delays in raising invoices may result in overpayments being irrecoverable.	The spreadsheet maintained by the Assistant Team Manager - Pensions Management Team should be regularly reviewed to ensure invoices are raised, where applicable. In addition, Management should consider raising the minimum amount of £10 to make the process of recovering overpayments cost effective.	● Advice and Best Practice	**Agreed:** yes **Action to be taken:** Investigating the individual circumstances of the case regarding £26.48. Also, consider the minimum amount inline with recovery charges **Additional Resources Required for implementation:** no **Responsible Officer:** Dan Chessell and Joel Ellner **Target Date:** 31 May 2010

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Response and Agreed Actions
Operating effectiveness - New Starters					
7.	A report was generated from the AXIS Pensions System detailing all new starters within the last 12 months. A sample of 20 new starters were tested to ensure that the correct procedures were carried out when they joined the Essex County Council (ECC) Pensions Scheme. Two of the 20 new starters had not received a 'welcome to the scheme' letter or a STATEPENA. One new starter had been set up manually, however a welcome letter had not been sent. Further investigation revealed that a number of new starters dating back to August 2009 had not been sent a STATEPENA's as the upload to AXIS had not yet been validated.	**Reputational** New starters do not receive all the statutory documentation needed when joining the organisation and are therefore unaware of their pension entitlements or do not have an opportunity to transfer in previous pension entitlements.	Although it is acknowledged that there has recently been a change in procedures for new starters to the ECC Pensions Scheme, all manual data validations should be completed on a monthly basis to ensure that all new starters receive a welcome letter to the Pensions Scheme in a timely manner.	● Advice and Best Practice	**Agreed:** yes **Action to be taken:** Investigating the potential for bulk run of letters etc from Axis to eliminate human error **Additional Resources Required for implementation:** no **Responsible Officer:** Helen Pennock **Target Date:** 31 August 2010 (after valuation)
Operating effectiveness - New Starter Notifications					
8.	Pensions Services have recently changed the process for adding new starters to the AXIS System and welcoming them to the Pension Scheme. As the new process is being piloted at the moment there is some duplication	**Governance & Reputational** Key performance indicators are not met due to poor use of resources.	If the pilot process is a success and is used in future then Pensions Services will need to liaise with Human Resources to discuss the documentation sent out to new starters to	● Advice and Best Practice	**Agreed:** yes **Action to be taken:** Pilot scheme to end 30 June 2010. If successful communication to HR (KR) in July to cease duplication. **Additional Resources Required for implementation:** no

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Response and Agreed Actions
	of work with the previous process. Human Resources are sending PN10 forms which are no longer needed under the new process as Pensions Services send a 'STATEPENA' once new starters have been set up on the AXIS System, therefore employees may be returning duplicate information and Pensions Services are having to record the same information twice.		provide a consistent approach, limit duplication and streamline the process to make it more efficient and help meet any key performance indicators.		**Responsible Officer:** Helen Pennock **Target Date:** 31 July 2010

5. Controls Assessment Schedule

New Scheme Member 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.
New scheme members are entered onto the AXIS database accurately and receive a notification of membership in a timely manner.	**Yes**	8.
Where new members are added to the system manually all necessary documentation should be recorded and notification should be sent to members in a timely manner. There should also be an independent check that all notifications have been sent to manually added scheme members.	**Partially**	7.
All documentation received and completed for people transferring in to the scheme should be recorded. All quotations, calculations, notifications to scheme members and payments should be checked by management before payment is received.	**Yes**	

Maintenance of Individual Records 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 documentation received and completed for people transferring out of the scheme should be recorded. All quotations, calculations, notifications to scheme members and payments should be checked by management before payment is received.	**Yes**	

Payments through payroll and any one off death or lump sum payments 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.
All new members to the payroll system are authorised by management.	**Yes**	1.
All notifications of deaths are promptly recorded, with quotations and calculations checked by management before payments are processed. Payments are authorised by management	**Yes**	
A register of notifications of deaths showing, where applicable overpayments is maintained.	**Partial**	6.
All amendments to payroll data should be in writing and promptly recorded and should be authorised by management.	**Yes**	
Each payroll data input is checked by another officer and authorised by management.	**Yes**	
All notifications are promptly recorded and management checks for completeness and accuracy of details before the lump sum payment is authorised.	**Yes**	
Procedure notes and guidelines payroll processes are in place and readily available to relevant staff.	**Partial**	5.

Access to Systems Risks:

- 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.
- There are no procedures and processes to ensure that administration of the Fund and payments are not interrupted due to systems failure and/or corruption of data.

Control	Control in Place?	Action Plan Ref.
Access to AXIS and payroll systems is restricted to relevant staff and access controls to the systems are secure and robust.	**Yes**	
All data on the systems is secure and password protected.	**Yes**	

Reconciliations Risks:

- 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.

Control	Control in Place?	Action Plan Ref.
Reconciliations between the Pension Fund payroll system and the General Ledger are performed monthly and signed off by management.	**Yes**	
Reconciliations of payroll, payment file and BACS are performed monthly and signed off by management.	**Yes**	
Returned monies are not properly recorded, managed and reconciled resulting in a failure to account for such monies detect any errors	**Yes**	
A reconciliation between the AXIS modules is not carried out to ensure all data transfers between modules is complete and there are no system errors.	**No**	1

Management Information Risks:

- Management information is inadequate and incomplete resulting in poor performance management of the pensions and payroll systems.

Control	Control in Place?	Action Plan Ref.
Key Performance Indicators are monitored and reported to Senior Management and/or Pension Board.	**No**	2.
Management Reports generated are based on automated data from the AXIS System, if reports are not generated from the AXIS System then AXIS reports should be retained with the report to support to figures provided to Senior Management.	**No**	3.