

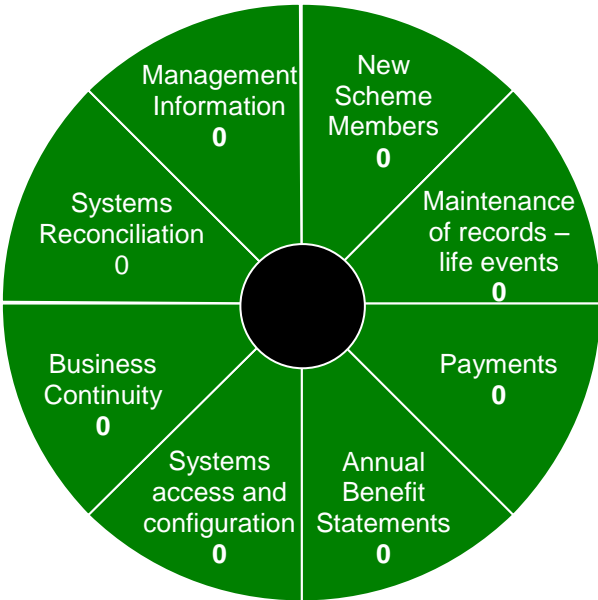






Final Internal Audit Report 2017/18 – Pensions Services & Administration (KF5)





1. Executive Summary

<p>Function: Corporate and Customer Services</p> <p>Audit Sponsor: Kevin McDonald, Director for Essex Pension Fund</p> <p>Distribution List: Kevin McDonald, Margaret Lee, Executive Director for Corporate and Customer Services; Jody Evans, Head of Essex Pension Fund; Kelly Armstrong and Daniel Chessell, Team Managers, Pensions; Chris Pickford, Pensions Systems Manager; Cllr. McKinlay, Cabinet member for Resources; Dan Cooke, External Audit</p> <p>Final Report Issued: May 2018</p> <p>Date of last review: June 2017</p>	<p>Overall Opinion</p> <p>GOOD ASSURANCE </p> <hr/> <p>Direction of Travel</p> <p>The Control environment has improved since 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>0 Low</p>	<p>Number of Control Operating in Practice Issues Identified</p> <p>0 Critical</p> <p>0 Major</p> <p>0 Moderate</p> <p>0 Low</p>	<p>Number of Recommendations</p> <p>0 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 focused on the strength of the control environment in relation to the key functionality of the administration of on-going pension processes and pension payments during 2017/18. The management and controls surrounding the Essex Pension Fund bank reconciliation were out of scope of this audit, these areas are being reviewed as part of the Pensions Investment audit (KF4).</p>			
<p>Executive summary comments</p> <p>There are no critical or major recommendations.</p>	<div data-bbox="1043 651 1639 1254">  </div> <div data-bbox="1720 643 2152 1185"> <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 </div>			

Auditors: Anita Goold Audit Manager: Greg Mortimer Fieldwork Completed: 26 March 2018 Draft Report Issued: 19 April 2018 Management Comments Expected: 03 May 2018 Management Comments Received: 30 April 2018 Final Report: 02 May 2018		Issues raised and officers responsible for implementation:							
		Name		Critical	Major	Moderate	Low	Total	Agreed
		N/A		0	0	0	0	0	N/A
		Releasing Internal Audit Reports: All distributed draft and final reports remain the property of the respective Director and the Executive Director for Corporate Services. 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									
N/A	N/A						N/A	N/A	
Unregistered Risks Identified & Audited									
N/A	New Scheme Members: New scheme members (including transfers in) added to the pension system are not appropriately authorised and supported by valid evidence New scheme members are not processed promptly, completely and accurately in accordance with scheme rules						N/A	●	
N/A	Maintenance of records - life events: Updates to scheme members' pension system records (including transfers out, retirement, death, deferred membership and changes to working hours, salary and contributions) are not appropriately authorised and supported by valid evidence Updates are not processed promptly, completely and accurately in accordance with scheme rules which could result in incorrect pension calculations.						N/A	●	
N/A	Payments: Proposed payments (e.g. regular pension payments, lump sums and transfers out) are not checked and appropriately authorised before being made which could lead to inaccurate, in valid or incomplete payments						N/A	●	
N/A	Annual Benefit Statements Annual Benefit Statements are sent to members are inaccurate and or not all members receive an Annual Benefit Statement by the statutory date of 31 August <i>Note – given the proposed timing of this audit, this audit will assess whether there were sufficient and effective controls to ensure the 2016 Annual Benefit Statements were accurate and complete and whether there are robust plans to ensure likewise for 2017</i>						N/A	●	
N/A	Systems Access and Configuration: The pension system does not enforce separation of duty between processing and approving actions The pension system's workflow does not direct approval requests to a suitable manager Delays in processing and or approving actions are not promptly identified and resolved Changes to the pension system's configuration (e.g. of parameters or how actions are to be processed) are not approved and confirmed as working correctly before release to the live system Enhanced system privileges (including the ability to change the pension system's configuration, add or remove users and amend users ' permissions) are not appropriately restricted or are out of date Access to pension fund data is not restricted based on current operational need resulting in loss or inappropriate access to sensitive personal information.						N/A	●	

Unregistered Risks Identified & Audited			
N/A	Business Continuity: Business continuity and disaster recovery plans to deal with the loss of access to the pension system are not in place or have not been tested to confirm their effectiveness.	N/A	●
N/A	Systems reconciliation The ECC General Ledger does not completely or accurately reflect pensions-related payments made or the assets and liabilities of the pension fund which could result in inaccurate financial reporting of the fund	N/A	●
N/A	Management information The timeliness and accuracy of processing pension-related instructions is not measured and actively reviewed by Pensions management to introduce any remedial action or improvements needed which could result in non, late or inaccurate pension payments and reputational damage	N/A	●

2. Basis of our opinion and assurance statement

Risk rating	Assessment rationale
 Critical	<p>Critical and urgent in that failure to address the risk could lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ Significant financial loss (through fraud, error, poor value for money) ▪ Serious safeguarding breach ▪ Life threatening or multiple serious injuries ▪ Catastrophic loss of service ▪ Failure of major projects ▪ Critical Information loss leading to Information Commissioner's Office (ICO) referral ▪ Reputational damage – Intense political and media scrutiny i.e. front-page headlines, television coverage. ▪ Possible criminal, or high profile, civil action against the Council, Members or officers. ▪ Intervention by external agencies <p>Remedial action must be taken immediately</p>
 Major	<p>Major in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ High financial loss (through fraud, error, poor value for money) ▪ Safeguarding breach ▪ Serious injuries or stressful experience requiring medical treatment, many work days lost. ▪ Significant disruption to service (Key outcomes missed, some services compromised. Management action required to overcome medium term difficulties) ▪ Major Information loss leading to internal investigation ▪ Reputational damage – Unfavourable external media coverage. Noticeable impact on public opinion. ▪ Scrutiny required by external agencies <p>Remedial action must be taken urgently</p>
 Moderate	<p>Moderate in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ Medium financial loss (through fraud, error or poor value for money) ▪ Significant short-term disruption of non-core activities ▪ Scrutiny required by internal committees. ▪ Injuries or stress level requiring some medical treatment, potentially some work days lost ▪ Reputational damage – Probable limited unfavourable media coverage. <p>Prompt specific action should be taken</p>
 Low	<p>Low in that failure to address the issue or progress the work would lead to one or more of the following occurring:</p> <ul style="list-style-type: none"> ▪ Low financial loss (through error or poor value for money) ▪ Minor errors in systems/operations or processes requiring action or minor delay without impact on overall service delivery schedule. Handled within normal day to day routines. ▪ Reputational damage – Internal review, unlikely to have a wider impact. <p>Remedial action is required</p>
Assurance Level	Description
Good	Good 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 of Low risk rating. Any Moderate recommendations would need to be mitigated by significant strengths elsewhere.
Adequate	Adequate 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 or reputational damage. 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. Controls Assessment Schedule

New Scheme Members Risks:

New scheme members (including transfers in) added to the pension system are not appropriately authorised and supported by valid evidence

New scheme members are not processed promptly, completely and accurately in accordance with scheme rules

Control	Control In Place?	Action Plan Ref.
Procedure notes describing all key processes are complete and adhered to by all Pensions Service Administration staff	Yes	
Clearly defined processes are in place to authorise and admit new starters and these are complied with. New scheme members are entered onto Civica UPM accurately and receive a notification of membership in a timely manner.	Yes	
The spreadsheets received from the admitted bodies are complete and sense checked prior to input into Civica UPM to ensure all data has been transferred accurately.	Yes	
Documentation received and completed for individuals transferring into the Essex Pension Fund is recorded on the system and retained securely. All quotations, calculations, notifications to scheme members and payments are checked by management.	Yes	

Maintenance of records - life events risks:

Updates to scheme members' pension system records (including transfers out, retirement, death, deferred membership and changes to working hours, salary and contributions) are not appropriately authorised and supported by valid evidence

Updates are not processed promptly, completely and accurately in accordance with scheme rules which could result in incorrect pension calculations.

Control	Control In Place?	Action Plan Ref.
Procedure notes describing all key processes are complete and adhered to by all Pensions Service Administration staff.	Yes	
Transfers out have been calculated in accordance with scheme rules, approved by an authorised manager and all documentation retained securely.	Yes	
Deferred membership pensions are independently checked and deactivated from the UPM system. All documentation is securely retained.	Yes	
There is a clearly defined process in place for admitting new retirees onto the Payroll system. This process includes ensuring appropriate authorisation, processing and accurate recording of data in accordance with scheme rules. All documentation is securely retained	Yes	
Documentation is received and retained on notification of death in accordance with regulations. All related documentation is securely retained.	Yes	
Notification of deaths are received and actioned promptly (management oversight) Pension on death calculations are produced from UPM and checked for accuracy by an appropriate manager prior to payment.	Yes	
Amendments to payroll data (e.g. bank account details) are in writing and promptly recorded and authorised by management.	Yes	

Control	Control In Place?	Action Plan Ref.
Amendment reports are produced and checked before the BACS file is sent for payment.	Yes	

Payments risks:

Proposed payments (e.g. regular pension payments, lump sums and transfers out) are not checked and appropriately authorised before being made which could lead to inaccurate, in valid or incomplete payments

Control	Control In Place?	Action Plan Ref.
Payments (payroll) are independently checked, correctly authorised, supported by appropriate documentation and calculations have been verified prior to authorisation.	Yes	
The Essex Pension Fund Control Accounts (payroll) are reconciled monthly and appropriate management authorisation is evidenced	Yes	
Payments (transfers out) are independently checked, correctly authorised, supported by appropriate documentation and calculations have been verified prior to authorisation.	Yes	
Lump sum payments are accurate and authorised by appropriate management in accordance with the scheme regulations.	Yes	
Any overpayments which are identified are recovered in accordance with set policy. All documentation is securely retained.	Yes	

Annual Benefit Statements risks:

Annual Benefit Statements are sent to members are inaccurate and or not all members receive an Annual Benefit Statement by the statutory date of 31 August

Note – given the proposed timing of this audit, this audit will assess whether there were sufficient and effective controls to ensure the 2016 Annual Benefit Statements were accurate and complete and whether there are robust plans to ensure likewise for 2017

Control	Control In Place?	Action Plan Ref.
Annual Benefit Statements have been sent to members by the statutory date 31 August.	Yes	

Systems Access and Configuration Risks:

The pension system does not enforce separation of duty between processing and approving actions

The pension system's workflow does not direct approval requests to a suitable manager

Delays in processing and or approving actions are not promptly identified and resolved

Changes to the pension system's configuration (e.g. of parameters or how actions are to be processed) are not approved and confirmed as working correctly before release to the live system

Enhanced system privileges (including the ability to change the pension system's configuration, add or remove users and amend users 'permissions) are not appropriately restricted or are out of date

Access to pension fund data is not restricted based on current operational need resulting in loss or inappropriate access to sensitive personal information.

Control	Control In Place?	Action Plan Ref.
Access permissions and restrictions are in line with Business need and there is appropriate separation of duty. Robust controls exist for the administration of passwords, password changes and account lockout following failed attempts.	Yes	
The pension system enforces separation of duty between processing and approving actions.	Yes	
The pension system's workflow directs approval requests to a suitable manager.	Yes	
Delays in processing and or approving actions are not promptly identified and resolved.	Yes	
Changes to the pension system's configuration (e.g. of parameters or how actions are to be processed) are not approved and confirmed as working correctly before release to the live system.	Yes	

Business Continuity Risks:

Business continuity and disaster recovery plans to deal with the loss of access to the pension system are not in place or have not been tested to confirm their effectiveness.

Control	Control In Place?	Action Plan Ref.
Business continuity / disaster recovery plans are in place if critical systems are unavailable and these are tested regularly.	Yes	
Regular back-up of core data is undertaken and tested to ensure adequate recovery processes are in place.	Yes	

System Reconciliation Risks:

The ECC General Ledger does not completely or accurately reflect pensions-related payments made or the assets and liabilities of the pension fund which could result in inaccurate financial reporting of the fund

Control	Control In Place?	Action Plan Ref.
Regular reconciliation between the general ledger and the UPM pension system is completed and approved. Prompt and effective investigation is undertaken if there are any discrepancies.	Yes	

Management Information Risks:

The timeliness and accuracy of processing pension-related instructions is not measured and actively reviewed by Pensions management to introduce any remedial action or improvements needed which could result in non, late or inaccurate pension payments and reputational damage.

Control	Control In Place?	Action Plan Ref.
Management information is provided on a regular basis identifying compliments and complaints and also providing information on poor performance.	Yes	
Where complaints or poor performance is identified there is a process in place to address these to a satisfactory outcome.	Yes	