
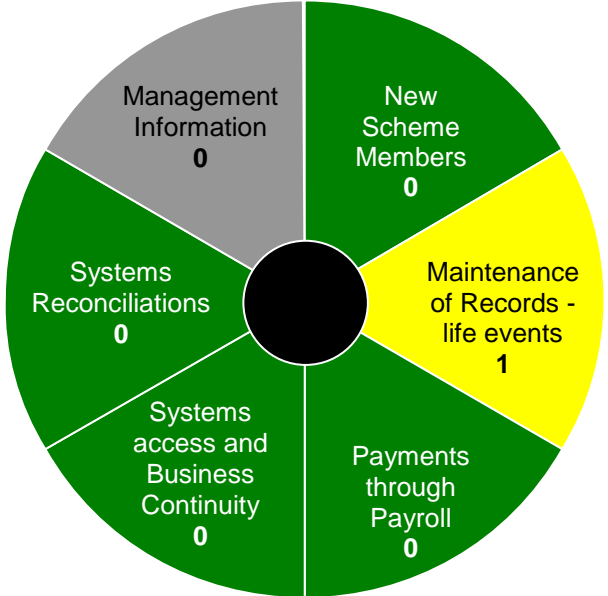







Final Internal Audit Report 2014/15 – Pension Service & Administration (KFS10)

1. Executive Summary

<p>Function: Corporate Services</p> <p>Audit Sponsor: Kevin McDonald, Director for Essex Pension Fund</p> <p>Distribution List: Kevin McDonald, Jody Evans, Pensions Services Manager; Joel Ellner, Team Manager; Daniel Chessell, Team Manager, Pensions; Margaret Lee, Executive Director for Corporate and Customer Services; Cllr Rodney Bass, Chairman of Essex Pension Fund; Christine Connolly, Ernst & Young (External Audit).</p> <p>Final Report Issued: 7 May 2015 Date of last review: March 2014</p>	<p>Overall Opinion</p> <p>GOOD ASSURANCE </p> <hr/> <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>0 Low</p>	<p>Number of Control Operating in Practice Issues Identified</p> <p>0 Critical</p> <p>0 Major</p> <p>1 Moderate</p> <p>0 Low</p>	<p>Number of Recommendations</p> <p>1 Made</p> <p>0 Rejected</p> <p>N/A Critical Rejected</p> <p>N/A Major Rejected</p>
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<p>Scope of the Review and Limitations:</p>	<p>A new pension system (CIVICA) was introduced in December 2014 with "Go Live" on 1 January 2015. With this in mind it was decided to complete the audit work in two stages. The first stage covering the period April to September based on the existing systems and processes and the second stage post implementation of UPM. Due to the timing of the audit the annual Pension Increase (payable from April 6 2015), testing of the Lump Sum reconciliations which were still being completed at the time of the audit and management information from the new system were not included within the testing. The management and controls surrounding the Essex Pension Fund Bank reconciliation and coding on the General Ledger were out of scope of this audit, these areas are being reviewed as part of the Pensions Investment audit (KFS19).</p>
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<p>Critical and Major Findings and Recommendations</p> <p>There are no critical or major recommendations.</p> <p>The audit opinion is an overall opinion of the controls operated under the previous AXIS system and the new UPM system (note limitations to scope above for UPM). The functionality of the UPM system has improved the control environment around the administration of pensions.</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  Not tested
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Auditor: Sarah Collins Fieldwork Completed: 14 April 2015 Draft Report Issued: 14 April 2014 Management Comments Expected: 5 May 2015 Management Comments Received: 6 May 2015 Final Report: 7 May 2015	Issues raised and officers responsible for implementation:						
	Name	Critical	Major	Moderate	Low	Total	Agreed
	Daniel Chessell and Joel Ellner – Pension Team Managers	0	0	1	0	1	1
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
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Registered Risks Reviewed

	None		
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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 Essex 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 Essex 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. Manual calculations are not correctly calculated and checked before input resulting in the potential for under and over payments of lump sum entitlements and pensions. Notification 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 Essex Pension Fund. Amendment 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	Systems access and Business Continuity: Loss of connectivity causes an inability to deliver a service for pension's administration and pensioner payroll which may lead to claims being made against the Essex 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. Essex Pension Fund data is not held securely resulting in loss or theft of data.	N/A	
N/A	Systems Reconciliations: System errors will not be identified leading to errors or omissions in the transfer of data between the AXIS modules. Reconciliations between the Essex 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.	N/A	
N/A	Management Information: Management information is inadequate or 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	Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: <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	Major in that failure to address the issue or progress the work would lead to one or more of the following occurring: <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	Moderate in that failure to address the issue or progress the work would lead to one or more of the following occurring: <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	Low in that failure to address the issue or progress the work would lead to one or more of the following occurring: <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. Recommendations and Action Plan

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions
Operating Effectiveness - Duplicate Payment					
1.	<p>During audit testing of the lump sum payments (paid via the AXIS system), it was noted that a duplicate payment had been made in April and May 2014/15 for the sum of £33,384.46 that had not been identified during the monthly reconciliation process. It was advised by the Pensions Operations Analyst that a creditor had been raised for the payment in the old year and was cancelled off against the April 2014 payment but this still did not provide a clear reason as to how / why this duplicate payment had occurred and not been identified within the monthly reconciliation process.</p> <p>The Pensions Team Manager contacted the pensioner via letter on 27 January 2015 advising her that a duplicate payment had been made and acknowledgement was received via a telephone call on 25 February 2015 confirming that the payment would be repaid. Payment has now been recovered in full.</p> <p>Following identification of the duplicate payment the controls around payment approval were strengthened. Additionally the functionality within UPM, which is driven by task workflow authorisation, has strengthened the</p>	<p><u>Maintenance of Records:</u> A failure to ensure that any overpayments are identified in a timely manner via the internal reconciliation process and overpayments robustly pursued may result in a financial loss to the Essex Pension Fund.</p>	<p>It is recommended that the processes and system controls that are being implemented within UPM are reviewed on a regular basis to ensure that duplicate payments cannot be paid. The reconciliation process should be tested to ensure that any duplicate payments would be identified at this point.</p> <p>Future development of UPM should include implementation of payment files being generated directly from UPM. This would improve the controls around payments.</p>	<p style="text-align: center;">●</p> <p>Moderate</p>	<p>Agreed: Yes</p> <p>Action to be taken: System controls for payments are included within the new processes implemented on UPM.</p> <p>Reconciliations will continue to be completed on a monthly basis and all non-schedule payment instructions to P2P are to be authorised by a member of the Essex Pension Fund Management Team only.</p> <p>The option of making all non-payroll payments directly from UPM as the benefits include additional controls, reduced cost, increased efficiency for the completion of UPM processes, reconciliations and accounts is being explored.</p> <p>Additional Resources Required for Implementation: No</p> <p>Responsible Officer: Daniel Chessell and Joel Ellner - Pension Team Managers</p> <p>Target Date: Completed</p>

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions
	<p>approval process; only managers can approve payments within the workflow process.</p> <p>Payment instructions are now generated directly from UPM with the functionality within UPM producing the schedule for payment and this is authorised through the internal control process. The approved schedule is printed off and is sent to Purchase to Pay (P2P) for payment.</p>				

4. 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 Essex 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.
Clearly defined processes are in place to authorise and admit new starters and these are complied with. New scheme members are entered onto AXIS accurately and receive a notification of membership in a timely manner.	Yes	
The disks received from the admitted bodies are complete and sense checked pre and post input into AXIS to ensure all data has been transferred accurately. All new scheme members entered onto AXIS.	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 before payment.	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 Essex Pension Fund regulations and potential for incorrect pension calculations.

Control	Control In Place?	Action Plan Ref.
Deferred membership pensions are independently checked and authorised before they are paid. 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. Notification of deaths is received and actioned promptly. Pension on death calculations are produced from AXIS and checked for accuracy by an appropriate manager prior to payment.	Yes	
Any overpayment identified is recovered in accordance with set policy. All documentation is securely retained.	Partially	1
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	
There is a clearly defined process in place for payment of lump sums. This process includes ensuring appropriate authorisation, processing and accurate recording of data in accordance with scheme rules. All documentation is securely retained.	Yes	

Payments through Payroll Risks:

Control	Control In Place?	Action Plan Ref.
<p>Amendments to payroll data are in writing and promptly recorded and authorised by management.</p> <p>Amendment reports are produced and checked before the BACS file is sent for payment.</p> <p>Payments are independently checked, correctly authorised, supported by appropriate documentation and calculations have been verified prior to authorisation.</p> <p>Overpayments are identified and recovered in line with set policy. All overpayment calculations have been verified and supporting documentation retained.</p> <p>Lump sum payments are accurate and authorised by appropriate management in accordance with the scheme regulations.</p>	Yes	
All new members to the Payroll system are authorised by an appropriate manager in accordance with the scheme rules, ensuring separation of duty is maintained.	Yes	
All new members to the Payroll system are authorised by an appropriate manager in accordance with the scheme rules, ensuring separation of duty is maintained.	Yes	
<p>Amendment reports are produced and checked before the BACS file is sent for payment.</p> <p>Payments are independently checked, correctly authorised, supported by appropriate documentation and calculations have been verified prior to authorisation.</p>	Yes	

Systems Reconciliation Risks:

Loss of connectivity causes an inability to deliver a service for pension's administration and pensioner payroll which may lead to claims being made against the Essex Pension Fund and loss of reputation.

Reconciliations between the Essex 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.
The Essex Pension Fund Control Accounts are reconciled monthly and appropriate management authorisation is evidenced.	Yes	
Procedure notes describing the key processes are followed by staff when performing the various reconciliations.	Yes	
<p>Regular reconciliation between the AXIS modules is undertaken to ensure that all data is transferred between modules and is complete and there are no system errors.</p> <p>Appropriate management sign-off is evidenced.</p> <p>Regular reconciliation between IFS and the AXIS modules is completed and approved.</p> <p>Investigation is undertaken if there are any discrepancies.</p>	Yes	

Systems Access and Business Continuity Risks:

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

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.

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

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	
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	

Management information Risks:

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

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. Where complaints or poor performance is identified there is a process in place to address these to a satisfactory outcome.	Not tested	