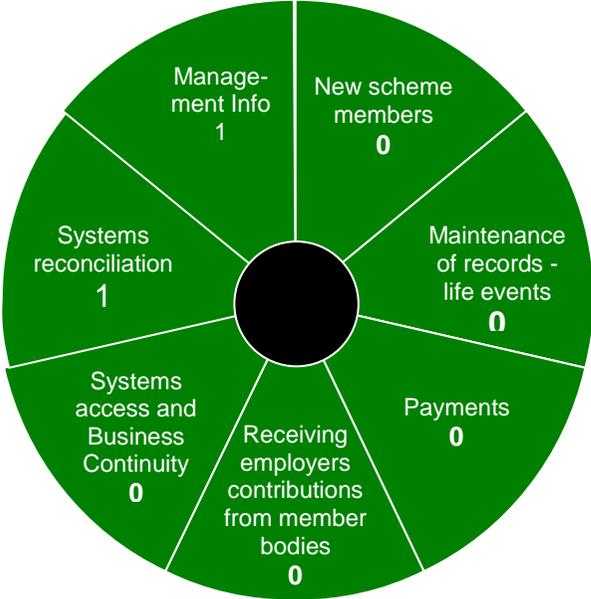


# Final Internal Audit Report 2015/16 – Pensions Services & Administration (KFS10)

## 1. Executive Summary

<p><b>Function:</b> Corporate and Customer Services</p> <p><b>Audit Sponsor:</b> Kevin McDonald, Director for Essex Pension Fund</p> <p><b>Distribution List:</b> Margaret Lee, Executive Director for Corporate and Customer Services; Kevin McDonald, Jody Evans, Pensions Services Manager; Joel Ellner, Team Manager; Daniel Chessell, Team Manager, Pensions; Cllr Rodney Bass, Chairman of Essex Pension Fund; Gary Belcher, Ernst &amp; Young (External Audit).</p> <p><b>Final Report Issued:</b> 02 June 2016</p> <p><b>Date of last review:</b> May 2015</p>	<p><b>Overall Opinion</b></p> <p><b>GOOD ASSURANCE</b> </p> <hr/> <p><b>Direction of Travel</b></p> <p>Control environment has not changed since our prior audit </p>	<p><b>Number of Control Design Issues Identified</b></p> <p><b>0</b> Critical</p> <p><b>0</b> Major</p> <p><b>0</b> Moderate</p> <p><b>2</b> Low</p>	<p><b>Number of Control Operating in Practice Issues Identified</b></p> <p><b>0</b> Critical</p> <p><b>0</b> Major</p> <p><b>0</b> Moderate</p> <p><b>0</b> Low</p>	<p><b>Number of Recommendations</b></p> <p><b>2</b> Made</p> <p><b>0</b> Rejected</p> <p><b>N/A</b> Critical Rejected</p> <p><b>N/A</b> Major Rejected</p>
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<p><b>Scope of the Review and Limitations:</b></p>	<p>This audit reviewed the maintenance of pension member scheme records; payroll and lump sum payments; systems access; business continuity; system reconciliations and management information.</p> <p>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 (KFS09).</p>
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<p><b>Critical and Major Findings and Recommendations</b></p> <p>There are no critical or major recommendations.</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"> <li> Critical priority Control Design or Control Operating in Practice issues identified</li> <li> Major priority Control Design or Control Operating in Practice issues identified</li> <li> Moderate priority Control Design or Control Operating in Practice issues identified</li> <li> No / Minor Control Design or Control Operating in Practice Issues identified</li> </ul>
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<b>Auditors:</b> Anita Goold & Simon Martin <b>Fieldwork Completed:</b> 1 February 2016 <b>Draft Report Issued:</b> 30 March 2016 <b>Management Comments Expected:</b> 20 April 2016 <b>Management Comments Received:</b> 25 April 2016, 03 May 2016 and 02 June 2016 <b>Final Report:</b> 02 June 2016	<b>Issues raised and officers responsible for implementation:</b>						
	Name	Critical	Major	Moderate	Low	Total	Agreed
	Jody Evans – Head of Essex Pension Fund	0	0	0	2	0	1
<b>Releasing Internal Audit Reports:</b> 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.							
<b>Risk Management:</b> 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

EPFD0016	<b>Systems Access and Business Continuity:</b> The Pensions Fund is not managed and its services delivered by people who have the appropriate knowledge and expertise.	Yes	●
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## Unregistered Risks Identified & Audited

N/A	<b>New Scheme Members:</b> New scheme members (including transfers in) added to the pension system are not supported by appropriate authorised supporting evidence or processed promptly, completely and accurately in accordance with scheme rules.	N/A	●
N/A	<b>Maintenance of Records - life events:</b> Updates to scheme members' pension system records (including transfers out, retirement, death, deferred membership and changes to working hours, salary and contributions) are not supported by appropriate authorised supporting evidence or processed promptly, completely and accurately in accordance with scheme rules which could result in incorrect pension calculations.	N/A	●
N/A	<p><b>Pension Payments:</b> New pensioners added to the pension system are not supported by appropriate, authorised supporting evidence, processed completely and accurately and in accordance with scheme rules resulting in incorrect and/or illegitimate payments being made.</p> <p>The pension system is not completely, accurately and promptly updated with notifications of deaths which could lead to overpayments of pensions and the potential for fraudulent payments.</p> <p>Amendments to pensioners' data (including changes to bank account details) on the payroll system are not supported by appropriate, authorised supporting evidence and processed completely and accurately which could result in incorrect or fraudulent payments.</p> <p>Lump sum payments to pensioners made through the pension system are not supported by appropriate, authorised supporting evidence or are not processed correctly which could result in incorrect or potentially fraudulent payments.</p> <p>Refunds of contributions to those leaving the pension fund are not supported by appropriate, authorised supporting evidence or are not processed correctly which could result in incorrect or potentially fraudulent payments.</p> <p>Overpayments or duplicate payments are not identified and or their recovery actively pursued which could result in financial loss.</p> <p>The timeliness and accuracy of processing of pension-related instructions and pension payments is not measured and actively reviewed by Payroll management to introduce any remedial action or process improvements needed which could result in non, late or inaccurate pension payments and reputational damage.</p>	N/A	●
N/A	<b>Receiving employer's contributions from member bodies:</b> Contributions from member bodies are not completely or accurately received or in a timely manner which could result in cash flow issues for the fund and or reduced investment income.	N/A	●
N/A	<b>Systems Access and Business Continuity:</b> Access to pensions system is not controlled and restricted to relevant staff, which could result in 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	<p><b>Systems Reconciliation:</b> The general ledger system does not completely or accurately reflect pension payments made or the assets and liabilities of the pension fund which could result in inaccurate financial reporting.</p> <p>Repaid overpayments 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><b>Management Information:</b> The timeliness and accuracy of processing pension-related instructions is not measured and actively reviewed by Pensions management to introduce any remedial action or process improvements needed which could result in non, late or inaccurate pension payments and reputational damage</p>	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"> <li>▪ Significant financial loss (through fraud, error, poor value for money)</li> <li>▪ Serious safeguarding breach</li> <li>▪ Life threatening or multiple serious injuries</li> <li>▪ Catastrophic loss of service</li> <li>▪ Failure of major projects</li> <li>▪ Critical Information loss leading to Information Commissioner's Office (ICO) referral</li> <li>▪ Reputational damage – Intense political and media scrutiny i.e. front-page headlines, television coverage.</li> <li>▪ Possible criminal, or high profile, civil action against the Council, Members or officers.</li> <li>▪ Intervention by external agencies</li> </ul> <p><b>Remedial action must be taken immediately</b></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"> <li>▪ High financial loss (through fraud, error, poor value for money)</li> <li>▪ Safeguarding breach</li> <li>▪ Serious injuries or stressful experience requiring medical treatment, many work days lost.</li> <li>▪ Significant disruption to service (Key outcomes missed, some services compromised. Management action required to overcome medium term difficulties)</li> <li>▪ Major Information loss leading to internal investigation</li> <li>▪ Reputational damage – Unfavourable external media coverage. Noticeable impact on public opinion.</li> <li>▪ Scrutiny required by external agencies</li> </ul> <p><b>Remedial action must be taken urgently</b></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"> <li>▪ Medium financial loss (through fraud, error or poor value for money)</li> <li>▪ Significant short-term disruption of non-core activities</li> <li>▪ Scrutiny required by internal committees.</li> <li>▪ Injuries or stress level requiring some medical treatment, potentially some work days lost</li> <li>▪ Reputational damage – Probable limited unfavourable media coverage.</li> </ul> <p><b>Prompt specific action should be taken</b></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"> <li>▪ Low financial loss (through error or poor value for money)</li> <li>▪ 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.</li> <li>▪ Reputational damage – Internal review, unlikely to have a wider impact.</li> </ul> <p><b>Remedial action is required</b></p>
Assurance Level	Description
<b>Good</b>	<b>Good assurance</b> – 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.
<b>Adequate</b>	<b>Adequate assurance</b> – 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.
<b>Limited</b>	<b>Limited assurance</b> – 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.
<b>No</b>	<b>No assurance</b> – 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
<b>Control Design – Management information</b>					
1.	<p>The Essex Pension Fund scorecard reported to board covers a balanced, comprehensive suite of performance measures. This provides periodic oversight of performance and outcomes achieved to date.</p> <p>The pension system (Civica UPM) is capable of producing a wide range of management information that could further support the existing performance information by providing assurance of compliance with required processes and help forward planning.</p> <p>Currently, management information reports are produced (such as on missing data, aborted processes) but on an as and when basis and relies on the significant experience and knowledge of current staff.</p> <p>In 2016/17, the Essex Pensions Service are planning to further develop the suite of management information produced from the pension system so it is routinely produced and provides real time information directly from the system (i.e. requires no or minimal secondary processing to be useable).</p>	<p>The timeliness and accuracy of processing pension-related instructions is not measured and actively reviewed by Pensions management to introduce any remedial action or process improvements needed which could result in non, late or inaccurate pension payments and reputational damage.</p>	<p>Develop further the suite of management information routinely produced directly from the pension system.</p> <p>This management information should provide further oversight of key issues such as compliance with required processes and where possible identify potential anomalies.</p>	<p>● Low</p>	<p><b>Agreed:</b> Yes</p> <p><b>Action to be taken:</b></p> <p><b>Additional Resources Required for Implementation:</b> No</p> <p><b>Responsible Officer:</b> Jody Evans – Head of Essex Pension Fund</p> <p><b>Target Date:</b> 31 December 2016</p>

Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions	
<b>Control design – reconciliation between the pensions system and general ledger</b>					
2	<p>Staff procedure notes on how to perform the reconciliations between the pension system and the general ledger are not up to date.</p> <p>It is acknowledged there has been consistency in the staff undertaking the reconciliation and the reconciliations are completed satisfactorily. It is also acknowledged the procedures are best updated when the new general ledger system has been implemented.</p>	<p>The general ledger system does not completely or accurately reflect pension payments made</p> <p>or the assets and liabilities of the pension fund which could result in inaccurate financial reporting.</p>	<p>Update the staff procedure notes on how to reconcile the pension system to the general ledger.</p>	<p>● Low</p>	<p><b>Agreed:</b> Yes</p> <p><b>Action to be taken:</b> As per recommendation</p> <p><b>Additional Resources Required for Implementation:</b> [Yes / No]</p> <p><b>Responsible Officer:</b> Jody Evans – Head of Essex Pension Fund</p> <p><b>Target Date:</b> 31 October 2016</p>

## 4. Controls Assessment Schedule

### New scheme members risks:

New members (including transfers in from other pension schemes) added to the pension system (Civica UPM) are not supported by appropriate authorised supporting evidence or processed promptly, completely and accurately in accordance with scheme rules.

Control	Control In Place?	Action Plan Ref.
New member instructions received from admitted bodies are checked prior to input into the pension system to confirm whether all required data have been received.	Yes	
The pension system has in-built process maps to enforce required actions to process new members.	Yes	
The pension system has an in-built work flow to enforce separation of duties between processing new member instructions and a senior officer authorising them to take effect on the system.	Yes	
The pension system logs actions taken, by whom and when including the processing and authorising of new members.	Yes	
New scheme members are sent notification of membership in a timely manner.	Yes	

### Maintenance of records - life events risks:

Amendments and updates to current members' pension system records (including transfers out, retirement, death, deferred membership and changes to working hours, salary and contributions) are not supported by appropriate authorised supporting evidence or processed promptly, completely and accurately in accordance with scheme rules which could result in incorrect pension calculations.

Control	Control In Place?	Action Plan Ref.
The pension system has in-built process maps to enforce required actions to process amendments and updates to current members' records.	Yes	
The pension system has an in-built work flow to enforce separation of duties between processing amendments and updates to current members' records and a senior officer authorising them to take effect on the system.	Yes	
The pension system logs actions taken, by whom and when including the processing and authorising of amendments and updates to current members' records.	Yes	

### Payments risks:

New pensioners added to the pensioner payroll are not supported by appropriate, authorised supporting evidence, processed completely and accurately and in accordance with scheme rules resulting in incorrect and/or illegitimate payments being made.

The pension system is not completely, accurately and promptly updated with notifications of deaths which could lead to overpayments of pensions and the potential for fraudulent payments.

Amendments to pensioners' data (including changes to bank account details) on the pension payroll system are not supported by appropriate, authorised supporting evidence and processed completely and accurately which could result in incorrect or fraudulent payments.

Lump sum payments to pensioners made through the pensioner payroll are not supported by appropriate, authorised supporting evidence or are not processed correctly which could result in incorrect or potentially fraudulent payments.

Refunds of contributions to those leaving the pension fund are not supported by appropriate, authorised supporting evidence or are not processed correctly which could result in incorrect or potentially fraudulent payments.

Overpayments or duplicate payments are not identified and or their recovery actively pursued which could result in financial loss to the Essex Pension Fund.

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

Control	Control In Place?	Action Plan Ref.
The pension system has in-built process maps to enforce required actions to process actions with a direct financial outcome (e.g. death notifications, lump sums and refunds, etc.).	Yes	
The pension system has an in-built work flow to enforce separation of duties between processing actions with a direct financial outcome and a senior officer authorising them.	Yes	
Amendments to pensioner payroll data must be received in writing. Pensioners are advised in writing when their bank account details have been changed.	Yes	
The pension system has an in-built work flow to enforce separation of duties between processing updates to pensioner payment data and a senior officer authorising them	Yes	
Proposed payments are produced, checked and issues resolved before the payment file is separately authorised via workflow for payment. The number and value of payments actually made are checked to ensure the authorised payment file has been executed completely and accurately.	Yes	
Any overpayments are identified through the checks of proposed payments.	Yes	

### Receiving employers' contributions from member bodies risks:

Contributions from member bodies are not completely or accurately received or in a timely manner which could result in cash flow issues for the fund and or reduced investment income.

Control	Control In Place?	Action Plan Ref.
Checks are completed to ensure that all employers' monthly contributions are received, are complete, accurate and accounted for correctly.	Yes	
There is an annual reconciliation of employers' contributions to ensure accuracy and completeness.	Yes	
Contributions are amended in line with actuarial valuations.	Yes	

### Systems access and Business Continuity risks:

The Pensions Fund is not managed and its services delivered by people who have the appropriate knowledge and expertise.

Access to pensions system is not controlled and restricted to relevant staff, which could result in 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.
The numbers of Essex Pension Service staff having training plans in place and Supporting Success objectives set is measured and reported as part of the Pension Fund Scorecard reported to the board.	Yes	
Access permissions and restrictions are in line with business need and there is appropriate separations of duties throughout enforced via workflows.	Yes	
Regular back-up of core data is undertaken and tested to ensure adequate recovery processes are in place [tested through IS audit ref. IS 11]	Yes	
Business continuity / disaster recovery plans are in place if critical systems are unavailable and these are tested regularly. [tested through IS audit ref. IS 11]	Yes	

### Systems reconciliation risks:

The general ledger system does not completely or accurately reflect payments made through the payroll system or the assets and liabilities of the pension fund system which could result in inaccurate financial reporting.

Repaid overpayments 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	
The pension system is regularly reconciled to the general ledger. Investigation is undertaken if there are any discrepancies. Appropriate management sign-off is evidenced.	Yes	
Procedure notes describing how to undertake the reconciliations are in place and communicated to key staff.	Partially	2

### 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 process improvements needed which could result in non, late or inaccurate pension payments and reputational damage

Control	Control In Place?	Action Plan Ref.
Service standards measuring whether the Essex Pension Service delivers a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers as part of the Pension Fund Scorecard reported to the board.	Yes	
Numbers and outcomes of complaints are measure and reported as part of the Pension Fund Scorecard report to the board.	Yes	
Management information generated directly from the pension system is regularly produced and reviewed to identify exceptions or otherwise provide assurance of compliance with required processes and timescales and manage workloads.	Partially	1