KPMG

cutting through complexity

Essex Fire Authority

Review of internal processes and payroll function

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Background and Scope	■ Essex Fire Authority (the "Authority") employees are currently eligible for membership in one of the following Schemes (the "Schemes"):
	■ Local Government Pension Scheme ("LGPS")
	■ Firefighters Pension Scheme 1992 ("FPS")
	■ New Firefighters Pension Scheme ("NFPS")
	■ Modified Pension Scheme (for Retained Firefighters)
	■ The administration of these Schemes is delegated to the Essex Pension Fund
	■ To ensure the Schemes are administered adequately and efficiently, the Authority asked KPMG to conduct a review of the appropriateness of internal controls and processes in place to assess against requirements of the Schemes, including pension journals
	■ This involved liaison with the Authority's Payroll team, Finance team and internal HR and pensions representatives to assess the processes in place, having agreed any particular areas of concern of where focus is required
	■ We agreed to report our findings at a high level indicating any key areas of risk and make recommendations on potential process changes where applicable
Key Findings	Our review of the processes identified a number of possible issues and key themes which are detailed below. Further details of these are provided under 'Key Findings and Recommendations':
	■ Many of the processes, such as completion of forms and calculation of pensionable salaries or missed contributions require manual intervention. This introduces the risk of errors when entering data, incorrect benefits being calculated and processes not being completed correctly
	■ Members who miss contributions may not be informed about how they can repay their contributions and have their records updated correctly to reflect their position. They could therefore not receive the correct benefit when they leave the Scheme
	■ There is a historic Scottish Widows policy which was open to members who at that time did not have a Scheme that they could join. All the processes involved with this policy require manual intervention, contributions are paid to Scottish Widows by a cheque sent in the post and we understand that a review of the policy has not been undertaken for some time to ensure if it remains 'fit for purpose' and meets the standards issued by the Pensions Regulator covering governance and administration
	■ The processes reviewed dealt with sending sensitive employee data externally to the Authority, however there was not a consistent approach in all departments to data encryption and not all files containing member data were password protected before being sent to Essex Pension Fund
	■ We identified a number of key person issues, where only certain members of a team were able to complete processes or provide information in their department
	■ Processes were not always documented clearly and some processes had not yet been documented. Where processes were formalised there were not always checklists to be completed and signed off
	■ Communications between internal departments at the Authority can be a little disjointed and as a result of this the member experience could be confusing. Communications with Essex Pension Fund are good, however both the Authority and Fund could discuss improvements to ensure that processes are as efficient as possible

Recommendations	We have provided a brief overview of our recommendations below. These are described in further detail under 'Key Findings and Recommendations':
	■ To reduce manual intervention in calculations and processes, introduce automated calculations, consider how SAP reports could be run in order to populate forms or generate forms. Automate calculations where possible and ensure they are rigorously tested and signed off and that any formulae on spreadsheets are protected. Where this is not possible, ensure robust checking processes are in place and that work completed manually is approved by a senior member of the team
	■ Ensure that the process for members who miss contributions is complete and robust and that SAP records are updated correctly
	■ Conduct a review of the Scottish Widows policy to ensure it remains 'fit for purpose' and ensure that contributions are paid over to them in a timely manner
	■ Put in place a clear data encryption policy to reduce the risk of data protection breaches
	■ To avoid key person issues, have formal triggers in place for all tasks which have an associated deadline, implement comprehensive formal process guides and checklists for each key process and provide training to enable other members of the department to complete and/or approve the process
	■ Consider having one process which covers all departments such as the one for leavers rather than a process for each department and ensure that any process has a checklist in place which is then signed off by the person checking the case
	■ Improve communications including:
	■ Ensure that different departments within the Authority understand each other's roles and responsibilities to ensure a joined up approach to the completion of tasks
	■ Consider the member experience when drafting processes and checklists
	■ Request feedback from Essex Pension Fund when key processes are completed and consider setting up regular meetings to discuss any improvements in processes that can be made
	■ Discuss how Essex Pension Fund use the information provided to them by the Authority to determine whether all information provided is required
	■ Consider streamlining processes with Essex Pension Fund to reduce potential for duplication of work

This report focuses on the agreed actions for Phase 1 – a review of internal policies and payroll function

We agreed with the Authority to conduct a review the appropriateness of internal controls and processes in place to assess against requirements of the Schemes.

The review involved liaison with the Authority's Payroll department, Finance department and internal HR and pensions representatives to assess the processes in place, having agreed any particular areas of concern where focus was required.

We considered how effective the output produced within the Authority was then shared with Essex Pension Fund, through assessment of appropriateness of interfaces and established processes.

We also conducted a review of the processes for a sample of cases to assess how processes had been carried out in practice to understand members' experiences. The main focus areas for this was:

■ Processes for new joiners and leavers, including opt outs;

■ Members with unusual employment history including long term absence, multiple employments, industrial action; and

■ A cross-section of standard employees.

We arranged a visit to the Authority on 17 July 2015 to conduct the review and in preparation for our visit, we were provided with copies of processes and checklists from the various departments. It should be noted that some of these processes were under review by the relevant teams and so, not all documents received were either complete or signed off and some processes were not in place.

We looked at processes for the Annual Pension Return, Finance, HR and Payroll and full details of the processes are provided in the Appendices.

We arranged to meet with the following personnel during our visit:

■ Jane Corsham – HR Manager

■ James Durrant – Pensions Manager

■ Glenn McGuinness – Finance

■ Angela Mayers and Amy White – HR

■ Sarah Webster – Payroll

This report sets out our findings at a high level, indicating any potential issues and key areas of risk, alongside our recommendations where applicable for the Authority's consideration.

- We noted that all departments that we spoke to were engaged and enthusiastic about putting procedures in place and were very helpful in providing us with details whilst we conducted our review

- Following the completion of our review, we grouped together the Key Findings we identified and have reported on these below as themes. Alongside our findings, we have provided our recommended actions to take in order to rectify the issues noted

- We rated each Key Finding with a priority scale of 'red, amber, green' to highlight the importance of each issue and this section of the report focusses on issues deemed to be rated 'red' or 'amber'.

- A full list of all processes reviewed is included in our Appendices, including those rated as 'green'

Issue	Key Findings and Risk	Recommendation	Priority

Manual processes	- Throughout our review, we identified many examples in each of the departments where manual processes were being completed, including:
	  - Performing the Annual Pension Return
	  - Calculating pensionable salaries for leavers
	  - Filling out and completing forms
	  - Processing missing contributions due to sickness, maternity or industrial action
	  - Payment of lump sums
	  - Completing the monthly process for the Scottish Widows policy
	- Having manual processes in place, be they formulas in a spreadsheet, manual payment entries or paper based reconciliations, introduces the risk of data errors and processes being completed incorrectly
		- Introduce automatic processes where possible and ensure they are rigorously tested and signed off
		- Consider whether the SAP system could be utilised to generate forms
		- Where it is not possible to implement automatic processes, ensure robust checking processes are in place and that work completed manually is approved by a senior member of the team
			🔴

Issue	Key Findings and Risk	Recommendation	Priority

Members missing contributions	■ It is important that a member understands when they have missed paying contributions, how they can repay these contributions and what happens to their pensionable service should they chose not to repay these contributions
	
	■ It is also important to record whether an employee elects to repay missing contributions to ensure their record is kept up to date and also enable the employee to receive the correct level of benefits when they leave the Scheme
	
	■ We noted the following:
	
	   ■ If a member chose not to repay missing contributions following industrial action, this is not recorded on their SAP record. Only if a member elects to repay these contributions is their record updated
	
	   ■ With regards to missing contributions following maternity or unpaid leave, an employee is directed to contact Essex Pension Fund and no further action is taken by the Authority. The employee's record held by the Authority does not appear to be updated to reflect whether the employee opted to repay the contributions. The member record is not therefore complete
	
	   ■ Following sick leave, there is no communication with the member regarding repaying missed contributions so currently it is unclear whether members who miss contributions either repay them or have a noted break in service
	
	■ For all of these examples, there is a significant risk that employees' records would not be up to date or consistent with those held by Essex Pension Fund and as a result the employee could receive an incorrect benefit entitlement and the Scheme pay a benefit to which the member has not contributed
		■ Ensure that members on sick leave are informed when their pay stops how to go about repaying their missed contributions
		
		■ For all employees who miss contributions, record on SAP whether they opt to repay missing contributions
		
		■ Request Essex Pension Fund to confirm whether employees repay missing contributions following periods of absence where contributions have ceased and update their SAP record accordingly
			🔴

Issue	Key Findings and Risk	Recommendation	Priority

Scottish Widows policy	■ The Scottish Widows policy was put in place for members who did not have a Scheme that they could join at that time and enabled them to pay into a pension arrangement and receive a nominal contribution from the Authority
	
	■ Many of the processes involved with this policy are completed manually due to limitations set out by Scottish Widows. For example, paying the contributions by cheque and completing the schedule manually. These are discussed further in the 'Appendices'
	
	■ However, due to the number of years the policy has been in place, the key issue for the Authority is whether the policy remains 'fit for purpose'
	
	    ■ The importance of this has been emphasised by the recent communication from the Pensions Regulator to trustees of defined contribution arrangements for them to ensure their schemes meet the revised standards (issued in April 2015) covering governance and administration
		■ Improve communications with Scottish Widows and discuss with them the possibility of receiving documents electronically and making payments by BACS
		
		■ Ensure that the policy conforms to the Pensions Regulator's governance requirements for Defined Contribution schemes
		
		■ Conduct a review of the Scottish Widows policy to ensure it remains 'fit for purpose'
		
		    ■ This should include consideration of whether the policy complies with regulatory requirements as well as the requirements of the members
			🔴

Data encryption	■ Many processes completed in each of the departments dealt with sensitive employee data, such as salaries and sickness leave ■ We noted that although some data was encrypted when being emailed, there were many examples were data was being sent without a password ■ There is a high risk of data being intercepted and being instantly accessible, resulting in a serious data protection breach	■ The Authority should put in place a clear data encryption policy to reduce the risk of data protection breaches	🔴

Issue	Key Findings and Risk	Recommendation	Priority

Key person	■ We identified key person risks in processes completed by Payroll, HR and as part of the Annual Pension Return
	
	■ Examples of key person risk we noted included having only one team member who could:
	
	    ■ Complete certain tasks within a process, such as managing the process for striking members, providing reports for the renewal process, or whole processes
	
	    ■ Approve completed work
	
	    ■ Provide required information to other departments
	
	    ■ Know when a piece of work was expected to be received
	
	■ In the event that the key person was unable to complete one of these tasks for any reason, there would currently be no other person trained to undertake the task in their place
		■ Complete and sign off comprehensive formal process guides for each key process which provides clear details of how each stage is completed to enable other members of the team to complete the process
		
		■ Provide training to other senior team members to allow them to approve work and provide information required by other departments
		
		■ Establish formal triggers for all tasks which have a deadline to which they must be completed, such as group calendar reminders
			🔴

Process guides	■ Formal process guides provide:
	
	    ■ An overview of a process, including its objectives
	
	    ■ Details of best practice for the process
	
	    ■ Concise instructions on how it should be completed
	
	■ We noted that many processes did not have process guides in place, or had guides that were not signed off by an approver
	
	■ By not having a formal process guide in place, there is the risk that there is no continuity in the way a process is performed, team members may not understand the purpose of the process and if there are no instructions available, processes could be completed incorrectly
		■ Produce and put in place formal process guides for all key processes in each department, ensuring that they are checked and approved by another senior team member
		
		■ Once processes are in place ensure that they are reviewed regularly to make sure that they are still fit for purpose
			🔴

Issue	Key Findings and Risk	Recommendation	Priority
Checklists	■ By having a formal process checklist in place, the Authority can be confident that all tasks in a process are completed and that they are done so in accordance with their requirements. It is important that an approver also signs off the completed checklist to confirm a review of the process has also been conducted ■ For a number of the reviewed processes, we were provided with evidence that formal checklists are in place and signed off by both the team member completing the work and an approver. Most of these processes were seen in the payroll department ■ However, many processes did not have formal checklists in place, or had checklists that were not signed by an approver once the process had been completed ■ The risks of not having a formal checklist include: 　■ key elements of the process could be missed 　■ the process may not be completed correctly	■ Put in place formal checklists for all key processes in each department ■ Ensure that once completed by the team member, these checklists are reviewed and approved by a senior team member	🔴
Communication between departments	■ It is important that there is ongoing communication between departments and also a clear understanding of the roles and responsibilities of each department 　■ Without this being in place, the experience an employee can receive could appear disjointed ■ We noted there were clear contacts available in each department for queries, however the departments did not appear to be fully aware of all the work undertaken in each different department ■ Being aware of the functionality of each department could help streamline processes and avoid duplication of work. A key example is set out below: 　■ A form completed for leavers ('PN1') is completed in part by HR and then forwarded onto Payroll for them to complete the remainder of the form. This appears to be a duplication of work as Payroll would be required to check the information provided in the first section of the form before completing the remainder of the form and forwarding this onto Essex Pension Fund	■ For the example given, we would recommend considering the following actions: 　■ To avoid duplication of completion of the 'PN1' form, HR could inform Payroll of any leavers by email, which would prompt Payroll to complete the 'PN1' form as required 　■ Harmonising processes so there is one process and one checklist for a task which all departments follow	🟡

Issue	Key Findings and Risk	Recommendation	Priority

Communications with Essex Pension Fund	■ As Essex Pension Fund are responsible for the administration of the Schemes, it is important that there is clear and open communication between them and each of the departments to ensure efficient working as well as providing continuity of service to members of the Schemes
	
	■ We identified the following examples where this could be improved:
	
	   ■ The Annual Pension Return was submitted to Essex Pension Fund by the deadline of April this year. However, limited feedback has been received to date. More detail on the Annual Pension Return process is covered in Appendix 1
	
	   ■ The HR team advised us that despite providing completed monthly spreadsheets detailing leavers information to Essex Pension Fund, they often receive queries from them once they have received the completed 'PN1' leaver form. These queries regularly relate to information provided in the monthly spreadsheets and so, it is unclear whether these spreadsheets are being utilised appropriately by Essex Pension Fund
	
	   ■ Information is often provided to Essex Pension Fund by email, such as leaver details, however there is no confirmation received that the appropriate actions have been taken by Essex Pension Fund
	
	   ■ When Finance are requested to make lump sum payments by Essex Pension Fund, the payment form they receive appears to be completed manually by Essex Pension Fund. This information is then input manually into the Lloyds system manually by Finance. Having the details manually input firstly onto the form and secondly onto the system could lead to incorrect data being entered
		■ Request feedback from Essex Pension Fund when key processes, such as the Annual Pension Return, are completed. This will enable the department to streamline processes and make constructive changes to them to ensure their output is in line with Essex Pension Fund's requirements
		
		■ Consider whether to set up regular meetings, say quarterly, with Essex Pension Fund to discuss what has gone well over the period, what would be done better next time, what key projects are coming up together with timescales and suggestions for improvements on processes
		
		■ Request confirmation from Essex Pension Fund that appropriate actions have been taken after providing them with information that requires a response
		
		   ■ With regards to payments completed by Finance, there are two options which could be considered:
		
		      ■ The payment information could be entered into an encrypted spreadsheet by Essex Pension Fund and then sent onto Finance who would then import the data onto Lloyds and authorise as normal, removing the need for them manually re-enter the payment data
		
		      ■ Alternatively, Essex Pension Fund could be given access to input the payment details directly into the Lloyds system, effectively requiring Finance to only authorise the payment and removing the duplication of manual entries
			🟡

Issue	Key Findings and Risk	Recommendation	Priority
Communications with members	■ Although it is important to ensure the processes undertaken by the Authority are efficient and completed in line with requirements, clear communication with members of the Schemes should also be a key objective for the Authority ■ There are a number of instances where processes involve a number of different departments and if it is not clearly defined to members what each which department deals with, the member will receive a disjointed service. For example the leaver process; each department has their own part of the leaver process to complete (HR and payroll complete the form, Finance pay the lump sum, Essex Pension Fund set up and pay the pension). If the member called one department to get an update on when they might receive their pension or lump sum, if the case was not with that department, they would not know what the next stage was or how long it could take ■ We also noted examples where departments would complete their section of a process for a member and then have no further involvement in a case. Therefore, should a member request an update on the progress of their case, they would be unable to provide this	■ Consider harmonising processes so that there is one process for all departments to work to, rather than several separate processes ■ Provide direct contact details for each stage of a process to members ■ Obtain confirmation that actions have been completed by other departments to allow other departments to provide member updates and ensure a positive member experience	🟡

Appendices

- We discussed the Annual Pension Return (the "Return") process with James Durrant, Pensions Manager

- The Return is required to be completed annually by the Authority and submitted to Essex Pension Fund by the deadline of the end of April

- Information provided in the Return is not used to calculate benefits at retirement, however it is used to complete benefit statements which are issued to members of the different Schemes

- A training day was provided by Essex Pension Fund to all employers to reiterate the required output of the Return

- We have set out below our understanding of the Return process. We have also provided a priority scale of 'red, amber, green' to highlight the importance any issues outlined in our comments:

Process	Outline of process	Comment and Recommendations	Priority

Annual Pension Return – pre Return	■ An email is received from Essex Pension Fund each year around February / March. This email sets out the requirements for completing the Return and also provides guidance notes	■ We have noted key person issues with regards to the completion of the return:
		
		  ■ We queried who would be aware to action the Return if the email was not issued by Essex Pension Fund by March. James confirmed he would be aware that the Return was due, but that no other team member would. There is also currently no formal trigger in place to complete the Return, except the email received from Essex Pension Fund
		
		  ■ James Durrant is the only person able to complete the Return and if he was unable to for any reason, there would be no other person trained to undertake the task in his place. James has drafted comprehensive notes on how to complete the Return, however these have not yet been signed off
		
		■ A checklist is in place which is completed by James as the individual tasks in each stage are completed, however this is not checked and approved by another member of staff and there is currently no workflow process in place
			🔴

| Process	Outline of process	Comment and Recommendations	Priority
Stage 1 – Information gathering	■ Following a request to Sarah Webster in Payroll, Payroll collate employee and employer contribution information for the past year for every member of each scheme into a spreadsheet known as the 'All Pensions Spreadsheet' ■ Payments for the past year to the relevant pension schemes are also requested from Glenn McGuinness in Finance to enable reconciliation between Payroll and Finance figures ■ HR are requested to provide CPD and temporary promotion information for the past year and all other required information for the Return is requested from Sarah Webster	■ James confirmed the 'All Pensions Spreadsheet' can only be provided Sarah Webster in Payroll. This is a key person issue ■ The information is provided from three sources and manually collated by James as there is no automatic process in place	🔴
Stage 2 – Reconciliation	■ James reconciles member information contained in the 'All Pensions Spreadsheet' as well as reconciling payment information provided by Finance and contribution information provided by Payroll ■ Any anomalies in the data are investigated and resolved	■ For this years' Return, the reconciliation of Finance and Payroll information was started by an employee before she left the Authority and completed by James ■ This may have resulted in duplication of work as James would have needed to review the work already completed to understand what had been done, as well as completing the reconciliation himself	🟢
Stage 3 – Removal of Additional Pension Benefits	■ As temporary promotions and CPD cannot count towards final salary benefits, they must be removed from the Return. These elements are required to be deducted from members' contribution and pay figures ■ These deductions are completed manually by James, using reports from the SAP system and formulas in excel spreadsheets	■ This stage involves calculations which are manually completed within a spreadsheet, using information from a number of sources ■ The complexity of this, as well as being completed manually could cause a possible risk resulting in the miscalculation of the figures	🔴
Stage 4 – Compile information	■ The information gathered in the previous stages must be collated into a new spreadsheet, in the format required by Essex Pension Fund ■ The information is pulled from a number of spreadsheets into the new spreadsheet, predominantly using the 'vlookup' function in excel	■ The manual collation of all the information into one spreadsheet brings in risk for a number of reasons, such as the wrong data being copied into the spreadsheet or manual formulas being input incorrectly or overwritten	🔴

| Process	Outline of process	Comment and Recommendations	Priority
Stage 5 – Check information	■ The spreadsheet is checked by James for the following: 　■ To ensure information has been pulled correctly from the various spreadsheets and SAP reports 　■ Sense check of the information contained in the spreadsheet 　■ Any errors resulting from 'vlookups' ■ The spreadsheet is then formatted as per Essex Pension Fund's requirements ■ A meeting is arranged between James and Glenn McGuinness to go through the Return. Glenn will provide his sign off by email to confirm the Return can be submitted ■ As James completes the Return, his personal benefit information is checked by another employee and signed off separately by Glenn ■ A checklist was completed by James but was not signed off by another member of staff	■ The majority of the processes completed to prepare the Return for submission are manual. Therefore, to be able to thoroughly check the completed Return, these processes would need to be replicated by Glenn which would take a substantial amount of time and involve duplication of work ■ James confirmed that this is not done and that Glenn currently completes a broader review of the Return, including an overall sense check	🟡
Stage 6 – Submit the information	■ The Return is password protected and emailed to Essex Pension Fund ■ An automatic email acknowledgement is received from the Essex Pension Fund mailbox ■ Confirmation that the Return has been submitted is emailed to Lindsey Stafford-Scott and Mike Clayton, copying in Jane Corsham, Sarah Webster and Glenn McGuinness	■ Other than the automatic acknowledgement email, there has been no confirmation from Essex Pension Fund that the Return has been completed as per their requirements or if they have any queries on the information provided ■ It is important to obtain feedback from Essex Pension Fund to ensure the output provided is correct. Once this has been received, a formal process which has been signed off should be put in place for the completion of future Returns	🟡

- We discussed the key processes in place in the Finance department with Glenn McGuinness and Elaine Hodgson

- Finance are responsible for the payment lumps sums to members of the Schemes, as well as transferring required funds to Essex Pension Fund for the Firefighters Pensions Scheme's payroll

- We have set out below our understanding of the finance processes undertaken in relation to pension scheme tasks. We have also provided a priority scale of 'red, amber, green' to highlight the importance any issues outlined in our comments:

Process	Outline of process	Comment and Recommendations	Priority

Payment of Lump Sums	■ The Finance department is responsible for the payment of Pension Commencement Lump Sums to members of the Schemes, as well as other lump sums (such as in the event of a member's death)
	
	 ■ A password protected payment form is sent from Essex Pension Fund to the Finance mailbox and Elaine Hodgson, detailing the payment to be made (including member, bank and payment details). The password is provided by a follow up email
	
	 ■ The payment is made to members mostly by BACS through the Lloyds online system, however payment can also be made by CHAPS or cheque when required. Team members who only input payment details into Lloyds have restricted access
	
	 ■ Information from the payment form is manually input into template already set up on Lloyds. The completed template is saved online and then checked and approved by one of six approvers
	
	 ■ Payments are typically made on the day of receiving the payment form and confirmation that the payment has been sent is provided by email to Essex Pension Fund
		■ The payment form received from Essex Pension Fund is taken 'as seen' by Finance as they are unable to verify any of the information provided on the form. However, a 'sense check' is completed to ensure the figures appear reasonable
		
		 ■ For payments to be made by CHAPS or cheque, the same payment form used for BACS payments is completed by Essex Pension Fund and forwarded onto Finance. Finance are only made aware of the different payment method through the covering email. The addition of a 'tick box' at the top of the payment form confirming the payment method would enable Finance to quickly identify this
		
		 ■ It appears that the payment form is completed manually by Essex Pension Fund and then the payment information is input manually into the Lloyds system by Finance. Having to manually input the details twice could lead to incorrect data being entered
		
		     ■ The payment information could be entered into an encrypted spreadsheet by Essex Pension Fund and then sent onto Finance who would then import the data onto Lloyds, removing the need for them manually re-enter the payment data
		
		     ■ Alternatively, Essex Pension Fund could input the payment details directly into the Lloyds system, effectively requiring Finance to only approve the payment and removing the duplication of manual entries
			🟡

Process	Outline of process	Comment and Recommendations	Priority
Returned payments	■ Occasionally, a payment made to a member can be returned to the bank account. This could be due to incorrect bank account details being provided by the member ■ The bank account is checked daily by Finance to ensure any returned payments are noted ■ Details of the returned payment are provided to Essex Pension Fund for them to deal with accordingly	■ There is no confirmation received from Essex Pension Fund of how the returned payment has been resolved. Providing this information to Finance would provide closure to that case	🟢

- We discussed the key processes in place in the HR department with Angela Mayers, Amy White and other members of the team

- The HR team is made up of a number of new members of staff, all of whom where employed by the Authority in the past year

- Many of the processes currently in place have been implemented within the last year by the team and a number of these are under review

- Emails sent to the HR team are predominantly sent to the 'HR mailbox' to which all the team have access. We were advised this was in the process of being replaced by a new 'queueing' system which would provide the person who emailed with a job number and details of when they could expect to receive a response. This will improve the customer experience

- We have set out below our understanding of the HR processes undertaken in relation to pension scheme tasks. We have also provided a priority scale of 'red, amber, green' to highlight the importance any issues outlined in our comments:

Process	Outline of process	Comment and Recommendations	Priority
New joiners	■ A template spreadsheet is provided by Essex Pension Fund for HR to complete with details of any new joiners. Separate spreadsheets must be completed for the LGPS and Firefighters Pension Schemes ■ New joiners' details are input manually into the relevant spreadsheet once signed contracts have been received from the employee. This includes details of each the employee's pensionable pay which is calculated automatically by the SAP system ■ The spreadsheets are checked by Lorraine Yelland before being provided to Essex Pension Fund by email. An automatic response is received from the Essex Pension Fund mailbox to confirm it has been received ■ HR issue a new starter pack to the employee which includes: a joiner letter; information on the relevant pension scheme; retained benefits form; and a 50/50 switch form (LGPS members only) ■ No further action is required by HR unless an employee returns the retained benefits form or 50/50 switch form. These are forwarded by email to Essex Pension Fund who provide email confirmation they have been received	■ It was unclear whether the spreadsheets sent to Essex Pension Fund were password protected. As these spreadsheets contain sensitive data, such as employees' salaries, it is important to ensure that the data is password protected ■ Although an automatic response is received from Essex Pension Fund to confirm receipt of the email, no further response is provided from Essex Pension Fund. Therefore, the HR department cannot be certain that the email has been actioned appropriately ■ There is a possible key person issue with regards to the checking of the spreadsheet sent to Essex Pension Fund as we were advised this is solely Lorraine's responsibility ■ There is a section on the 'New Starter Form' which requires confirmation that the new employee's details have been added to the monthly spreadsheet sent to Essex Pension Fund. This is signed and dated by the team member processing the new employee and also approved by another team member. Having this on the 'New Starter Form' ensures all employees are included on the monthly spreadsheets	🔴

| Process	Outline of process	Comment and Recommendations	Priority
Leavers	■ A template spreadsheet is provided by Essex Pension Fund for HR to complete with details of any leavers (including retirements). Separate spreadsheets must be completed for the LGPS and Firefighters Pension Schemes ■ Leavers details are input manually into the relevant spreadsheet once HR have been made aware of them ■ For retirements, the process initiated by the member or watch manager emailing the HR mailbox to confirm the date the employee wishes to retire from their pension scheme ■ The spreadsheets are checked by Lorraine before being sent onto Essex Pension Fund by email. An automatic response is received from the Essex Pension mailbox to confirm it has been received ■ The SAP system is manually updated to show the employee as a leaver and an individual employee folder is set up on the email system ■ An 'Employee Leaver Form' is completed and scanned onto the email system, along with any letters sent to the employee ■ The first section of the template form 'PN1' is manually completed and forwarded onto Payroll and Essex Pension Fund ■ No further action is required by HR as the remainder of the process is dealt with between Payroll and Essex Pension Fund	■ It was unclear whether the spreadsheets sent to Essex Pension Fund were password protected. As these spreadsheets contain sensitive data, it is important to ensure that the data is password protected ■ Although an automatic response is received from Essex Pension Fund to confirm receipt of the email, no further response is provided from Essex Pension Fund. Therefore, the HR department cannot be certain that the email has been actioned appropriately ■ There is a possible key person issue with regards to the checking of the spreadsheet sent to Essex Pension Fund as we were advised this is solely Lorraine's responsibility ■ The 'PN1' form is completed in part by HR and then forwarded onto Payroll for them to complete the remainder of the form. This appears to be a duplication of work as Payroll would be required to check the information provided in the first section of the form before completing the remainder of the form and forwarding this onto Essex Pension Fund ■ To avoid this duplication, HR could inform Payroll of any leavers by email, which would prompt Payroll to complete the 'PN1' form as required ■ There is a section on the 'Employee Leaver Form' which requires confirmation that the leaver's details have been added to the monthly spreadsheet sent to Essex Pension Fund and that the relevant 'PN1' or 'EPF1' has been issued. This is signed and dated by the team member processing the leaver and also approved by another team member. Having this on the 'Employee Leaver Form' ensures the necessary actions are completed for each leaver	🔴

Process	Outline of process	Comment and Recommendations	Priority
Leavers (continued)		■ We were informed by the HR team that despite providing the completed monthly spreadsheets to Essex Pension Fund, they often receive queries from them once they have received the completed 'PN1' form ■ The queries regularly relate to information provided in the monthly spreadsheets and so, it is unclear whether these spreadsheet are being utilised appropriately by Essex Pension Fund	
Missing contributions	■ There are a number of circumstances where a member may miss paying employee contributions to their pension scheme, including maternity, sickness or due to industrial action ■ Member of the LGPS are not required to pay missed contributions, whereas members of the Firefighters Pension Schemes are (if they wish to) ■ Sickness and maternity are recorded on the SAP system and details of missing contributions relating to these are obtained through a weekly report run through SAP ■ For retained firefighters, sickness is not recorded on the SAP system due to system limitations. Sickness details for these employees are entered onto a manual paper return which are completed by station managers and then these are provided to HR. HR then manually input these details into a spreadsheet ■ For missing contributions due to maternity or unpaid leave, HR send a letter to the employee confirming they have missing contributions. The letter advises them to contact Essex Pension Fund if they wish to arrange for these contributions to be paid ■ However, for employees on sick leave, the employee receives a letter from HR after 100 days of sickness advising them of reduced pay and deductions, but the letter does not specifically mention pension contributions ■ HR do not deal with missing contributions due to industrial action ■ No further action is required by HR	■ The action advised to employees if they wish to rectify their missing contributions is to contact Essex Pension Fund. No further information is provided to HR to confirm whether the employee has opted to repay their contributions or not ■ It is unclear how it is recorded on the SAP system whether an employee has repaid the missing contributions or not ■ Also, by having no further involvement in the process after issuing the letter, there is no conclusion to the process for HR ■ After the 100 day letter is sent to employees on sick leave, we were advised by HR that they are not aware of any further letters being sent to the member. There is no mention in the letter of missing pension contributions while on sick leave, and therefore there is a risk that employees will not be aware that they have the option to repay these contributions and so, could miss out on pension that they would ordinarily be entitled to, or that the member misses contributions and their break in service is not recorded on their record ■ As the HR department are unable to check whether missing contributions have been repaid, the employee's record on the SAP system would be incorrect and could reflect an incorrect benefit entitlement	🔴

Process	Outline of process	Comment and Recommendations	Priority

Missing contributions (continued)		■ As details of sickness for members of the Scheme is completed manually, and therefore there are a number of risks, including:
		
		   ■ The information provided by the station manager is not complete, or the return is competed incorrectly
		
		   ■ As the sickness details are input manually into a spreadsheet, they could be entered incorrectly
		
		■ There is currently no checklist in place for this process that we are aware of. By not using a checklist, key elements of the missing contributions process could be missed and so, completed incorrectly	

Auto enrolment	■ A spreadsheet is received in the HR mailbox from Payroll to confirm employees who have been auto enrolled into the different pension schemes ■ HR write to the employee to confirm they have been auto enrolled and provide details of the relevant pension scheme, along with an opt out form ■ If the employee wishes to opt out, they must return the completed opt out form either by post or email ■ HR manually update SAP to show the employee has opted out of the pension scheme. If in the scheme for less than three months, a 'padlock' is added to the relevant pension screen on SAP. If more than three months, HR complete the first section of the 'PN1' form and forward this onto Payroll by email. The member is also included on the monthly leavers spreadsheet sent to Essex Pension Fund ■ Payroll are then responsible for processing any refund of contributions to the employee ■ HR use a template letter to write to the employee to confirm the opt out has been actioned	■ It was unclear whether the spreadsheets sent to Essex Pension Fund were password protected. As these spreadsheets contain sensitive data, it is important to ensure that the data is password protected ■ The 'PN1' form is completed in part by HR and then forwarded onto Payroll for them to complete the remainder of the form. This appears to be a duplication of work as Payroll would be required to check the information provided in the first section of the form before completing the remainder of the form and forwarding this onto Essex Pension Fund ■ To avoid this duplication, HR could inform Payroll of any leavers by email, which would prompt Payroll to complete the 'PN1' form as required ■ Payroll provide no confirmation to HR that any refunds of contributions that are required have been processed and so, there is no conclusion to the process for HR ■ Using a template letter to respond to employees provides continuity and ensures all employees receive the same key messages ■ There is currently no checklist in place for this process that we are aware of. By not using a checklist, key elements of the process could be missed and employees may not be processed correctly	🟡

- We discussed the key processes in place in the Payroll department with Sarah Webster, Payroll Manager

- Payroll is a well established team with key processes having been embedded over time

- We were advised of the limitations of reporting through the SAP system, however there is an ongoing project in place to improve pension reporting and to streamline processes. This project was placed on hold whilst key pension personnel were appointed

- We have set out below our understanding of the Payroll processes undertaken in relation to pension scheme tasks. We have also provided a priority scale of 'red, amber, green' to highlight the importance any issues outlined in our comments:

Process	Outline of process	Comment and Recommendations	Priority
Scottish Widows	■ The Scottish Widows policy was put in place before the NFPS was put in place to allow Retained Firefighters to pay into a pension arrangement and receive a nominal contribution from the Authority ■ The policy was closed to new entrants from 2007 and members were offered the option to retain their benefits in the policy or transfer them to another arrangement ■ A hard copy of the monthly schedule of contributions is received from Scottish Widows. The schedule is manually checked, annotated and agreed against the SAP system for each member ■ A letter saved on the 'P Drive' is amended with the current months' details and a 'GC30' is completed to request the required cheque to be drafted by the Finance department ■ The letter is printed and along with the annotated Scottish Widows schedule, passed to the payroll manager for sign off. The payroll manager is also emailed to confirm the 'GC30' payment form is ready for sign off ■ The payroll manager will sign off the 'GC30' payment form and forward this onto Finance for them to raise a cheque and send this separately to Scottish Widows. The letter is sent to Scottish Widows and copies of the signed letter, signed 'GC30' payment form and email to Finance are then filed	■ Payment of the contributions is currently made by cheque. Sarah confirmed that they queried with Scottish Widows about one year ago whether payment by BACS would be possible, but Scottish Widows advised they would only accept cheque payments. However, payment by BACS is a more efficient and secure method of payment and this could be queried with Scottish Widows again ■ Also, by making the payment by cheque, there would likely be an unnecessary delay from the date the contributions are deducted from members' salaries to when the cheque is processed by the bank and then invested by Scottish Widows. Investment prices fluctuate daily and the delay in investment could result in members receiving a worse investment ■ The monthly process is triggered by the receipt of the schedule of contributions from Scottish Widows. Sarah confirmed that if this was not received, team members would be aware to query this with Scottish Widows, however it should be considered if a formal trigger should be put in place ■ The schedule is received through the post from Scottish Widows. As there are sometimes delays in the delivery of post and post can be lost in the postal system, it should be queried with Scottish Widows if the schedule could be issued to Payroll by email	🔴

Process	Outline of process	Comment and Recommendations	Priority

Scottish Widows (continued)		■ If a member wishes to change or stop their contributions to the policy, they inform Scottish Widows directly
		
		   ■ Payroll are often not informed of this amendment by Scottish Widows until up to three months after amendment but in the meantime, will continue to deduct the previous contribution amount, resulting in over or underpayment of contributions
		
		   ■ This results in additional work for the Payroll team to rectify the over or under payment and could also result in a negative customer experience
		
		   ■ Improved communication with Scottish Widows could avoid this issue
		
		■ The reconciliation between the schedule and Payroll records is completed manually as it is only provided by Scottish Widows in a paper format. If Scottish Widows were able to provide the schedule in an electronic format, the reconciliation process would be more efficient and the risk associated with manual reconciliation would be greatly reduced
		
		■ As the Scottish Widows policy has been in place for a number of years, it should be considered whether it is still 'fit for purpose'.
		
		   ■ The Pensions Regulator has recently issued a reminder to trustees of defined contribution arrangements to ensure their schemes meet the revised standards (issued in April 2015) covering governance and administration
		
		   ■ Key issues for the Authority to consider would include when the policy was last reviewed and whether it complies with current regulatory requirements and the requirements of the members
			🔴

Process	Outline of process	Comment and Recommendations	Priority
Missing contributions	■ There are a number of circumstances where a member may miss paying employee contributions to their pension scheme, including maternity, sickness or due to industrial action ■ Payroll deal only with missed contributions due to industrial action and this process is the sole responsibility of one member of the team. We noted that this is a very complex process, however it appeared to be well managed ■ Using roster details of all affected stations, Payroll prepopulate attendance forms with the details of employees who should be at work on the day of the industrial action ■ These attendance forms are issued to the relevant station managers for them to manually complete with details of the employees participating in the industrial action and those on duty. They are then emailed to Payroll to a dedicated email mailbox by a given deadline ■ The information on the forms is input into a spreadsheet which is used to calculate the value of the missing contributions. Addresses are added to the spreadsheet by obtaining the details through a SAP report and executing the 'vlookup' function ■ The completed spreadsheet is checked and signed off by Sarah Webster ■ Letters are sent to the relevant employees which confirm details of the industrial action, pension contribution and salary deductions and a form to return to confirm if the employee wishes to repay the missed contributions ■ When completed forms are received, a copy is scanned onto the system and the spreadsheet and the employees' SAP records are updated ■ Payroll reconcile the completed spreadsheet to a report output from SAP to ensure the figures agree. A report is sent to Essex Pension Fund to confirm whether employees have repaid pension contributions or not	■ This process heavily involves manual intervention and is primarily reliant on station managers correctly completing attendance forms and returning them by the deadline date ■ Often, the returned attendance forms are completed by hand and so, require Payroll to manually enter the details into a spreadsheet. There is a possible risk that this data could be entered incorrectly ■ The spreadsheet used to calculate the missing contributions does not use protected calculation cells and the addresses are collated from another spreadsheet using the 'vlookup' formula. This brings in risk for a number of reasons, including the wrong data being copied into the spreadsheet or manual formulas being input incorrectly or overwritten ■ There is a possible key person issue with regards to the checking of the spreadsheet as we were advised this can only be completed by Sarah ■ If a member does not wish to repay the missing contributions, they are not required to send any response to the letter issued by Payroll. It is unclear how this would be recorded on employees' SAP records ■ It did not appear that the spreadsheet sent to Essex Pension Fund was password protected. As these spreadsheets contain sensitive data, it is important to ensure that the data is password protected ■ A checklist has recently been put in place by Payroll to ensure all tasks involved in the process are completed. Once completed by the team member, this should be signed by an approver to confirm the process has been completed correctly	🔴

Process	Outline of process	Comment and Recommendations	Priority
Leavers	■ HR are advised of any leavers, complete the first section of the 'PN1' form and email this onto Payroll ■ The PN1 form requires Payroll to provide final pensionable salary figures. These cannot be provided until the employee's final payroll is completed and so, provisional figures are initially provided if required ■ The information Payroll require to complete the 'PN1' is obtained through the SAP system. This is used to complete 'PN68' which is a template used to calculate final pensionable salary. Once completed, the 'PN1' and 'PN68' forms are checked and signed off by Sarah Webster ■ For estimates only, the 'PN68' is sent to Essex Pension Fund by email. For full leavers and retirements, the 'PN68' and 'PN1' are sent by email ■ All forms, emails and templates are saved on individual employee folders on the shared network drive ■ No further action is required by Payroll	■ The 'PN1' form is completed in part by HR and then forwarded onto Payroll for them to complete the remainder of the form. This appears to be a duplication of work as Payroll would be required to check the information provided in the first section of the form before completing the remainder of the form and forwarding this onto Essex Pension Fund ■ To avoid this duplication, HR could inform Payroll of any leavers by email, which would prompt Payroll to complete the 'PN1' form as required ■ There is a possible key person issue with regards to the checking of the forms sent to Essex Pension Fund as we were advised this is solely Sarah's responsibility ■ It did not appear that the spreadsheets sent to Essex Pension Fund were password protected. As these spreadsheets contain sensitive data, it is important to ensure that the data is password protected ■ Once the information is provided by Payroll to Essex Pension Fund, there is no confirmation received that the appropriate actions have been taken by Essex Pension Fund ■ There is currently no checklist in place for this process that we are aware of. By not using a checklist, key elements of the process could be missed and employees may not be processed correctly	🟡

Process	Outline of process	Comment and Recommendations	Priority
Auto enrolment	■ The auto enrolment process is completed automatically as part of the monthly payroll process, with no manual intervention required ■ The automatic process updates the following information on the SAP system: 　　■ Contributions 　　■ National Insurance category 　　■ Correct scheme details ■ Details of employees who have been auto enrolled is provided to HR by a SAP report output. HR are then responsible for writing to employees to confirm they have been auto enrolled ■ If the employee wishes to opt out, they must return the completed opt out form either by post or email to HR. HR then update the individual's SAP record to confirm they have opted out ■ If in the scheme for less than three months, a refund of contributions is payable to the employee. This refund is completed automatically as part of the monthly payroll process ■ If in the scheme for more than three months, HR provide Payroll with a part completed 'PN1' form and this is processed as per a normal leaver	■ By having this automatic process in place, the risks associated with manual intervention are avoided ■ The 'PN1' form is completed in part by HR and then forwarded onto Payroll for them to complete the remainder of the form. This appears to be a duplication of work as Payroll would be required to check the information provided in the first section of the form before completing the remainder of the form and forwarding this onto Essex Pension Fund 　　■ To avoid this duplication, HR could inform Payroll of any leavers by email, which would prompt Payroll to complete the 'PN1' form as required	🟡
New joiners	■ Once HR have completed their new joiner process, a 'hiring payroll check' is completed monthly by Payroll to identify any new joiners ■ For each new joiner, Payroll update the SAP system manually. SAP runs through set screens to update, including National Insurance category for new pension scheme members ■ Before the live monthly payroll run is completed, a run is simulated and this would highlight any errors within the system. If any information is input into a new joiner's record incorrectly, SAP would error as part of the simulated run	■ By having mainly automatic processes in place, the risks associated with manual intervention are avoided ■ Although the SAP system is updated manually by a team member, the system forces set screens to be reviewed an updated as part of the process	🟢

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