

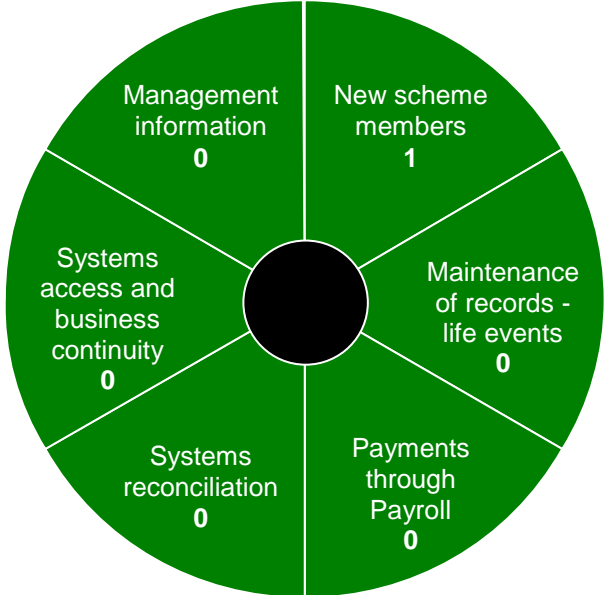






# Final Internal Audit Report 2013/14 – Pensions Services Administration (KFS11)

## 1. Executive Summary

<p><b>Department:</b> Corporate Services</p> <p><b>Audit Sponsor:</b> Kevin McDonald, Director for Essex Pension Fund</p> <p><b>Distribution List:</b> Kevin McDonald, Jody Evans, Head of Essex Pension Fund; Joel Ellner, Team Manager; Daniel Chessell, Team Manager, Pensions; Margaret Lee, Executive Director for Corporate Services and Corporate Operations; Cllr Rodney Bass, Chairman of Essex Pension Fund; Christine Connolly; External Audit.</p> <p><b>Final Report Issued:</b> 13 March 2014 <b>Date of last review:</b> March 2013</p>	<p><b>Overall Opinion</b></p> <p><b>FULL 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>0</b> Best Practice</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>1</b> Best Practice</p>	<p><b>Number of Recommendations</b></p> <p><b>0</b> Made</p> <p><b>tbc</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. 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 (KFS10).</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><b>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:</b></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>Auditor: Anita Goold</b>  <b>Fieldwork Completed: 7 February 2014</b>  <b>Draft Report Issued: 25 February 2014</b>  <b>Management Comments Expected: 18 March 2014</b>  <b>Management Comments Received: 10 March 2014</b>  <b>Final Report: 13 March 2013</b>	<b>Issues raised and officers responsible for implementation:</b>						
	Name	Critical	Major	Moderate	Best Practice	Total	Agreed
	Advice and best practice recommendation	0	0	0	1	1	N/A
<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

PF0001	<b>Systems reconciliation:</b> 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.	Yes	●
PF0002	<b>Systems access and business continuity:</b> System errors will not be identified leading to errors or omissions in the transfer of data between the AXIS modules.	Yes	●

### Unregistered Risks Identified & Audited

N/A	<b>New scheme members:</b> 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	<b>Maintenance of records - life events:</b> 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	<b>Payments through Payroll:</b> New members to the payroll system are not authorised, processed and recorded completely and accurately and in accordance with scheme rules resulting in incorrect and/or illegitimate payments being made to pensioners or dependants and individuals who are no longer eligible. Notifications of deaths are not received and actioned promptly resulting in overpayments of pensions and the potential for fraudulent payments. The recovery of pension overpayments is not managed resulting in financial loss to the Essex Pension Fund. Amendments to payroll data are not authorised, processed and recorded completely and accurately; and checked for accuracy resulting in over/underpayments. Management information and checks on the payroll process are inadequate resulting in errors and fraudulent payments going undetected. Lump sum payments are not authorised and processed correctly resulting in incorrect or potentially fraudulent payments.	N/A	●
N/A	<b>Systems reconciliation:</b> 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	<b>Systems access and business continuity:</b> 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	<b>Management information:</b> 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	Major financial loss – Large increase on project budget/cost: (Greater of <b>£1.0M</b> of the total Budget or more than <b>15 to 30%</b> of the departmental budget). Statutory intervention triggered. Impacts the whole Council. Cessation of core activities. Strategies not consistent with government's agenda, trends show service is degraded. Failure of major projects – elected Members and Corporate Leadership Team are required to intervene. Intense political and media scrutiny i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council, Members or officers. Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance. Mass strike actions etc.
 Major	High financial loss – Significant increase on project budget/cost: (Greater of <b>£0.5M</b> of the total Budget or more than <b>6 to 15%</b> of the departmental budget). Service budgets exceeded. Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome medium term difficulties. Scrutiny required by external agencies, External Audit etc. Unfavourable external media coverage. Noticeable impact on public opinion. Serious injuries or stressful experience requiring medical treatment, many work days lost. Major impact on morale & performance of more than 100 staff.
 Moderate	Medium financial loss – Small increase on project budget/cost: (Greater of <b>£0.3M</b> of the total Budget or more than <b>3 to 6%</b> of the departmental budget). Handled within the team. Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service action will be required. Scrutiny required by internal committees or Internal Audit to prevent escalation. Probable limited unfavourable media coverage. Injuries or stress level requiring some medical treatment, potentially some work days lost. Some impact on morale & performance of up to 100 staff.
 Best Practice	Minimal financial loss – Minimal effect on project budget/cost: (< <b>3%</b> Negligible effect on total Budget or < <b>1%</b> of departmental budget) Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines. Internal review, unlikely to have impact on the corporate image. Minor injuries or stress with no work days lost or minimal medical treatment. No impact on staff morale.
Level of assurance	Description
<b>Full</b>	<b>Full 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 Advice and Best Practice.
<b>Substantial</b>	<b>Substantial 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. 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. Advice and Best Practice

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions
Operating Effectiveness - Reconciliation process of new Starters Update Spreadsheet					
1.	<p>Employers provide the Pensions Administration Service with a monthly "Starters Update" spreadsheet which provides details of the new scheme members. The "Starters Update" spreadsheet is formatted to ensure consistency and all spreadsheets are then amalgamated into one spreadsheet which is uploaded onto AXISE. A reconciliation to ensure that the total number of records from each employer had been correctly amalgamated into the spreadsheet is not carried out. Audit testing did not identify any missing records for the sample of months selected.</p> <p>A check of the "Validation" report from AXISE is undertaken to ensure that all records have been completely and accurately transferred from the "Starters Update" spreadsheet.</p> <p><i>Audit note: The lack of any reconciliation between spreadsheets from employers and the 'Starters Update Spreadsheet' was discussed during the audit. This reconciliation has now been introduced.</i></p>	<p><b>New Scheme Members:</b> Without a complete reconciliation between source data and the uploaded spreadsheet, there is a potential risk that new starters may be inadvertently missed from the spreadsheet, which remain undetected until the year-end processes are completed leading to an inability to provide assurance that a robust checking process has been completed to ensure that all records have been accurately and appropriately added to AXISE.</p>	<p>As part of the monthly validation process, it is recommended that a reconciliation is carried out between the number of records submitted by each employer, to the number of entries copied into the amalgamated spreadsheet to ensure completeness of data. The process mapping and procedure notes should also be updated accordingly.</p>	<p>● Advice and Best Practice</p>	<p>Discussed at exit meeting, management responses not required.</p>

## 4. Controls Assessment Schedule

### 01 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	
All documentation relating to manually added scheme members is recorded and notifications sent to scheme members in a timely manner.	N/A	
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	

### 02 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 are 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 which are identified are recovered in accordance with set policy. All documentation is securely retained.	Yes	
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	

### 03 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	

### 04 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	

## 05 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	

## 06 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.	Yes	