

INTERNAL AUDIT REPORT

**Pensions Payroll and
Administration
2018/19**

Managing Director's Directorate

Report Distribution

Name	Title
Kevin Taylor	Deputy Pension Fund Manager
Philip Boyton	Pension Administration Manager
Duncan Sharkey	Managing Director
Rob Stubbs	Deputy Director and Head of Finance (& Section 151 Officer)
Steve Mappley	Insurance & Risk Manager
Deloitte LLP	External Audit

Auditor

Sheldon Hall, Audit and Investigation Specialist

Report Approved by

Catherine Hickman, Lead Specialist – Audit and Investigation

1. INTRODUCTION

1.1 This audit has been undertaken as part of the approved Annual Internal Audit Plan 2018/19, in accordance with the:

- Audit Charter
- Audit Protocol
- Agreed Terms of Reference previously issued

1.2 The format of this report is based on the Lean Systems Thinking Methodology. Management is asked to specify and explain which type of countermeasure chosen (treat, tolerate, transfer or terminate) against each of the concerns (risks) raised as detailed in the Management Action Plan. Descriptions of the type of countermeasures can be found in the Internal Audit Protocol.

2. EXECUTIVE SUMMARY & CONCLUSIONS

AUDIT OPINION

Based upon our review of the controls in place within Pension Payroll and Administration, we have concluded that controls are:

Complete and Effective

- All necessary Treatment Measures are in place and are operating effectively.
- Residual risks have been reduced to an acceptable level
- There are no unacceptable financial implications.
- Concerns reported are minor.

(Risk management processes are strong and controls are adequate and effective).

2.1 The principal objective of this Audit was to conclude whether controls in place for Pensions Payroll and Administration are operating effectively and risks are minimised through proper and adequate control measures.

2.2 The Pension Payroll and Administration is well controlled by the administering authority (RBWM). The controls between the administration and payroll processes are sound, payments to beneficiaries are properly authorised and the reconciliation between the pension administration and payroll is undertaken in accordance with expected key controls.

2.3 Areas where there are opportunities to improve include:- Reconciliation between the pensions payroll and the general ledger, late payment charges, written procedure notes, automatic task generation and user access levels within the PTX payment system. It should be noted that there is one concern raised within this report which is the responsibility of the Financial Control Team and not the Pension Payroll and Administration Service.

2.4 There are 5 concerns identified in this Audit Report, all of which are classified as being moderate concerns of which 4 have been addressed between draft report stage and final report stage. This has resulted in the audit opinion being re-assessed to the

highest category. There are no extreme or major concerns and 3 minor concerns were discussed at the exit meeting.

Audit Opinion

The opinion stated in the audit report provides management with a brief objective assessment of the status of current Treatment Measures which have been put in place to reduce identified risks to the operation or strategy under review. It is not a statement of fact.

In reaching the Audit Opinion for this audit, the majority of the criteria for the relevant definition apply.

AUDIT OPINION DEFINITIONS
<p>Complete and Effective</p> <ul style="list-style-type: none">• All necessary Treatment Measures are in place and are operating effectively.• Residual risks have been reduced to an acceptable level• There are no unacceptable financial implications.• Concerns reported are minor. <p>(Risk management processes are strong and controls are adequate and effective).</p>
<p>Substantially Complete and Generally Effective</p> <ul style="list-style-type: none">• Most key Treatment Measures are in place and these operate effectively.• The majority of residual risks have been reduced to an acceptable level.• There are a small number of unacceptable financial implications.• The majority of concerns are of a predominately moderate impact/likelihood. <p>(Risk management processes are good and controls are adequate although only partially effective).</p>
<p>Range of Risk Mitigation Controls is incomplete and risks are not effectively mitigated</p> <ul style="list-style-type: none">• Not all key Treatment Measures are in place and / or do not operate effectively• Residual risks have not all been reduced to an acceptable level• There are some unacceptable financial implications associated with more than one risk mitigation control or because of a lack of risk mitigation control.• There are a number of concerns that are predominantly of a major impact/likelihood. <p>(Risk management processes and controls are adequate but not effective in mitigating the identified risks).</p>
<p>There is no effective Risk Management process in place</p> <ul style="list-style-type: none">• There are no appropriate Treatment Measures in place.• Residual risks remain at an unacceptable level• Reported concerns are predominantly of a catastrophic or major impact/likelihood. <p>(Risk management processes and controls are weak).</p>

Management Action Plan

Pensions Payroll and Administration – 2018-19

Ref.	Concern	Risk	Finding	COUNTER MEASURE				Counter Measure Action / Explanation	Responsible Officer	Target Date
				Treat	Tolerate	Transfer	Terminat			
1	Governance is weakened and staff may follow out of date written procedures if they are not updated accordingly.	Moderate	The vast majority of desktop procedures are fully written and up to date with those outstanding nearing completion.	X				It is an ongoing exercise for the Administration Team to obtain PASA Accreditation. Many desktop procedures are already in place and up to date and used on a daily basis mainly by (Trainee) Pension Administrators in their learning and development and successfully fulfilling areas of administration.	Philip Boyton, Pension Administration Manager	31/03/21
2	The preventative control could be circumvented if a task is not automatically set up.	Moderate	When a change has to be made to the Altair system records, a task entry has to be entered manually on to the system rather than the system automatically setting up a task and therefore an automatic process to push a transaction/change through to a checking task (i.e. a second person). This means that a change to an account can be made without the necessary following check being made.	X				With immediate effect a robust system will be introduced whereby the 'Approver' of the weekly IP run will check the payee account details, of payments listed on the respective run, that are equal to or greater than £35,000.	Philip Boyton, Pension Administration Manager	01/05/19

3	The elements within the key control of reconciliations will not be undertaken, such as signed by the preparer and reviewer.	Moderate	There is an informal reconciliation undertaken by the Corporate Accountant. This was introduced by the Corporate Accountant but it is not officially signed by the preparer and an independent approver, checked that it casts and that the brought forward and carry forward figures are correct and to confirm that any material variances are investigated. In addition, the latest reconciliation (February 2019) contained variances that require investigation and clearing.	X				The Deputy Pension Fund Manager has met with the Corporate Accountant and a process of investigation followed by preparer and approver signatories being applied has been adopted.	Kevin Taylor, Deputy Pension Fund Manager	16/05/19
4	Governance is weakened if appropriate approval for a change in process is not obtained.	Moderate	The methodology of not charging organisations late payment fees has not been approved by the S151 Officer.	X				The s151 officer has been advised of the processes and procedures adopted by the Pension Fund and in an email dated 08/05/19 has approved the methodology as set out.	Kevin Taylor, Deputy Pension Fund Manager	08/05/19
5	The fundamental internal control of separation of duties which reduces the risk of fraud and error is not in place.	Moderate	The PTX system, which makes the BACS payments, was reviewed with the Financial Control Team and it was established that the officers who are included within the Pensions user group have the facility to create payments and authorise payments.	X				Evidence has been received by Internal Audit from the Financial Control Team that access has been amended and is appropriate to mitigate the risk.		05/05/19