

**INTERNAL AUDIT REPORT (9508)**

**Pensions Payroll and  
Administration  
2020/21**

**Resources Directorate**

**Report Distribution**

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**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 2020/21, 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 the countermeasure to the concerns raised, as detailed in the Management Action Plan.

## 2. EXECUTIVE SUMMARY & CONCLUSIONS

### AUDIT OPINION

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

#### **Complete and Effective (Highest audit opinion)**

- 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. This was achieved by undertaking audit work as per the Internal Audit Terms of Reference in the following areas:

- Roles and responsibilities
- Adherence to policies and procedures
- Administrative controls between administration and payroll systems
- Payment authorisation process
- Reconciliations
- Management reviews of:-
  - pension fund transfers
  - pensions and benefits calculations
  - pensions masterfile
  - capital costs
  - suspensions and write offs
- Maintenance of files and retention of documentation
- Computer security.

2.2 There are current policies and procedures and a clear organisational structure with defined roles and responsibilities in place for the Pension Service. Our sample testing found sound controls in the administration and payroll processes, with payments to

beneficiaries correctly calculated and properly authorised including management reviews to ensure compliance. Areas where there are opportunities to improve include:-

- Reporting reasons when key initiatives detailed in the service's Business Plan are not achieved, to Council Members (Pension Fund Panel).
- Ensuring the reconciliation between the pensions payroll and general ledger is promptly undertaken.
- Updating of document retention details.

2.3 There are 4 concerns identified in this Audit Report, all of which are classified as being moderate concerns of which 3 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.*

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

## Management Action Plan

### Pensions Payroll and Administration – 2020-21

Ref	Concern	Risk	Finding	Treat	Tolerate	Transfer	Terminat	Counter Measure Action / Explanation	Responsible Officer	Target Date
1	Governance is weakened when reasons are not given as to why key initiatives within the services Business Plan have not been achieved by the stated target date.	Moderate	The Business Plan 2020/21 submitted to Council Members (Pension Fund Panel) in March 2019 included in section 9 key initiatives: <i>'to apply for Pensions Administration Standards Association (PASA) accreditation will be completed by 21/3/2021'</i> . This has not been progressed and is part of the new Business Plan included in the Medium Term Plan 2022/2025 with a completion date of 31/3/2024. However, there was no reason given why the PASA accreditation target of 31/3/2021 has not been achieve	<input checked="" type="checkbox"/>				The contributing factors to not achieving the accreditation were continuing GMP reconciliation in respect of active and deferred scheme members, continued training of team members (the desktop procedures already in place under PASA accreditation have been positively received by the Trainee Pension Administrators) and needing to adapt to new ways of working caused by Covid that has included new ways of delivering training to team members.	Philip Boyton Pension Administration Manager	31/3/2024
2	There is a risk that records could be inappropriately amended, leading to a possible financial risk to the Pension Fund	Moderate	The user access level investments include the facility for the user to amend certain areas, such as; <i>'Previous Member'</i> , <i>'Dependant Creation'</i> and <i>'documents'</i> . As	<input checked="" type="checkbox"/>				As of the 19 April 2021 the access rights were changed of user 'INVEST'. An e-mail was sent to audit on 19/4/21 attaching a .pdf document of the access rights of User	Philip Boyton Pension Administration Manager	19/4/2021

	through non-compliance with Data Protection legislation and/or fraud.		this user level is set up for an accountant, it may be inappropriate that the user has amend access level.					'INVEST'.		
3	<p>Where the market value reconciliations are not promptly undertaken and reviewed, there could be a delay in identifying deliberate/accidental errors that may lead to increased costs and/or losses.</p> <p>In addition, the fundamental internal control of reconciliations will not be in place which may lead to a qualified external audit opinion.</p>	Moderate	<p>The monthly market value reconciliations sampled for the period August 2020 to January 2021 found that 4 out of 6 reconciliations were not promptly undertaken.</p>	<input checked="" type="checkbox"/>				<p>This issue has arisen this year as a direct result of a) a change in pension fund accountant at the start of the financial year and b) the coronavirus pandemic. Both attributed to delays in completing reconciliations. Actions are now being taken to ensure that such reconciliations are undertaken in a more timely manner.</p>	Kevin Taylor Pension Services Manager	24/05/21
4	<p>Where there is out of date information/details, there is risk of working to out date Retention and Disposal policies leading to non-compliant decisions and/or actions being taken. In addition, there is greater risk of a GDPR breach resulting in a potential financial penalty and reputational loss.</p>	Moderate	<p>Details shown on the header part of the Retention and Disposal Schedule contains out of date information (Name, address, email and telephone number of the Data Protection Officer).</p> <p>In addition, the column "Name and contact details of joint controller (if applicable)" is incomplete with questions asked within it.</p>	<input checked="" type="checkbox"/>				<p>This has since been updated as part of my meeting with and with guidance from the RBWM Data Protection Team during January 2021.</p>	Philip Boyton Pension Administration Manager	19/5/2021