

**Final Report
(Extract from Key Control
Consolidated Report 2015-16)**



Wiltshire Council

▶ **Pension Fund**

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Working in partnership with



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Payroll and pensions

Management Summary

As part of the 2015-16 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for Payroll and pensions. This is to support the annual audit undertaken by the organisation’s External Auditors.

The Key Control audit process focuses primarily on key risks relating to the organisation’s major financial systems. It is essential that all key controls identified by the External Auditor are operating effectively to provide management with the necessary assurance. The key controls identified for this audit are attached as Appendix ‘A’.

This report provides Management with a summary of the audit findings and assurance that, in no order of priority, each of the expected key controls are in place and managing the associated risk in a ‘satisfactory’ manner. Where expected controls are not met, a recommendation for improvement is offered to assist in managing the risk.

It should be noted that, where a test has identified a weakness, SWAP are required to obtain an undertaking for corrective action from the appropriate manager. These responses are captured in the Action Plan.

Summary of Significant Corporate Risks

The following table records the inherent risk (the risk of exposure with no controls in place) and the manager’s initial assessment of the risk (the risk exposure on the assumption that the current controls are operating effectively) captured at the outset of the audit. The final column of the table is the Auditors summary assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Areas identified as significant corporate risks, i.e. those being assessed as ‘high’ or ‘very high’ risk areas in line with the definitions attached should be addressed as a matter of urgency.

Risks	Inherent Risk Assessment	Auditors Assessment
The failure to properly manage and control the Pension System could mean that errors / exceptions are not detected and incorrect payments made. This could undermine confidence in the system and adversely affect the corporate financial systems’ data integrity.	High	Low

Summary of Significant Findings

The following were identified as key findings for the service and therefore categorised, in accordance with the definitions attached, as a level '4' or '5' priority in the action plan.

There were no significant findings identified during this review.

Further details of audits' findings can be viewed in the full audit report, which follows this Management Summary.

Conclusion and Audit Opinion

▲★★★ **Reasonable**

I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

The key areas for improvement are related to more regular reconciliation and checks between Altair and the SAP Pension Payroll data and an updated full reconciliation between the two sets of data.

Objectives & Risks

The key objective of the service and risks that could impact on the achievement of this objective were discussed and are identified below.

Objective: To ensure the key financial system controls are operating effectively and that fraud and error are minimised.

Risks:

- The failure to properly manage and control the Pension System could mean that errors / exceptions are not detected and incorrect payments made. This could undermine confidence in the system and adversely affect the corporate financial systems' data integrity.

Findings

The following paragraphs detail all findings that warrant the attention of management.

The findings are all grouped under the objective and risk that they relate.

5.1 **Risk: 5. The failure to properly manage and control the Pension System could mean that errors / exceptions are not detected and incorrect payments made. This could undermine confidence in the system and adversely affect the corporate financial systems' data integrity.**

5.1.1 Key Control: 1.4 Periodic reconciliation of the pension payroll system to the general ledger

Given that reconciliations should be undertaken on a monthly basis, a sample of 3 reconciliations of each of the following type were selected for review at the start, during and end of the period of audit (April 2015 to December 2015) as follows:

- New Pensioners
- New Dependants
- Lump Sum Payments
- Commutations
- Underpayments
- Overpayments
- Pension Payroll Reporting to SAP GL Control Account and BACS

The latest balance figures and variance analysis between monthly balances were also reviewed.

A checklist of reconciliations is maintained on a spreadsheet record by Wiltshire Pension Fund (WPF) Finance Staff to evidence when they are prepared and checked. Review of the spreadsheet revealed that such reconciliations have not been undertaken on a regular monthly basis. The review of a sample of reconciliations (3 months each) for New Pensioners, New

Dependents, Lump Sum Payments, Commutations, Over- and Underpayments, highlighted delays between the period end and recorded checked date from 28 to 61 days. Similarly checks of the latest version of the Unitisation Spreadsheet showing variance analysis of monthly balances highlighted that whilst this had been updated with January 2016 SAP data, it had not been marked as checked since November 2015 although triggering variances were flagged. The failure to undertake checks and reconciliations between the two systems could increase the risk of making inaccurate payments to pensioners.

5.1.1a I recommend that reconciliations between the Altair Pension system and SAP Pensions Payroll including variance analysis of pension payroll balances should be undertaken on a regular, monthly basis.

A further review of the above sample testing confirmed that the reconciliations undertaken, by the Central Finance Team, of SAP Payroll and BACS payments cast with only minor balancing items identified. All balances were fully supported by extracted reports from SAP GL (BACS payments) and SAP Payroll reporting as appropriate. In addition, sample testing in respect of reconciliations undertaken by the WPF Finance Team also confirmed that those for lump sums, commutations and underpayments cast between SAP GL / Payroll and Altair had no material balancing items and extracts from supporting reports were retained to support reconciled balances. Checks between SAP GL and Altair in respect of overpayments were also found to be appropriately evidenced, although outstanding balances could not be reconciled as outstanding balances are not reported in Altair.

Further checks undertaken as part of reconciliation process of new dependants and new pensioners revealed an initial lack of clear evidence as to whether cumulative balances for Altair and SAP GL / Payroll cast for payments made to pensioners. Only a line by line analysis of expected total pension payments with any changes to either Altair or Payroll was found to be evidenced. An examination of supporting variances confirmed that this does prompt review of any changes to payments made to pensioners. However a check of the spreadsheet dated January 2016 highlighted variances above the 5% trigger identified in December 2015 for which an explanation had not been noted (last updated in November 2015). It is also noticed that the last full reconciliation of the system was undertaken in 2011.

Whilst we appreciate there should be no changes to pensioners' payments other than annual uplift or cessation, we would reiterate the need for timely reconciliations as reported in the recommendation 5.1.1a above. We also make the following advisory recommendation to provide further assurance that the two systems cast.

5.1.1b I recommend that an updated full reconciliation be undertaken between Altair and SAP Payroll to provide further assurance that payments made to pensioners cast. This should provide the basis for a monthly reconciliation of cumulative balances. Cross checks to facilitate this may be possible through the use of IDEA data analysis software with the assistance of SWAP Internal Audit.

The Agreed Action Plan provides a formal record of points arising from this audit and, where appropriate, the action management has agreed to take and the timescale in which the action will be completed. All findings have been given a priority rating between 1 and 5, where 1 is low and 5 is high.

It is these findings that have formed the opinion of the service's control environment that has been reported in the Management Summary.

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
<p>Objective: To ensure the key financial system controls are operating effectively and that fraud and error are minimised.</p>					
<p>Risk: The failure to properly manage and control the Pension System could mean that errors / exceptions are not detected and incorrect payments made. This could undermine confidence in the system and adversely affect the corporate financial systems' data integrity.</p>					
<p>5.1.1a Reconciliations and checks between Altair and the SAP Pension Payroll / GL data have been delayed. Average delays were noted between the period end and recorded checked date from 28 to 61 working days.</p>	<p>I recommend that reconciliations between the Altair Pension system and SAP Pensions Payroll including variance analysis of pension payroll balances should be undertaken on a regular, monthly basis.</p> <p style="text-align: right;"><i>SWAP Ref: 31646</i></p>	<p>3</p>	<p>The reconciliations have been behind due to the recent staff changes. The officer undertaking the reconciliations moved to a new role during the year, and their replacement who only recently joined the Fund is being trained. During this period the monthly reconciliations had been picked up on a quarterly basis, leading to the extended period. This will be addressed as the team is fully resourced and the new officer comes up to speed.</p>	<p>Strategic Pension Manager</p>	<p>June 2016</p>

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
<p>5.1.1b The last full reconciliation between Altair and Pensions Payroll records and balances was undertaken in 2011.</p>	<p>I recommend that an updated full reconciliation be undertaken between Altair and SAP Payroll to provide further assurance that payments made to pensioners cast. This should provide the basis for a monthly reconciliation of cumulative balances. Cross checks to facilitate this may be possible through the use of IDEA data analysis software with the assistance of SWAP Internal Audit.</p> <p style="text-align: right;"><i>SWAP Ref: 31752</i></p>	<p>3</p>	<p>A full reconciliation of the Altair to Pensions Payroll is a challenge due to different ways the two systems undertake their calculations leading to rounding differences that are cumulative. The main risk is setting up new pensioners which are reconciled on a monthly basis. Due to the size of the payroll and lines of records involved, reconciliations based on sampling is the intended basis for review moving forward. However, the current GMP exercise means that officers are currently reviewing all the records on Altair against HMRC figures due for completion in 2018. As part of this the Altair records will be compared against the SAP Payroll. The Fund is also considering the use of Altair Payroll which would negate the need for reconciliations in future and officers will report back to Committee on progress.</p>	<p>Head of Pensions</p>	<p>December 2016</p>

Audit Framework Definitions

Control Assurance Definitions

Substantial	▲ ★ ★ ★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★ ★ ▲	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★ ▲ ▲	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲ ▲ ▲ ▲	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation Of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Corporate Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Appendix A

Control	Specific area of testing	Detailed testing requirements
G - Pension Fund audits – DCC and WC		
G1 - Authorisation of benefit payments to include lump sums on death, lump sums on retirement and transfer out payments.	Discuss the review and authorisation process for calculations of benefits on death, retirees and transfers out.	For a sample of lump sums on death, retirement and transfers out obtain copies of signed leaver forms and benefit calculations. Ensure that the benefit calculation and subsequent payment has been reviewed and authorised. For death benefits ensure that there is a death certificate on file.
G2 - Production and independent review of exception reports produced for pension payroll	Discuss the process for the production and review of exception reports. Ensure this is appropriate and for one report ensure this has been performed in line with our understanding.	For a sample of payments highlighted by the exception report, confirm that there is evidence of investigation and formal sign off of the review.
G3 - Authorisation of starters and leavers to the pension payroll	Discuss the process for adding and removing employees from the pension scheme. Ensure that this is appropriate. For one starter per the system, and one leaver per HR, ensure that the process has been performed appropriately and in a timely manner.	For a sample in line with the sizes on page 6, obtain signed copy of starters form and ensure that individual is added to the payroll accurately and in a timely fashion in accordance with the pension calculation. For a sample of leavers in line with the sizes on page 6, agree the individuals leaving date to their leavers form and death certificate. Ensure that the individual is removed from the payroll in a timely manner.
G4 - Periodic reconciliation of the pension payroll system to the general ledger	Discuss the reconciliation and review process with management. Ensure it is appropriate and done in a timely manner. For one reconciliation ensure that it has been performed and reconciling items appropriately followed up.	Confirm that reconciliations have been produced in a timely fashion and have been evidenced as prepared and reviewed. Confirm that the reconciliation casts and any material reconciling items exist and agree to supporting documentation.
G5 - Bank reconciliations	Discuss the reconciliation and review process with management. Ensure it is appropriate and done in a timely manner. For one reconciliation ensure that it has been performed and reconciling items appropriately followed up.	Confirm that reconciliations have been produced in a timely fashion and have been evidenced as prepared and reviewed. Confirm that the reconciliation casts and agree systems balances and significant reconciling items to supporting documentation.
G6 - Evidence of regular discussions with Governors and the actuary on the pension deficit. (relates to DCC and WC only)	Ensure that discussions regarding the pension deficit have taken place during the year.	Obtain copies of any meeting minutes or notes available to confirm that appropriate discussions have taken place.
G7 - Management approval of IAS 19 assumptions. (relates to DCC and WC only)	Ensure that the assumptions used by the actuary in the IAS 19 valuation have been reviewed and approved by management.	Confirm that management have reviewed and approved the IAS 19 assumptions through enquiry, and observation of any supporting documentation. Eg. formal sign off.