

Wiltshire Pension Fund


Final Report




Issue Date: 28 May 2017

Working in Partnership to Deliver Audit Excellence




Executive Summary

-  This section provides an overview for senior management to understand the main conclusions of this audit review, including the opinion, significant findings and a summary of the corporate risk exposure.

Findings and Outcomes

-  This section contains the more detailed findings identified during this review for consideration by service managers. It details individual findings together with the potential risk exposure and an action plan for addressing the risk.

Appendices:

-  Audit Framework Definitions
-  Support and Distribution
-  Statement of Responsibility

Executive Summary

Overview

As part of the 2016/17 Internal Audit Plan for Wiltshire Council, an audit has been undertaken to assess the adequacy of the key financial controls and procedures in place for Wiltshire Pension Fund.

As confirmed from annual reporting for the fund in respect of 2015/16, the Wiltshire Pension Fund administer the Local Government Pension Scheme (LGPS) on behalf of around 169 participating employers, including Councils, Schools, Police and Fire Authorities, other public bodies, charities and private sector companies. As at 31 March 2016, total membership was reported at over 63,000 (including active and deferred members and pensioners) with holdings of over £1.8bn of investments assets.

Given the materiality of balances, the fund is subject to an annual internal audit as part of the Wiltshire Council's key financial controls assurance process.

Objective

To ensure key financial system controls are operating effectively for The Wiltshire Pensions Fund, and that fraud, error or corruption is minimised.

Significant Findings

| Risk: | Impact |
|--------------------------------|--------|
| No Significant Risks Reported. | |

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.

This opinion reflects that the recommendation in respect of reconciliation between pensions Payroll and Altair has been restated. This is because there have been notable delays in reconciliation of new dependents and pensioners. We do, however, note that the resultant impact of risk is considered moderately low given other compensating factors and controls.

We also highlight that other reconciliations have been brought up date, although management will need to continue to monitor this position given that the responsible Pension Fund Accountant has been on maternity leave since February 2017.

Well Controlled Areas of the Service

Systems and processes haven again been proven to be well embedded with associated key financial controls operating satisfactorily in respect of:

- Review and Authorisation of Benefits Calculations;
- Production and independent Review of Pensions Payroll Exception Reports; and
- Authorisation of Starters and Leavers (Members and Pensioners).

Corporate Risk Assessment

| Risks | Inherent Risk Assessment | Manager's Initial Assessment | Auditor's Assessment |
|--|--------------------------|------------------------------|----------------------|
| 1. The Wiltshire Pension Fund suffers financial loss because contributions received and payments to pensioners are incorrect. | Medium | Low | Low |
| 2. The Wiltshire Pension Fund's financial records are compromised by the inaccurate reporting of balances and resultant material misstatements. | Medium | Low | Low |
| 3. The Wiltshire Pension Fund suffers financial and reputation loss at it is not compliant with LGPS regulations. | Medium | Low | Low |
| 4. The Wiltshire Pension Funds records are put at risk of fraud and error because access to the Pensions system application is not restricted to authorised users. | Medium | Low | Low |
| 5. The Council is exposed to greater risk because previous audit recommendations have not been implemented. | Medium | Low | Low |

Findings and Outcomes

Method and Scope

This audit has been undertaken using an agreed risk based audit. This means that:

- the objectives and risks are discussed and agreed with management at the outset of the audit;
- the controls established to manage risks are discussed with key staff and relevant documentation reviewed;
- these controls are evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively;
- at the end of the audit, findings are discussed at a close-out meeting with the main contact and suggestions for improvement are agreed.

Prior year reporting has highlighted that systems and processes are proven to be well embedded and associated key financial controls operate satisfactorily in respect of:

- Review and Authorisation of Benefits Calculations
- Production and independent Review of Pensions Payroll Exception Reports
- Authorisation of Starters and Leavers (Members and Pensioners)

Thus, for these areas, a lighter touch approach has been adopted this year. The level of detailed sample testing has been reduced and the effectiveness of the principles of control has instead been confirmed from observational walkthrough of example cases.

At the request of the Chair of the Local Pension Board, a high level review has also been undertaken to determine whether the content of the Annual Report for the Pension Fund is accordant with regulatory requirements.

The scope of review has not included processes which are subject to Wiltshire Council's corporate system of control including:

- Bank reconciliation arrangements
- Setting up New Starters and Processing Leavers on the SAP Payroll system.

These areas are reported separately in consolidated reporting on Wiltshire Council's key financial controls 2016/17.

| | | |
|-----|---|-----|
| 1.1 | 1. The Wiltshire Pension Fund suffers financial loss because contributions received and payments to pensioners are incorrect. | Low |
|-----|---|-----|

1.1.1 Finding and Impact

Review and Authorisation for Calculation of Benefits

Observational walkthrough of recent sample cases confirmed that appropriate controls are operated and evidenced in respect of the review and authorisation process for calculations of benefits on death, retirees and transfers out.

1.1.2 Finding and Impact

Production and independent Review of Pensions Payroll Exception Reports

There is appropriate production and review of exception reporting in respect of the pensions payroll on a regular, monthly basis.

Appropriate evidence is retained of checks undertaken with:

- Individual entries ticked to denote they have been confirmed as correct;
- Reports signed and dated by the Payroll Officer to confirm her sign off; and
- A copy of scanned, signed reports retained on the secure server to support each month's checks.

1.1.3 Finding and Impact

Authorisation of Starters

Checks of example new starter cases confirmed that starter details had been transferred completely and accurately to Altair from forms and the employer starter spreadsheet.

Review of supporting Approved Signatories forms confirmed that starter records had been approved by a recognised, authorised officer by means of confirmatory email.

1.1.4 Finding and Impact

Authorisation of Leavers

As reported under benefit payments above, observational walkthrough of recent sample cases confirmed that appropriate controls are operated and evidenced in respect of the review and authorisation process of leavers to the scheme (i.e. through processing of benefits on death, retirees and transfers out).

1.2 2. The Wiltshire Pension Fund's financial records are compromised by the inaccurate reporting of balances and resultant material misstatements.

Low

1.2.1 Finding and Impact

Reconciliation of the pension payroll system to the general ledger

New Pensioners and New Dependants

Review of the last reconciliations undertaken for New Pensioners and New Dependants confirmed that these had been undertaken in accordance with the agreed procedure. However, whilst these should normally be undertaken quarterly, the Pensions Fund Development Manager confirmed that the last full reconciliation was undertaken in April 2016 in respect of data to the end of March 2016. This was also verified from review of the last reconciliation provided.

Review of the latest reconciliations checklist provided by the Pension Fund Accountant highlighted that these reconciliations have been removed from the latest version. As a result, progress is not transparently reported as over-due.

It is also noted that, as reported in 2015-16, that a full reconciliation of the two systems has not yet been undertaken and that checks instigated since the last full check in 2011 have not been cumulative. This is, in part due to an outstanding decision on whether an integrated Altair payroll module will be added to the system.

Given delays in checks undertaken between new pensioners and new dependants, there is a risk that discrepancies between Altair and SAP GL records will not be identified and dealt with promptly resulting in over- or under-payment of benefits.

Thus one recommendation from 2015-16 reporting is updated with another re-stated.

However, the impact of this risk is considered to be moderately low given a number of compensating controls and factors.

Any new pensioner or dependent records are only set up on SAP once they have been added to Altair and a new starter form is raised and authorised to confirm addition to the Pensions Payroll.

Changes normally only occur after initiation of pensioner / dependent payments including:

- cessation due to death
- cessation or changes in the proportion of dependants' entitlement

Other than these changes, only an annual uplift (PI) is applied, increasing entitlement from 1st April each year.

A number of compensating control checks are also applied to ensure that any subsequent changes to pensioner payroll records affecting entitlement align with Altair (or vice versa) including:

- WPF staff checking payroll reporting on deaths
- Payroll staff checking closed bank accounts reported by WPF staff
- Payroll staff undertaking checks of exception reporting
- WPF Finance staff checking totals paid out to employers including a monthly analysis of balances for employers including flagging of balances fluctuating more than 5% tolerance from one month to the next prompting investigation.

Follow up of 2015-16 Findings - Additional Payroll Costs Reconciliation

The last completed reconciliations were reviewed for:

- Lump Sum (GL Code 100421)
- Trivial Commutation (GL Code 956303)
- Underpayments (GL Code 100401)

From this it was confirmed that they have been undertaken in accordance with agreed procedures, balances were supported by system reporting and verified copies had been saved by the Pension Fund Accountant (annotated with her initials as required).

The Pension Fund Accountant confirmed that, although reconciliations had been undertaken on a regular monthly basis, there had been delays, until more recently, in verifying these given available staff resource.

General review of the checklist confirmed this with delays in verifying reconciliations reported up until August 2016 (averaging between 55 and 93 days). Since then, there have been improvements and, although there were delays in undertaking verifications of October, this was less notable than in prior periods (averaging 44 days after the period end date). Additionally, verification of the

November reconciliations was underway at the time of the audit review. Thus no further recommendation is made in this respect.

However, we do note for information that this should be closely monitored by management given that the Fund Accountant will be on maternity leave from February 2016. Unless this resource is replaced, there will a potential impact on progress made to date. We acknowledge that this has been transparently reported issue being monitored by the Local Pension Board.

1.2.1a Proposed Outcome:

Priority 3

It has been agreed that reconciliations of New Pensioners and New Dependants between the Altair Pension system and SAP Pensions Payroll are undertaken on a monthly basis.

Action Plan:

| | | | |
|---------------------|------------------|--------------|----------------|
| Person Responsible: | Head of Pensions | Target Date: | September 2017 |
|---------------------|------------------|--------------|----------------|

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| Management Response: | Agreed that monthly reconciliations would be preferable for the New Pensioners and New Dependants reconciliations. The Fund currently experiencing high levels of staff turnover as flagged on its risk register, and is looking to develop its data quality team to picked up these specific reconciliations in future. |
|----------------------|--|

1.2.1b Proposed Outcome:

Priority 3

It has been agreed 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.

Action Plan:

| | | | |
|---------------------|------------------|--------------|---------------|
| Person Responsible: | Head of Pensions | Target Date: | December 2019 |
|---------------------|------------------|--------------|---------------|

| | |
|----------------------|--|
| Management Response: | The Guaranteed Minimum Pension (GMP) reconciliation project is currently on-going which is due to finish in December 2018 with the timescales being dictated by HMRC. As this reconciliation is in part a reconciliation of the SAP payroll to Altair, officers' view is this is being undertaken to a certain extent with a full reconciliation of the two systems to be prioritised after this date. |
|----------------------|--|

1.2.2 Finding and Impact

Bank Reconciliations

Please note that this area is considered out of scope at it is subject to central, corporate process operated by Wiltshire Council. This is reviewed separately under **General Ledger and Financial Account Key Financial Controls 2016/17** and will be reported separately in consolidated reporting for Key Financial Controls.

1.2.3 Finding and Impact

Evidence of Regular Discussions with Governors and the Actuary - Fund Valuation Position

Review confirmed that there has been regular quarterly reporting to the Board on the fund position for 2016-17 to date.

There is also appropriate evidence of members' consideration of the latest actuarial tri-annual valuation with an update on progress provided by the Head of Pensions in the last meeting held in December 2016.

1.3

3. The Wiltshire Pension Fund suffers financial and reputation loss at it is not compliant with LGPS regulations.

Low

1.3.1 Finding and Impact

Annual Reporting - Accordance with the requirements of LGPS and other Relevant Regulations

On request by the Chair of the Local Pension Board, a high level review was also undertaken to determine whether the Annual Report for the Pension Fund contained the requisite regulatory sections. From this it was confirmed the report for 2015/16, meets the requirements of LGPS Regulations 2013, 57(1) by including (or linking to) a:

- Management and Financial Performance Report;
- Investment Policy & Performance Report;
- Scheme Administration Report;
- Actuarial Report on Funds;
- Governance Compliance Statement;
- Fund Account, Net Assets Statement and Notes;
- Pensions Administration Strategy Report;
- Funding Strategy Statement;
- Statement of Investment Principles;
- Communications Policy Statement;
- Discretionary Material; and
- Material required by the LGPS Scheme Advisory Board to publish their Scheme Annual Report.

Although, an advisory recommendation has been made in respect of information required of best practice which has not been included in respect of the following discretionary content recommended under CIPFA Guidance:

- KPI data on staffing efficiency (management and performance reporting); and
- Reporting on the manner employer discretions have been exercised in the reporting period a glossary of commonly used pension terms to aid readers (again categorised as discretionary).

Discussion with the Head of Pensions and the Chair of the Local Pension Board has also confirmed that future internal audit work may include more detailed focus on the content of the various reports and statements listed above to ensure they are compliant with the requirements of various other LGPS regulations.

Compliance with CIPFA Code of Accounting Practice Requirements for Annual Reporting

Discussion with fund management confirmed that the external auditors routinely request that management provide evidence of the checks they have made against the disclosure checklist published by CIPFA to ensure compliance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom in respect of fund accounts, disclosures and notes (included in the annual report). Review confirmed that a copy had been retained by the service management to confirm the checks and confirmations sought.

As this checklist is recognised as a tool rather than an official document, there is no official, evidential sign off of the checklist by KPMG or management. An exception reporting basis is instead adopted with the external auditors confirming any necessary updates to the statement of accounts required where applicable.

Review of the annual audit report (extract from the report presented to audit committee in July 2016) confirmed that no material misstatements were identified. Although 'a small number of presentational adjustments were required' these were noted in the LPB minutes of July 2016 as only being stylistic corrections needed to the accounts.

At the time of issue of the Annual Audit Report it was still to be established whether the annual report was compliant with LGPS regulations. The subsequent audit letter issued by KPMG does not explicitly confirm that such assurances were sought. However, as nothing of further significance was reported and the External Auditors confirmed that the Annual Report and Final Accounts were unqualified, this implies such checks were completed (else this would have represented a significant, material, reportable issue).

Additionally, the external auditor's opinion given within the Annual Pensions Fund Report confirms: 'the pension fund financial statements [reported within]... comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.'

However, noting the expectations of the Chair of the Local Pensions Board for explicit physical evidence of actual compliance checks undertaken in this respect, more detailed future audit review against this checklist may be considered to provide further assurance that the content of the annual report is compliant with the Code of Practice.

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| 1.4 | 4. The Wiltshire Pension Funds records are put at risk of fraud and error because access to the Pensions system application is not restricted to authorised users. | Low |
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1.4.9 Finding and Impact

System Access & Password Controls

General principles control applied for user access management are sound.

Review of the current listing of users confirmed that higher level access had been granted where appropriate on the basis of roles and responsibilities.

Although there have been no reported leavers, the Benefit Manager account had been disabled as appropriate.

Comparison to current County Password Policy confirmed that password settings are generally in accordance, although a minimum of 6 characters is required (rather than the 8 stipulated by County). Although, this is not of great concern as, in compensation, additional Citrix passwords are also required to access the system.

Audit Framework and Definitions

Assurance Definitions

| | |
|--------------------|--|
| None | 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. |
| Partial | 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. |
| Reasonable | 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. |
| Substantial | 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. |

Definition of Corporate Risks

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

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 and 1 Actions will normally be reported verbally to the Service Manager.

Report Summary

Report Authors

This report was produced and issued by:

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Support

We would like to record our thanks to the following individuals who supported and helped us in the delivery of this audit review:

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East Devon District Council

West Dorset District Council

Forest of Dean District Council

West Somerset Council

Herefordshire Council

Weymouth and Portland Borough Council

Mendip District Council

Wiltshire Council

North Dorset District Council

Wiltshire Police & OPCC

Sedgemoor District Council

Statement of Responsibility

Conformance with Professional Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards.

SWAP Responsibility

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.