Wiltshire Council

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Internal Audit

Final Report

Wiltshire Pension Fund

27 March 2012

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EXECUTIVE SUMMARY

Overview

The internal audit of Pensions has been completed in accordance with the Internal Audit plan for 2011-12. This incorporates the key controls from KPMG's Internal and External Audit Joint Working Protocol 2011/12. The audit reviewed the operation of the controls as set out under **Audit Scope and Objectives on page 6** of this Report.

Controls over the main transactions processes for payments, starters and leavers were found to be working well, although obtaining timely death information is a continual problem. The risks associated with not being notified of deaths will be mitigated once a provider for mortality screening services has been appointed.

The pension payroll is run by the Council's Business Services whilst the reconciliations of the pension payroll and bank balances to the pensions general ledger is undertaken by Central Finance. We acknowledge that there is communication between Pensions and these other areas, but there is scope for more proactive engagement. In particular, there are possibilities for Pensions to exercise more oversight of payroll exception reporting, clearance of the pensions control account and bank reconciliations.

Audit Opinion

The Internal Audit opinion for the **Wiltshire Pension Fund** is **Substantial Assurance**. This means that whilst there is a basically sound system of control, there are weaknesses which may put some of the service objectives at risk.

The **Action Plan on page 14** of this report has been proposed by management to ensure that risk management strategies are put in place to avoid or reduce the identified risks, and to ensure that any residual risks are appropriately managed to reduce any impact or likelihood of these risks materialising.

Frequent monitoring of the management of identified risks is essential.

Our risk ratings are based on the level of risk when viewed from a **corporate** perspective.

No high risk issues have been identified as a result of this audit.

Medium Risk Issues (as risk-rated by Internal Audit)

Risk	Recommendation/ Action Proposed by Management	Profile Ref
The lack of a complete and regular comparison of the pensions payroll and the Altair database risks payments being made to individuals who should not be on the payroll, and possibly payments not being made which should be.	A regular procedure should be developed whereby a basic match is made between individuals on the pensions payroll and in the Altair database. The records of individuals who are unmatched should then be promptly reviewed and resolved with an appropriate record being maintained of the actions taken. Agreed, and this is currently being implemented albeit it due to the number of records this is being phased in based on a rolling programme of reconciliations.	6
Delay in investigating and clearing ageing balances within bank reconciliations risks misstatement in the accounts and a backlog of work at year end	The Pensions Team should review the reconciliations completed by Central Finance and take steps to ensure that long-standing reconciling items are investigated and cleared by appropriate teams at the earliest opportunity. Central Finance provides reports to the Pension Fund that outline the progress of outstanding items which can be used to monitor progress of outstanding items. Due to materiality of the items this has previously been reviewed at year end. It is recommended that items more than 6 months old are investigated.	8

Six low risk issues have also been identified. These are discussed in the Audit Findings section and Action Plan included in the body of this report.

Risk Profile

The following profile shows management's assessment of the likelihood and impact of the risks identified during the audit.

The numbers stated on the risk map refer to the risk references identified above, as well as to any low level risks detailed in the body of the report.

		Rare	Unlikely	Possible	Almost Certain
Impact	**Significant**				
	Moderate				
	Minor		3, 7	6, 8	
	Insignificant		1, 2	4, 5	
		Rare	Unlikely	Possible	Almost Certain
			Likelihood		

AUDIT SCOPE AND OBJECTIVES

Audit Scope

To provide assurance that:

- Key controls operate effectively within the Wiltshire Pension Fund;

- Key risks identified in the previous Internal Audit report have been appropriately addressed.

Control Objectives

The objectives of the audit are to seek assurance that:

1. The calculations of benefit payments, including lump sum sums on death, lump sums on retirement and transfer out payments, are appropriately reviewed and authorised;

2. Pay-run exception reports are produced and subject to appropriate review;

3. Starters and leavers records are appropriately authorised and correctly and promptly entered into the pension payroll;

4. There are robust mechanisms for the transfer of data between, and the reconciliation of, SAP data and the pension scheme records;

5. The pension payroll system is periodically reconciled to the general ledger;

6. Bank statements are periodically reconciled to the general ledger.

AUDIT FINDINGS

Control Objective 1:

The calculations of benefit payments, including lump sum sums on death, lump sums on retirement and transfer out payments, are appropriately reviewed and authorised.

1.1 Development of Workflow procedures

The Altair system provides functionality for developing automated Workflow routines which ensure that all staff consistently follow the required steps for any pensions procedure and record progress as tasks are completed. The discussion, risks and recommendations which follow apply not only to benefit payments but to all pensions procedures for which workflows have been designed.

Workflow routines were under development last year by the Pensions Team, but this year, the team adopted a revised approach for their development. It has taken some time to refine these procedures, ensuring they are fit for purpose and take advantage of the functionality which the software is capable of providing. Towards the end of the current year, the majority of routines had been completed and tested.

The development process has, however, resulted in a number of procedures becoming redundant as they have been replaced by radically improved versions. This caused a delay to final implementation whilst arrangements were made with the supplier to remove the unnecessary workflows to ensure that only the correct versions remained.

1.2 Checking within Workflow routines

A useful feature of the Workflows which have been developed is a requirement for a check to be carried out following completion of the procedure. Currently the system does not prevent this being the same person as carried out the original work.

Risk 1

The possibility that Workflow processes could be both initiated and checked by the same person increases the risk that errors will not be identified and corrected.

Recommendation 1

Where possible, Workflow procedures should force the check function to be undertaken by someone other than the individual who initiated the process.

1.3 Monitoring completion of Workflow routines

Workflow provides good opportunities for monitoring the progress of tasks but at the time of the audit there was no provision for the production of regular reports for this purpose. Regular reports of progress against specific tasks would enable team leaders and managers to continually review, prioritise and allocate work. They may also prove beneficial in identifying staff training requirements.

Risk 2

The absence of regular reports of tasks to be completed within Workflows risks processes not being concluded within appropriate timescales.

Recommendation 2

Where possible, regular Workflow monitoring reports should be produced to provide details of outstanding tasks enabling timely review to ensure that all tasks are completed appropriately.

1.4 <u>Authorisation of benefit payments</u>

All payments in the sample selected for audit were adequately supported by Pension records and all had been appropriately reviewed and authorised within a reasonable timescale.

Control Objective 2:

Pay-run exception reports are produced and subject to appropriate review.

2.1 Fatal Errors Reports

Fatal Errors are such as would prevent an individual being paid at all. One such occurrence will cause the whole pay-run to fail so it is imperative that all Fatal Errors are resolved. These must be either individually suspended within the pay-run or corrected.

Our audit confirms these items are appropriately monitored, investigated and corrected.

2.2 Errors and Warnings Reports

Pensions payroll processing uses the same errors and warnings criteria as are used for salaries payroll processing. This results in large numbers of items which are irrelevant for pensions, such as where National Insurance numbers are not present or where the employee is approaching retirement age.

Each error/warning is sorted into blocks of each type which then stand out clearly on the reports and are therefore readily by-passed by the reviewer. This assists the reviewer in quickly scanning the reports for items which do not need to be reviewed. There remains a minor risk that the large number of irrelevant entries could result in the overlooking of items which should be investigated.

However, a more significant risk to the efficient and effective use of errors and warning reports is the absence of any review and approval by pension's management that the current criteria are the most appropriate for identifying relevant exceptional items.

Our testing of a sample of errors and warnings which are currently generated found them to have been reviewed and resolved as appropriate.

2.3 High Value Net Pay Reports

A High Value Net Pay Report is produced for each pay-run though as with the Errors and Warnings criteria, there is no formal record of how the threshold value was assessed and approved. Nor has there been a recent re-evaluation of its usefulness.

Our audit confirms that the cases identified by use of the current threshold are subject to appropriate review.

Risk 3

By failing to identify, review and approve criteria which are relevant for exception reporting (such as SAP Errors and Warnings and High Value Net Pay) there is a risk that payments which do not conform to predictable criteria will not be identified and corrected.

Recommendation 3

Pensions and payroll management should review and approve appropriate exceptions criteria to ensure that maximum benefit is gained from the identification of relevant exceptions within each monthly payroll.

Control Objective 3:

Starters and leavers records are appropriately authorised and correctly and promptly entered into the pension payroll.

3.1 <u>Starters</u>

The audit included a detailed review of 25 starters selected from the pension payroll. Within this sample:

- All starter forms were found to have been initiated and checked by Pensions Team staff and all but three had also been countersigned by the Pensions Manager;

- All records had been correctly set up in the payroll system in accordance with the authorising documents;

- There were 10 items where there was a period of 20 days or more between the start date and the date the starter form was authorised;

- There were a further four items where there was a period of 20 days or more between the date of authorisation and the date of set-up in the payroll system.

Risk 4

Failure to set up promptly new starter records risks errors and unnecessary work to implement corrections and deal with queries and complaints.

Recommendation 4

Management should implement a periodic check of the time elapsed between the receipt of new starter instructions, the date of authorisation and the date of set up in the payroll system with a view to minimising the causes of delay.

3.2 <u>Leavers</u>

Our audit testing of a sample of 25 leavers confirmed that payments are invariably stopped with effect from the correct date in accordance with the documents provided to payroll by the Pensions Team.

However, there were only seven occasions when the payroll record was terminated within 30 days of the date of death. The Pensions Team are well apprised of the problems associated with obtaining prompt and reliable information about death, and are currently in the process of selecting an appropriate mortality screening provider to assist the process.

Risk 5

Late notification of dates of death risks making overpayments and unnecessary work to effect recovery.

Recommendation 5

Information about deaths should be obtained regularly from an appropriate provider.

Control Objective 4:

There are robust mechanisms for the transfer of data between, and the reconciliation of, SAP data and the pension scheme records.

4.1 <u>Reconciliation of records in SAP and Altair</u>

There is no routine reconciliation procedure which proves the consistency of the pensions payroll and the Altair database at specific, regular points in time.

There is, however, a continual and ongoing comparison of the detailed individual records held in SAP and Altair. There are two broad aspects to this which seek to confirm that:

- Contributions from the Wiltshire Council payroll are correct;

- Records in the SAP pension payroll are consistent with the pensioner records in Altair.

These are both highly detailed and time-consuming procedures and a significant number of records remain to be reviewed. In recognition of the importance of this review a member of staff has recently been assigned to ensure it is maintained as a priority task.

An additional check which is currently not undertaken would be to conduct a simple match of individuals on the payroll and in Altair. This would provide some preliminary and potentially important information which could be used to prioritise further review. For example, if monetary values could be included with the basic personal data to be matched, then any unmatched individuals might be reviewed in value order. There may also be scope for comparing the actual payments with those expected according to Altair. Again, this may assist in prioritising where review should be focused.

Risk 6

The lack of a complete and regular comparison of the pensions payroll and the Altair database risks payments being made to individuals who should not be on the payroll, and possibly payments not being made which should be.

Recommendation 6

A regular procedure should be developed whereby a basic match is made between individuals on the pensions payroll and in the Altair database. The records of individuals who are unmatched should then be promptly reviewed and resolved with an appropriate record being maintained of the actions taken.

Control Objective 5:

The pension payroll system is periodically reconciled to the general ledger.

5.1   Pension payroll control account

This control has been a problem since SAP was implemented in April 2009, not just for the pension payroll, but also for the Council's Staff and School's payrolls. Reference has been made to this in previous Internal Audit Reports on both Payroll and Pensions.

During the current year, the Council's Central Finance Team have developed a new approach to reconciling the payroll payment postings to the general ledger payroll control account.   The focus has initially been on establishing procedures for reconciling the Staff and Schools payrolls which has resulted in the Pensions reconciliation being postponed until these larger, more complex payroll reconciliations have been achieved.

As the reconciliations for the salary payrolls are now largely working satisfactorily, Central Finance should now be able to implement similar procedures for the Pensions control account. There is an expectation that a full reconciliation will be achieved by the end of the current financial year.

The pensions annual payroll is approximately £4 million. At the time of the audit, the balance on the pension payroll control account was £8,674,599.45. This is largely due to the payovers of certain deductions being posted to the control account, whereas the deductions are posted to the payroll deductions – advances and reclaims account. The net balance of these accounts, as at 19 Jan 2012, was:

(Pensions) payroll control account:	£8,674,599.45
(Pensions) payroll deductions - advances and reclaims:	£8,631,137.39
Net balance	£43,462.06

It is unlikely that the control account will ever show a zero balance, because there will always be timing differences and mis-postings. The important thing is to ensure that there is a regular routine for investigating the balance and clearing entries as appropriate.

Risk 7

Without a full and regular reconciliation of the pensions system to the general ledger there is a risk that erroneous payments will not be identified which could, over time, mean the Council forfeiting the opportunity to recover overpayments with a consequential loss to the Pension Fund.

Recommendation 7

The Pensions Team should initiate a regular review of the reconciliation and clearance of the pensions payroll control account carried out by Central Finance.

Control Objective 6:

Bank statements are periodically reconciled to the general ledger.

6.1   Bank reconciliations

Bank reconciliations are undertaken for each month by Central Finance. They are carried out electronically and appear to be completed promptly. They are not, however, signed-off to confirm either completion or review.

The reconciliation spreadsheet for each month contains downloads from SAP of the relevant individual items making up the summary totals. There are also screen shots of the SAP ledger and on-line HSBC bank statements so everything required for the reconciliation for each month is held within the spreadsheet for the month.

Each reconciliation examined had been completed correctly but there are over 600 hundred items which require investigation and clearance.

Bank reconciliations have been problematic since the introduction of SAP and it was only during the current year that items remaining from 2009-10 have been cleared.

There has been a degree of progress in clearing items from 2010-11. At 26 January 2012, there was a net balance of unmatched items amounting to nearly £16,000. This net figure is derived from over 200 credit balances totalling £141,000 and over 20 debit balances amounting to £125,000.

Risk 8

Delay in investigating and clearing ageing balances within bank reconciliations risks misstatement in the accounts and a backlog of work at year end.

Recommendation 8

The Pensions Team should review the reconciliations completed by Central Finance and take steps to ensure that long-standing reconciling items are investigated and cleared by appropriate teams at the earliest opportunity.

ACTION PLAN

Risk Ref	Cross Ref	Risk & Implications	Audit's Risk Rating	Management's Risk Rating	Recommendation/ Action Proposed by Management	Responsible Officer and Target Date
1	1.2	The possibility that Workflow processes could be both initiated and checked by the same person increases the risk that errors will not be identified and corrected.	**Low**	**Low** **Impact = insignificant** **Likelihood = unlikely**	Where possible, Workflow procedures should force the check function to be undertaken by someone other than the individual who initiated the process. Workflow is a system for monitoring the processing of work and not designed to be a replacement for checking or a validation tool. The current manual procedures still in place ensure that work is checked and not initiated and signed off by the same person. However, reports can be run and a regular check on a sample basis could be implemented to ensure all stages of the Workflow has not been completed by the same person.	Martin Summers - September 2012
2	1.3	The absence of regular reports of tasks to be completed within Workflows risks processes not being concluded within appropriate timescales.	**Low**	**Low** **Impact = insignificant** **Likelihood = unlikely**	Where possible, regular Workflow monitoring reports should be produced to provide details of outstanding tasks enabling timely review to ensure that all tasks are completed appropriately. Agreed as one of the main objectives of Workflow is to undertake regular reporting on progress and to identify problem areas. Team Leaders will report weekly on the team's performance once the system has gone live and data will also be used for the monitoring of employers performance against the targets outlined in the Administration Strategy.	Martin Summers – July 2012

Risk Ref	Cross Ref	Risk & Implications	Audit's Risk Rating	Management's Risk Rating	Recommendation/ Action Proposed by Management	Responsible Officer and Target Date
3	2.2	By failing to identify, review and approve criteria which are relevant for exception reporting (such as SAP Errors and Warnings and High Value Net Pay) there is a risk that payments which do not conform to predictable criteria will not be identified and corrected.	**Low**	**Low** **Impact = minor** **Likelihood = unlikely**	Pensions and payroll management should review and approve appropriate exceptions criteria to ensure that maximum benefit is gained from the identification of relevant exceptions within each monthly payroll. Agreed, the setting of these levels need reviewing periodically to ensure the reporting is meeting the Fund's requirements.	Martin Summers & Payroll Management – July 2012.
4	3.1	Failure to set up promptly new starter records risks errors and unnecessary work to implement corrections and deal with queries and complaints.	**Low**	**Low** **Impact = insignificant** **Likelihood = possible**	Management should implement a periodic check of the time elapsed between the receipt of new starter instructions, the date of authorisation and the date of set up in the payroll system with a view to minimising the causes of delay. With the implementation of Workflow this will enable the monitoring of time delays in receiving the information from employers and the processing time which will be reported against the Administration Strategy targets. This will be reviewed on a quarterly basis.	Andrew Cunningham – September 2012

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Risk Ref	Cross Ref	Risk & Implications	Audit's Risk Rating	Management's Risk Rating	Recommendation/ Action Proposed by Management	Responsible Officer and Target Date
5	3.2	Late notification of dates of death risks making overpayments and unnecessary work to effect recovery.	Medium	Low Impact = insignificant Likelihood = possible	Information about deaths should be obtained regularly from an appropriate provider. Management doesn't agree with this recommendation as the impact of late notification is not significant and difficult to manage as it depends on being notified by the member's family. Life certificate and mortality screening exercises are being carried out but even when a 3rd party provider is being used it would be extremely costly do undertake on a monthly exercise on 9000 records to ensure the pension is stopped within 30 days of death. However, more regular use of mortality screening services is being implemented to ensure death payments are not on-going for a longer period.	Tim O'Connor – September 2012
6	4.1	The lack of a complete and regular comparison of the pensions payroll and the Altair database risks payments being made to individuals who should not be on the payroll, and possibly payments not being made which should be.	Low	Medium Impact = minor Likelihood = possible	A regular procedure should be developed whereby a basic match is made between individuals on the pensions payroll and in the Altair database. The records of individuals who are unmatched should then be promptly reviewed and resolved with an appropriate record being maintained of the actions taken. Agreed, and this is currently being implemented albeit it due to the number of records this is being phased in based on a rolling programme of reconciliations.	David Anthony – June 2012

Risk Ref	Cross Ref	Risk & Implications	Audit's Risk Rating	Management's Risk Rating	Recommendation/ Action Proposed by Management	Responsible Officer and Target Date
7	5.1	Without a full and regular reconciliation of the pensions system to the general ledger there is a risk that erroneous payments will not be identified which could, over time, mean the Council forfeiting the opportunity to recover overpayments with a consequential loss to the Pension Fund.	Medium	Low Impact = minor Likelihood = unlikely	The Pensions Team should initiate a regular review of the reconciliation and clearance of the pensions payroll control account carried out by Central Finance. Central Finance has been aware of this issue and will have the balance cleared down by the financial year end. The issue stems from the accounting entries going to different codes which Finance aim to have sent to the same code in the future to clear down the balance. This reconciliation is being incorporated into their monthly reconciliations.	Mathew Tiller – July 2012
8	6.1	Delay in investigating and clearing ageing balances within bank reconciliations risks misstatement in the accounts and a backlog of work at year end.	Medium	Medium Impact = minor Likelihood = possible	The Pensions Team should review the reconciliations completed by Central Finance and take steps to ensure that long-standing reconciling items are investigated and cleared by appropriate teams at the earliest opportunity. Central Finance provides reports to the Pension Fund that outline the progress of outstanding items which can be used to monitor progress of outstanding items. Due to materiality of the items this has previously been reviewed at year end. It is recommended that items more than 6 months old are investigated.	Catherine Dix – July 2012

Explanation of Audit Opinion and Risk Rating

Audit Opinion

Full Assurance   There is a sound system of control designed to achieve the service objectives, with key controls being consistently applied.

Substantial Assurance   Whilst there is a basically sound system of control, there are weaknesses which may put some of the service objectives at risk.

Limited Assurance   Weaknesses in the system of control are such as to put service objectives at risk.

No Assurance   Control is generally weak leaving the system open to significant error or abuse.

Risk Profile Matrix Rating

Red   **= High Risk**

High level risks are significant risks to the effective delivery of the service. Risk management strategies should be put in place to appropriately manage the identified risks within a short timescale. Frequent monitoring of the management of identified risks is essential.

Amber   **= Medium Risk**

Medium level risks are risks which must be managed to ensure the effective delivery of the service. Monitoring of the risk should be regularly undertaken.

Green   **= Low Risk**

Low level risks are risks which are not considered significant to the effective delivery of the service, but which should nevertheless be managed and monitored using existing management processes.