Wiltshire Pension Fund 2017-18

Final Report

Issue Date: 18 April 2018

Working in Partnership to Deliver Audit Excellence

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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.

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Executive Summary

Overview

As part of the 2017/18 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.

The Wiltshire Pension Fund administer the Local Government Pension Scheme (LGPS) on behalf of around 175 participating employers, including Councils, Schools, Police and Fire Authorities, other public bodies, charities and private sector companies. As at 31st March 2017, total membership was reported in excess of 63k active, deferred members and pensioners with financial holdings in excess of £2.187bn of investment 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 system controls for the pension fund are operating effectively and that fraud, error or corruption is minimised.

Audit Opinion: Reasonable

We are 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 two recommendations from last year's audit both remain outstanding one was due by September 2017 and the other by December 2019. These are in relation to:

- Reconciling New Pensioners and New Dependants between the Altair Pension system and SAP Pensions Payroll monthly; and

- Carrying out a full reconciliation of Altair and SAP Payroll to provide further assurance that payments made to pensioners cast and provide the basis for a monthly reconciliation of cumulative balances.

An additional recommendation has also been made for the service to demonstrate that monthly reconciliations are verified, and an advisory recommendation has been made to ensure payment authorisations are always retained or recorded to show who approves each payment.

Well Controlled Areas of the Service

Systems and processes prove to be well embedded with associated key financial controls operating satisfactorily in respect of:

• Review and Authorisation of Benefits Calculations;

• Authorisation of Starters and Leavers (Members and Pensioners);

• Production and independent Review of Pensions Payroll Exception Reports;

• Reconciliation of the pension payroll system to the general ledger;

• Ongoing and regular review by the Wiltshire Pension Fund Committee of the Fund investments between triennial Actuarial Valuation; and

• Continuing approval of IAS 19 assumptions applied to stating the Funds liabilities.

Corporate Risk Assessment

Risks	Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
1. Pensions contributions and pensions payroll are incorrect.	Medium	Low	Low
2. Council accounts are misrepresented due to inadequate accounting practices relating to the administration of the pension fund.	Medium	Low	Low
3. 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 approach. 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.

1.	Pensions contributions and pensions payroll are incorrect.	Low

1.1. Review and authorisation process for calculations of benefit

The calculations of lump sum payments are reviewed by a separate officer than the person who made the calculation through the Altair system. The system records who carried out these tasks and when, however it does not record who has authorised the payment. The Payments Schedule produced by Altair, records who made the calculation and who checked it and relies on the authorising officer to physically sign it. The Pension Team Managers check the calculations and do not sign the Schedule. Instead they send the Payment Schedules to Pensions Payroll or Accounts Payable under a covering email. The email is intended to provide the authorisation.

From testing the work flow for 15 lump sum payments made this year, we found all have been calculated and checked by a different officer. We identified the authorising officer for 14 of the payments. These were made in accordance to a Payment Schedule and were supported by a covering email from which we can confirm that these instructions were sent by managers authorised to request the payments. In one case the Payment Schedule was not supported by a covering email to allow us to check who sent the instructions to Accounts Payable.

The Pensions Team stopped signing the notification / schedule three years ago to save time and resources. Audit made an advisory recommendation in 2015-16 for managers to consider whether efficiency gains from not retaining a record of authorisation in Altair outweigh the loss of being able to efficiently find managers' authorisations of payments.

Controls could be strengthened by ensuring that the authoriser for payment instructions can be easily identified. We do acknowledge the need for proportionality in controls and as such do not make a formal recommendation in this area. The Head of Pensions Administration & Relations has also confirmed that identification of authorisers in work flows is currently being considered.

2	Council accounts are misrepresented due to inadequate accounting practices relating to the administration of the pension fund.	Low

2.1. Reconciliation of the pension payroll system to the general ledger

The reconciliations for New Pensioners and New Dependents should be undertaken quarterly. The Fund System and Data Manager has confirmed that the New Pensioners reconciliation is currently

being carried out. We continue to recommend that the New Dependents reconciliation should also be carried during the financial year, thus the following agreed outcome from the previous audit remains outstanding:

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.

Testing of additional payroll costs reconciliations confirmed these were prepared by the Accounting Technician and carried out promptly, they were cast and there were no material reconciling items. However, the Fund Investment & Accounting Manager's verification of the reconciliations is not evident.

2.1a	Proposed Outcome:	Priority 3
We recommend that the Fund Investment & Accounting Manager ensures that he can demonstrate that he has verified reconciliations prepared by the Accounting Technician by saving the spreadsheet with his name in the title and by ensuring the monthly checklist is completed.		
Action Plan:		

Person Responsible:	Fund Investment & Accounting Manager	Target Date:	May 2018
Management Response:	Agreed. An officer has recently returned from maternity leave meaning that additional resource is now available. Reconciliation verification and the monthly checklist will be completed moving forward.		

3.	The Council is exposed to greater risk because previous audit recommendations have not been implemented.	Low

3.1.	Implementation of previously made Internal Audit recommendations

The Internal Audit report from 2015-16 records two agreed recommendations, both priority 3. Both relate to reconciliation of the payroll system to the general ledger. These were repeated from the previous year's audit (2015-16) because a full reconciliation of the two systems had not taken place by last year combined with reconciliations for New Pensioners and New Dependants not having been carried out quarterly.

Reconciliations for New Pensioners and New Dependants have not been carried out throughout the current financial year. The Fund System and Data Manager says they have started reconciling New Dependants from April up to December 2017, whilst New Pensioners is viewed as less of a risk.

The recommendations from last year's audit were scheduled for implementation by September 2017 and December 2019 respectively, these are:

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.

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.

These agreed recommendations have not yet been implemented and one is now over due for completion (it is acknowledged that an update on progress towards completing this recommendation has been provided).

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.	

Support and Distribution

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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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Chris Ashton, Fund Investment & Accounting Manager (Maternity)
Janine Davis, Payroll Assistant, Payroll & Service Development
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Distribution List

This report has been distributed to the following individuals:

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Nick Weaver, Investment Manager (Agency)
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Michael Hudson – Director – Finance & Procurement
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Powys County Council	Wiltshire Police & OPCC

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.