


Wiltshire Pension Fund – (Key Financial System) 2016/17

Audit Report


Issue Date: 08 March 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, an audit has been undertaken of the Wiltshire Pensions Fund to identify key risks and assess the effectiveness of the controls and procedures operating to mitigate. The administration of pensions is one of the key financial systems that the Council relies on to support its day to day operations.

This report provides management with a summary of the audit findings and assurance over the effective operation of key system controls. Where not operating effectively, recommendations have been made for improvement with associated management actions to manage the risks and add value to the system process.

It should be noted that, where our testing of system controls, has identified any apparent weaknesses, we are required to obtain an undertaking for corrective action from the appropriate manager.

Objective

To ensure key financial system controls are operating effectively for the Wiltshire Pensions Fund, and that the inefficient use of resources, fraud and error 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 for improvement to the reconciliation process between the Altair Pensions and SAP Payroll (for payments) applications, in particular between new dependents and pensioners. We do however acknowledge compensating controls that has reduced the level of residual risk.

We are pleased to report that other reconciliations have been brought up to date and operating effectively. We note however the Management Accountant responsible for the Pension Fund is currently on maternity leave and the acting up replacement is due soon to leave the Council. In addition a number of other key staff will soon be leaving the Pension Administration Team. These staff changes therefore may have a negative impact on the control framework and management therefore need to monitor the situation.

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 are considered to operate effectively 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).

Therefore, for these areas, a “lighter touch approach” was adopted for this audit with the effectiveness of the principles of control has been confirmed from walkthrough review of selected, example cases.

At the request of the Chair of the Local Pension Board, the scope also included an examination of the Annual Report for the Pension Fund to ensure complies with regulatory requirements.

The scope of review has not included processes included and reported in other audit reviews including:

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

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

Walkthrough review of a sample of recent transaction cases confirmed that appropriate controls are operating 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 pension's payroll on a monthly basis which is considered to be timely.

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 sign off; and
- Copies of scanned, signed reports are retained on the secure server to support each month's checks.

1.1.3 Finding and Impact

Authorisation of Starters

Our examination of a sample of new starters confirmed that starter details had been transferred completely and accurately to the Altair application, from forms and the employer starter spreadsheet. Further 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, a walkthrough review of recent sample of cases confirmed that appropriate controls are operating 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).

1.2.1 Finding and Impact

Follow Up of 2015-16 Findings - New Pensioners and New Dependants Reconciliations

Our 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 stated that the last full reconciliation undertaken was in April 2016, in respect of the period ending 31st March 2016. This was also verified from our review of the last reconciliation provided.

It was also found from our review that these reconciliations have been removed from the latest version of the reconciliations checklist. As a result, progress is not transparently reported as overdue.

A full reconciliation was found not to be carried out between the Altair Pensions Application (Altair) and SAP Payroll (pensioners) on a regular basis. The situation was also reported in the previous audit (2015/16) and management actions agreed. Further that checks instigated since the last full check carried out 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. However, this has also been impacted by the ongoing GMP reconciliation which is due to be completed at the end of December 2018.

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

1.2.1a Proposed Outcome:

Priority 3

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:	By September 2017
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 pick up these specific reconciliations in future.		

1.2.1b Proposed Outcome:

Priority 3

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:	By December 2017
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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

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.

Review of the latest reconciliation and supporting checklist confirmed this with delays in verifying reconciliations reported up until August 2016 (averaging between 55 and 93 days). Although, there were delays in undertaking verification for October, 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 (December 2016). Thus no further recommendation is made in this respect.

1.2.3 Finding and Impact

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

Our 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

At the request of 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 latest 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.

1.3.1b Proposed Outcome:

Priority 2

I recommend that Pension Fund management consider the addition of further information categorised as best practice or discretionary as detailed in the audit report.

1.3.2 Finding and Impact

Compliance with CIPFA Code of Accounting Practice Requirements for Annual Reporting

At the request of the Chair of the Local Pensions Board, review also considered whether the annual report is also in accordance with the CIPFA Code of Accounting Practice.

The Council's External Auditor 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.

Our 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 Local Pension Board meeting minutes of July 2016, as only minor stylistic corrections needed to the accounts.

The External Auditor's opinion subsequently 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 against the checklist, 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.

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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1.4.1	Finding and Impact
<p><u>System Access & Password Controls</u></p> <p>General principles control applied for user access management are sound.</p> <p>Review of the current listing of users confirmed that higher level access had been granted where appropriate on the basis of roles and responsibilities.</p> <p>Although there have been no reported leavers, the Benefit Manager account had been disabled as appropriate.</p> <p>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 Wiltshire Council) this is not of great concern as, in compensation, additional Citrix passwords are also required to access the system.</p>	

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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Distribution List

This report has been distributed to the following individuals:

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Devon & Cornwall Police & OPCC Somerset County Council

Dorset County Council

South Somerset District Council

Dorset Police & OPCC

Taunton Deane Borough Council

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.