

**FINAL INTERNAL AUDIT REPORT**  
**CHIEF EXECUTIVES - FINANCE DEPARTMENT**

**REVIEW OF PENSIONS AUDIT FOR 2013-14**

**Issued to:** John Nightingale, Head of Revenues and Benefits  
Tracey Pearson, Head of Co-ordination and Control

**Cc:** Janice Castle, Pensions Monitoring Officer  
Peter Turner, Director of Finance  
Martin Reeves, Principal Accountant

**Prepared by:** Principal Auditor

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**Report No.:** CX/104/01/2013

## REVIEW OF PENSIONS AUDIT FOR 2013-14

### INTRODUCTION

1. This report sets out the results of our systems based audit of Pensions Audit for 2013-14. The audit was carried out in quarter Q3 as part of the programmed work specified in the 2013-14 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.
2. The controls we expect to see in place are designed to minimise the department's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations.
3. The original scope of the audit was outlined in the Terms of Reference issued on the 29/08/13. The period covered by this report is from 1<sup>st</sup> September 2012 to 1<sup>st</sup> September 2013.
4. The estimated number of users/beneficiaries (current and projected) as at 30th September 2013 is 5,035 current employees, 4,817 pensioners and 4,670 deferred pensioners. Total current budget for this head: £35m expenditure (pensions, lump sums, admin, etc); £38.8 income (contributions, investment income, etc); £601.8m total fund value at 30th September 2013).

### AUDIT SCOPE

5. The scope of the audit is detailed in the Terms of Reference.

### AUDIT OPINION

6. Overall, the conclusion of this audit was that substantial assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix C.

### MANAGEMENT SUMMARY

7. Controls were in place and working well in the areas of:

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- Arrangements are being put in place to ensure eligible staff are automatically enrolled in the pension scheme and Bromley will be compliant with changes to the LGPS scheme for 2014. Bromley has until 30/09/17 to ensure all eligible staff are correctly enrolled in the Pension scheme.
  - Controls are in place to ensure staff who have changes in hours are accurately adjusted on the Pension system.
  - Pension Retirement Grants are paid at the correct level and after the retirement date.
  - Adequate scheme funds are available to meet scheme commitments.
  - Scheme assets are adequately monitored and reconciled.
  - Payment of death grants have been made accurately and promptly
  - Life Certificates are regularly sent out and chased up to ensure payments are accurately made.
8. However we would like to draw to Managements attention the following issues:
- Controls are not in place to ensure additional pension contributions are deducted at the correct rate.
  - Controls are not sufficient to ensure that changes to personnel's circumstances, are not adjusted for on the pension's system and contributions that are made from their wages.
  - Pensioners abroad –one case was identified where the signature had substantially changed and no explanation received for this.

### **SIGNIFICANT FINDINGS (PRIORITY 1)**

9. There were no significant findings identified in this report.

### **DETAILED FINDINGS / MANAGEMENT ACTION PLAN**

10. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

### **ACKNOWLEDGEMENT**

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11. Internal Audit would like to thank all staff contacted during this review for their help and co-operation.

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
1	Testing of a sample of 8 staff who are making additional contributions identified that all were making contributions at the correct rate according to their signed agreement except one. In the one instance where they were not being made correctly, no deductions were made between November 2012 and September 2013. This was identified in June 2013 by Liberata who will be writing to the person to explain their error. The amount of deductions missed from the employee is £640.31.	Additional deductions made from staff may not be made at the correct rate.	<b>Management should ensure that additional contributions to be deducted from staff, as per agreements are accurate and being deducted.</b> [Priority 2]
2	A sample of eight people with changes in their circumstances and nine new starters were selected to be tested. All of the new starters were actioned promptly with the longest time taken to action being one month after the starting date. Testing of the cases with changes in circumstances identified two errors. One member of staff had changed their post but incorrect deductions were being made upon the change. Another member of staff had changed her hours, but the change had not been made to the Pensions system.	Accurate deductions will not be made from staff salaries for their pension.	<b>Management should ensure that where staff have changes in their circumstances and amendments are required to be made to their pension deductions, these are correctly actioned.</b> [Priority 2]
3	The recommendation that was made in the 2012-13 relating to identifying if overpayments had been made to two pensioners living abroad and considering using external organisations to verify pensioners living abroad proof of life, was not	Payments may not be made to the correct people,	<b>Management should consider investigating in instances where the signature on the returned</b>

**Priority 1**  
Required to address major weaknesses and should be implemented as soon as possible

**Priority 2**  
Required to address issues which do not represent good practice

**Priority 3**  
Identification of suggested areas for improvement

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<p>implemented. The decision was taken by the Head of Revenues and Benefits that the maximum overpayment that could have arisen was only about £3200 and it would be more costly to chase this up than be beneficial.</p> <p>Testing of a sample of ten returned life certificates this year, identified for one pensioner (who was aged 93) that signature on the life certificate had changed substantially between 2011 and 2012. The Electoral Commission for Australia has been written to determine if the pensioner is actually still alive.</p>		<p><b>life certificate has altered greatly.</b></p> <p><b>[Priority 2]</b></p>

**Priority 1**  
**Required to address major weaknesses and should be implemented as soon as possible**

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**Priority 3**  
**Identification of suggested areas for improvement**

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	Management should ensure that additional contributions to be deducted from staff, as per agreements are accurate and being deducted.	2	Checks have been put in place to minimise the opportunity of error where Liberata is the payroll provider. This is more difficult where external provider is used.	Head of Revenues and Benefits	Ongoing
2	Management should ensure that where staff have changes in their circumstances and amendments are required to be made to their pension deductions, these are correctly actioned.	2	Work flow procedures between HR, Payroll and Pension are subject to ongoing review.	Head of Revenues and Benefits	Ongoing
3	Management should consider investigating in instances where the signature on the returned life certificate has altered greatly.	2	Whilst handwriting often changes with age, further investigations will be made where concern on the validity of the signature.	Head of Revenues and Benefits	Ongoing

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## OPINION DEFINITIONS

## APPENDIX C

As a result of their audit work auditors should form an overall opinion on the extent that actual controls in existence provide assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

### **Assurance Level**

### **Definition**

Full Assurance

There is a sound system of control designed to achieve all the objectives tested.

Substantial Assurance

While there is a basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.

Limited Assurance

Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.

No Assurance

Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.