

**FINAL INTERNAL AUDIT REPORT**  
**CHIEF EXECUTIVE'S DEPARTMENT**

**REVIEW OF PENSIONS AUDIT FOR 2014-15**

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## REVIEW OF PENSIONS AUDIT FOR 2014-15

### INTRODUCTION

1. This report sets out the results of our systems based audit of Pensions Audit for 2014-15. The audit was carried out in quarter 3 as part of the programmed work specified in the 2014/15 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 30/10/14. The period covered by this report is from 1<sup>st</sup> October 2013 to 31<sup>st</sup> October 2014.
4. The estimated number of users/beneficiaries (current and projected) as at 30th September 2013 is 5,339 current employees, 4,890 pensioners and 4,847 deferred pensioners. Total current budget for this head: £35.8m expenditure (pensions, lump sums, admin, etc); £41.6m income (contributions, investment income, etc); £637.0m total fund value at 30th June 2014).

### 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. Testing was undertaken of the following:

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- A sample of 3 death grants, 5 retirement grants, 3 transfer outs and 3 transfer ins. Each was selected from the pension's control account and tested to determine each was an appropriate payment, paid according to the SLA target and correctly authorised.
- A sample of 10 members of staff who were making additional contributions to the pension scheme was tested to ensure they are made at the correct rate.
- 12 staff where they have changed their working circumstances and 13 current staff who are making contributions.
- 25 pensioners who are receiving pension payments, to determine if their payment is at the correct amount..
- 25 staff who have recently joined whether they wished to opt out of the pension scheme.
- 10 members of staff who may have been surpassing the annual tax free allowance for contributions, to insure they have been correctly accounted for.
- 10 Pensioners who are currently living abroad, to determine they have been correctly sent and returned a proof of life certificate

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

- Payments are made to the correct person according to source documentation
- 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 for pensioners abroad.
- Arrangements are in place to identify staff who's contributions surpass individual annual allowances.

### 9. However we would like to draw to managers attention the following issues:

- Information from the pension contractor for Business Continuity Plan , data back-ups and KPI information has not been provided.
- The payroll contractor could not provide information requested to substantiate payments made to a number of pensioners.

## REVIEW OF PENSIONS AUDIT FOR 2014-15

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

10. No significant findings were identified during the review.

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

11. 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**

12. 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   | <p>Testing of a sample of 25 payments made to pensioners found that supporting documentation existed for 20 to support where the payment was made. For the other 5, documentation was not held on the pensions system to support this.</p> <p>It was discussed with the Contractor Payroll Team Leader, who is responsible for updating payment details that they scan documentation onto their system but only going back 6 years and anything prior to this is held in storage.</p>  | <p>Payments may not be made to the correct people</p>                      | <p><b>The Contractor should consider scanning all staff and pensioners who are still receiving payments onto their system to enable them to quickly access supporting documentation.</b><br/> <b>[Priority 3]</b></p> |
| 2   | <p>As part of the IT specific part of the SLA with the Pensions contractor there is the requirement for the Contractor to have a Disaster Recover and Business Continuity Plans (section 3.44) and (section 3.35) to provide LBB, with the back-up strategy, its implementation and evidence of its ongoing integrity.</p> <p>As part of the monthly performance data a summary of recent back-ups is detailed and listed for Bromley. A copy of the Contractor's BCP has also to be provided to Bromley. This is reviewed annually by them.</p> | <p>Outsourced ICT activities are not adequately managed and controlled</p> | <p><b>An up to date Business Continuity Plan and evidence of IT KPIs should be provided to the auditor as requested.</b><br/> <b>[Priority 2]</b></p>   |

**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**

MANAGEMENT ACTION PLAN

| Finding No. | Recommendation   | Priority *Raised in Previous Audit | Management Comment   | Responsibility  | Agreed Timescale |
|-------------|--|------------------------------------|--|---|------------------|
| 1           | The Contractor should consider scanning all staff and pensioners who are still receiving payments onto their system to enable them to quickly access supporting documentation. | 3                                  | The costs and resources required to undertake this exercise make it prohibitive. However, steps should be taken to ensure that documentation stored remotely is easily retrievable. This will be emphasised at next service review | Head of Revenues & Benefits<br>Contractor Pension and Payroll Manager | April 2015       |
| 2           | An up to date Business Continuity Plan and evidence of IT KPIs should be provided to the auditor as requested.   | 2                                  | BCP now supplied   | Head of Revenues and Benefits   | Implemented      |

**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

## 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.