

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

**REVIEW OF PENSIONS AUDIT FOR 2015-16**

**Issued to:** David Kellond, Pensions Manager  
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## REVIEW OF PENSIONS AUDIT FOR 2015-16

### INTRODUCTION

1. This report sets out the results of our systems based audit of Pensions Audit for 2015-16. The audit was carried out in quarter Q4 as part of the programmed work specified in the 2015/16 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 22/12/15. The period covered by this report is from 1<sup>st</sup> September 2014 to 31<sup>st</sup> December 2015
4. The estimated number of users/beneficiaries (current and projected) as at 31 December 2015 is 6,150 current employees, 4,363 pensioners and 5,223 deferred pensioners.

### 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 10 joiners was tested to check that confirmation and notices of appointments were received from payroll and pension entry was checked by a second officer
- Check of five staff who recently joined whether they wished to opt out of the pension scheme
- A sample of five members of staff who were making additional contributions to the pension scheme was tested to ensure they are made at the correct rate
- A sample of five transfer outs and five transfer ins was selected to determine appropriate payment was and correctly authorised
- 10 retirement grants and eight suspended pensioners including deceased pensioners were tested to check accurate payment calculation and authorisation, segregation of duty, supporting documents and payroll notification
- Five pensioners currently living abroad were used to determine they have returned a proof of life certificate
- Security of pension data including system back-ups and contingency plans was tested to ensure appropriate controls are in place
- Quarterly reconciliation between the pension system and the ledger (oracle) was tested to check regular reconciliations were undertaken by the team
- Actuarial valuation and assumptions was tested to confirm valuation is undertaken on a periodic basis
- Performance monitoring was tested to check monitoring and reporting arrangements

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

- Pension entry and opt outs are authorised appropriately
- Payments are made to the correct person according to source documentation
- Pension Retirement Grants are paid at the correct level and after the retirement date
- Payment of death grants are made accurately and promptly
- Life Certificates are regularly sent out and chased up to ensure payments are accurately made for pensioners abroad
- Regular reconciliations are undertaken between pensions and the ledger
- No issues were identified in system security

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

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- Examination of a sample of five transfers out identified two instances where transfer payments had not been processed in a timely manner.
- There was no evidence that a Business Plan for the Pension Services has been prepared by the Council for 2015-16 financial year.

### **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><b>Transfers</b>                      Testing of a sample of five transfers out payments identified two instances where transfer payments had not been processed according to the SLA (within 10 working days)</p> <p>Sample 1: request received the Croydon Council on 30<sup>th</sup> June 2014 and transfer made on 22<sup>nd</sup> January 2015, i.e. more than six month later</p> <p>Sample 2: request received on 10<sup>th</sup> February 2015 and payment was made on 23<sup>rd</sup> April 2015. Discussions with the Pension Contractor Manager identified that the request was made for an overseas transfer, and the Councils payment team failed to authorise CHAPS payment as the bank account was outside UK. However, the Pension contractor was not aware of the issue until the member chased the payment on 24<sup>th</sup> March 2015. A payment was then processed on 1<sup>st</sup> April 2015.</p>	<p>Failure to adhere to prescribed timescales may result in increased calls, emails and complaints to the Pensions Team leading to a possible fall in productivity of the team.</p>	<p>Ensure transfer out calculations and payments are completed according to the SLA (within 10 working days).</p> <p>Where payment is made by Councils payments team ensure payment confirmation is retained to avoid unwanted delays.                      [Priority 2]</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

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
2	<p><b>Performance Monitoring</b></p> <p>Discussions with the Bromley Pensions Manager identified that there was no Business Plan prepared for Pension Services.</p>	<p>Where Business Plan is not produced there is a risk that objectives and KPI's are not communicated to the team appropriately.</p>	<p>Ensure an Business Plan is produced/ published to outline the objectives for coming years [Priority 3]</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

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 Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	<p>Ensure transfer out calculation and payments are completed according to the SLA (within 10 working days).</p> <p>Where payment is made by the Councils payments team ensure payment confirmation is retained to avoid unwanted delays. [Priority 2]</p>	2	<p>The findings of this audit will be raised at the next service review. The importance of the points raised and the obligations placed on the contractor will be emphasised.</p> <p>The Pension Contractor agrees that unless out of their control it is important to complete the task within the SLA timeline thus meeting members' expectations.</p>	<p>Head of Revenues &amp; Benefits</p> <p>The Pension Contract, Pension and Payroll Manager</p>	July 16

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

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MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
2	Ensure Business Plan is produced/ published to outline the objectives for coming years [Priority 2]	3	With the frequent changing regulations and guidance there has been a movement from production of an annual business plan to individual project plans. These will be continually monitored to ensure they provide sufficient detail.	Head of Revenues and Benefits	Ongoing

**Priority 1**  
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**Priority 2**  
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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.