

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

**REVIEW OF PENSIONS AUDIT 2016-17**

**Issued to:** John Nightingale, Head of Revenues and Benefits  
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**Prepared by:** Principal Auditor

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## REVIEW OF PENSIONS AUDIT 2016/17

### INTRODUCTION

1. This report sets out the results of our audit of Pensions. The audit was carried out in quarter 4 as part of the programmed work specified in the 2016/17 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee. 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.
2. The original scope of the audit was outlined in the Terms of Reference issued on 18/04/16. The period covered by this report is from 1st January 2016 to 30th April 2017.
3. The estimated number of users/beneficiaries (current and projected) as at 31 January 2017 is 6,288 current employees, 4,499 pensioners and 5,449 deferred pensioners and 732 widows/dependents.

### AUDIT SCOPE

4. The scope of the audit was outlined in the Terms of Reference issued on 18<sup>th</sup> April 2016.

### AUDIT OPINION

5. 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

6. Controls were in place and working well in the areas of:
  - Sufficient funds are available for the scheme.
  - Correct actuarial valuations and assumptions may be made.
  - Scheme assets are adequately monitored and reconciled.

## REVIEW OF PENSIONS AUDIT 2016/17

- Pensions payments and capital are correctly calculated
- Deductions are correctly calculated
- Payments are not made to deceased pensioners abroad
- Outsourced ICT activities are adequately managed and controlled

7 Our testing identified the following issues which we would like to draw to management's attention:-

- The Authority has not received pension fund transfer payments, which it has requested from other Authorities, in a timely manner
- Refunds may not be made in the most efficient manner.
- There is no evidence of documented checks carried out by the Authority's pension contractor on the amounts paid over by the commissioned out employer.

### SIGNIFICANT FINDINGS (PRIORITY 1)

8 There are no significant findings identified in this review.

### DETAILED FINDINGS / MANAGEMENT ACTION PLAN

9. 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

10 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   | It was brought to the Auditor's attention that there have been delays with the Authority receiving interfund transfers from other Authorities. A sample of 10 staff who had transferred in since 2016 were selected and of the 10 there were significant delays of over 6 months in receiving the fund, from the initial Bromley request for 4 of these. | Bromley's Pension fund could lose out on lost income, due to delays in funds being transferred.                                   | <b>The contractor should be more proactive in chasing Authorities who do not provide pension funds for staff who are transferring their pension fund. Priority 2</b> |
| 2   | A sample of ten refunds was tested and it was found that 2 refunds were not paid until over 2 months after receiving the initial request.<br><br>All refund payments that we tested were made by cheque.   | Refunds might not be made efficiently.  | <b>Consideration should be put into making pension refunds via BACs. Priority 3</b>  |
| 3   | The contractor receives schedules from commissioned out employers. We did not however see any evidence of documented checks carried out by the contractor on the amounts paid over by the commissioned out employer.   | Amounts paid over by the commissioned out employer may not be accurate, leading to possible under funding of employees' pensions. | <b>Evidence is retained of documented checks carried out by the contractor on amounts paid over by the commissioned out employer. Priority 2</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

MANAGEMENT ACTION PLAN

| Finding No. | Recommendation   | Priority *Raised in Previous Audit | Management Comment   | Responsibility                                     | Agreed Timescale  |
|-------------|--|------------------------------------|--|--|-------------------|
| 1           | The contractor should be more proactive in chasing Authorities who do not provide pension funds for staff who are transferring their pension fund. | 2                                  | Of the four cases identified, one has no outstanding transfer of benefits. For the remaining three cases we are awaiting transfer details from the previous Administering Authority administrators.<br><br>The Authority's pension contractor has confirmed that such cases are chased by a number of methods, however the importance of documenting this will be emphasised to the contractor at the next service review meeting. | Pensions Manager                                   | 30 September 2017 |
| 2           | Consideration should be put into making pension refunds via BACs.  | 3                                  | Agreed.  | LB of Bromley / The Authority's pension contractor | 30 November 2017  |

**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  |
|-------------|--|------------------------------------|--|------------------------------------|-------------------|
| 3           | Evidence is retained of documented checks carried out by the contractor on amounts paid over by the commissioned out employer. | 2                                  | Checks are made against those employers using an external payroll provider. The Authority's pension contractor will immediately introduce a process where they will initial and date the monthly amount to indicate that the employers' rate has been checked. | The Authority's pension contractor | 30 September 2017 |

**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.

| <b>Assurance Level</b> | <b>Definition</b>   |
|------------------------|---|
| 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.  |