

The Highland Council

Pensions Committee – 14th November 2014

Agenda Item	5
Report No	PC/12/14

Internal Audit Reports – Matters arising from the Statement of Internal Control 2013/14 and Pension Payments

Report by the Head of Internal Audit & Risk Management

Summary

This report provides details of two audits completed since the last report to the Pensions Committee on 14th August 2014. These audits relate to a review of the systems of internal control operated within the Pension Fund during 2013/14 and Pension Fund Payments 2013/14. These audits now complete the 2014/15 plan of work for the Pension Fund.

1. Introduction

1.1 Whilst only the Report Summary and the Action Plan is attached for consideration by Members, it should be noted that full copies of reports are available if requested.

Each Internal Audit report contains an audit opinion based upon the work performed in respect of the subject under review. There are five audit opinions which can be provided:

- (i) **Full Assurance:** There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
- (ii) **Substantial Assurance:** While there is a generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- (iii) **Reasonable Assurance:** Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- (iv) **Limited Assurance:** Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
- (v) **No Assurance:** Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.

2. Final Report – Matters arising from the Statement of Internal Control 2013/14

2.1 This report has an audit opinion of Substantial Assurance as the internal systems of control are considered to be reliable but some scope for improvement was identified. There were two recommendations made consisting of one medium and one low priority, and these are due to be actioned by 31/12/14.

3. Final Report – Pension Fund Payments 2013/14

3.1 This report has an audit opinion of Full Assurance as four of the audit objectives were fully achieved with the other two substantially achieved. The audit testing undertaken demonstrated that payments were calculated in accordance with the Pension Regulations. Whilst the majority of supporting documents were retained on individual pensioner files and segregation of duties were evidenced, this was not always the case and so two recommendations have been made to address these. Both are medium priority grades and are to be implemented by 01/10/14.

4. Implications

4.1 There are no Resource; Legal; Equalities; Climate Change/Carbon Clever; Risk and Gaelic and Rural implications arising from this report.

Recommendation

Members are invited to consider the attached Final Reports.

Designation: Head of Internal Audit & Risk Management

Date: 30th September 2014

Author: Donna Sutherland, Audit & Risk Manager

Background Papers

AUDIT REPORT SUMMARY

Report Title

Pension Fund - Matters arising from the Statement of Internal Control 2013/14

Report No.	Type of Audit	Issue Date	
HDA08/002	Systems	Draft Report	15/07/14
		Final Report	01/09/14

1. Introduction

1.1 In order to inform the Head of Internal Audit & Risk Management's annual Statement of Internal Control, work was undertaken to examine the systems of internal control operated within the Pension Fund. This consisted of:

- (i) A high level review of the Funds system of internal control by way of an evidence-based checklist comprising six key areas:
 - Control environment.
 - Identification and evaluation of risk and control objectives.
 - Information and reporting.
 - Control processes.
 - Monitoring and corrective action.
 - Assessment of whether the key controls have been applied during the year.
- (ii) A review of the key controls operated within those financial systems which were not subject to a detailed audit review during the year (Debtors, General Ledger, Income and Payroll). The areas examined included:
 - Financial procedures and guidance issued to staff;
 - Segregation of duties;
 - User access levels and appropriateness;
 - System backups and security of data.

A sample of transactions was also selected for detailed testing to verify that the controls were operating as expected. This sample covered the Council, Pension Fund and organisations which use some or all of the Council's financial systems (NHS, High Life Highland, Assessor's Department and HITRANS).

2. Main Findings

2.1 The main finding of the review was that the systems of internal control were reliable. However there were some matters identified where action could be taken by management to improve the internal controls as follows:

- (i) This work undertaken did not identify any control issues. However, there is scope to further enhance the Fund's risk management arrangements by producing its own specific risk policy and strategy rather than adopting those of the Council to accord with CIPFA's best practice.
- (ii) The key controls were found to be operating satisfactorily. The only minor issue related to the monthly recharge of pension sums to other organisations where it is considered that this could be collected by direct debit in order to provide a low cost and more efficient method.

It was identified that the Highland Council was late paying its monthly employer's contributions to the Fund in 2013. As a result, two months rather than one, was outstanding at the year-end 2012/13. This has now been satisfactorily addressed by putting additional controls in place.

3. Conclusion

3.1 Other than the minor matters noted above, there are good controls in place for the Pension Fund, therefore it has been concluded that there are adequate and effective systems of internal control in operation which can be improved by carrying out the recommendations in this report. As a result, this report contains one medium and one low priority grade recommendation. The recommendations were accepted by management, with the agreed actions due to be completed by 31 December 2014.

4. Audit Opinion

4.1 The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Substantial Assurance** can be given in that while there is a generally a sound system, there are areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

AUDIT REPORT ACTION PLAN

Report Title

Report No.

Pension Fund - Matters arising from the Statement of Internal Control 2013/14

HDA08/002

The Action Plan contains **2** recommendations as follows:

Description

Major issues that managers need to address as a matter of urgency.

Important issues that managers should address and will benefit the Organisation if implemented.

Minor issues that are not critical but managers should address.

Total recommendations

Priority Number

High 0

Medium 1

Low 1

2

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.1.1	Medium	There is scope to enhance the Pension Fund's risk management process by applying the approach set out in the CIPFA "Managing Risk in the Local Government Pension Scheme" which is considered to be best practice.	<p>In order to ensure that the Pension Fund's risk management arrangements comply with best practice it is recommended that:</p> <ul style="list-style-type: none"> o A risk policy is produced and communicated to all stakeholders. o A risk management strategy is produced in line with the risk policy. o The risk register is finalised and reported to the next meeting of the Pensions Committee as planned. In addition, review of the risk register should be a standing agenda item with focus on the highest risk areas and/ or those where the position has changed since the last review. 	<ul style="list-style-type: none"> • The Fund will develop a risk policy and strategy. • Risk Register is being reported to Pensions Committee on 14 August 2014. 	Accountant	31/12/14

AUDIT REPORT ACTION PLAN

Report Title

Report No.

Pension Fund - Matters arising from the Statement of Internal Control 2013/14

HDA08/002

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.1	Low	There were no issues with the two debtor invoices examined. However, consideration should be given to collecting regular income by Direct Debit rather than issuing monthly invoices.	For regular monthly amounts of income, the efficient use of direct debit collection should be considered rather than issue invoices.	Consideration will be given to the feasibility of using direct debit as a method of collecting regular income although fluctuations in amounts may make this impractical.	Payroll and Pensions Manager	31/12/14

AUDIT REPORT SUMMARY

Report Title

Finance Service – Pension Fund Payments 2013/14

Report No.	Type of Audit	Issue Date	
HDA08/001	Systems	Draft Report	27/08/14
		Final Report	26/09/14

1. Introduction

- 1.1 The purpose of this report is to record the findings of a recently completed audit review of the Pension Fund payments system in the financial year 2013/14. In this year there was £42.917m paid out in pension benefits to 7,665 pensioners.
- 1.2 Audit Scotland is looking to place reliance on this audit as part of their annual audit.

2. Review Objectives

The objectives of the review were to ensure that:

- 2.1 There is an adequate control framework over the operation of the Pensions Altair system;
- 2.2 Correct payments are only made to valid pensioners;
- 2.3 Amendments to pensions standing data is made on only on authorised or approved documentation;
- 2.4 Pension increases are applied at the correct rate to the correct pensioners;
- 2.5 Pension payments cease as soon as Pensions/Payroll are notified of the death of a pensioner. Any family benefits due are correctly calculated and paid to the appropriate or nominated person(s); and
- 2.6 The Payroll and Pensions systems are reconciled on a regular basis. Failed and over payments are promptly addressed and actioned.

3. Main Findings

The main findings of the review, referenced to the above review objectives, are as follows:

- 3.1 This objective was fully achieved as there is a sound control framework over access to and operation of the Pensions Altair system. System access controls were reviewed as part of another audit and were found to be adequate. There is comprehensive library of procedures and guidance notes, task and check lists available to pension officers. Financial Regulation 22 covers the Pension function.
- 3.2 This objective was fully achieved as testing found that all new pensions, associated lump sum payments, and early retirements on the grounds of ill health had been correctly calculated in accordance with the Pension Regulations. All required documentation had been obtained and scanned. In all cases reviewed there was sound segregation of duties with checking by another officer evident on all documents.
- 3.3 This objective was substantially achieved with all changes to standing data supported by an appropriate document on file. 18 out of the 20 changes reviewed had been checked and evidenced as such (initial and date of checker). However, even if a change is not initialled, or if not correct, it would be picked up in the following month when the monthly comparison is processed.
- 3.4 This objective was fully achieved as the 2013 Pension Increase was reviewed by Audit Scotland and found to have been applied at the correct rate. Where increases had been applied in the sample reviewed by Internal Audit, these were found to have been applied in accordance with the Pension Regulations and based on the rates set by the Scottish Public

Pensions Agency.

- 3.5 This objective was substantially achieved as testing found that mortality reports are actioned; and survivor's and dependent's pensions had been correctly calculated in accordance with the Pension Regulations.

Lump sum death grants had been correctly calculated and in 4 of the 5 cases reviewed all the documents required had been scanned; however in the last case the death certificate had not been scanned although assurances have been given that it was seen and reviewed. In all cases reviewed there was sound segregation of duties with checking by another officer evident on all documents.

- 3.6 This objective was fully achieved as reconciliations are undertaken on a quarterly basis between the Pension Altair system and the Payroll ResourceLink system.

4. Conclusion

- 4.1 The Pension Section is faced with diverse and onerous challenges as a result of the need to make complex pension determinations on a daily basis and deal with constantly evolving legislation. File testing revealed that all payments had been calculated in accordance with Pension Regulations and that with a few exceptions, all supporting documents were retained on individual pensioner files and that there is a good segregation of duties which was evidenced.

- 4.2 There are a total of 2 recommendations in this report both at medium priority grade and both which are to be implemented by 01/10/14.

5. Audit Opinion

- 5.1 The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Full Assurance** can be given in that there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.

AUDIT REPORT ACTION PLAN

Report Title

Report No.

Finance Service – Pension Fund Payments 2013/14

HDA08/001

The Action Plan contains 2 recommendations as follows:

Description

Major issues that managers need to address as a matter of urgency.

Important issues that managers should address and will benefit the Organisation if implemented.

Minor issues that are not critical but managers should address.

Priority	Number
High	0
Medium	2
Low	0
Total recommendations	2

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.3.1	Medium	In 2 cases out of the sample of 20 reviewed, there was no evidence that documents in support of a change made to standing data had not been initialled as checked.	All checking undertaken within the Altair Pensions system should be evidenced by way of the checker initialling and dating the reviewed document.	Where there is a requirement to check input, the input document will be initialled by the checker.	Payroll Pension Manager	& 01/10/14
3.5.2	Medium	1 of the 5 cases reviewed did not contain all the relevant certificates pertinent to the payment of lump sum death grants.	Pension staff section should be reminded that all relevant and applicable documents should be scanned and a copy retained on the member's file.	All relevant documents should be scanned to the members file and copies destroyed after 2 months.	Payroll Pension Manager	& 01/10/14