

# Tees Valley Audit & Assurance Services

## Audit and Assurance Report – Final

**Middlesbrough Council**

# **Pension Fund Admin**

**Finance, Governance & Support**



**Audit Ref:**FGS047/17

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**Date:** 09 July 2018

**Distributed to:**

**Draft**

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**Final**

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## Pension Fund Admin Executive Summary

### 1. Overall Opinion

- 1.1 Tees Valley Audit and Assurance Services (TVAAS) considers there to be a **Strong Control** environment in relation to the areas examined. Based on the audit work undertaken, an effective system of internal control is in operation and is being applied consistently.
- 1.2 Based upon the sample testing carried out for 2017/18, the Auditor has concluded that all administrative duties carried out by Kier in relation to the management of the Pension Fund had been performed effectively and operated in accordance with all relevant legislation.
- 1.3 Testing once again highlighted that a disaster recovery solution was still to be implemented; however, this matter is still the subject of an outstanding recommendation made during the 2015/16 audit. The progress of this recommendation is being followed by TVAAS, with the latest update from management advising that DR testing is planned to have been carried out by the end of June 2018. A further recommendation has therefore not been made in this report.

### 2. Main Conclusions and Findings

- 2.1 Audit testing carried out this year in relation to administrative duties in relation to the management of the Pension Fund was based upon CIPFA key controls. A system-based approach was taken and sample testing was carried out to verify that the relevant controls are in place.
- 2.2 Sample testing confirmed that effective controls are in place in the following areas of the system and the Auditor can provide assurance that:
  - All payments have been accurately and correctly calculated and paid in a timely manner in accordance with the appropriate regulations and that methods of payment are recorded and monitored;
  - Deferred pensions have been independently checked and authorised before payment and all income due to the pension fund from employees / employers contributions and transfer values have been received;
  - Only valid data has been input into the pension system and all expected output has been produced;
  - Adequate segregation of duties was evident between the preparation of the payroll and those officers responsible for processing payment;
  - All documentation was found to be held securely, with access limited to appropriately authorised personnel only; and
  - All documentation for starters and leavers (including organisations) was up to date, and information held on Altair was tested and confirmed as being accurate.
- 2.3 Testing did not highlight any issues with the parameter settings, and it could be evidenced that all local changes had been signed and countersigned, with any legislative changes carried out by Altair. Testing also confirmed that parameter settings were secure and could not be breached.

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- 2.4 IT systems have been backed up at frequent intervals and appropriate access controls were evidenced. However, there is still no disaster recovery (DR) solution in place despite being first highlighted during the 2015/16 audit. Testing performed at the time by the Auditor identified that DR testing had not been undertaken since the migration from the Middlesbrough network to the KTG network, and as such a recommendation was made which was included in the audit report. As at June 2018, the recommendation is still outstanding as testing is still to be carried out meaning that satisfactory contingency arrangements are yet to be implemented to mitigate the risk of IT failure.
- 2.5 As first mentioned in the previous internal audit report in 2016/17, a review of the risks to be held on Covalent was still to be completed; however, testing on this occasion has highlighted that significant progress has since been made and a spreadsheet of all the identified Investment risks has now been developed, in accordance with CIPFA guidance. The Head of Investments has shared this information with the Council's Risk Business Partner in order to ensure that all appropriate risks can be recorded into Covalent in due course.

### **3. Detailed Findings and Management Actions**

- 3.1 There are no recommendations contained in this report.

### **4. Acknowledgements**

- 4.1 The assistance given by the Pensions Admin team is gratefully acknowledged.

## **Appendices**

Appendix 1 Terms of Reference

Appendix 2 Assurance and Priority Definitions

## **Tees Valley Audit & Assurance Service**

### **Terms of Reference**

<b><u>Audit Title:</u></b>	Pension Fund Admin
<b><u>Start Date:</u></b>	01 March 2018
<b><u>Audit Lead:</u></b>	Andrew Ingram, Principal Auditor
<b><u>Auditors:</u></b>	Matthew Deane, Trainee Audit & Assurance Officer – Health & Safety
<b><u>Key Contacts:</u></b>	Paul Campbell, Head of Investments & Treasury Management Graeme Hall, Teesside Pension Fund Manager Mandy Graham, Service Delivery Manager

### **Background**

Middlesbrough Council administers the Teesside Pension Fund on behalf of all participating bodies. The Teesside Pension Fund Administration is carried out on the behalf of the council by Keir Business Services, with Accountancy being undertaken within the Council. The membership of the Fund continues to increase, with total membership at the year-end now standing at 68,829, an increase of 2,040 over last year. The number of active members has decreased by 1,154 (5.1%) over the year, and increased by 0.5% over the past five years. The number of pensioners increased by 478 (2.2%) over the year, and increased by 10.5% over the past five years. The number of deferred members increased last year by 408 (1.7%), and increased by 9.3% over the past five years.

### **Audit Approach**

The audit is designed to examine the financial and associated systems in operation and confirm that controls are adequate. Areas will be investigated by examination of documentation, interrogation of IT systems, and by discussion with relevant staff.

The period of transactions to be covered by the audit will be the end of January 2017 to the end of January 2018.

The report will only comment in detail on areas where controls are not operating satisfactorily. It will highlight the areas where corrective action is required and indicates the appropriate improvements.

The audit is designed to disclose any shortcomings in the systems and controls normally in operation within the Pension Section. As transactions were tested on a sample basis, the audit cannot be relied upon to prove that every transaction was processed correctly in accordance with normal procedures.

### **Scope & Objectives**

The audit was organised in order to direct work to the following areas:

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1. All payments are accurately and correctly calculated and paid in a timely fashion in accordance with the appropriate regulations.
2. Methods of payment are recorded and monitored.
3. Deferred pensions are independently checked and authorised before they are brought into payment.
4. Separation of duties exists between those officers responsible for preparation of the payroll and those responsible for payment of pensioners.
5. All income due to the pension fund from employees / employers contributions and transfer values is received.
6. Organisations joining/leaving the pension fund are processed and recorded.
7. Only valid data is input into the pension system and all expected output is produced.
8. I.T. systems are secure, are backed up at frequent intervals, and access is restricted accordingly.
9. A satisfactory contingency plan is in place in the event of IT failure.
10. Pensions administration is operated in accordance with all relevant legislation.

### **Reporting**

A draft report will be issued for review and consultation by the appropriate levels of management. Management actions will be prioritised to identify clearly their respective risk and these will be agreed prior to the issue of the final report. A final report will then be issued, in a timely manner, with the aim of prompting management to implement management actions for change, leading to improvements in performance and control. It is the responsibility of departmental management to ensure that management actions, which are agreed, do actually get implemented within the agreed timescales and this action is reported back to Internal Audit. The Council's internal audit function monitors and reports to Corporate Affairs and Audit Committee on the implementation of their management actions.

**Reporting Definitions**

**Audit Assurance Levels**

Audit & Assurance have five categories by which to classify the level of assurance offered over the system or area we have examined, these are defined as follows:

<b><u>Assurance Level</u></b>	<b><u>Definition</u></b>
Strong Control Environment	Overall, a Strong Control Environment in relation to the areas examined. Based on the audit work undertaken, an effective system of internal control is in operation and is applied consistently.
Good Control Environment	Overall, a Good Control Environment with room for improvement in relation to the areas examined. Based on the audit work undertaken, an effective system of internal control is in operation but is not always applied consistently.
Moderate Control Environment	Overall, a Moderate Control Environment with some weaknesses in relation to the areas examined. Based on the audit work undertaken, an acceptable internal control environment is in operation, but there are a number of improvements that could increase its consistency and effectiveness.
Cause for Concern	Overall, Cause for concern in relation to the areas examined. Weak management of risk exists within a key area(s) that is/are crucial to the achievement of objectives. Major improvements need to be made to the system or area in order to ensure the control environment is effective.
Cause for Considerable Concern	Overall, Cause for Considerable Concern in relation to the areas examined. Fundamental failures exist within the control environment and the Council is exposed to unacceptable levels of risk. Key areas that are crucial to the achievement of objectives need fundamental improvements.

**Priority Ratings**

In order to assist management in using our reports, we categorise our management actions according to the level of priority as follows:

<b><u>Priority Rating</u></b>	<b><u>Definition</u></b>
1 - Fundamental	A fundamental risk exists to the achievement of the system/service objectives and it is of an unacceptable level. Management should initiate immediate action to address this system weakness.
2 - Significant	A significant risk exists which has the potential to adversely affect the achievement of the system/service objectives. Management should initiate timely action to address the weakness.
3 - Prudent	System objectives are not exposed to significant risk but the issue merits attention by management as it offers service improvements by complying with best practice, and strengthening the overall control environment.