

Tees Valley Audit & Assurance Services

Audit and Assurance Report

Middlesbrough Council

Pension Fund Admin

Corporate and Commercial Services



Audit Ref: CCS045/16

Report issued by: Helen Fowler, Audit & Assurance Manager
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Date: 1 June 2017

Distributed to:

Draft

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Stuart Kenny, Ernst and Young

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 This year's audit testing confirmed that all administrative duties carried out by Kier in relation to the management of the Pension Fund had been performed effectively. Testing demonstrated that a high level of control and effective segregation of duties continues to be in place throughout the system. Only one management action has resulted from this year's audit which relates to the updating of risk registers. However, testing once again highlighted the lack of recent disaster recovery tests being undertaken. A recommendation has not been made as the previous one to this effect is still outstanding from last year's audit.

2. Main Conclusions and Findings

- 2.1 2016/17 internal audit testing confirmed that all payments are accurately and correctly calculated and paid in a timely manner in accordance with the appropriate regulations and methods of payment are recorded and monitored. All income due to the pension fund from employees / employers contributions and transfer values is received and recorded.
- 2.2 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. Testing confirmed that only valid data has been input into the pension system and all expected output has been produced.
- 2.3 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.
- 2.4 All documentation for starters and leavers (including organisations) was up to date, and information held on Altair was tested and confirmed as being accurate.
- 2.5 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.
- 2.6 IT systems have been backed up at frequent intervals and appropriate access controls were evidenced. However, the arrangements in place for business continuity planning have been delayed due to IT secondary server problems.
- 2.7 Through inspection of the risk registers held on Covalent, it was identified that there was no reference to the Pension Service. Previous records show that the last time the risk register was updated was April 2015.

3. Detailed Findings and Management Actions

3.1 Where action is required to improve controls, Appendix 1 to this report details the findings of this audit together with the associated risk and the remedial action required. Management are required to respond to each management action, detailing how they will address the finding, the responsible officer and the target date by which the proposed action will be taken. Please note that progress to implement all management actions will be followed up at the appropriate time.

4. Acknowledgements

4.1 The assistance given by the Service Delivery Manager and Pension Section staff is gratefully acknowledged.

Appendices

Appendix 1 Summary of Management Actions – Implementation Schedule

Appendix 2 Terms of Reference

Appendix 3 Assurance and Priority Definitions

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Detailed Findings and Management Actions

Appendix 1

Audit Ref: CCS045/16 Title: Pension Fund Admin

Priorities: 1 - Fundamental, 2 - Significant, 3 - Prudent

Priority Rating	No	Finding	Risk	Management Action	Status	Agreed	Responsibility	Target Date for Implementation
2	1	Testing highlighted that the Council's system (Covalent) does not currently include reference to the Pensions Service. In discussion with the Head of Investments it was identified that the risk register was last reviewed in April 2015.	Pensions administration is not operated in accordance with all relevant legislation leading to: •Internal and external criticism •Adverse publicity •Legal action and penalties incurred	Management should ensure that the risk register for the Pensions Service is updated and recorded on the Council's system (Covalent).	Agreed	Y	Mike Hopwood	30 September 2017

Management Comments: A risk register does exist, but is maintained separately by Kier Pension Unit and not part of the Council's system – Covalent. A complete review of governance arrangements is currently taking place, with a first draft of a Risk Management Policy for the Fund being developed. Once this is in place, a comprehensive review of the risk register will be carried out in line with CIPFAs latest guidance (Managing Risk in the Local Government Pension Scheme). It is aimed to take this to the Teesside Pension Fund & Investment Panel meeting on 27 September 2017 for approval. It is proposed at this time that the updated risk register will be recorded on Covalent.

Tees Valley Audit & Assurance Service

Terms of Reference

<u>Audit Title:</u>	Pension Fund Admin
<u>Start Date:</u>	27 February 2017
<u>Audit Lead:</u>	Andrew Ingram, Principal Compliance Officer
<u>Auditors:</u>	Sean Quinn, Compliance Auditor
<u>Key Contacts:</u>	Mike Hopwood, Pensions Manager Mandy Graham, Service Delivery Manager Richard Cross, Central Services & Pensions Accounting Team Leader

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 services being undertaken within the Council.

The membership of the Fund continues to increase, with total membership at the year-end now standing at 69,775, an increase of 1,721 over last year. The number of active members has increased by 520 (2.3%) over the year, and decreased by 3.2% over the past five years. The number of pensioners increased by 558 (2.7%) over the year, and increased by 11.5% 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 2016 to the end of January 2017.

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

1. All payments are accurately and correctly calculated and paid in a timely fashion in accordance with the appropriate regulations.

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

<u>Assurance Level</u>	<u>Definition</u>
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:

<u>Priority Rating</u>	<u>Definition</u>
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.