

# Pensions Audit Sub-Committee

10am, Monday, 16 December 2013

## Internal Audit Bi-Annual Activity Report – December 2013

Item number	5.2
Report number	
Wards	All

### Links

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Coalition pledges	
Council outcomes	<a href="#">CO26</a>
Single Outcome Agreement	

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# Executive summary

## Internal Audit Bi-Annual Activity Report – Dec 2013

### Summary

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Internal Audit has completed delivery of the 2012/13 audit plan within the period, and has commenced delivery of the 2013/14 audit plan. Within the period from June 2013 to Dec 2013, internal audit have completed two internal audits within the Pensions area of City of Edinburgh Council:

- Lothian Pension Fund – Control Testing
- Review of Controls around New Pension Payroll System – part 2.

Set out in appendix 1 are the key findings of these reports. A copy of all final reports is available to members.

### Recommendations

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The Committee is requested to note the progress of Internal Audit in respect of the 2012/13 internal audit plan and the areas of higher priority findings.

### Measures of success

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The Action Plans of these reports, when implemented, will demonstrate that the Council continues to strengthen its control framework and approach to risk management.

### Financial impact

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None.

### Equalities impact

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No full ERIA is required.

## Sustainability impact

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None.

## Consultation and engagement

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None.

## Background reading / external references

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None.

### Coalition pledges

**Council outcomes** CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.

### Single Outcome Agreement

**Appendices** Appendix 1 - Internal Audit reports issued since 1 June 2013.

# ***City of Edinburgh Council - Pensions***

## **Internal Audit**

### **Summary of Key Findings Report (December 2013)**

Note: All of the reports detailed in the report have been issued in final format and action plans have been agreed with relevant management.

All reports issued where there are any findings are the subject of a follow-up review which occurs between 4 and 8 months after the final report is issued. Any agreed actions which have not been implemented at follow-up review are reported to GRBV.

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# Section 1 – Lothian Pension Fund – Control Testing

## Total number of findings

	Critical	High	Medium	Low	Advisory
<b>Total</b>	-	-	-	-	-

## Background

As part of our audit plan a programme of Controls Testing across the Council is carried out throughout the year. Performance and progress in achieving the Council's objectives are monitored by Directors and Elected Members. Management is responsible for designing and implementing effective controls that achieve these objectives within the risk tolerance of the Council. Internal Audit provides an independent opinion on the effectiveness of these controls.

The Investment and Pensions Division of the City of Edinburgh Council is responsible for the specialist activities of investing and administering the following three pension funds:

- Lothian Pension Fund (Main Fund);
- Lothian Buses Pension Fund, and
- Scottish Homes (closed fund)

From the Lothian Pension Funds Annual Report 2011/12 – Unaudited for the year to March 2012 the following is noted:

- Lothian Pension Fund (The Main Fund) valuation increased from £3,477.5m to £3,584.2m;

- Lothian Buses Pension Fund increased from £257.0m to £271.4m, and
- Scottish Homes Fund increased from £124.3m to £131.4m.

As at 31st March 2012, Lothian Pension Fund membership was as follows:

- Main Fund - total membership of 66,354, including 28,337 active members;
- Lothian Buses Fund - total membership of 4,011, including 1,407 active members, and
- Scottish Homes Fund – total membership of 1,952. (This fund is now closed).

As part of our Council wide annual audit programme of controls testing a review was recently undertaken to ensure that key controls across the administration of the Pension Fund are in place and working effectively. The results of this review are provided to Audit Scotland to allow them to take assurance on the work undertaken by Internal Audit.

### **Remit and Scope of Internal Audit Work**

The remit was to review the effectiveness of the controls in place to ensure that the following objectives are being met:

- there is a robust system in place to ensure that only correct and valid entries are processed to the funds administered by Investment and Pensions Division.

The scope was to:

- document the system and evaluate whether the procedures provide an adequate level of control;
- test the Investment & Pensions system Altair against the Council's pension payroll system within Trent, and
- interview key members of staff where applicable.

## Summary of Findings

It is our opinion based on the work undertaken that reasonable assurance can be taken that the current controls are operating satisfactorily.

The following areas of good practice are noted:

- The Funds carry out an actuarial valuation every three years and the latest was at 31st March 2011;
- Altair v Trent system (Pension Payroll) reconciliations are carried out (on/around the processing cut off date of 8th of each month) with all anomalies investigated;
- Copies of the reconciliations are readily available;
- Flow charts are available within the Altair system which document all pension administration tasks and procedures. Updating of these and written procedures are an ongoing exercise.



# Section 2 – Review of Controls around the New Payroll System – Part 2

## Total number of findings

	Critical	High	Medium	Low	Advisory
<b>Total</b>	-	-	2	1	-

## Background

Differences were identified between the Trent payroll and Altair admin system resulting in an unacceptable operational risk. It was decided that this risk was to be mitigated by the procurement of an integrated pension payroll and pension administration service.

The business case to migrate to an integrated pension payroll system was approved and the procurement of this service was completed during 2012 with Altair winning the tender.

The new Altair payroll system went live in September 2013 with data being input to payroll over the transition until the merger of systems is completed (estimated December 2013). This will then provide an integrated pensions admin and pensions payroll system. This integrated system should reduce the scope for previous issues from re-occurring.

## **Remit and Scope of Internal Audit Work**

The remit was to review the new payroll system, specifically:

- Examine Heywood's Service Level Agreement to ensure there is appropriate Business Continuity coverage,
- Review system set up processes & controls and the validation of data,
- Assess reconciliation controls between payroll and pension systems\*
- Evaluate controls around Altair's interface with the BACS system.

\* This element of the remit was deferred until follow up audit, when the new system will be fully integrated and reconciliation controls can be appropriately assessed. A controls guidance note was separately issued to management instead.

## **Summary of Findings**

From the review the following areas of good practice were identified:

- A standard application services provider agreement, covering the software use, support and maintenance services dated August 2009 exists between Heywood Limited and Lothian Pension Fund,
- At this stage, the project continues to be well managed with appropriate consideration and planning of processes and controls,
- There is a full suite of good controls currently used for the pre-merge payroll system, these are supported by procedure notes,
- There is a good audit trail of all amendments, alterations and additions for the new pre-merge payroll system; and
- A BACS transfer protocol transmits the secure BACS file to a secure holding area for the BACS bureau service provider to access and process. The BACS system is largely similar to the previous tried and tested procedure previously in place.

The following areas for improvement were identified:

- Under the Service Level Agreement with Heywood Limited, systems can be down for up to 48 hours within the business continuity procedures which may not be aligned to, or in accordance with, LPF's commitments,
- The Systems and Payroll Manager, who has full access to all payroll system functions and the ability to change access profiles, is not currently monitored to ensure there is no inappropriate transactions carried out, their integrity is not protected by the current segregation of duty controls; and

- The contracting out of LPF's BACS bureau service to BT has not been recently appraised in terms of vfm, emerging risks or provision through an in-house service.

It is our opinion based on the work undertaken that management are, at this stage, adequately considering processes and controls that should be in place to support an integrated pension payroll system. Management should however consider the areas for improvement identified by audit as well as take cognizance of the separately issued controls guidance note.