

Pension Committee

10.00 a.m., Tuesday, 17th June 2014

Lothian Pension Fund - Internal Audit Monitoring 14/15

Item number	5.3
Report number	
Executive/routine	
Wards	All

Executive summary

As part of the improvement and alignment of internal audit with the Council's overall governance programme, the internal audit year has been aligned with the financial year of the Council from 2014. As a consequence of this adjustment, there was a one-off, six month reporting period to 31 March 2014.

The purpose of this report is provide a summary of the audit activity during the six month period covering 1 October 2013 to 31 March 2014 and to outline the proposed annual internal audit plan for 1 April 2014 to 31 March 2015.

This plan is based on the allocation of internal audit resource across the Council's services, which was considered and approved by the Council's Governance and Best Value Committee on 2 April.

Links

Coalition pledges

Council outcomes

CO26 –The Council engages with stakeholders and works in partnership to improve services and deliver on agreed objectives.

Single Outcome Agreement

Lothian Pension Fund - Internal Audit Monitoring 14/15

Recommendations

- 1.1 Note the summary of audit activity covering the six month period to 31 March 2014.
- 1.2 Note the planned internal audit activity for the year 2014/15.

Background

- 2.1 One internal audit final report was issued in the Pensions area in the six month between October 2013 and March 2014 in addition one guidance note was also issued.
- 2.2 The internal audit plan needs to be risk based, focused on governance, risk and controls in order to allow the Chief Internal Auditor to provide an opinion on Lothian Pension Fund's internal control environment, based on the work undertaken during the year.
- 2.3 The areas proposed for inclusion in the audit plan are based on discussions with Lothian Pension Fund management team members to examine current risk register items and to prioritise areas for examination. It is important to note that the Council is embarking on a programme to refresh the Risk Management System and we expect this to increasingly drive the improvement of the risk based approach to audit planning as the programme moves forward.

Main report

Internal Audit Activity

3.1 Introduction

During the period October 2013 and March 2014, Internal Audit issued one final report and one internal controls advisory paper:

- Review of controls around the new payroll system – Part 2

- Payroll controls (guidance note)

3.2 Summary of recommendations

Audit Area	Critical	High	Medium	Low	Advisory	Comment
New Payroll System – P2	-	-	2	1	-	Follow-up work to be undertaken as part of planned 2 nd quarter work on immediate payments (live data) – July 2014

3.3 Findings & Recommendations (Medium risk)

Two medium findings were reported, these are included below along with the internal audit recommendations.

Finding 1:

Within Heywood's Service Level Agreement there is a 48 hour activation commitment. In essence, this means that systems could go down for up to 2 days under the service standards within the contract and Heywood would still be within their contractual obligations. Heywood's disaster recovery site and its data only need to support this 48 hour commitment. This length of down time may adversely affect Lothian Pension Funds commitments and service standards, especially at critical periods of the month.

Recommendation:

Lothian Pension Fund need to carefully risk assess both the likelihood and the impact of a 48 hour down time and what issues that would have on the service and make contingency plans accordingly

Finding 2:

There are good controls in place with access rights to the Payroll system, to ensure segregation of duties. However, there is over-reliance on the integrity of the Systems and Payroll Manager to control access rights to the system both on a temporary and permanent basis. It was agreed that this posed a risk to the payroll system and a risk to the officer's integrity. It was also noted during a meeting with the System and Payroll Manager that he changed his own access rights to ensure that data entry onto the payroll system was no longer permissible.

There is currently no evidence retained to support requests for temporary changes in access rights

Recommendation:

A process should be put in place to ensure that officers who have full access rights to the payroll system are audited on a regular basis. The officer carrying out this audit should be independent of the payroll input process, be of sufficient seniority and have a good working knowledge of the Altair payroll system.

Note:

An element of the remit for 'New Payroll System Audit – Part 2' was deferred until July '14. The assessment of reconciliation controls between the payroll and pensions systems was considered to be more effective once the new system was fully implemented.

- 3.4 Management have reported that actions have been put in place to address the risks. Comments and actions were as follows:

Finding 1:

A 48 hour down time is very unlikely. Previous incidents have generally been shorter than one day and Heywood have prioritised returning service based on payroll deadlines. However management agree that a 48 hour outage is possible and would have a severe service impact. In order to mitigate this, the standard process includes two contingency measures.

The first contingency measure is to extract a BACSs and cheque file 2 days before the targeted close down period. This is saved in a secure folder outwith the Altair system. This file could be used to pay 99% of pensioners. New joiners keyed in the period after the data has been extracted would be paid by a Bankline payment. This will ensure that all pensioners are paid on time.

The second contingency measure is to build additional time into the close down timetable. Two days contingency time has been built into the timetable. If an outage occurred at the critical time it should be possible to complete the process after the service returns.

Finding 2:

Recommendations accepted and have been implemented with immediate effect. The pensions administration system provides reporting facility on any amendment to a member record to the fullest level of detail, i.e. what, by whom and when.

Internal Audit 2014/15 Plan

- 3.5 This plan is based on the allocation of internal audit resource across all the Council's services, which was considered and agreed by the Council's Governance and Best Value Committee on 2 April.
- 3.6 Internal audit planning optimises the use of audit time and matches the internal audit team's skill sets to individual internal audit reviews. Given the specialist nature of pensions, we have utilised the Internal Audit co-source agreement with PwC and will deploy experienced auditors, with direct pension's experience, to deliver the planned work. Wherever possible the PwC auditors will work

alongside permanent staff to ensure key skills and knowledge are transferred, for the benefit of the long term internal audit capability of the Council.

- 3.7 The reporting of internal audit findings now categorises findings as Critical Risk, High Risk, Medium Risk, Low Risk and Advisory to ensure findings are risk based.
- 3.8 The Audit Plan for the year to 31 March 2015 will focus on the following themes below:

Qtr	Audit Remit	Planned Days
Q1	No audit this quarter.	N/A
Q2	<p>Audit the immediate payment (live) system from Payments Units. Also assess reconciliation controls between payroll and pension systems. Perform pension payroll follow up work from 2013/14 audit.</p> <p>This is linked to Risk Refs IP009 Technological Risks & IP024 Risk of Incorrect Pension Payments. In particular cost/risk implications. The audit will examine the governance and controls around the payments systems processes and will focus on providing assurance over the accuracy of the reconciliation between the payroll and pensions systems.</p>	30 days
Q3	<p>Review the Scheme of Delegation. Ensure that core internal controls around both payments and investment comply with the Scheme of Delegation.</p> <p>This is linked to Risk Ref IP032 Reputational Risk, the Risk of Acting out-with Proper Delegated Authority. The governance and controls over how operational and signing delegations are performing and that appropriate policy, training and guidance is being deployed.</p>	20 days
Q4	<p>Audit of Pensions Administration including a review of data quality and impact on payments (electronic transfers). Assess employer's quality control systems through liaising with their auditors. Obtain assurance over the accuracy of pay information received.</p> <p>This is linked to a number of risks including Risk Ref IP003 Financial Risk, Collapse of an employer, IP004 Key Staff and IP006 Theft of Pension Fund assets. This will examine Employer's data governance and controls in place to ensure the quality and accuracy of data transferred to LPF. It will look at how LPF work with Employers to improve data quality and what is in place to ensure Employers understand the impact of poor data quality and inaccuracy.</p>	25 days

- 3.9 Planned days are indicative at this stage as the nature, timing and extent of the audit work is not confirmed in detail until the planning meeting with LPF management prior to the start of the audit fieldwork. In addition, circumstances can change over the audit year resulting in minor adjustment to the specific audit remit to reflect changes in risk.
- 3.10 In agreement with LPF management, areas considered for 2014/15, but deferred until annual audit year 2015/16 are set out below:-
- 3.10.1 Review high level control improvements in preparation for accreditation with the Financial Conduct Authority (FCA). Assess how the section has progressed with the issues identified through the Investment Operating Review undertaken by Mercer.
- 3.10.2 Review assurance mapping to assist with identifying areas of risk including ICT.

Measures of success

- 4.1 Alignment of the Internal Audit Plan to the key risks faced by Lothian Pension Fund to ensure that governance is improved, managers take responsibility for corrective action and confidence in the management of risk is increased

Financial impact

- 5.1 There are no direct financial implications.

Risk, policy, compliance and governance impact

- 6.1 There are no adverse impacts

Equalities impact

- 7.1 There are no adverse equalities impacts arising from this report.

Sustainability impact

- 8.1 There are no adverse sustainability impacts arising from this report.

Consultation and engagement

- 9.1 Internal audit management team consulted with LPF senior management in preparing the annual audit plan.

Background reading / external references

Internal audit reports issued in the six months to 31 March 2014

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Links

Coalition pledges

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

Single Outcome Agreement

Appendices None