

## Report of the Chief Auditor

Local Pensions Board – 21 July 2016

### PENSION FUND INTERNAL AUDIT REPORTS 2015/16

<b>Purpose:</b>	This report presents the Internal Audit reports for Pension Fund activities in 2015/16 to the Board.
<b>Policy Framework:</b>	None
<b>Reason for Decision:</b>	To allow the Local Pensions Board to review and discuss the Internal Audit reports
<b>Consultation:</b>	Legal, Finance, Access to Services
<b>Recommendation:</b>	It is recommended that: the Board notes the Internal Audit reports
<b>Report Author:</b>	Paul Beynon
<b>Finance Officer:</b>	Paul Beynon
<b>Legal Officer:</b>	Debbie Smith
<b>Access to Services Officer:</b>	Sherill Hopkins

#### 1. Introduction

- 1.1 The Local Pension Board has requested details of the internal audits undertaken by the City and County of Swansea's Internal Audit Section in relation to the Pension Fund.
- 1.2 The Internal Audit Plan includes the following audits of the Pension Fund activities
  - Pensions Administration
  - Pension Fund Investments
- 1.3 The Pensions Administration audit largely covers the aspects of pensions operated by the Pensions Section under the Head of Human Resources e.g. collection of contributions, new pensioners, transfers etc.
- 1.4 The Pension Fund Investments audit covers the investment of fund assets by the Treasury and Technical Section via the various fund managers.
- 1.5 A Pension Fund Other audit is planned for the first time in 2016/17, this audit will look at any aspects not picked up in the other audits e.g. any income or expenditure included in the Pension Fund accounts not audited elsewhere.

- 1.6 Both the Pensions Administration and Pension Fund Investments audits are considered to be fundamental audits. Fundamental audits are those, which in consultation with the external auditor, are felt to be so significant that any issues with the systems are likely to have a material impact on the achievement of the Council's or Pension Fund's objectives. For this reason, fundamental audits are audited on a more frequent basis than other audits.
- 1.7 The Pensions Administration audit is completed annually and the Pension Fund Investments audit is completed every 2 years.
- 1.8 At the end of each audit, the Internal Audit Section provides a level of assurance which indicates what assurance can be provided over the system's internal controls and the achievement of the system's objectives. The level of assurance can be high, substantial, moderate or limited.
- 1.9 The level of assurance provided for the Pension Fund audits in 2015/16 was
- Pensions Administration                      Substantial
  - Pension Fund Investments                      High
- 1.10 A copy of the final report for the Pensions Administration audit 2015/16 is attached in Appendix 1 and the final report for the Pension fund Investments audit is shown in Appendix 2

## **2. Equality and Engagement Implications**

- 2.1 There are no equality and engagement implications associated with this report.

## **3. Financial Implications**

- 3.1 There are no financial implications associated with this report.

## **4. Legal Implications**

- 4.1 There are no legal implications associated with this report.

**Background Papers:** None

### **Appendices:**

Appendix 1 Final Internal Audit Report – Pensions Administration 2015/16

Appendix 2 Final Internal Audit Report – Pension Fund Investments 2015/16

**CITY & COUNTY OF SWANSEA  
FINAL INTERNAL AUDIT REPORT  
HUMAN RESOURCES AND ORGANISATIONAL DEVELOPMENT:  
PENSIONS ADMINISTRATION 2015/16**

## 1. Introduction

1.1 A review has recently been undertaken in respect of the Pension Section, within the Human Resources and Organisational Development Directorate.

1.2 The Pension Section administers the Pension scheme for the City and County of Swansea, in addition to a number of other externally admitted bodies.

1.3 The scope of the review covered the following areas:-

- Pension and Payroll system parameters
- Rates of contributions received and reconciliation procedures
- Administration of new members to the pension scheme
- AVC's
- Transfers in and out of the scheme
- Deferred pensioners
- Administration of new pensioners
- Administration of continued pensioners
- Child pensions
- ICT, administration and back up procedures
- Continued entitlement

1.3 Detailed findings are recorded below and the recommendations arising are included in the attached Management Action Plan.

## 2. Work Done / Findings

### 2.1 Parameters

2.1.1 From 1st April 2014, the Pension Scheme is based on a Career Average, meaning that each year in the scheme, an individual's pension will be worked out based on the pensionable pay in that year. That pension is then added to the individual's Pension account. At the end of each scheme year, the amount in the individual Pension account will be adjusted in-line with the cost of living. The bandings have changed since the 2014/15 audit, and as such the bands and deduction rates are as follows for 2015/16:

Full Time Pay (2014/15)	Rate	Full Time Pay (2015/16)	Rate
£0-£13,500	5.5%	£0-£13,600	5.5%
£13,501 - £21,000	5.8%	£13,601 - £21,200	5.8%
£21,001 - £34,000	6.5%	£21,201 - £34,400	6.5%
£34,001 - £43,000	6.8%	£34,001 - £43,500	6.8%
£43,001 - £60,000	8.5%	£43,501 - £60,700	8.5%

£60,001 - £85,000	9.9%	£60,701 - £86,000	9.9%
£85,001 - £100,000	10.5%	£86,001 - £101,200	10.5%
£100,001 - £150,000	11.4%	£101,201 - £151,800	11.4%
Over £150,000	12.5%	Over £151,800	12.5%

- 2.1.2 System parameter prints were obtained from the ISIS system and satisfactorily examined to confirm that the employee deduction bands and deduction percentages against each band had been correctly implemented on the Payroll system for 2015/16. Testing was also undertaken to confirm that all employee pension deduction parameters were being correctly implemented for all those bodies paid via CCS Payroll. Testing proved satisfactory
- 2.1.3 Employer deduction parameters were satisfactorily compared with those recorded on the ISIS system for admitted bodies using CCS Payroll system to confirm the contribution rates were correct.
- 2.1.4 It was found that both employer and employee contributions are checked as part of the monitoring of contributions received by the Treasury and Technical Section.

## **2.2 Contributions Received**

- 2.2.1 The Treasury and Technical Section are responsible for keeping records of all contributions received from the admitted bodies. They are also responsible for checking that all employee and employer contributions received have been paid at the correct rate, in accordance with the actuarial certificate and tiered contribution legislation
- 2.2.2 It was noted during the review of the records of contributions received that at the time of the audit, contributions had been received from CapGemini until 31<sup>st</sup> July 2015, as staff transferred back into employment with the Authority from 1<sup>st</sup> August 2015.
- 2.2.3 It should be noted that there is a statutory responsibility for all bodies to make correct and timely pension payments to the Pension Fund. Whilst there is no statutory responsibility on the administering body to confirm that such payments are correct, it is considered best practice to do so. This is currently being done, subject to the points noted in 2.2.4 - 2.2.11

### Employee Contributions

- 2.2.4 In order to provide assurance in regards to the employee contributions received, the Treasury and Technical Section undertake sample checking of contributions received from admitted bodies. A review of the sample testing undertaken by the Section confirmed that at the time of the audit in November 2015, sample testing of employee contributions had been carried out for all admitted bodies.
- 2.2.5 It was noted in the audit of 2014/15 that the Treasury and Technical Section receive payroll data from Neath Port Talbot County Borough Council (NPTCBC) to enable sample testing of contributions, but this did not include Full Time Equivalent (FTE) pay information for part time staff, however, as the calculation is now based on Annual Pensionable Pay, FTE is no longer required.

## Employer Contributions

- 2.2.6 The contributions paid by employers are calculated as a percentage of the total pensionable pay of employees. The Treasury and Technical Section undertake a global check to ensure the total employer contribution received from each admitted body agrees to the actuarial certificate.
- 2.2.7 A review of the contribution payments made into the scheme found that all external members paid by the 19<sup>th</sup> day of the following month to which the contributions relate. This is required by the Local Government Pension Scheme Regulations. It should be noted that where delays in receipt of contributions are experienced, the Treasury and Technical Section would follow this up with the admitted body as and when required as part of the contribution monitoring procedures.
- 2.2.8 A review of the information maintained by Treasury and Technical Section detailing the employee and employer contributions received from each admitted body identified a number of minor variances where the expected employer contributions received differed slightly from the actual amounts received. This was discussed with the Pensions Accountant, and as in previous years all such variances are followed up with the relevant body as they are uncovered and also at year end to ensure total contributions received in year are correct and amounts agree to the actuary valuation report.
- 2.2.9 It was noted that one admitted body had not made any deficiency contributions in 2015/16, whilst the spreadsheet provided by the Treasury and Technical Section showed an expected overall contribution of £20,200. The Treasury and Technical Section were aware of the matter and at the time of audit was in the process of raising an invoice. This point is noted for information only.

## Reconciliation Procedures

- 2.2.10 Contribution data from admitted body payrolls is reconciled to Treasury and Technical Section data, the General Ledger and the Altair Pensions System. Admitted bodies are required to submit annual returns detailing total contribution figures paid in year. These are reconciled to Treasury and Technical Section records, with the Altair system being updated with employee contribution data on an annual basis. As in previous years, the Pensions Section make every effort to reconcile the above data to the Altair system for each admitted body but due to the volume of staff movements between periods in the larger admitted bodies, there are often difficulties in reconciling the data in total for such bodies
- 2.2.11 Since the implementation of i-connect, employer and employee contributions are reconciled as part of the uploading process on a monthly basis. At the time of audit, only City and County of Swansea and Neath Port Talbot County Borough Council were using i-connect, although there are plans for other employers to use the system in the near future.
- 2.2.12 The Pensions Section also undertakes monthly reconciliations of the Altair system data and ISIS Pensions Payroll data. The number of pensioners and amount of pension paid (£) is reconciled monthly, with cases being investigated and corrections being undertaken as and when required. Note that this is in addition to the data matching exercise undertaken by ATMOS (Address Tracing and Mortality Screening).

## **2.3 New Members joining the Scheme**

2.3.1 A sample of ten new scheme members was selected for testing. The following was found:

- a) Seven records had starter forms or equivalent on file. Three new starters had been entered onto the system via i-connect and starter packs had either been sent out or were due to be sent out to the individuals.
- b) There were seven records without an Employee Statement on file. They had been issued but not returned. It is noted that new employees are automatically admitted into the scheme and as such confirmation of 'opting in' is not required. Confirmation is only required should the employee wish to 'opt out' It was also noted that one member had since opted out of the LGPS and one had left employment.
- c) Only one of the records reviewed held a birth certificate on file as confirmation of the date of birth of the new member. However, please note 2.3.2 below.

2.3.2 As noted in previous reviews, birth certificates are requested from new members on entry, but they often fail to provide these. Note that birth certificates are requested when benefits are calculated for transfers out of the scheme or on retirement and as such, the lack of provision of a certificate on entry into the scheme represents minimal risk.

## **2.4 AVC's/APC's**

2.4.1 Prudential continues to be the appointed AVC provider for all new AVC's. The maximum AVC a member can pay is 100% of their pay after allowing for any pension, NI or other deductions. Members apply directly to Prudential to start paying AVC's and acceptance is confirmed to both the Pensions Team and Employee Services independently by Prudential.

2.4.2 Members can also purchase Additional Pension Contributions (APC's) of up to £6,500 per year. Since the introduction of the Additional Annual Leave Purchase Scheme, members have purchased APC's to buy back 'lost' pension.

2.4.3 There was evidence of acceptance of new AVC arrangements on nine members' records that were selected for testing, where agreement was able to be made between the AVC/APC details and the centrally held records. There was a note on one member's record that additional leave and APC's had been purchased, but there was no corresponding documentation held on record. It was confirmed that payments had been deducted by Employee Services.

2.4.4 During the testing it was identified that one member had been deducted APC's for five consecutive months after purchasing additional annual leave, when the deduction should have only been made once. This was highlighted to Employee Services and the member has since been refunded. This point is noted for information purposes only.

2.4.5 It was noted that the annual allowance for pension contributions has remained the same since the previous review in 2014/15 at £40k. This has not had any impact in the current year, as any unused allowance from 'pension input periods' ending in the previous three tax years may be carried forward to increase the annual allowance for the current year.

## **2.5 Transfers In and Out of the Scheme**

### **2.5.1 Transfers In**

A sample of five transfers in was selected for testing. The following was found:

- a) Electronically scanned personal files were available for all five members selected for review.
- b) All had copies of the transfer calculation on file and had appropriate authorisation from the employee requesting the transfer, and these were checked for accuracy.
- c) All transfers in were agreed to transfer spreadsheets maintained by the Treasury and Technical Section, and all details recorded were correct.
- d) All transfers had been coded to the appropriate ledger code and could be traced to the General Ledger as confirmation of funds being receipted by Cashiers.
- e) One record did not have any forms of identification for the member on file, however, a birth certificate was held by the employer.

### **2.5.2 Transfers Out**

A sample of five transfers out was selected for detailed testing. The following was found:

- a) Of the sample of five files selected for testing, all had individual scanned personal files available for review as required.
- b) Calculations of the transfer value were on file and had been appropriately signed as checked in all cases.
- c) Electronic checks were not evident for calculations within the task management section of Altair for one member.
- d) A payments pro-forma is completed for all payments which are forwarded to Accounts Payable to initiate payment. The completed pro-forma is signed as independently checked by the Pensions team as evidence of the calculation of the amount of the payment being made. It was found that all payment amounts had been checked as required.
- e) All payments made had been appropriately checked and authorised by the Treasury and Technical Section and had been posted correctly to the General Ledger.
- f) It was noted that one transfer out included a transfer of an AVC, but at the time of the audit, whilst the electronic checks were available, the task management system did not distinguish between a standard transfer out and an AVC transfer out.

## **2.6 New Pensioners**

2.6.1 A sample of ten new pensioners retiring after 1<sup>st</sup> April 2015 was selected for testing. As part of the testing, the pension benefits payable including the commutation of pension to additional lump sum in the ratio of £1 pension to £12 lump sum, were checked to confirm the system parameters had been correctly implemented.

Of the sample of ten, the following was found:

- a) All new pensioners had individual scanned personal files, all of which contained the relevant leaver form or equivalent.
- b) For nine of the ten files reviewed, copies of the wedding certificate and partner's birth certificate were on file. A marriage certificate / spouse's death certificate were not available for one member; however, this does not have any implications for the member or the fund.
- c) No significant delays were noted in the processing of the new pensioner details or payment of the first pension.
- d) Copies of birth certificates or passports were on file for all files reviewed, as were signed declaration of benefit (options) forms.

2.6.2 The payment request/authorisation sheets for the lump sum payments, for the sample selected above were also reviewed. The following was found:

- a) Payment request pro-formas were available for all payments and had been appropriately signed as being prepared and checked by two members of the Pensions Team.
- b) All payment pro-formas had been correctly completed and included interest payable where applicable.
- c) All payments had also been signed as checked by a member of the Treasury and Technical Section and had been certified by suitably authorised officers within Financial Services, prior to payment via the Accounts Payable.

## **2.7 Deferred Pensioners**

2.7.1 A sample of ten scheme members whose benefits had been deferred was selected for testing. It was found that all of the employees had been in post in excess of three months and therefore benefits had been correctly deferred.

2.7.2 For all ten selected, it was confirmed in letters sent on deferral of benefits that the deferred benefit would be increased in accordance with the Pension Income Review each year.

2.7.3 In addition, it was confirmed that the Pensions Section run monthly reports to identify deferred pensioners approaching the eligible age. Sample testing of two deferred pensioners approaching eligible age confirmed that letters detailing the calculation of the pension options had been sent out with option forms, all of which agreed to Altair.



2.7.4 Periodic reports are also being produced to highlight members who had reached, exceeded or were approaching 75 years of age and have not yet claimed their pension. No issues were evident as none had attained their 75<sup>th</sup> birthday.

2.7.5 It was noted that one deferred member is due to reach the age of 75 in January 2016. The Pensions Section has contacted the member to inform them that their Pension benefits must be put into payment before they turn 75 or they will incur tax penalties from HMRC.

## **2.8 Continuing Pensioners**

2.8.1 Historically there has been an annual increase in the value of pensions paid to continuing pensioners. The annual increase from April 2015 was 1.2%. The pensions increase calculation is completed by Heywoods, the pension systems provider. A hard copy of the increase calculation is retained for information purposes.

2.8.2 The annual pensions increase calculation worksheet was satisfactorily reviewed to confirm the correct percentage increase had been implemented.

2.8.3 A sample of ten existing pensioners was tested against the ISIS system to confirm that the pension increase had been implemented correctly. Testing proved satisfactory.

## **2.9 Child Pensions**

2.9.1 A copy of the report (produced monthly) identifying children approaching the age of 18 was reviewed and it was confirmed that procedures are in place to ensure that all children in receipt of a pension and approaching 18 are sent entitlement letters to the legal guardian to confirm continued eligibility post 18 i.e. in full time education. As noted in the previous audit review, the section have introduced a declaration letter requiring all those in receipt of a child pension to obtain an official stamp / confirmation from the education provider as evidence of continuation in education.

2.9.2 A sample of ten children in receipt of a child's pension was selected for testing. The following points were noted:

- a) For the sample of ten child pensioners selected for testing, all had records on Altair; however, not all documents had been scanned into the system. One paper file could not be located for review.
- b) Where the pension continued to be paid past the recipients 18th birthday, medical evidence or confirmations from relevant education establishments were on file to confirm that the person was eligible to receive the pension.
- c) One record did not have a birth certificate on file in order to confirm date of birth.

## **2.10 ICT, Administration and Back-up**

2.10.1 A training pack is in existence to brief staff on the relevant procedures and legislation. The training pack is a set of working documents, updated as necessary whenever new legislation is released. The training pack continues to reflect current

- legislation and all documents are available to members of the Pensions Team.
- 2.10.2 The Team are continuing the process of back-scanning all pension files. It was noted during the audit that the all of the files required as part of the testing were available to review on-line via the Altair system.
- 2.10.3 The Pensions System allows the monitoring of tasks that are outstanding via 'task lists' which show the various tasks outstanding for each user of the system. Staff are asked to monitor their own lists and to follow up any incomplete tasks in a timely manner. Task monitoring reports are produced and followed up on a monthly basis by the Team Leaders.
- 2.10.4 New users are created on the system by the Technical Officer, via a User Creation Request form approved by the Pensions Manager. It was noted that one User Creation Request form had been created retrospectively; however, verbal approval was received to create the record due to timescales.
- 2.10.5 It was noted that users on the system have the necessary permissions to access all records and initiate all functions on the system.
- 2.10.6 Users continue to be required to change their passwords every 3 months to coincide with corporate policy.
- 2.10.7 The system is backed up on a daily basis. E-mails are sent to the Pensions Officer confirming whether or not the back-up has been successful.
- 2.10.8 The Business Continuity Plan was updated in February 2014. It is due to be reviewed and updated once the Corporate IT Plan is implemented.

## **2.11 Continued Entitlement**

- 2.11.1 The Pensions Section continues to use the services of a data matching/cleansing company ATMOS for data matching purposes. The company receives monthly reports taken from the Altair system and undertake a number of verification checks where any data matches / queries are returned to the Pensions Section for follow up. Matches may be on a number of key fields, including pensioner name, age, date of birth etc. All cases which meet certain matching criteria are followed up and mortality checks are undertaken by the Pensions Team. Any cases where pension is no longer payable are communicated to the Payroll Section in order to suspend payment.
- 2.11.2 The Pensions Team also compares pensioner data from the Altair system to the ISIS system to ensure the two systems reconcile in terms of the number of pensioners, payment amounts (£) and pensioner details. This is carried out on a monthly basis.
- 2.11.3 A new company has been procured (Western Union Business Solutions) to carry out overseas matching continuance checks, this will hopefully commence before the end of the 2015/16 financial year on behalf of the Pension Scheme.
- 2.11.4 The Accountancy Section monitors un-presented pension cheque payments on a monthly basis. Any cheques that have not been presented within six months are cancelled. Following previous recommendations, a report of un-presented cheque payments is now forwarded to the Employee Services Section to be followed up.

- 2.11.5 Returned payments would be monitored and followed up by either Employee Services or Accounts Payable as appropriate.
- 2.11.6 Suspended pensioners on the Payroll System are reviewed on an annual basis. A report of suspended pensioners was generated in March 2015, as noted in the previous audit report, showed the number of suspensions as 51. The reports are reviewed by the Pensions Section and appropriate action taken as necessary.
- 2.11.7 The third tier of retirement on the grounds of ill health requires the employee's case to be reviewed 18 months after retirement. The Pensions Section produces a monthly report from the Altair system listing all third tier ill health cases approaching the 18 month review point. Results are forwarded to the HR department within the employing body for further follow up. It is noted that it is not the responsibility of the Pensions Section to follow up each case, as the onus is on the employing body to do this.
- 2.11.8 Two members on the third tier of ill health retirement and due for review in 2015-16 were tested and it was confirmed that the review had taken place.

## **2.12 Other Issues**

- 2.12.1 The Pensions Section would like to move away from the manual calculation checks which involve the printing and signing of calculations as checked before scanning back into the Altair system. The task management module of the system provides an audit trail, which records when a calculation is created and completed. It also records when a calculation is checked. The system, however, relies on users promptly marking tasks as completed.
- 2.12.2 The Pensions Manager raised concerns over the length of time taken to receive Pensionable Pay Forms for CARE Refunds. The current process is done manually, however, as i-connect has been implemented, refunds could be undertaken automatically which would speed the process and reduce the possibility of errors.

## **3. Conclusion**

- 3.1 The Internal Audit Section operates a system of Assurance levels which gives a formal opinion of the achievement of the service's/system's control objectives. The Assurance levels vary over four categories: 'High', 'Substantial', 'Moderate' and 'Limited'.
- 3.2 Recommendations arising from this review are detailed in the attached Management Action Plan. Each recommendation has been prioritised according to perceived risk – High, Medium, Low and Good Practice. The overall Assurance level is based on the recommendations made in the report.
- 3.3 The description of each type of recommendation and also the basis for each of the Assurance levels is noted in **Appendix 1**.
- 3.4 Based on the audit testing undertaken, it was found that many procedures were operating satisfactory but there were some where improvements are needed, resulting in some Low and Medium Risk recommendations.

- 3.5 As a result, an Assurance Level of '**Substantial**' has been given. This indicates that 'there is a sound system of internal control but there is some scope for improvement as the ineffective controls may put the system objectives at risk'.
- 3.6 We will contact you in due course to confirm that you have implemented the agreed recommendations.

## **Classification of Audit Recommendations**

<b>Recommendation</b>	<b>Description</b>
High Risk	Action by the client that we consider <b>essential</b> to ensure that the service / system is not exposed to <b>major risks</b> .
Medium Risk	Action by the client that we consider <b>necessary</b> to ensure that the service / system is not exposed to <b>significant risks</b> .
Low Risk	Action by the client that we consider <b>advisable</b> to ensure that the service / system is not exposed to <b>minor risks</b> .
Good Practice	Action by the client where we consider <b>no risks</b> exist but would result in better quality, value for money etc.

## **Audit Assurance Levels**

<b>Assurance Level</b>	<b>Basis</b>	<b>Description</b>
High Assurance	Recommendations for ineffective controls affecting the material areas of the service are not High or Medium Risk. Any recommendations are mainly Good Practice with few Low Risk recommendations.	There is a sound system of internal control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	Recommendations for ineffective controls affecting the material areas of the service are not High Risk. Occasional Medium Risk recommendations allowed provided all others are Low Risk or Good Practice	There is a sound system of internal control but there is some scope for improvement as the ineffective controls may put the system objectives at risk
Moderate Assurance	Recommendations for ineffective controls affecting the material areas of the service are at least Medium Risk	The ineffective controls represent a significant risk to the achievement of system objectives
Limited Assurance	Recommendations for ineffective controls affecting the material areas of the service are High Risk	The ineffective controls represent unacceptable risk to the achievement of the system objectives

**CITY AND COUNTY OF SWANSEA  
MANAGEMENT ACTION PLAN  
HUMAN RESOURCES AND ORGANISATIONAL DEVELOPMENT: PENSIONS ADMINISTRATION 2015/16**

<b>REPORT REF</b>	<b>RECOMMENDATION</b>	<b>CLASS (HR; MR; LR; GP)</b>	<b>AGREED ACTION/ COMMENTS</b>	<b>RESPONSIBILITY FOR IMPLEMENTATION</b>	<b>IMPLEMENTATION DATE</b>
<b>AVC's/APC's</b>					
2.4.3	It should be ensured that all necessary documentation has been received and entered onto Altair	LR	Staff are to be reminded that all documentation should be held electronically on the member's record	Pensions Manager / Communications Officer	February 2016
<b>Transfers In</b>					
2.5.1 e	It should be ensured that all necessary documentation has been received and Date of Birth is verified.	MR	Staff are to be reminded the importance of verifying the date of birth before any actual calculations are made	Pensions Manager / Communications Officer	February 2016
<b>Transfers Out</b>					
2.5.2 c	Electronic checks should be available and correspond to the tasks undertaken.	LR	Staff are to be reminded the importance of ensuring that tasks correspond to the relevant processes	Pensions Manager / Technical Officer / Communications Officer	February 2016
<b>Child Pensions</b>					
2.9.2 c	It should be ensured that all documentation is received and scanned into Altair and that Date of Birth is verified.	MR	Staff are to be reminded of the importance of verifying the date of birth before a child's pension commences	Pensions Manager / Communications Officer	February 2016

REPORT REF	RECOMMENDATION	CLASS (HR; MR; LR; GP)	AGREED ACTION/ COMMENTS	RESPONSIBILITY FOR IMPLEMENTATION	IMPLEMENTATION DATE
<b>ICT, Administration and Back-up</b>					
2.10.4	User Creation Requests should be completed and approved prior new starts being entered on the system.	GP	Agreed – this was a one-off incident	Pensions Manager / Technical Officer	February 2016
<b>Other Issues</b>					
2.12.1	Consideration should be given to ceasing the manual calculation checks as the task management module of the system provides an audit trail, which records when a calculation is created and completed	GP	Process to be devised to ensure smooth transition from manual to electronic checks	Pensions Manager / Communications Officer	September 2016
2.12.2	Consideration should be given for processing CARE refunds automatically.	GP	Procedures to be amended to allow for the processing of refunds from data automatically transferred from payroll via i-Connect	Pensions Manager / Technical Officer / Communications Officer	September 2016

**CITY & COUNTY OF SWANSEA  
FINAL INTERNAL AUDIT REPORT  
FINANCE AND DELIVERY: PENSION FUND INVESTMENTS  
2015/16**

## **1. Introduction**

- 1.1 An audit has been completed of Pension Fund Investment activities undertaken by the Treasury Management Team. The City and County of Swansea Pension Fund manages the pensions and pension fund investments of current and former members of the Authority as well as a number of other admitted bodies.
- 1.2 The audit reviewed the procedures in place and included detailed testing on the following areas:
- Pension Fund Committee Meetings
  - Fund Manager Agreements
  - Fund Manager Performance and Monitoring
  - Fund Manager Fee Invoices
- 1.3 It should be noted that the Pension Fund is also subject to a separate audit by the Authority's external auditors, whose audit scope is wider than our remit above. In addition to this, a separate review of Pension Administration is undertaken by the Internal Audit Section, the scope of which is detailed in that particular audit.
- 1.4 During 2014/15 the value of the Fund increased by £155,147m, with £149,408m of the increase being the result of net returns on investments. In the year to the 31<sup>st</sup> March 2015 the net assets of the fund increased by 11% from £1,385m to £1,540m. This is in contrast to the increase of 8% in 2013/14.
- 1.5 Detailed findings are recorded below and the recommendations arising are included in the attached Management Action Plan.

## **2. Work Done / Findings**

- 2.1 As noted during the last audit, following recommendations made by the Authority's external auditors, the Treasury Management Team have separated all treasury functions for the Pension Fund from the daily cash and investing activities for the Authority. This included the opening of a call account for Pension Fund cash, as well as separating Pension Fund investment activities from the Authority's. As a result, from the 18<sup>th</sup> March 2013 all cash investing activities undertaken in relation to the Pension Fund were completely separate from the Authority's cash management activities, and Fund assets are no longer included in the overall pool balance for the Authority.
- 2.2 In addition to this, as noted in the previous audit report, all investments made by the City and County of Swansea Pension Fund from cash reserves managed by the Treasury Management Team are paid directly from the relevant Pension Fund bank account. Note that the Local Government Pension Scheme (Management of Investment of Funds) Regulations 2009 make no mention of the requirement for



investments made on behalf of the Fund to be paid directly from the Pension Fund Bank Account. The historical pooled method of making investments meant that payments had previously been made from the Treasury Account only. These changes have been actioned following guidance from the Wales Audit Office and their legal advisors.

- 2.3 Sample testing of Fund Manager invoices that have been paid in year revealed that all invoices had been signed as checked. Testing also revealed that the value of funds held was not stated on two invoices. The calculation of fees therefore was verified via the quarterly statement. Note that this point is noted for information only.
- 2.4 No material findings or lapses in internal control were noted during the course of the audit and the point above is noted for information purposes only.

### **3. Conclusion**

- 3.1 The Internal Audit Section operates a system of Assurance levels which gives a formal opinion of the achievement of the service's/system's control objectives. The Assurance levels vary over four categories: 'High', 'Substantial', 'Moderate' and 'Limited'.
- 3.2 Recommendations arising from this review are detailed in the attached Management Action Plan. Each recommendation has been prioritised according to perceived risk – High, Medium, Low and Good Practice. The overall Assurance level is based on the recommendations made in the report.
- 3.3 The description of each type of recommendation and also the basis for each of the Assurance levels is noted in **Appendix 1**.
- 3.4 Based on the audit testing undertaken, all of the areas reviewed proved satisfactory, resulting in no recommendations being made.
- 3.5 As a result, an Assurance Level of '**High**' has been given. This indicates that 'there is a sound system of internal control designed to achieve the system objectives and the controls are being consistently applied.'

## **Classification of Audit Recommendations**

<b>Recommendation</b>	<b>Description</b>
High Risk	Action by the client that we consider <b>essential</b> to ensure that the service / system is not exposed to <b>major risks</b> .
Medium Risk	Action by the client that we consider <b>necessary</b> to ensure that the service / system is not exposed to <b>significant risks</b> .
Low Risk	Action by the client that we consider <b>advisable</b> to ensure that the service / system is not exposed to <b>minor risks</b> .
Good Practice	Action by the client where we consider <b>no risks</b> exist but would result in better quality, value for money etc.

## **Audit Assurance Levels**

<b>Assurance Level</b>	<b>Basis</b>	<b>Description</b>
High Assurance	Recommendations for ineffective controls affecting the material areas of the service are not High or Medium Risk. Any recommendations are mainly Good Practice with few Low Risk recommendations.	There is a sound system of internal control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	Recommendations for ineffective controls affecting the material areas of the service are not High Risk. Occasional Medium Risk recommendations allowed provided all others are Low Risk or Good Practice	There is a sound system of internal control but there is some scope for improvement as the ineffective controls may put the system objectives at risk
Moderate Assurance	Recommendations for ineffective controls affecting the material areas of the service are at least Medium Risk	The ineffective controls represent a significant risk to the achievement of system objectives
Limited Assurance	Recommendations for ineffective controls affecting the material areas of the service are High Risk	The ineffective controls represent unacceptable risk to the achievement of the system objectives