

## Report of the Chief Auditor

Local Pensions Board – 23 March 2017

### PENSION FUND INTERNAL AUDIT REPORTS 2016/17

<b>Purpose:</b>	This report presents the Internal Audit reports for Pension Fund activities in 2016/17 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>	Sandie Richards
<b>Access to Services Officer:</b>	Ann Williams

#### 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
  - Pension Fund Other
- 1.3 The Pensions Administration audit largely covers the aspects of pensions operated by the Pensions Section under the Head of Human Resources and Organisational Development 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 The Pension Fund Other audit is a new audit undertaken for the first time in 2015/16, this audit looks 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. The Pension Fund Investments audit was not due for completion in 2016/17.
- 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 2016/17 was
  - Pensions Administration                      Substantial
  - Pension Fund Other                              High
- 1.10 A copy of the final report for the Pensions Administration audit is attached in Appendix 1 and the final report for the Pension Fund Other 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 2016/17

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

**CITY & COUNTY OF SWANSEA  
FINAL INTERNAL AUDIT REPORT  
HUMAN RESOURCES AND ORGANISATIONAL DEVELOPMENT:  
PENSIONS ADMINISTRATION 2016/17**

## 1. Introduction

- 1.1 A review has recently been undertaken in respect of the Pension Section, within Human Resources and Organisational Development.
- 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
  - Care revaluation
- 1.4 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 not changed since the 2015/16 audit, and as such the bands and deduction rates are as follows for 2016/17:

Full Time Pay (2015/16)	Rate	Full Time Pay (2016/17)	Rate
£0-£13,600	5.5%	£0-£13,600	5.5%
£13,601 - £21,200	5.8%	£13,601 - £21,200	5.8%
£21,201 - £34,400	6.5%	£21,201 - £34,400	6.5%
£34,001 - £43,500	6.8%	£34,001 - £43,500	6.8%
£43,501 - £60,700	8.5%	£43,501 - £60,700	8.5%

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

2.1.2 System parameter prints were obtained from the ORACLE 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 2016/17. 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 ORACLE 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 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 2.2.3 - 2.2.6

### Employee Contributions

2.2.3 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 2016, sample testing of employee contributions had been carried out for all admitted bodies.

### Employer Contributions

2.2.4 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.

2.2.5 A review of the contribution payments made into the scheme found that 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.

2.2.6 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. As in previous years all such variances are followed up with the relevant body to ensure total contributions received in year are correct and amounts agree to the actuary valuation report.

### **Reconciliation Procedures**

2.2.7 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.

2.2.8 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, City and County of Swansea; Neath Port Talbot County Borough Council and NPT Homes were using i-connect, although there are plans for other employers to use the system in the near future.

2.2.9 The Pensions Section also undertakes monthly reconciliations of the Altair system data and ORACLE 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) Only four of the ten records reviewed held copies of member birth certificates on file.
- b) Eight records had starter forms or equivalent on file. The remaining records had been created via i-connect
- c) There were six records without an employee statement on file. The forms had been sent out to members but had not been returned. It was noted that the employee statement was not sent out until 9th November 2016 to a member who joined the scheme in May 2016.

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 £6,755 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 ten member's records that were selected for testing, where agreement was able to be made between the AVC/APC details and the centrally held records.
- 2.4.4 It was noted that the annual allowance for pension contributions has remained at £40k for 2016/17. 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. This point is noted here for information purposes only.

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

### **2.5.1 Transfers In**

A sample of five transfers in was selected for detailed testing and it was confirmed that:

- a) The calculation value was held for all five records.
- b) All five files had an SW1 or equivalent on file.
- c) Authorisation for the previous fund provider to release details/amounts calculated to CCS were held on all five files.
- d) All records held authorisation from the employee to transfer the benefits accrued to the LGPS.
- e) All five files held copies of birth certificates or passports as forms of identification.

### **2.5.2 Transfers Out**

A sample of five transfers out was selected for detailed testing and it was confirmed that:

- a) All had individual scanned personal files available for review as required.
- b) Calculations of the transfer value were on file and had been appropriately recorded as checked in all cases.
- c) 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 a member of 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.
- d) All payments made had been appropriately checked and authorised by the Treasury and Technical Section and had been posted correctly to the Ledger.

## **2.6 New Pensioners**

2.6.1 A sample of ten new pensioners retiring after 1<sup>st</sup> September 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 the ten files reviewed, copies of the wedding certificate were held on eight files and partner's birth certificates were held on nine files. Marriage certificates / divorce confirmation were not available for two members; 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.
- e) One member record did not hold a signed declaration for pension benefit option form. It was noted that there were issues with the scanning facilities in the Section which may have caused the document to scan through behind another. Original documents had been destroyed via confidential waste once scanning had been completed.

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

- 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 or were due to be 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.

2.7.5 It was noted that one member was due to reach the age of 75 in November 2016, however, there was no evidence on Altair to confirm that action had been taken to commence pension payments or to inform the individual that their pension benefits must be put into payment before they turn 75 or tax penalties will be incurred 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. From April 2016 there was a 0.1% decrease. This decrease is not passed onto existing pensioners.

2.8.2 A sample of five existing pensioners was tested against the ORACLE system to confirm that there had been no increase in the pension paid between 2015/16 and 2016/17. 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) All records had a copy of applications held on file, although some were held within a linked member's record (usually the parent).
- b) Five members were "adults" and medical evidence / evidence of continuing education was held on record to support the application.
- c) Nine records held copies of birth certificates on file. One application had been noted by a member of the Pensions Team that the birth certificate was sighted on 6 September 2007.

## **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 upon receipt of a User Creation Request form. It was noted that one User Creation Request form had been completed and approved by appropriate personnel. It was confirmed that access, for two members of staff who are currently absent, had been disabled.
- 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 three 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 Team confirming whether or not the back-up has been successful.
- 2.10.8 The Business Continuity Plan was last updated in February 2014. It is currently being reviewed as part of the HR Business Contingency Plan.
- 2.10.9 Reports are run on a monthly basis for members that have not drawn a pension on reaching age 75. The report also includes those who have passed their 73<sup>rd</sup> birthday so that the Pension Team are aware of those who are approaching age 75. It was noted that two individuals had reached the age of 75. No evidence was available on Altair to show that action had been taken by the Pension Section to commence pension payments to the individual, or to inform them that their pension benefits must be put into payment before they turn 75 or they will incur tax penalties from HMRC.

## **2.11 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 ORACLE 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 As identified in the 2016/17 audit, Western Union Business Solutions has been procured to carry out overseas matching continuance checks. The process has commenced but no reports were available during the audit.

- 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 November 2016, which showed the number of suspensions as 94. 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 One member on the third tier of ill health retirement and due for review in 2016/17 was tested and it was confirmed that the review had taken place.

## **2.12 CARE Revaluations**

- 2.12.1 From 1 April 2014, the Pension scheme is based on a career average, meaning that each year in the scheme, an individual's pension will be calculated based on the pensionable pay in that year. That pension is then added to the individual's Pension Account. At the end of the scheme year, the amount in the individual's pension account will be adjusted in line with the cost of living.
- 2.12.2 For the year ending 2015/16 the change was calculated as a decrease of 0.1%. A sample of 5 active Pension Fund members was selected to confirm that the rate had been applied correctly. No issues were identified.

### **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 one Low and two 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 2016/17**

<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>New Members</b>					
2.3.1 c	Employee statements should be issued to new members within eight weeks of joining the scheme.	LR	This was a late notification from the employer. Employers to be reminded of timescales and importance of providing timely information	Pensions Manager / Communications Officer	February 2017
<b>New Pensioners</b>					
2.6.1 e	It should be ensured that all documentation has been scanned and uploaded correctly before destroying original documents.	MR	Issues with scanner feeding multiple papers rather than individual but staff reminded to ensure that all papers have been scanned correctly	Communications Officer	December 2016
<b>Deferred Pensioners</b>					
2.7.5 & 2.10.9	Members approaching age 75 should be informed that Pension Benefits should start prior to their 75 <sup>th</sup> birthday or tax penalties from HMRC may be incurred.	MR	This was due to long term sickness. Set up diary to record timing of reporting requirements	Pensions Manager	March 2017

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

## **1. Introduction**

- 1.1 A review has been completed of Pension Fund activities undertaken by the Treasury Management and Pension Administration Teams. 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 included testing on the following areas:
- Pension Fund Committee Costs
  - Local Pension Board Costs
  - Actuary Costs
  - Training Expenses
  - Conference Expenses
  - Mortality Screening Expenses
  - Recharging of Actuary Costs (pro-rata) to Admitted Bodies
- 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. In addition to this, separate reviews of Pension Administration and Pension Fund Investments are undertaken by our Internal Audit section, the scope of which is detailed in those particular audits.
- 1.4 Detailed findings are recorded below, there are no recommendations arising.

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

- 2.1 A sample of thirteen payments was selected for testing to ensure that the expenditure was appropriate spend for the Pension Fund and adequately controlled and authorised. The following points were noted:
- i. All payments appeared to be appropriate spend for the Pension Fund
  - ii. Twelve invoices had either coding slips or CHAPS payment request forms which had been signed as checked; 1 coding slip was not signed as checked but had been signed as received and certified by two separate individuals.
  - iii. All thirteen invoices had been signed as received and certified by two separate individuals.
  - iv. VAT had been applied correctly on relevant invoices
  - v. HMRC check for Self Employed Contractors / Consultants had been completed for an Independent Adviser.

- 2.2 Testing was undertaken on two invoices raised in 2015/16. Income had been received in a timely manner.
- 2.3 It was noted that a procurement exercise had not been completed since 2008 for the work undertaken by External Advisors, as it had been approved by the Section 151 Officer for the contract to continue on a rolling basis. No recommendations have been made regarding this finding due to the impending transfer to the All Wales Pension Fund which will require a new procurement exercise to be undertaken.

### **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 Based on the audit testing undertaken, all of the areas reviewed proved satisfactory, resulting in no recommendations being made.
- 3.3 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