

Buckinghamshire & Milton Keynes Fire Authority



MEETING	Overview and Audit Committee
DATE OF MEETING	9 March 2016
OFFICER	David Sutherland, Director of Finance and Assets Maggie Gibb, Internal Audit Manager
LEAD MEMBER	Councillor David Watson
SUBJECT OF THE REPORT	Internal Audit Report: Final Audit Reports
EXECUTIVE SUMMARY	<p>The purpose of this paper is to update Members on the findings of the finalised Internal Audit reports issued since the last Overview and Audit Committee meeting.</p> <p>One report, Pensions Administration, has been issued since the last meeting and has been agreed with management.</p> <p>The recommendations have all been agreed with management and suitable deadline dates for implementation have been identified. Internal Audit will monitor implementation of the recommendations as they fall due.</p>
ACTION	Information.
RECOMMENDATIONS	That members note the recommendations raised in the finalised Internal Audit reports.
RISK MANAGEMENT	There are no risk implications arising from this report.
FINANCIAL IMPLICATIONS	The audit work is contained within the 2015-16 budget.
LEGAL IMPLICATIONS	There are no legal implications arising from this report.
CONSISTENCY WITH THE PRINCIPLES OF COLLABORATION	Not applicable.
HEALTH AND SAFETY	There are no health and safety implications arising from this report.
EQUALITY AND	There are no equality and diversity implications arising

DIVERSITY	from this report.
USE OF RESOURCES	Communication and progress monitoring All audits, follow up reports and further updates will be submitted to SMB and Overview and Audit Committee.
PROVENANCE SECTION & BACKGROUND PAPERS	Internal Audit Plan 2015/16 Internal Audit reports taken to Overview and Audit Committee
APPENDICES	Annex A: Pensions Administration Final Report
TIME REQUIRED	10 minutes.
REPORT ORIGINATOR AND CONTACT	Maggie Gibb – Internal Audit Manager mgibb@buckscc.gov.uk 01296 387327

AUDIT AND RISK MANAGEMENT

INTERNAL AUDIT REPORT

BUCKINGHAMSHIRE & MILTON KEYNES FIRE AUTHORITY

Pensions Administration 2015/16

December 2015





Audit Control:

Closing meeting:	24 November 2015
Draft report:	2 December 2015
Management responses:	7 December 2015
Final report:	23 December 2015

Auditors:	Ian Dyson Maggie Gibb Betty Davidson	Chief Internal Auditor Business Assurance Team Manager Senior Auditor
Report Distribution:		
Draft Report	Kerry McCafferty Sharon Elmes Lynne Swift	Head of Human Resources Employee Services and Payroll Manager Director of People and Organisational Development
	Mark Hemming David Sutherland	Head of Finance Director of Finance and Assets
Final Report as above plus:		Chief Fire Officer Chair, Bucks and Milton Keynes Fire Authority External Audit



1. Executive Summary

1.1 Overall Audit Opinion

In our opinion **Reasonable** assurance can be provided that relevant risks are effectively identified, managed and controlled.

1.2 The overall audit assurance is made up of three supporting judgements:

- a) Our assurance on the adequacy of the risk management techniques employed within the auditable area is **reasonable**. This relates to the extent to which relevant risks have been identified, monitored and managed.
- b) Our assurance on the adequacy of the existing control framework to reduce identified risks to an acceptable level is **reasonable**.
- c) Our assurance on the adequacy of compliance with the existing control framework is **reasonable**.

1.3 Currently Buckinghamshire County Council (BCC) provides a pensions administration service for both the Local Government Pension Scheme (LGPS) and Firefighters' Pension Schemes using the Altair Pension System. BCC have given notice to terminate this service for the Firefighters' Pension Schemes with effect from the 1 April 2016. A joint tender exercise is being carried out with Royal Berkshire Fire and Rescue Service for a new pension administration service provider. BCC will continue to provide the service for the LGPS.

As at October 2015 there were 431 active members of the Firefighters' Pension Schemes and 96 active members of the LGPS. The Fire Authority provides information to BCC regarding starters, leavers and variations on a monthly basis for the LGPS. BCC run reports from SAP to collect information regarding Firefighter starters, leavers and variations.

Both the LGPS and the Firefighters' Pension Schemes have seen a period of major change following the Public Service Pension Act 2013. These changes have increased the work load for the Human Resources Team to ensure that transitions to the new 2015 Firefighters Pension Scheme have been completed accurately and on time and to ensure compliance with the new requirements for governance arrangements. HR have also provided guidance and training to firefighters and HR staff on the changes to pension schemes.

1.4 In addition to the findings summarised below, we also found the following examples of good practice:



-
- A Local Pension Board has been set up in accordance with the 2015 Statutory Instrument Firefighters' Pension Scheme (Amendment) (Governance) Regulations 2015.
 - There is a good system in place for reporting starters, leavers and variations for the LGPS to the Pension Administrators.
- 1.5 Some areas for improvement were identified. All High recommendations are listed below:
- Notice has been given by BCC for termination of the SLA with BMKFA for the Firefighters Pension scheme with effect from 1 April 2016. Although BCC have agreed to continue the service if the new provider cannot be set up in time this has not been confirmed in writing. Confirmation has also not been received that any requested changes to scheme membership including starters and leavers will be completed before the service is terminated.



1.6 Recommendations summary:

In order to provide an assurance on the extent to which the risks identified are managed, our review focussed on the main business objectives within the Pensions Administration process.

Progress in implementing the management actions will be tracked and reported to the Overview & Audit Committee.

Business Objective	Risk	Findings		
		High	Medium	Low
Roles and responsibilities are appropriately assigned.	If roles and responsibilities are not assigned there is a risk that procedures are not followed. Staff charged with operating and overseeing the administration of the pensions are unable to discharge their duties, leading to ineffective operations and governance.	0	0	0
	If the Service Level Agreement with Buckinghamshire County Council to administer the pension schemes is not monitored and/or complied with there is a risk that the service is not delivered as agreed.	1	1	0
Relevant legislation is complied with.	If there is no process in place to identify changes in legislation regarding the pension schemes there is a risk of failure to adhere to relevant statutory regulations, including updates to schemes, resulting in non-compliance with scheme requirements.	0	0	0



The scheme is administered properly and changes are processed promptly and accurately.	If new scheme members and other life events or change of details are not processed accurately, in accordance with scheme rules, there is a risk that records are inaccurate leading to incorrect payments being made.	0	4	0
Pension schemes are accurately accounted for.	If income required to be allocated to the Pension Account is not completely, accurately or promptly processed, there is a risk that records are inaccurate which could have financial implications for the Fire Authority.	0	0	0
	If the LOGASnet grant claims are not completed accurately there is a risk that the Authority may under or over claim the 'top-up' grant to which it is entitled.	0	0	0
TOTAL		1	5	0

The detailed findings are summarised in Section 3 of this report. All findings have been discussed with the Head of Human Resources who has agreed all the findings and produced an action plan to implement them.

- 1.7 There were no aspects of this audit which were considered to have value for money implications for the Authority or which indicated instances of over control. Any relevant findings will have been included in the findings and recommendations section of this report.



2. Background

- 2.1 The audit review of Pensions Administration formed part of the agreed audit programme for 2015/16. The review was carried out during November.
- 2.2 The Pensions Administration area was categorised as high risk as part of the audit needs assessment exercise based on its relative importance to the achievement of the Authority's corporate objectives. The Authority's objective for the area is to ensure that there is a robust system in place for the administration of the pension schemes. The objective of our audit was to evaluate the area with a view to delivering reasonable assurance as to the adequacy of the design of the internal control system and its application in practice. A detailed summary of the scope of this review can be seen in Appendix A.
- 2.3 An audit of Pensions Administration has not been carried out previously.



3. Recommendations and Action Plan

The control description column details the actual controls that should be established to mitigate identified risk. The Findings & Consequences column details the results of analysis and tests carried out.

The priority of the findings and recommendations are as follows:

- High** immediate action is required to ensure that the objectives for the area under review are met.
- Medium** action is required within six months to avoid exposure to significant risks in achieving the objectives for the area under review.
- Low** action advised within 9 months to enhance control or improve operational efficiency.

	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
Key Area		Roles and Responsibilities			
1	Alternative arrangements are in place to administer the Firefighters' Pension Schemes.	<p>Notice has been given by BCC for termination of the SLA with BMKFA for the Firefighters Pension scheme with effect from 1 April 2016. Although BCC have agreed to continue the service if the new provider cannot be set up in time, this has not been confirmed in writing.</p> <p>Confirmation has also not been received that any requested changes to scheme membership will be completed before the service is terminated.</p> <p>There is a risk that following the termination of the SLA there will be no arrangements in place to administer the Firefighters' Pension Schemes and data will not be up to date.</p>	High	Confirmation in writing will be sought from BCC that the service will continue if the new provider is not in place by 1 April 2016. This will also include an agreement that all data held by BCC is transferred to the new provider within an agreed timescale and all outstanding actions completed before transfer of data to the new service provider.	<p>Who to be actioned by: Head of Human Resources</p> <p>When to be actioned by: 1 January 2016</p>



	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
2	Management information regarding target times which have not been met in accordance with the SLA is provided to BMKFA HR and discussed with pension system administrators (BCC).	<p>The Head of Human Resources confirmed that management information is not provided on a regular basis. Although meetings are held with BCC Pensions Team staff to discuss delays, these tend to be regarding specific pieces of work rather than setting up new starters on the system etc. these are not formally minuted with agreed actions.</p> <p>There is a risk that instances where BCC are not complying with the Service Level Agreement are not identified, leading to remedial actions not being taken in time and a possible negative effect on scheme members.</p>	Medium	Following the transfer of the Firefighters' Pension Schemes to a new administrator BCC Pensions Team will be asked to provide management information on a regular basis for the LGPS. Meetings will be held to discuss any issues arising and actions will be agreed, minuted and progress monitored.	Who to be actioned by: Head of Human Resources. When to be actioned by: 1 June 2016



	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
	Key Area	Pension Scheme Administration and Transactions			
3	Staff are informed that they are auto enrolled to a pension scheme upon employment.	<p>A sample of ten starters was reviewed to ensure that they were given sufficient details regarding the specific pension scheme. The following issues were identified:</p> <ol style="list-style-type: none"> 1. The offer letters for LGPS members give details of the percentage rate of pension contributions that the employee will pay; however Fire Fighter letters did not include this information. 2. One employee was previously employed via an agency and did not receive an employment offer letter and as a result was not formally informed that he would be auto enrolled into the pension scheme. 3. A Firefighter, who was in the 92 scheme, took on additional responsibilities this year i.e. On Call. Due to this change in roles the employee was given a secondary contract and entered into the 2015 scheme. It was confirmed by the Pension Administrators that he should be on the 92 scheme for both roles. <p>There is a risk that Pension Scheme members are not fully informed or not set up correctly on Altair which could have financial implications in the future for both the member and the Fire Authority.</p>	Medium	<ol style="list-style-type: none"> 1. The offer letters to Firefighters will be amended to include the pension contribution rate. 2. Going forward all new starters will be given an employment offer letter stating that they will be auto-enrolled into the relevant pension scheme. 3. The identified Firefighter's pension will be investigated, advice sought and actioned as necessary. 	<p>Who to be actioned by: Employee Services and Payroll Manager</p> <p>When to be actioned by:</p> <ol style="list-style-type: none"> 1. Completed 2. Completed 3. 1 January 2016



	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
4	Starters are set up on Altair correctly and within the agreed timeframe.	<p>A sample of ten starters was reviewed to ensure that they were set up correctly on Altair and within the agreed timeframe. The following issues were identified:</p> <ol style="list-style-type: none">1. The contribution rate for one LGPS starter member was 6.8% on SAP and on the contract letter, but 6.5% on the return and on the Pension System, Altair. The Pension Administrators do not check new LGPS starter details against SAP, they enter the data into Altair based on information provided by the Fire Authority.2. Pension Administrators do not run a monthly report on SAP to identify new Firefighter starters. Starters are only set-up during the year if a query is raised against their membership.3. The start date for one Firefighter was incorrect Altair. <p>If starters are not set up accurately or within the agreed timescale there is a risk that future pension payments will be incorrect and decisions will be based on incorrect management information. There is also a risk that data provided to the pension service provider will be incomplete.</p>	Medium	These issues will be discussed with the Pension Administrators and actions agreed to ensure that data is correct on the Altair system.	Who to be actioned by: Head of Human Resources When to be actioned by: 31 January 2016



	Control description	Issues & Consequences	Priority H/M/L	Management Action Plan	Task owner and target date for implementation
5	Leavers are actioned on Altair within the agreed timeframe.	<p>A sample of ten leavers was reviewed to ensure that they had been actioned within the agreed timeframe. At the time of testing five of the sample of leavers had not yet been set-up as leavers (all deferred pensions) on Altair; two of the five had gone over the six week timeframe.</p> <p>If leavers are not set up on Altair within the agreed timeframe there may be delays in transferring pensions and decisions made may be based on inaccurate management information.</p>	Medium	These issues will be discussed with the Pension Administrators and actions agreed to ensure that data is correct on the Altair system.	Who to be actioned by: Head of Human Resources When to be actioned by: 31 January 2016
6	Variations to pensions are actioned on Altair accurately and within the agreed timeframe in accordance with the SLA.	<p>A sample of ten variations to pension records was reviewed to ensure that they had been actioned accurately and within the agreed timeframe. Six of the ten queries from the variations sample were not resolved within the required timeframe. This was mainly due to the requirement of additional information from the Fire Authority and a back log. Only one member was informed that there would be a delay in addressing their query.</p> <p>If information on Altair is not updated there is a risk that decisions are made based on incorrect information which could have financial implications for both the member and the Fire Authority.</p>	Medium	These issues will be discussed with the Pension Administrators and actions agreed to ensure that data is correct on the Altair system and members kept informed.	Who to be actioned by: Head of Human Resources When to be actioned by: 31 January 2016

Appendix A

AUDIT SCOPE AND FRAMEWORK

4. Specific Audit Scope

4.1 We have evaluated the area against the following identified risks which we agreed with management:

Roles and Responsibilities.

- If roles and responsibilities are not assigned there is a risk that procedures are not followed. Staff charged with operating and overseeing the administration of the pensions are unable to discharge their duties, leading to ineffective operations and governance.
- If the Service Level Agreement with Buckinghamshire County Council to administer the pension schemes is not monitored and/or complied with there is a risk that the service is not delivered as agreed.

Legislation

- If there is no process in place to identify changes in legislation regarding the pension schemes there is a risk of failure to adhere to relevant statutory regulations, including updates to schemes, resulting in non-compliance with scheme requirements.

Pension Scheme Administration and Transactions

- If new scheme members and other life events or change of details are not processed accurately, in accordance with scheme rules, there is a risk that records are inaccurate leading to incorrect payments being made.

Accounting

- If income required to be allocated to the Pension Account is not completely, accurately or promptly processed, there is a risk that records are inaccurate which could have financial implications for the Fire Authority.
- If the LOGASnet grant claims are not completed accurately there is a risk that the Authority may under or over claim the 'top-up' grant to which it is entitled.

4.2 Following preliminary risk assessments, the following processes were not included within the scope of this review and will be considered for inclusion within future audits of the area:

- None

5. Staff Interviewed

- Kerry McCafferty, Head of Human Resources
- Faye Mansfield, HR Development Manager
- Sharon Elmes, Employee Services and Payroll Manager
- Mark Hemming, Head of Finance
- Carly Humphrey, Employee Services Team Leader
- Maria Edmonds, Key Account Manager, BCC
- Liz Hughes, Senior Pensions Officer, BCC
- Mike Dean, Systems Controller, BCC

6. Audit Methodology and Opinions

- a. The audit was undertaken using a risk-based methodology in a manner compliant with the CIPFA Code of Practice. The audit approach was developed with reference to the Internal Audit Manual and by an assessment of risks and management controls operating within each area of the scope. Where we consider that a risk is not being adequately managed, we have made recommendations that, when implemented, should help to ensure that the system objective is achieved in future and risks are reduced to an acceptable level.
- b. The matters raised in this report are only those, which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the risks that exist or all improvements that might be made.
- c. Each audit will result in an overall 'audit assurance'. A detailed summary will be provided to the Overview and Audit Committee for all 'limited' assurance opinion reports. The range of audit opinions is outlined below:

ASSURANCE	SUBSTANTIAL	REASONABLE	LIMITED
Adequacy of risk management techniques employed within the area.	Thorough processes have been used to identify risks. Action being taken will result in risks being mitigated to acceptable levels. No more monitoring is necessary than is currently undertaken.	The action being taken will result key risks being mitigated to acceptable levels. Some additional monitoring is required.	No action is being taken, OR insufficient action is being taken to mitigate risks. Major improvements are required to the monitoring of risks and controls.
Adequacy of the existing control framework to reduce identified risks to an acceptable level.	Controls are in place to give assurance that the system's risks will be mitigated.	Most controls are in place to give assurance that the system's key risks will be managed but there are some weaknesses.	The control framework does not mitigate risk effectively. Key risks are not identified or addressed.
Adequacy of compliance with the existing control framework.	The control framework is generally complied with. Emerging risks are identified and addressed in a timely manner.	Compliance with the control framework mitigates risk to acceptable levels, except for the risks noted.	Compliance is poor so risks are not being mitigated to acceptable levels and it is probable that some objectives will not be, OR are not being achieved.

- d. The responsibility for a sound system of internal control rests with management. Internal audit procedures are designed to focus on areas identified by management as being of greatest risk and significance. Effective implementation of our recommendations by management is important for the maintenance of a reliable internal control system.