



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Head of Audit and Inspection

Contact: Duncan Black Ext: 74053

Item 9(b)

6th March 2019

## INTERNAL AUDIT – PENSION PAYROLL PROCESS

### Purpose of Report:

To present the results of the Internal Audit review of the pension payroll process within the Strathclyde Pension Fund Office.

### Note:

In most cases one of four opinions is expressed:

1. The control environment is satisfactory i.e. audit testing found no concerns with the control environment.
2. A reasonable level of assurance can be placed upon the control environment i.e. audit testing found no major weaknesses in the control environment but some improvements could be made.
3. A limited level of assurance can be placed upon the control environment i.e. improvements are necessary to ensure the control environment is fit for purpose.
4. The control environment is unsatisfactory i.e. significant improvements are required before any reliance can be placed upon the control environment.

### Recommendations:

The Committee is asked to note the contents of this report and **AGREE** the audit recommendation that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the Action Plan.

Ward No(s):

Citywide:

Local member(s) advised: Yes  No

consulted: Yes  No

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# GLASGOW CITY COUNCIL INTERNAL AUDIT SECTION COMMITTEE SUMMARY

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**Title of the Audit:** Strathclyde Pension Fund – Pension Payroll Process

## 1. Introduction

1.1 As part of the agreed Internal Audit Plan we have carried out a review of the pension payroll process within the Strathclyde Pension Fund Office (SPFO).

1.2 The Strathclyde Pension Fund makes monthly pension payroll payments to approximately 85,000 beneficiaries.

1.3 The scope of the audit was to gain assurance that appropriate arrangements are in place for the administration of monthly payroll payments to SPFO members. This included:

- Ensuring that appropriate procedures are in place to cover the pension payroll process and these are effectively communicated to staff;
- Ensuring that appropriate arrangements are in place for the commencement and termination of pension payments;
- Ensuring that pension payments are only made to valid payees;
- Ensuring that pension payments are made in line with the documented procedures and are consistent with the information contained within the member record on Altair (pension system);
- Ensuring that procedures are in place for processing adjustments and variations to payments and for the identification and recovery of

overpayments;

- Ensuring that appropriate management review and reconciliation processes are in place (e.g. exception reporting) and action is taken to address any issues identified; and
- Reviewing access to the relevant systems to ensure that it is appropriately controlled and that there is an appropriate segregation of duties in place.

1.4 The following was not included within the scope of audit:

- Lump sum payments; and
- The accuracy of pension payment calculations.

## 2. Audit Opinion

2.1 Based on the audit work carried out a reasonable level of assurance can be placed upon the control environment. The audit has identified some scope for improvement in the existing arrangements and five recommendations which management should address.

## 3. Main Findings

3.1 We are pleased to report that the key controls are in place and are generally operating effectively. We found that there are appropriate arrangements for the commencement and termination of pension payments and for the creation of a spouse or dependent record

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where required. For a sample of cases involving new starts, terminations and amendments reviewed, we found that payments had been made in line with the procedures in place, these had been processed in a timely manner and were consistent with the information contained on Altair. Second officer checks had also been undertaken to validate the information being processed in all cases that we reviewed. We also found that processes are in place for ensuring that requests to amend member bank account details are appropriately controlled and there are robust processes in place for the recovery of any identified overpayments. There are arrangements in place to confirm the accuracy of data held on payroll records and the payroll is subject to reconciliation and management review before being processed for payment.

3.2 However, we found that there are some areas of non-compliance and opportunities for improvement. Due to the permissions assigned to the payroll team in Altair, there are no system controls in place to prevent a member of the team from bypassing the correct process and creating a new member record and processing payments. There are some mitigating controls designed to manually detect and deter such activity, however we have concluded that these are not all operating fully effectively.

3.3 A reconciliation is completed to agree the pension payroll values to the financial ledger, however we found variances between the two figures in each month during the period reviewed (April to August 2018). Management believe that this may be an issue with the system and work is ongoing resolve this.

3.4 We reviewed a sample of cases of terminations and overseas member validation checks and found two cases where appropriate supporting evidence had not been saved in the member record within Altair. In one case, this related to a copy of a witnessed life certificate used to validate the existence of a member. In the other case, a copy of the death certificate had not been retained.

3.5 An action plan is provided at section four outlining our observations, risks and recommendations. We have made five recommendations for improvement. The priority of each recommendation is:

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| <b>Priority</b> | <b>Definition</b>  | <b>Total</b> |
|-----------------|--|--------------|
| <b>High</b>     | Key controls absent, not being operated as designed or could be improved. Urgent attention required. | 2            |
| <b>Medium</b>   | Less critically important controls absent, not being operated as designed or could be improved.      | 2            |
| <b>Low</b>      | Lower level controls absent, not being operated as designed or could be improved.                    | 1            |

- 3.6 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.
- 3.7 We would like to thank officers involved in this audit for their cooperation and assistance.
- 3.8 It is recommended that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the attached Action Plan.

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## 4. Action Plan

| No.   | Observation and Risk  | Recommendation  | Priority | Management Response   |
|---|---|---|----------|---|
| <b>Key Control:</b> Procedures are in place to cover the pension payroll process.   |   |   |          |   |
| 1   | <p>In the main, there are documented procedures covering the core pensions payroll processes. However, the process to set up a new retiral record on Altair is not documented. We also found that procedures are in the process of being drafted relating to adding a spouse or dependent pension to the payroll.</p> <p>This increases the risk that the appropriate processes are not understood or followed.</p> | <p>SPFO management should ensure that all processes relating to the pension payroll processes are documented and are available to all relevant staff.</p>   | Low      | <p><b>Accepted</b></p> <p><b>Response:</b> Service Managers in the respective teams will ensure that the procedures are completed.</p> <p><b>Officer Responsible for Implementation:</b> Service Manager, Benefits Processing and Service Manager, Payments</p> <p><b>Timescale for Implementation:</b> 31 March 2019</p> |
| <b>Key Control:</b> Access to Altair is appropriately restricted and there is an appropriate segregation of duties in place within the process. |   |   |          |   |
| 2   | <p>(i) The procedures outline that those responsible for setting up a new pension payroll record should not be involved in processing the payroll payments. We were advised that monthly reports were prepared that would highlight cases where one officer had</p>   | <p>(i) SPFO management should re-instate the review process for the exception reports which are prepared to detect cases where the same person has created a pension payroll record and processed payments.</p> <p>(ii) SPFO management should review the</p> | High     | <p><b>Accepted</b></p> <p><b>Response:</b></p> <p>(i) Sample checking will resume with immediate effect.</p> <p>(ii) Payroll Team can access both administration and payroll</p>  |

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|-----|---|--|----------|---|
|     | <p>completed both processes, however this report is not currently being reviewed.</p> <p>(ii) There are no system controls in place to prevent the Payroll Team from carrying out both processes due to the role profiles in place within Altair.</p> <p>This increases the risk of fictitious payees being created in the system without detection.</p>  | <p>business processes and explore opportunities to change system permission levels where appropriate.</p>  |          | <p>functionality. Whilst there are other controls in place to separate these roles management will review options for segregation on the system</p> <p><b>Officer Responsible for Implementation:</b> (i) and (ii) Service Manager, Payments</p> <p><b>Timescale for Implementation:</b><br/>(i) 28 February 2019<br/>(ii) 31 December 2019</p> |
| 3   | <p>Several exception reports are produced, including reports to identify deleted records and variances between pension records and pension payment amounts.</p> <p>However, for a sample of exception reports reviewed, we found cases where there was a lack of segregation of duties in preparing the reports and making amendments to member records arising from the findings. We also found opportunities for improvement in the quality of the audit trail which is retained to</p> | <p>SPFO management should review and update the current process to ensure that appropriate segregation of duties is in place between the review of exception reports and the subsequent update of the member record on Altair.</p> <p>SPFO management should ensure that amendments made to Altair as a result of the exception report investigation process are appropriately documented and subject to review and authorisation.</p> | Medium   | <p><b>Accepted</b></p> <p><b>Response:</b> SPFO has reviewed this practice and will create workflow tasks where a record is being amended with relevant documentation to show audit trail.</p> <p><b>Officer Responsible for Implementation:</b> Service Manager, Payments</p> <p><b>Timescale for Implementation:</b><br/>31 March 2019</p>    |

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|--|---|--|--------------------|--|
|  | <p>highlight the nature and reason for amendments to member records arising from the findings from the exception reports.</p> <p>This increases the risk of unauthorised changes being made to pension records.</p>   |  |                    |  |
| <p><b>Key Control:</b> Appropriate management review and reconciliation processes are in place and action is taken to address the issues identified.</p> |   |  |                    |  |
| <p><b>4</b></p>  | <p>A regular reconciliation process is in place to agree the pension payroll run values to the financial ledger however, we found variances each month during the period reviewed (April to August 2018).</p> <p>Management believe that this is a systems issue and at the time of writing our report, work was ongoing to fully investigate and resolve the variances.</p> <p>Whilst none of the variances were individually material, unexplained reconciliation differences reduce the effectiveness of reconciliation controls, increasing the risk that</p> | <p>(i) SPFO management should liaise with the Council's Corporate Finance section to investigate the reconciliation variances.</p> <p>(ii) Corrective action should be taken to address any underlying reason for the variances, where this is possible.</p> | <p><b>High</b></p> | <p><b>Accepted</b></p> <p><b>Response:</b></p> <p>(i) Anomalies have been identified as a system error. Payroll records are accurate and adjustments have been made to ensure the ledger is also accurate. Workaround agreed with Corporate Finance to manually correct the system entries each period.</p> <p>(ii) The software provider has been advised of the issue and a permanent solution will be sought via a system update.</p> |

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| No.  | Observation and Risk   | Recommendation   | Priority | Management Response  |
|--|--|--|----------|--|
|  | errors in postings to the ledger are not identified and resolved on a timely basis.  |  |          | <p><b>Officer Responsible for Implementation:</b> (i) and (ii) Service Manager, Payments</p> <p><b>Timescale for Implementation:</b><br/>(i) Ongoing until permanent solution reached – 28 February 2019<br/>(ii) 31 December 2019</p>   |
| <b>Key Control:</b> Pension payments are complete, accurate and are in agreement with the member record. |  |  |          |  |
| 5  | <p>Through our sample testing, we identified two cases where appropriate supporting evidence had not been saved in the member record within Altair. In one case, this related to a copy of a witnessed life certificate used to validate the existence of a member. In the other case, a copy of the death certificate had not been retained.</p> <p>This increases the risk that the appropriate review and scrutiny has not taken place before information is processed in Altair.</p> | SPFO management should ensure that appropriate supporting evidence is retained in the member records within Altair in all cases. | Medium   | <p><b>Accepted</b></p> <p><b>Response:</b> Staff will be reminded to ensure that all documentation is scanned to relevant record and is legible.</p> <p><b>Officer Responsible for Implementation:</b> Service Manager, Payments</p> <p><b>Timescale for Implementation:</b> 31 March 2019</p> |

**5. Policy and Resource Implications**

**Resource Implications:**

- Financial:* Internal Audit services are included within the Central Support Services cost.
- Legal:* None
- Personnel:* None
- Procurement:* None

**Council Strategic Plan:** To provide assurance on the controls in place in relation to the pension payroll process within SPFO.

**Equality and Socio-Economic Impacts:**

- Does the proposal support the Council's Equality Outcomes 2017-22* Not applicable.
- What are the potential equality impacts as a result of this report?* No significant impact.
- Please highlight if the policy/proposal will help address socio economic disadvantage.* Not applicable.

**Sustainability Impacts:**

- Environmental:* None
- Social, including Article 19 opportunities:* None
- Economic:* None

**Privacy and Data Protection impacts:** None

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## **6. Recommendations**

- 6.1 The Committee is asked to note the contents of this report and **AGREE** the audit recommendation that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the Action Plan.