



**Glasgow City Council**

**Strathclyde Pension Fund Committee**

**Report by Head of Audit and Inspection**

**Contact: Duncan Black Ext: 74053**

**Item 4(a)**

**27th November 2024**

## **INTERNAL AUDIT – Pension Payroll Process**

### **Purpose of Report:**

To present the results of the Internal Audit review of the Pension Payroll Process.

### **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 ☐

# Glasgow City Council Internal Audit Section

## Committee Summary

### Strathclyde Pension Fund Office – Pension Payroll Process

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## 1 Introduction

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- 1.1 As part of the agreed Internal Audit plan, we have carried out a review of the pension payroll arrangements in place within the Strathclyde Pension Fund Office (SPFO).
- 1.2 The Strathclyde Pension Fund pays approximately £591m (net) each year in monthly pension payroll payments to approximately 101k 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 a review of the key controls in the following areas:
- Procedures and training covering the payroll pension process.
  - Arrangements for the commencement and termination of pension payments.
  - Arrangements for ensuring that pension payments are complete, accurate, timely and only made to valid payees.
  - Processes for making adjustments and variations to payments.
  - Identification and recovery of overpayments.
  - Management review (e.g. exception reporting) and reconciliation processes.
  - Accuracy of the records held within the pension system.
  - Pension system access and segregation of duties; and
  - Business continuity arrangements for the payment of pensions.
- 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 two 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 dependant record where required. For a sample of cases involving new starts, dependant records, 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. 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. Through undertaking data analytics of June 2024 payments made, we found that multiple payments were not made to the same pension record and there were valid reasons for any cases where the same bank account details were used (for example joint accounts).
- 3.2 There are documented procedures in place which are available to all relevant staff and officers processing amendments on the system are adequately trained. Appropriate system controls are in place to prevent a member of the team from bypassing the correct process and creating a new member record and processing payments.
- 3.3 A reconciliation is completed to agree the pension payroll values to the financial ledger, and to the amount charged against the bank account. Adequate back up and storage arrangements are in place to ensure that payroll payments can be made in the event of a personnel or system loss.
- 3.4 However, we also found some opportunities for improvement. There are no scheduled review dates for documented procedures in place. Whilst various exception reports are produced, we found that a clear and robust audit trail is not always in place to show which officer has completed the amendments to Altair records (as a result of these reports). In addition, the officers who run and check the bank details exception reports, have access to amend bank details on the system.

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

| Priority                   | Definition   | Total |
|----------------------------|--|-------|
| <b>High</b>                | Key controls absent, not being operated as designed or could be improved. Urgent attention required. | 0     |
| <b>Medium</b>              | Less critically important controls absent, not being operated as designed or could be improved.      | 1     |
| <b>Low</b>                 | Lower level controls absent, not being operated as designed or could be improved.                    | 1     |
| <b>Service Improvement</b> | Opportunities for business improvement and/or efficiencies have been identified.                     | 0     |

- 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.

## 4 Action Plan

| No.  | Observation and Risk   | Recommendation   | Priority | Management Response  |
|--|--|--|----------|--|
| <b>Key Control:</b> The procedures in place covering the pension payroll processes are reviewed regularly. |  |  |          |  |
| 1  | <p>There are documented procedures in place covering the core pension payroll processes. However, we found that most of the procedures have only been reviewed/updated recently as a result of this audit and no future review dates are currently scheduled.</p> <p>This increases the risk that the documented procedures could become outdated and no longer fit for purpose.</p> | SPFO management should ensure that all procedures relating to the pension payroll processes are reviewed at least annually to ensure they remain up to date. | Low      | <p><b>Response:</b> Accepted</p> <p>Review of processes will now form part of the annual meeting set up to create the payroll calendar for the following year.</p> <p><b>Officer Responsible for Implementation:</b></p> <p>Finance – Service Manager</p> <p><b>Timescales for Implementation:</b></p> <p>30 November 2024</p> |

# Glasgow City Council Internal Audit Section

## Committee Summary

### Strathclyde Pension Fund Office – Pension Payroll Process

| No.   | Observation and Risk  | Recommendation  | Priority | Management Response   |
|---|---|---|----------|---|
| <b>Key Control:</b> Appropriate management review processes are in place. |   |   |          |   |
| 2   | <p>Several exception reports are produced, including reports to identify deleted records, variances between pension records and pension payment amounts, and bank detail amendments.</p> <p>However, for a number of exception reports reviewed, we found opportunities for improvement in the quality of the audit trail which is retained to highlight the nature and reason for amendments to member records arising from the findings from the exception reports.</p> <p>Although regular exception reports detailing amendments to bank details are produced and a sample is reviewed to confirm that amendments are legitimate and have been processed and approved correctly, we found that there is currently no separation of duties as the officers who run and check the reports also have access to amend bank details on the system. We were advised that these senior officers should not amend bank details and that access to this cannot be removed as this function sits within an area of the system required for other crucial functions. It is noted that these staff members cannot create a new record</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> <p>SPFO management should ensure that an independent officer runs the bank detail amendment report and confirms that the senior officer performing the bank detail amendment check has not made any amendments during the period. A record of the confirmation should be recorded for future reference.</p> | Medium   | <p><b>Response:</b> Accepted</p> <p>Service manager (SM) and Assistant Service Manger (ASM) – Tasks will be created for any changes as a result of monthly payroll reports. If any payroll data has to be deleted a task will be created for SM/ASM to review prior to deletion.</p> <p>Principle Pension Officer (PPO) – Will be provided with a monthly audit report allowing them to review any changes made to bank details by SM/ASM.</p> <p><b>Officer Responsible for Implementation:</b></p> <p>Finance Service/Assistant Manager</p> <p>Principle Pension Officer</p> <p><b>Timescales for Implementation:</b></p> <p>30 November 2024</p> |

| No. | Observation and Risk  | Recommendation | Priority | Management Response |
|-----|---|----------------|----------|---------------------|
|     | <p>on the system, therefore would only be able to amend existing member details. Management also confirmed that it is not possible for the check to be undertaken by an officer out with the team as they would not have the required permissions. System access is set up to ensure appropriate segregation of duties exist.</p> <p>This increases the risk of unauthorised changes being made to pension records.</p> |                |          |                     |

## Policy and Resource Implications

### Resource Implications:

|                     |  |
|---------------------|--|
| <i>Financial:</i>   | Internal Audit services are included within the Central Support Services cost. |
| <i>Legal:</i>       | None   |
| <i>Personnel:</i>   | None   |
| <i>Procurement:</i> | None   |

### Equality and Socio-Economic Impacts:

|   |   |
|---|---|
| <i>Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.</i>     | No specific proposals are included within this report.    |
| <i>What are the potential equality impacts as a result of this report?</i>                    | No significant impact.                                    |
| <i>Please highlight if the policy/proposal will help address socio-economic disadvantage.</i> | There are no equality impacts as a result of this report. |

### Climate Impacts:

|   |                |
|---|----------------|
| <i>Does the proposal support any Climate Plan actions? Please specify:</i>  | Not Applicable |
| <i>What are the potential climate impacts as a result of this proposal?</i> | Not Applicable |
| <i>Will the proposal contribute to Glasgow's net zero carbon target?</i>    | Not Applicable |
| <i>Privacy and Data Protection Impacts:</i>                                 | None           |



## **5 Recommendation**

- 5.1 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.