

Cumbria Shared Internal Audit Service

Internal Audit Report for Cumbria Constabulary



Audit of Police Staff Pensions

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Audit Resources

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Audit Report Distribution

For Action:	Ann Dobinson, Head of Central Services Alison Hunter, Payroll and Transactional Services Manager
For Information:	Michelle Bellis, Deputy Chief Finance Officer Stephen Kirkpatrick, Director of Corporate Support Roger Marshall, Joint Chief Finance Officer
Audit Committee	The Joint Audit Committee, which is due to be held on 20 th March 2019, will receive the report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.

Cumbria Shared Internal Audit Service

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Executive Summary

1. Background

- 1.1. This report summarises the findings from the audit of Police Staff Pensions. This was a planned audit assignment which was undertaken in accordance with the 2018/19 Audit Plan.
- 1.2. Police Staff pensions are held with the Local Government Pension Scheme which is administered by Your Pension Service (YPS). Central Services Department (CSD) set up new employees on the payroll system ensuring the appropriate pension scheme is selected. They also provide leavers' information to YPS.

2. Audit Approach

2.1. Audit Objectives and Methodology

- 2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

2.2. Audit Scope and Limitations

- 2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was the Head of Central Services. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:
 - Follow up of previous recommendations from the 2016/17 audit.
 - Processes relating to staff pensions administered through the Local Government Pension Scheme, specifically starters and leavers, deductions and monthly reporting processes.
- 2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

3. Assurance Opinion

- 3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.
- 3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within Police Staff Pensions provide **Reasonable** assurance.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4. Summary of Recommendations, Audit Findings and Report Distribution

- 4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.
- 4.2. There is **one** audit recommendation arising from this audit review and this can be summarised as follows:

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. Management - achievement of the organisation's strategic objectives	-	-	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts	-	-	-
3. Information - reliability and integrity of financial and operational information (see section 5.1)	-	1	-
4. Security - safeguarding of assets	-	-	-
5. Value - effectiveness and efficiency of operations and programmes	-	-	-
6. Other considerations from previous audits - Implementation of previous recommendations/impact of outstanding recommendations.	-	-	-
Total Number of Recommendations	-	1	-

4.3 The previous audit raised one recommendation regarding the lack of documented procedures for internal administration of the Police Officer Pension Scheme through Kier. Follow up testing confirmed that procedures have been written and communicated to all staff.

4.4 **Strengths:** The following areas of good practice were identified during the course of the audit:

- CSD have documented procedures for internal administration of the Local Government Pension Scheme.
- The Team Leader monthly checklist has hyperlinks to completion procedures / guidance.
- A Notification of Commencement of Employment form is used as a checklist for capturing new starter information including receipt of the completed pension form.
- Police Staff Retirement Leavers Checklists and Police Staff Resignation Leavers Checklists are used to ensure each part of the leaver's process is completed; these forms include guidance notes for staff.
- Monthly balancing reports are produced and compared to the previous month's figures.
- Monthly reports are sent to YPS electronically with file acceptances retained.

4.5. **Areas for development:** Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.5.1 *High priority issues:* None identified

4.5.2 *Medium priority issues:*

- Incorrect pension contribution percentages had been selected for three new starters; the errors had not been identified when independently checked by a second Admin Officer.

4.5.3 *Advisory issues:* None identified

Comment from the Joint Chief Finance Officer

I am pleased that the audit of police staff pensions has provided a high level of assurance and that the strength of administrative processes in the area of police staff pensions, which have been in place for many years, have been maintained. I am satisfied that the additional control in relation to ensuring the correct pension contribution rate is applied to new starters will address the recommendation in the audit.

Management Action Plan

5 Matters Arising / Agreed Action Plan

5.1 Information - reliability and integrity of financial and operational information.

- Medium priority

Audit finding	Management response
<p>(a) Contribution Rate Errors</p> <p>The Local Government Pension Scheme issues annual pay bands and corresponding pension contribution rates to be applied from April each year. This contribution table is used to determine the pension contribution rate when setting up new employees within the Trent HR system.</p> <p>The pension contribution percentage is identified and recorded on the 'Notification of Commencement of Employment' form by the Admin Officer. New employee set up information is then independently checked by a second Admin Officer who initials the 'Notification of Commencement of Employment' form as evidence that the information has been checked.</p> <p>Audit testing identified three records where an incorrect contribution percentage rate had been selected. The second check process had not picked up the contribution rate errors.</p>	<p>Agreed management action:</p> <p>46 new starters processed between 1.4.18 & 30.9.18, 43 were placed on the correct contribution rate and 3 placed on the incorrect rate. The 3 records have now been corrected.</p> <p>Internal processes have been improved to ensure the second Admin Officer checks the actual contribution rate applied and not just that they are assigned to the Local Government Pension scheme. This action was implemented for January 2019 payroll process.</p>
<p>Recommendation 1:</p> <p>Effective independent checking should be undertaken to ensure pension contribution rates are correctly applied.</p>	<p>For information all police staff pension contribution rates are independently checked in April each year as part of the annual pension contribution review process.</p>
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> Incorrect employee deductions are made. 	<p>Responsible manager for implementing: Alison Hunter Date to be implemented: 01/2019</p>

Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The controls tested are being consistently applied and no weaknesses were identified. Recommendations, if any, are of an advisory nature in context of the systems and operating controls & management of risks.
Reasonable	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed. Recommendations are no greater than medium priority.
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified. Recommendations may include high and medium priority matters for address.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-compliance with basic controls which leaves the system open to error and/or abuse. Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

Definition:		
High	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	○	Some risk exposure identified from a weakness in the system of internal control
Advisory	■	Minor risk exposure / suggested improvement to enhance the system of control

Recommendation Follow Up Arrangements:

- High priority recommendations will be formally followed up by Internal Audit and reported within the defined follow up timescales. This follow up work may include additional audit verification and testing to ensure the agreed actions have been effectively implemented.
- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.