

Isle of Wight Council



Internal Audit Report 2016/17

Payroll and Pensions Administration

July 2017

FINAL

1. Executive summary

Report classification	Trend	Total number of findings					
		Critical	High	Medium	Low	Advisory	
 Medium Risk	 Consistent with risk ranking when payroll and pensions have previously been reviewed						
		Control design	0	0	1	5	0
		Operating effectiveness	0	0	0	0	0
		Total	0	0	1	5	0

Summary of findings:

This review focussed on the Council's payroll and pension scheme administration processes and controls, covering:

- *Framework*: up to date and accurate framework is in place covering key areas, for example processing of payroll changes and administration of the LGPS (Local Government Pension Scheme).
- *Operation and Processing*: payroll and pensions are processed in line with documented procedures and controls.
- *Performance Management and Knowledge Transfer*: an appropriate set of performance measures are monitored and reported regarding the responsibilities of the Team; arrangements are in place to ensure that knowledge has been shared across team members and that there is no over reliance on any key members of staff.
- *Known Issues*: a range of issues which materialised during 2016, for example failing to issue annual pension benefit statements for modified fire fighters in a timely manner, have been addressed and steps have been taken to ensure they do not reoccur during 2017.

Our review has identified a range of largely minor issues. However none of these are 'new', most have been issues for at least four years, while the lack of automated interface between SAP and Altair (the Payroll/HR system and Pension system respectively) date back to when SAP was implemented in 2010. At a high level the Council needs to continue with the programme of remedial actions planned, although there may be further options to be considered which we have highlighted as appropriate in our detailed findings. The five detailed findings we have raised are summarised below:

Performance Management: three metrics are currently monitored and reported regarding the work of the Payroll and Pensions Team: payroll accuracy, retirement benefit quotes 10 days and payment of pension benefits. The target for payment of pension benefits is five days and is being met in 93% of cases. However this measure is of limited value, as whether it is met is largely due to the point within the pension payroll cycle at which pensioners become entitled to benefits (i.e. if it falls prior to the change lockdown date, so can be included in the next payroll run, or will have to wait till the next month's payroll run). This has been recognised by the Team and we were informed that a more meaningful measure is currently being investigated; this is sensible and should continue as planned. The other two targets are being largely met.

The main issue is that the current metrics do not sufficiently measure the impact of the Team, or align with the Council's need to ensure it will meet external and statutory payroll and pension reporting requirements; for example providing annual benefit statements for pension scheme members. The performance measures set need to be reviewed, consulting senior Council staff and pension boards as necessary, to ensure measures adequately collect and report on the key requirements and outputs of the team.

We have raised this area as a **medium risk** finding.

Review of Documentation: while there is a wealth of documentation available to the Team on the shared drive, there are a high number of duplicated and/or obsolete documents, increasing the likelihood that staff will refer to the wrong documentation – for context there are over 200 processing guides on the shared drive. Specific to

pensions there are 38 processing guides which have not been updated since at least 2012, with the majority no longer being required as the Altair system has embedded guidance for the majority of processing.

The first step needs to be rationalising the documentation stored on the shared drive, so that only the most recent copies are available to staff; for pensions this needs to focus on the processing elements managed outside of Altair, for example requesting and evidencing death certificates when required. Where documentation is overdue review and is still applicable, this needs to be addressed, to ensure it is up to date as soon as possible, with all documentation reviewed annually in future to ensure it can be relied on to support accurate processing.

We have raised this area as a **low risk** finding.

Succession Planning: payroll and pensions are currently administered by a small team, based at the Westridge Business Centre in Ryde. While historically there was an overdependence on individual team members, with knowledge of specific processes, the Council is confident that cross skilling has been successful and they now have sufficient resilience within this Team. A skills mapping exercise has been carried out and a programme of training is planned for the next 12 months to address remaining gaps with pension scheme knowledge; this should continue as planned.

We have raised this area as a **low risk** finding.

Reconciliations: SAP to Altair: when pension related changes, for example contribution levels, are made in SAP they need to be replicated in Altair, the pension administrative system. There is a long standing issue (dating from when SAP was implemented in 2010), with information from SAP having to be manually 'transformed' before it can be imported into Altair. The Council has purchased a product, iConnect, to make this reconciliation automatic, however, due to the Council's non-standard SAP implementation, this did not work 'out of the box' and has never been implemented. The iConnect product was revisited in 2016, to scope out the work necessary to get it working. This initiative has now stalled, as funding is necessary to either train the in-house IT Department to get iConnect working or source a configuration service from a third party.

The Council needs to decide whether it is going to make the funding available to proceed with iConnect. The alternative would be to continue with the manual and potentially error prone process currently used. The information to inform this decision needs to be escalated to the appropriate level of management for decision.

We have raised this area as a **low risk** finding.

Teacher Pension Scheme (TPS) and Schools: although the majority of Council maintained schools on the Island use third party HR/Payroll processors, the Council remains responsible for completing the annual pension return to the TPA (Teachers' Pensions Agency). Since the Council ceased providing Payroll and HR services to schools in 2013 there has been an ongoing issue, with third party providers failing to provide accurate and timely information to the Council, both regarding TPS and LGPS (Local Government Pension Scheme) members. A meeting was held with schools in February 2017 to highlight issues and we were informed that all Island schools have been extremely supportive in chasing their HR/Payroll providers for missing/incorrect information.

The Council completed its TPS submission to the TPA by the 31st May deadline in 2017 and is now waiting to hear back from the TPA regarding any anomalies identified. Any anomalies identified will need to be addressed in time to enable the Council's TPS submission to be independently audited by November 2017. As planned, should the Council encounter further issues with HR/Payroll providers not providing information in a timely manner, this should be escalated to schools to be chased.

Regarding the LGPS the same underlying issues apply, third party HR/Payroll providers are not providing the Council with the information it requires to ensure that the information in Altair is accurate, ensuring benefit statements can be issued by the annual August deadline and scheme valuations are accurate. As with the TPS, should

information not be forthcoming from HR/Payroll providers, this should be escalated to schools for chasing. The Council also needs to ensure that it captures the additional time spent/cost incurred carrying out this work and, as flagged to schools at the February 2017 meeting, the option of recharging additional costs to schools if information is not forthcoming should be escalated to senior management at the Council for consideration.

We have raised this area as a **low risk** finding.

Known Issues

In the terms of reference for this review a number of issues were identified, specific to the Firefighters' Pension Scheme (FPS). At a high level these have either been addressed, or are in the process of being addressed. One area, ensuring that the annual issue of accurate benefit statements to scheme members, would benefit from greater oversight, which we have covered in a wider finding on performance management, summarised above. A summary of the current position regarding each of the issues is provided below.

Inadequate governance in place over the FPS: a new forum, the 'Isle of Wight Fire Fighters Pension Board', first met in September 2016 and is attended by members, senior officers and scheme members. This group is focussed on ensuring that the FPS is correctly managed and is overseeing progress regarding a number of further planned enhancements to governance, for example updating policies applicable to each of the four FPS schemes.

Inability to correctly process modified FPS schemes, due to Fire Service being unwilling to fund system upgrade: the issue was that the Council did not have the necessary functionality in Altair (the pension administration system) to manage one of the FPS schemes. The Council has funded the upgrade itself and work is ongoing to address remaining data quality issues. At the time of writing (May 2017) it is estimated that there are no more than 45 scheme members still affected, with work in progress to address the errors applicable to these members.

Failure to issue benefit statements to modified FPS members by the deadline in 2016 (31st August): now the Council has the necessary functionality in Altair it is confident that the outstanding 2016 benefit statements will be issued by the revised July 2017 deadline, agreed with the Section 151 officer and notified to the Pension Regulator. While the Council is confident that it will be able to meet future August deadlines for the issue of accurate benefit statements, as summarised further above, associated performance monitoring would benefit from being enhanced, to ensure that, should any issues materialise, these are escalated and addressed at the earliest opportunity.

We would like to take this opportunity to thank Isle of Wight Council staff for their help and assistance with this review.