

INTERNAL AUDIT ABRIDGED REPORTS

a **Finance Department**
Systems Review of Pension Administration by Dundee City Council (02/23)

Introduction

A review of Pension Administration for the Local Government Pension Scheme administered by Dundee City Council was included as part of the planned Internal Audit activity for 2002/03. The Scheme has approximately 16,000 contributors, 10,000 pensioners and 4,000 deferred pensioners. Contributions for employers and employees in the year 2001/02 amounted to £40.7m and payments made to pensioners in the year were £36.3m.

Pensions staff are responsible for the administration of the Local Government Pension Scheme, Police Pensions, Fire Pensions, Gratuities and Teachers Compensation. Pensions staff are organised into two main sections: one section deals with admissions, transfers-in, transfers-out, refunds and contributions on behalf of employees while the other section administers all aspects of payments to retired employees, widows/widowers and dependent children.

Scope and Objectives

The audit work focused on procedures relating to new pensioners of the Local Government Pension Scheme. It did not cover procedures for new pensioners of Police and Fire uniformed staff. The sample of new pensioners included some normal retirements, voluntary retirements, ill health retirements and redundancy and efficiency of the service retirements. Some widows' and children's pensions were also included.

Areas examined included the AXIS pension system currently used by staff to calculate pensions, the originating documentation received from employers, the reasonableness of lump sums and pensions calculated and procedures for checking calculations. Pension payroll reconciliation arrangements and the process for ensuring recharges for enhancements and strain on the fund costs, where applicable, were also considered. The accuracy of information held in both the AXIS pension system and ISIS payroll system was examined. Computerised extracts of new pensioners in both ISIS and AXIS were obtained and matched using specialised audit software. In addition, a sample of pensioners obtained from ISIS was cross checked to AXIS for accuracy.

Key Findings

A number of strengths were identified in the audit fieldwork. Pensions staff have a detailed understanding of Pension Regulations which are extremely complex. Members of staff within Pensions have to retain a working knowledge of both new and existing legislation as, when Regulations are updated, the Regulations state that a person cannot be worse off under the new Regulations than he/she would have been under the old ones. Members of the scheme are kept apprised of Pension issues through Pension Patter, a magazine which is produced by Pension staff at varying intervals and which includes contact details for anyone with queries.

All calculations and input to payroll are checked by a senior member of staff. This is extremely important as every pension calculation is unique and based on a variety of factors such as nature of retirement, age, length of service, pensionable pay etc.

The principal areas reported on as a result of this review were as follows:

- Data security would be enhanced by removing superfluous logins and introducing enforced password changes.
- The retiral action sheet, currently used by staff, should be revised to include a section for recharges checked and an amended retiral action sheet should be introduced for widows, widowers and children's pensions.

Management Responses to Recommendations

The audit findings and recommendations were formally reported to the Director of Finance and an action plan agreed to address the specific matters raised.

b

Finance Department

Review of the Administration of Tayside Superannuation Fund and Tayside Transport Superannuation Fund (02/24)

Introduction

A review of Tayside Superannuation Fund and Tayside Transport Superannuation Fund was included as part of the planned Internal Audit activity for 2002/2003. Dundee City Council is the administering authority for both Funds. The value of Tayside Superannuation Fund at 31 March 2002 was £926.322m while Tayside Transport Superannuation Fund had a corresponding value of £36.168m (per the audited accounts). Investment activities for both Funds are undertaken by external Fund Managers. As a result of the Review of the Fund undertaken by Hymans Robertson during 2002, investment activities will be combined but discrete calculation of the assets of both Funds will be retained.

Overall responsibility for the management of the Funds is delegated to the Superannuation Investment Sub-Committee which meets on a quarterly basis. The Committee decides the objectives of the Funds, strategy to be employed, and policies for the Funds. It also monitors performance of the Fund Managers relative to agreed benchmarks. The Committee relies heavily on advice given by senior management within the Finance Department including the Principal Treasury and Investment Officer who oversees the day to day business of superannuation investment activities.

Scope and Objectives

The areas examined during the audit included the remit of the Superannuation Investment Sub-Committee, the role of Fund Managers, asset custody arrangements, reconciliation procedures and performance measurement of the Funds. The review did not consider the suitability of Fund Managers' portfolios, the valuation of the assets therein or verify the fees charged by the Fund Managers.

Key Findings

A number of strengths were identified in the audit fieldwork. The Superannuation Investment Sub-Committee has embraced the recommendations of the Myner's Report which effectively sets out a Code of Best Practice for trustees of Pension Funds and various external bodies are employed to help the Committee achieve the Funds' objectives. Hymans Robertson provide actuarial valuations and advice on strategic issues and the WM Company provides benchmarking information. Guidance on Corporate Governance matters is obtained from Pensions and Investments Research Consultants Ltd. The Committee reviews the Statement of Investment Principles annually and the Socially Responsible Investment Policy at six monthly intervals. Methods for increasing returns to the Funds are actively sought, eg a Commission Recapture agreement was signed in 2000.

The Principal Treasury and Investment Officer has a good understanding of the subject matter, provides quality management information and maintains good records. He is a member of the Treasury Management Forum of the CIPFA Scottish Branch where Officers meet to discuss current topics of interest. The activities of the Fund Managers and asset valuations are analysed monthly and reported to senior management within the Finance Department. Quarterly reports are prepared for the Superannuation Investment Sub-Committee showing actual performance against benchmark. In addition, there is a planned programme of visits by Fund Managers to each quarterly meeting which ensures that all Fund Managers will report to Committee on an annual basis.

The principal areas reported upon as a result of this review were as follows:

- To demonstrate Best Value is being achieved, the positions of both Actuary and Adviser to the Fund require to be subject to market testing.
- A timetable for monthly signing off arrangements should be introduced to confirm that the records of the Custodian agree to that of the Fund Manager.
- A formalised procedure should be introduced to ensure that the list of personnel within Dundee City Council who are authorised to issue instructions on behalf of the Funds is confirmed, on an annual basis, with the Fund Managers.
- A specific clause should be included within all agreements with Fund Managers specifying that a balanced portfolio should be maintained.

Management Responses to Recommendations

The audit findings and recommendations were formally reported to the Director of Finance and an action plan agreed to address the specific matters raised.

C

Finance Department

Review of Finance General's Petty Cash/Imprest (02/25)

Introduction

As part of the planned internal audit activity, a review of Finance General's Petty Cash/Imprest was carried out. The value of the float advanced is £15,000 but only a small portion is used to reimburse expenditure incurred by staff within the Finance General Division. Some small floats held by other departments and organisations affiliated to the Council are also replenished from the advance. Payment of wages, advances and retains are made from the float and requests for cash are received on a regular basis, for example from the Police, the Revenues Section in respect of cash refunds and Caird Hall staff for payments to concert promoters.

Scope and Objectives

The review focussed on the documentation and information used as the basis for processing expenditure from the petty cash/imprest and the reimbursement of the float.

The key aims were to assess the adequacy and provide an opinion on the systems, controls and underlying records and documentation.

Key Findings

The principal conclusions drawn from the audit fieldwork were that the systems operated in respect of payments from, reconciliation and replenishment of the float are well controlled.

The principal areas reported upon were as follows:

- Consideration be given to reducing the overall amount of the petty cash/imprest float which has been advanced.
- Although in general the storage and access arrangements were adequate, there were certain areas, for example in relation to the management of safe keys, which it is viewed could be improved upon.

Management Responses to Recommendations

The audit findings and recommendations were formally reported to the Director of Finance and an action plan to address the audit findings and recommendations has been agreed.

d

Planning and Transportation

Audit Certificate for Additional Revenue on the Maintenance of Local Roads (02/26)

Introduction

In the 2001/02 financial year a grant of £329,000 was received by Dundee City Council from the Scottish Executive which the Council was instructed to use to initiate a risk review of local road bridges to ensure they met safety requirements.

Scope and Objectives

In order to confirm that this grant had been spent appropriately the Scottish Executive requested that assurance be sought from the Council's Chief Internal Auditor and an audit certificate completed.

Key Findings

It was concluded from the audit review that the Council expended the grant appropriately.