

Memo

To: Kevin Wilson, Director of Finance.
David Lofthouse, Senior Finance Officer

From: Yasmeen Mehmood, HW Auditor

Date: 20th May 2013

Re: Pensions Review

A. BACKGROUND

1. This review has been planned as part of the 2012 / 2013 annual audit plan to ensure that processes surrounding the outsourced Pension Administration and Payroll are operating efficiently and effectively.
2. Up until March 2011, the Finance Section performed the Pension Administration in-house. During 2011 a review of the in-house service was undertaken resulting in a decision to outsource the function.
3. The Fire Service received two tenders and following a detailed evaluation the contract was awarded to the West Yorkshire Pension Authority. The contract started in April 2012 and is for four years with the option to extend by two years.
4. The Pension payroll function is outsourced to Arvato, the Strategic partner of East Riding of Yorkshire Council

B. OBJECTIVES

1. The audit assessed the adequacy and effectiveness of internal controls operating at the outsourced Pension Administration and Payroll organisations undertaking work on behalf of the Fire Service.
2. The review also looked to consider work performed by the respective Internal Audit sections at West Yorkshire Pension Fund and Arvato in obtaining assurance on systems and controls in place.

C. FINDINGS

1. We obtained and reviewed the West Yorkshire Pension Authority's internal auditors report for 2012/13 entitled 'Fire Service – New Pensions and Lump sum payments'. The report focused on the four Fire Services within the region including Humberside Fire. A sample of Fire fighters across the four Fire Services was used as a basis for testing and an audit opinion of 'excellent' was given with no recommendations raised.
2. We contacted Arvato, the Fire Service's pension payroll provider, in a similar manner to obtain and review the work performed by East Riding of Yorkshire Council's internal auditors on pension payroll. We were informed that the 2012/13 Payroll review did not include the Fire Service in its sample testing. Discussions held with the Group Auditor revealed that every business unit is not covered in a given year due to the large number of employees processed by the payroll section.
3. In the absence of any audit testing performed by East Riding of Yorkshire Council's Internal audit on the Fire Service's pension payroll we obtained assurance that the Fire Service have authorisation controls in place to ensure pension payroll and lump sum payments are authorised and reviewed prior to release of payment by Arvato. These controls include:
 - The Finance Officer undertakes a 'sense check' on the monthly pension payroll figures prior to it being released for payment by Arvato; and
 - All lump sum payments are arithmetically checked by the Senior Finance officer and payments over £25,000 are authorised by the Director of Finance and Assets/S.151 Officer.

4. It should also be noted that neither East Riding of Yorkshire Council (Arvato) nor the West Yorkshire Pension Authority issue annual comfort letters to clients.

D. CONCLUSIONS & RECOMMENDATIONS

1. Having reviewed the work undertaken by the respective Internal Auditors of the West Yorkshire Pension Authority and Arvato, we recommend the following:
 - Annual comfort letters should be obtained to provide assurance that pension payroll and administration are operating effectively and efficiently by the respective service providers.

E. ACKNOWLEDGEMENT

1. We would like to thank all the staff involved for their help and assistance during the course of this review.

