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INFORMATION SYSTEMS AUDIT REPORT ON PENSION MANAGEMENT SYSTEM-THE NATIONAL TREASURY

SEPTEMBER 2024

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FOREWORD

I am pleased to present this Information Systems Audit Report on Pensions Department Management System. Article 229 (4) and (6) of the Constitution of Kenya, 2010 mandates the Auditor-General to undertake financial, compliance and performance audits. Further, Section 7(1)(a) of the Public Audit Act 2015 requires the Auditor-General to give assurance on the effectiveness of internal controls, risk management and overall governance at national and county governments. The Audit of Information Systems used in the management of Pensions was conducted in line with this mandate.

The integrity, security, and efficiency of information systems are paramount to an organization's success. As technology continues to evolve rapidly, ensuring robust IT governance and risk management practices becomes increasingly critical. This audit report aims to provide a comprehensive evaluation of the Pension's Management information systems, identifying areas of control weaknesses, and their impact of data and reports generated from the system and suggest areas of improvement.

The audit entailed examination of IT policies, procedures, and controls, with particular focus on data security, system functionality and reliability, and compliance with regulatory standards. The overall aim is to offer insights and recommendations that will assist in minimizing IT related risks, enhance operation of the Pension Management Information System, and support the achievement of the strategic objectives of Pension Department.

The report is submitted to Parliament in accordance with Article 229 (7) of the Constitution of Kenya, 2010 and Section 39 (1) of the Public Audit Act, 2015. I have also submitted copies of the report to the Principal Secretary, The National Treasury and the Chief of Staff and Head of the Public Service.

FCPA Nancy Gathungu, CBS
<u>AUDITOR-GENERAL</u>
13 September, 2024

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ABBREVIATIONS

BCP	Business Continuity Plan
DRP	Disaster Recovery Plan
ICT	Information Communication Technology
IPPD	Integrated Personnel and Payroll Database
IPRS	Integrated Population Registration Database System
IT	Information Technology
KRA	Kenya Revenue Authority
MoU	Memorandum of Understanding
PIN	Personal Identification Number
PMIS	Pensions Management Information System
PSPS	Public Service Pensions Scheme
PSSS	Public Service Superannuation Scheme
SLA	Service Level Agreement
SOPs	Standard Operating Procedures
UHR	Unified Human Resource
WHT	Withholding Tax

1. EXECUTIVE SUMMARY

Introduction and Background

1.1. Article 229 (4) and (6) of the Constitution of Kenya, 2010 mandates the Auditor-General to undertake financial, compliance and performance audits. Further, Section 7(1)(a) of the Public Audit Act, 2015 requires the Auditor-General to give assurance on the effectiveness of internal controls, risk management and overall governance at national and county government. Section 34 of the Public Audit Act, 2015 mandates the Auditor-General to conduct periodic audits. The Audit of Information Systems used in the management of Pensions was conducted in line with this mandate.

1.2. Payment of pensions and other related benefits to civil servants in Kenya is governed by the Constitution of Kenya, 2010, Pensions Act (Cap.189) and other Acts of Parliament. These legislations make provisions for granting and regulating payment of pensions, gratuities, and other allowances to public officers. The Pensions Department is responsible for administration and payment of pensions, death gratuities and other retirement benefits to eligible public officers and their dependants, operationalization of public sector pension laws and advising on public pension policy. During the year under review, the pension schemes administered by the Pensions Department were defined benefit schemes.

1.3. The Government introduced a contributory pension scheme under the Public Service Superannuation Scheme (PSSS) for Civil Servants, Teachers, and the Disciplined Services. The Scheme was established under the Public Service Superannuation Scheme Act, 2012 and commenced on 01 January, 2021. The Pension Department plays an advisory role in the administration of the PSSS Scheme. The Scheme is managed by a Board of Trustees and regulated by the Retirement Benefits Authority.

1.4. The Public Service Superannuation Scheme was established to address the limitations experienced with the non-contributory Public Service Pensions

Scheme (PSPS). A key concern for this scheme as noted in the PSSS Handbook is that PSPS is expensive and unsustainable in the long run.

1.5. During the year under review, the Pensions Department was using the Pensions Management Information System (PMIS) to process and manage pensions data. This system was commissioned in the year 2009.

1.6. The Department was in the process of procuring a new system. The new system was envisaged to address the challenges faced with the current system. The challenges include: non-integration with other critical systems such as IPPD, delays, and errors in manual processing of pensions, poor data input controls, poor segregation of duties (ICT had access to live payroll data), and data security vulnerabilities.

Audit Scope, Objectives and Limitations

1.7. The overall objective of the audit was to determine the effectiveness of design, implementation and operation of pension management information system controls, compliance with laws and regulations, directives and best practices and the impact of any control deficiency on the financial statements.

1.8. The specific objectives were to:

i. Determine the adequacy and effectiveness of Information Processing Controls and related general controls for Information systems used in processing and management of pensions.

ii. Determine the impact of any control deficiency identified on the accuracy and completeness of the financial statements.

iii. Establish compliance with relevant laws, regulations, directives, policies and best practices.

1.9. The audit reviewed the Information System used in the management of Public Service Pensions Scheme (PSPS), which is a defined benefit pension scheme.

1.10. Data and financial information for the Financial Year 2022/2023 were used to assess the impact of control deficiencies identified on the accuracy and completeness of the financial statements for the year ended 30 June, 2023 and on compliance with laws and regulations.

1.11. The management provided inaccurate and incomplete payroll data for audit. This was mitigated by validating the data using PMIS (read only access was provided)

Approach and Methodology

1.12. The audit involved review of processes at Pensions Headquarters and analysis of data maintained by the PMIS System. The findings resulting from the review were flagged and sampled. Verification of the sample was done from the relevant pensioners' files.

1.13. The main evidence gathering methodologies applied during the audit execution included document review, data analysis and interviews of key staff.

Summary of Audit Findings

The key audit findings are as follows

I. Information Technology General Controls

1.14. The audit identified deficiencies in the Information Technology (IT) general controls which may have impacted negatively on operating effectiveness of application controls as follows:

Lack of Approved Information Technology Policies

1.15. There were no approved IT policies which may have led to inconsistent IT practices and inadequate controls, exposing the Department to potential security breaches, data loss, and operational disruptions. Further, without regular IT risk assessments, the Department is unable to proactively identify and mitigate vulnerabilities, leaving critical systems and data at heightened risk.

Weaknesses in Business Continuity Planning

1.16. The Department did not have an approved Business Continuity Plan/Disaster Recovery Plan (BCP/DRP). Further, even though backups were being run, there was no evidence that they were tested for restoration. This implies that the Department may be unable to recover and continue offering services within acceptable timeframes in event of disasters and/or other disruptions.

Inadequate Information Technology Security Controls

1.17. There were security controls in Information Technology operating environment that were found to be inadequate. This exposes the Pensions Department to risks, including unauthorized access to sensitive data, data breaches, and potential data loss which can lead to financial losses, legal repercussions, and damage to reputation. These weaknesses were partly attributed to lack of security policies and procedures.

II. Weakness in Pension Management Information System Application Control

1.18. The key weaknesses in Pension Management Information System application controls as follows:

Audit Trail Not Enabled in Pension Management Information System

1.19. It was established that the Pension Management System was not configured to maintain audit trail. This control deficiency can lead to management being unable to establish perpetrators of unauthorized activities in the event the weakness is exploited. Further, failure to enforce accountability for the activities compromises the security of the system and can hamper problem resolution in case chronology of events is required during investigations of system malfunction or fraudulent activities.

Inadequate Validation Controls

1.20. Review of the PMIS revealed that the system did not have adequate data input validation controls. These controls validate values provided by a user to ensure they match expected criteria/format. Failure to implement input validation controls may compromise the integrity of data being maintained and processed by the system.

Inadequate Standard Reports

1.21. The Pension Management Information System was not configured with provisions for generating standard reports like pensioner's payroll. The payrolls were instead being generated by ICT officers from the back end. This scenario points to weak segregation of duties where ICT officers are accessing the live environment. The control weakness can result in incorrect pension payments, leading to financial losses and dissatisfaction among pensioners. Further, this can hinder timely decision-making owing to lack of information that would otherwise be obtained from the already configured reports in a timely manner.

Pensioners Not Linked to Specific Dependants

1.22. The Pensions Management Information Systems was not configured to link pensioners to specific dependents. In this regard, cases of pensioners receiving disability pension on account of other pensioners were noted. This control weakness increases the chances of individuals receiving benefits they are not entitled to.

Irregular Payment of Disability Allowance to Deceased Pensioners

1.23. Analysis of data revealed the Pension Management Information Systems was not configured to automatically stop processing of disability allowance upon death of the pensioner, resulting to accounts of dead pensioners being credited with disability allowance. This control weakness increase risk of funds being erroneously or fraudulently accessed by unauthorized individuals or entities.

Unreliable Data

1.24. Data maintained by the Pension Management Information Systems had incomplete and inaccurate records of tax PINs, ID numbers and date of birth which are key fields used in determining eligibility of pensioners and processing payments to pensioners, dependants and to the Kenya Revenue Authority (KRA).

1.25. Incomplete or inaccurate data may lead to errors and fraud in pension processing and administrative inefficiencies, hence financial loss arising from irregular payments. In addition, penalties and fines may be imposed by Kenya Revenue Authority (KRA) to the Department. Further, pensioners whose PINs are not captured or are incorrectly captured may not get timely services from the KRA.

1.26. During the year under review, pension paid to pensioners and dependants with data integrity issues amounted to **Kshs 7,347,868,838.**

Irregular Monthly Payments to Dependants

1.27. Comparison of main pensioner and dependant payrolls for the year under review established that there were dependants who were paid dependant allowance yet the pensioners were in the main pensioner payroll. This implies that PMIS was not configured to disallow the main pensioners and the dependants earning pension simultaneously.

Payment to Dependants For More Than Five Years

1.28. There were ten **(10)** widows who were paid deceased officers' pension for a period ranging from six **(6)** to thirteen **(13)** years contrary to Section 17(1)(a) of the Pensions Act Cap 189. The Act caps the duration of payment to five (5) years. This implies that the PMIS was not configured to automatically remove windows from the payroll after end of the five-year period, resulting to the Department incurring financial loss.

Deceased Pensioners in the Payroll

1.29. There were **2,953** deceased pensioners who were being paid pension despite being captured in the system as deceased. The total payment for the year amounted to **Kshs.350,585,153.**

Conclusion

1.30. The audit identified control weaknesses including lack of IT policies which are required to ensure consistency in IT practices during access and use of IT assets and resources. Further, the Department may not be well prepared to recover on time in event of a disaster and/or disruption. The Department is therefore exposed to risk of potential data breaches, unauthorized access and operational disruptions.

1.31. The Pension Management Information System did not have adequate data input validation controls which check values provided by a user to ensure they match expected criteria, and processing controls designed to enforce controls embedded or configured in the business processes. These weaknesses affect the reliability of data maintained by the Pension Management Information System and increases possibility of irregular payments. In addition, the Department was not producing the financial statements from the system but was instead extracting data, analyzing and summarizing to produce the financial statements.

1.32. The audit identified instances of non-compliance with laws, regulations, directives, policies, and best practices related to public debt management. Notably, the were instances of non-compliance with Public Finance Management (National Government) Regulations, 2015 and Pensions Act (CAP 189).

Recommendations

1.33. In view of the findings and conclusions of the audit, the following recommendations are proposed for implementation by The National Treasury: -:

1.34. The National Treasury (TNT) must develop, approve and operationalize key ICT policies and procedures. In addition, Business Continuity Plan, Disaster Recovery Plan and back up procedures should be developed and implemented and backups regularly tested for efficient restoration. This will ensure continuity of critical business operations.

1.35. To ensure data maintained by the Pension Management Information System is accurate, complete and valid, The National Treasury should:

i. Clean data maintained in the system. This should be done before migration to the new Pension Management System.

ii. Implement a robust data input validation mechanism. Further, in collaboration with the State Department for Immigration, State Department for Public Service and the Kenya Revenue Authority, integrate the Pension Management Information System with Integrated Population Registration Database System, Human Resource Information System and KRA systems.

iii. Develop Standard Operating Procedures detailing step-by-step process that must be taken to properly perform routine activities. Implement mechanisms to monitor and enforce adherence to the developed Standard Operating Procedures, emphasizing the importance of following documented procedures for consistency and quality assurance.

1.36. The National Treasury should investigate all payments to dependants with data integrity issues and recover any loss of public money. In addition, National Treasury should ensure all money irregularly paid to pensioners and dependants is recovered. The National Treasury should seek the assistance of investigation agencies

1.37. To ensure compliance with relevant laws, regulations, directives, policies and best practices, National Treasury should configure the PMIS to enforce adherence to relevant Acts and approved business processes. In this regard, the system should reject payments to dependants when the Pensioner is alive and automatically stop dependants from earning main pensioner's pension after five (5) years.

1.38. To eliminate errors and irregularities that might arise from manual interventions, the Management should configure the PMIS to produce standard reports like payroll.

1.39. To reduce the delay in enrolment of pensioners, The National Treasury should foster collaborations with Ministries, Departments, Agencies and other stakeholders involved in the pension administration process.

2. INTRODUCTION AND BACKGROUND

2.1 Introduction

2.1.1 Article 229 (4) and (6) of the Constitution of Kenya, 2010 mandates the Auditor-General to undertake financial, compliance and performance audits. Further, Section 7(1)(a) of the Public Audit Act, 2015 requires the Auditor-General to give assurance on the effectiveness of internal controls, risk management and overall governance at national and county government. Section 34 of the Public Audit Act, 2015 mandates the Auditor-General to conduct periodic audits. The Audit of Information Systems used in the management of Pensions was conducted in line with this mandate.

2.2 Background

2.2.1 Payment of pensions and other related benefits to civil servants in Kenya is governed by the Constitution of Kenya, 2010, Pensions Act (Cap.189) and other Acts of Parliament. These legislations make provisions for granting and regulating the payment of pensions, gratuities, and other allowances public officers. The Pensions Department is responsible for administration and payment of pensions, death gratuities and other retirement benefits to eligible public officers and their dependants; operationalization of public sector pension laws and advising on public pension policy.

2.2.2 The pension schemes administered by the Pensions Department under the National Treasury are defined benefit schemes which is a non-contributory scheme.

2.2.3 The Government introduced a contributory pension scheme under the Public Service Superannuation Scheme (PSSS) for Civil Servants, Teachers, and the Disciplined Services. The Scheme was established under the Public Service Superannuation Scheme Act, 2012 and commenced on 01 January, 2021. The Pension Department plays an advisory role in the administration of the PSSS

Scheme. The scheme is managed by a Board of Trustees and regulated by the Retirement Benefits Authority.

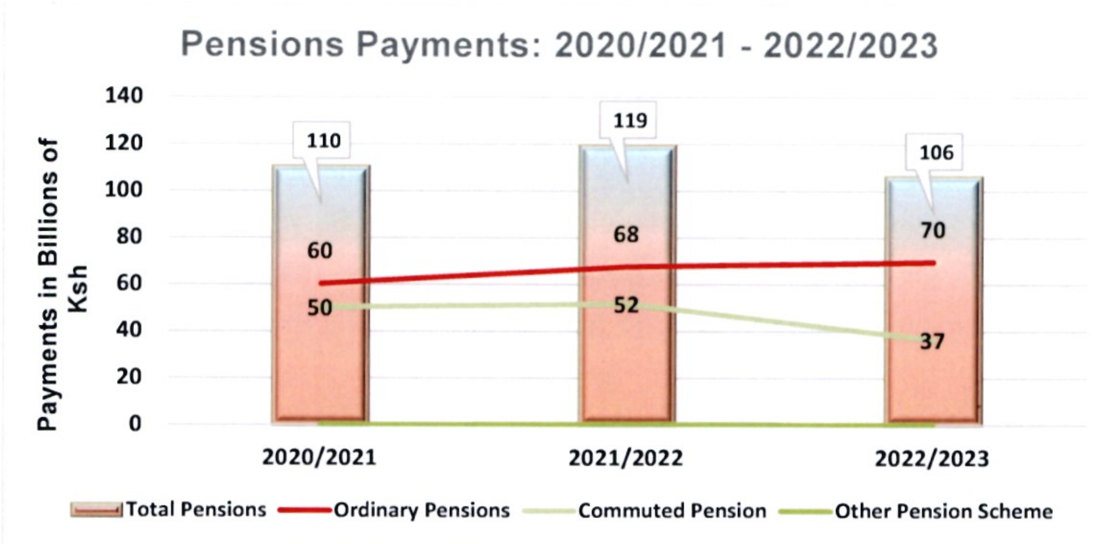
2.2.4 The Public Service Superannuation Scheme was established to address the limitations experienced with the non-contributory Public Service Pensions Scheme (PSPS). A key concern for this scheme as noted in the PSSS Handbook is that PSPS is expensive and unsustainable in the long run.

2.2.5 The expenditure on Pensions is composed of payments of Ordinary Pensions, Commuted Pension and Other Pension Scheme. The Ordinary Pensions are the monthly pensions paid to pensioners or their dependants. Commuted Pensions constitutes the quarter (¼) pensions of the unreduced pension that is paid out to the pensioners as lumpsum. Other Pension schemes include refunds and other ex-gratia allowances, and payments to crown agents. The Other Pension schemes are not processed through the PMIS.

2.2.6 Analysis of pensions payments indicates that the total pensions payments grew from Kshs.110 billion in 2020/21 to Kshs.119 billion in 2021/22. The figure dropped to Kshs.107 billion in 2022/2023. Whereas there was a drop in the amount paid as total pensions, it is noted that ordinary pensions increased annually for the three (3) years analyzed. It increased from Kshs.60.2 billion in 2020/21, to Kshs.67.58 billion in 2021/2022 and to Kshs.69.54billion in 2022/2023.These amounts are summarized in **Table 1** and **Chart 1**: -

Table 1:Payment of Pensions

Type of Payment	**2020/2021 (Kshs.)**	**2021/2022 (Kshs.)**	**2022/2023 (Kshs.)**
Ordinary Pensions	60,195,682,517	67,582,563,409	69,536,695,227
Commuted Pension	50,230,542,015	51,770,914,802	36,575,565,021
Other Pension Scheme	54,335,647	96,271,061	6,563,560
Total Pensions	**110,480,560,179**	**119,449,749,272**	**106,118,823,808**



2.2.7 During the year under review, the Pensions Department was using the Pensions Management Information System (PMIS) to process and manage pensions data. This system was commissioned in the year 2009. During the audit, it was explained that the department was in the process of procuring a new system. The new system is envisaged to address the challenges faced with the current system. The challenges include: non-integration with other critical systems such as IPPD, delays, and errors in manual processing of pensions, poor data input controls, poor segregation of duties (ICT had access to live payroll data), and data security vulnerabilities.

2.3 Scope, Objectives and Limitations

2.3.1 The audit reviewed of the Information System used in the management of Public Service Pensions Scheme (PSPS) which is a a defined benefit pension scheme.

2.3.2 Data and financial information for the Financial Year 2022/2023 were used to assess the impact of control deficiency identified on the accuracy and completeness of the financial statements for the year ended 30 June, 2023 and compliance with laws and regulations.

2.3.3 The overall objective of the audit was to determine the effectiveness of design, implementation and operation of pension management information system controls, compliance with laws and regulations, directives and best practices and the impact of any control deficiency on the financial statements.

2.3.4 The specific objectives were to:

i) Determine the adequacy and effectiveness of information processing controls and related general controls for Information Systems used in processing and management of pensions.
ii) Determine the impact of any control deficiency identified on the accuracy and completeness of the financial statements.
iii) Establish compliance with relevant laws, regulations, directives, policies and best practices.

2.3.5 **Table 2** describes the extent to which the objectives of the audit were addressed.

Table 2: Scope and Limitations

Objective	Scope of Audit
1) Determine the adequacy and effectiveness of Information processing controls and related general controls for Information Systems used in processing and management of pensions.	• Reviewed input, processing and output controls over PMIS, database security and operating system security • Reviewed the adequacy and effectiveness of IT governance; business resilience and business operation.
2) Determine the impact of any control deficiency identified on the accuracy and completeness of the financial statements.	The control weaknesses identified were assessed for their impact on the financial statements.
3) Establish compliance with relevant laws, regulations, directives, policies and best practices.	Assessed compliance with: i. Pension Act, CAP 189 ii. Income Tax Act, CAP 470 iii. Kenya Defense Forces (Pensions and Gratuities) (Officers and Service Members) regulations, 2021 iv. The PFM (National Government) regulations, 2015 v. Parliamentary Pension Act, CAP 196

2.1. The management provided inaccurate and incomplete payroll data for audit. This was mitigated by validating the data using PMIS (read only access was provided)

2.4 Audit Approach, Methodology and Report Structure

2.4.1 The audit involved review of processes at Pensions Headquarters and analysis of data maintained by the PMIS System. The findings flagged during the review were sampled and the samples verified from pensioners' files.

2.4.2 The main evidence gathering methodologies applied during the audit execution included document review, data analysis and interviews of key staff. The details of data gathering methodologies and reporting structure are explained below:

Document Review

2.4.3 The audit team reviewed various documents including: -

i. Pension Act, CAP 189
ii. Income Tax Act, CAP 470
iii. Kenya Defense Forces (Pensions and Gratuities) (Officers and Service Members) regulations, 2021
iv. Parliamentary Pension Act, CAP 196
v. The Public Finance Management (National Government) regulations, 2015
vi. Pensions Management Information Systems user/operational manuals
vii. Consolidated Fund Services – Pensions and gratuities Financial Statements for the Financial Year 2022/2023
viii. Information Communication Technology Assets Register for Hardware and Software
ix. Annual Information Communication Technology maintenance agreements
x. Contracts and Service Level Agreements (SLAs) between The National Treasury and vendors of Information Communication Technology related products and services
xi. Draft Information Communication Technology policy and procedures

System Review and Walkthrough Test

2.4.4 The test environment and live environment were used to test and validate the adequacy and effectiveness of some of the application controls.

Data Analysis

2.4.5 Data from PMIS was extracted and analyzed and exceptions noted. The data analysis exceptions formed the basis of verification from pension files.

2.4.6 The following sets of data were analyzed:

a) Enrollment data for the year 2022/2023
b) Pensioner's payrolls for the year 2022/2023
c) Bank statement for the year 2022/2023
d) Payroll Summaries
e) User rights allocations
f) Sample audit logs.

Interviews of Key Staff

2.4.7 The audit team interviewed officers from the Pensions Department as a way of obtaining audit evidence or clarifying on audit issues.

2.4.8 The officers interviewed are tabulated below: -

Table 3:Officers Interviewed

No	Designation	Department
1	Deputy Accountant General	Finance
2	Principal Human Resource Officer	Payroll
3	Principal Pension Officer	Assessment
4	Senior Pension Assistance	Claims Section
5	Senior ICT Officer	ICT
6	Pension Officer 1	Assessment
7	Pension Assistant	Claims Section

Report Structure

2.4.9 This report is organized as follows:

i. Executive Summary
ii. Detailed Findings
iii. Conclusion and Recommendations
iv. Listing of appendices

2.4.10 The report should be read in its entirety in order to comprehend fully the approach to and findings of our work. The appendices referenced in the report will be provided in soft copy. The report has covered analysis and facts as understood with the aim of informing the National Treasury Management of the risks identified regarding the protection of Information Assets used in the management of Pensions. Recommendations on mitigation measures have been made.

3. DETAILED FINDINGS

The audit reviewed both general and application controls.

3.1. Information Technology General Controls

3.1.1. Regulation 110(1) of the PFM (National Government) Regulations, 2015 requires an Accounting Officer for a national government entity to institute appropriate access controls needed to minimize breaches of information confidentiality, data integrity and loss of business continuity. Review of IT general controls revealed the following weaknesses:

I. Lack of Approved IT Policies

3.1.2. The audit established that the pensions department did not have approved Information Technology (IT) policies and procedures. The absence of defined policies and procedures specific to management of IT implies IT processes may lack standardization, leading to inefficiencies in operations, potential resource wastage, and activities that are not aligned with the department's strategy. There is also risk of security breaches and unauthorized access to sensitive information. Lack of approved IT Policies implies that the department may not adequately respond to changes in Technology as well as emerging IT risks.

II. Failure to Undertake IT Risk Assessment

3.1.3. It was established that Pension Department did not have an approved Risk Management policy and procedures which acts as base documents for risk identification, analysis, and evaluation. Further, there was no evidence provided to confirm that risk assessment and management was being done. The department did not provide IT risk register for audit review.

3.1.4. Failure to undertake IT risk assessment results in risks not being mitigated and hence exposing the department to vulnerabilities which if exploited can lead to disruption of services.

III. Weaknesses in Business Continuity Planning

3.1.5. Assessment of measures put in place to ensure continuity of business in the event of a major disruption established that pension department did not have an approved Business Continuity Plan/Disaster Recovery Plan (BCP/DRP). Further, even though backups were being done, there was no evidence that restoration tests were being done. This implies that the department may be unable to recover and continue offering services within an acceptable timeframe in the event of disasters and/or other disruptions.

IV. Lack of Standard Operating Procedures

3.1.6. The Department did not have Standard Operating Procedures (SOPs) for execution of its core business. SOPs describes the step-by-step processes taken to properly perform a routine activity. If followed, SOPs guarantees consistency and compliance with industry regulations and business standards.

3.1.7. Lack of Standard Operating Procedures may result in operational inconsistencies that can lead to inefficiencies and potential errors in the execution of critical tasks and delays in critical processes hence negatively affecting overall operational efficiency. Further the ability of the department to consistently deliver services of the desired quality may be hampered, hence potentially impacting customer satisfaction.

V. Lack of Internal Service Level Agreement

3.1.8. The Information Communication and Technology (ICT) officers who support the Pension Management Information System (PMIS) are drawn from the Directorate of Administrative and Support Services, a separate directorate from Directorate of Public Investment and Portfolio Management where Pension Department falls.

3.1.9. It was noted that the Pensions Department did not have a documented Internal Service Level Agreements (SLA) with the Directorate of Administrative and Support Services on how IT supports business processes. Lack of the SLA may lead to system downtime due to inefficient and ineffective IT support, which ultimately impacts on productivity and ability of the department to achieve its objectives.

VI. Inadequate Information Technology Controls

3.1.10. There were security controls in Information Technology operating environment that were found to be inadequate. This exposes the Public Debt Management Office to risks, including unauthorized access to sensitive data, data breaches, and potential data loss which can lead to financial losses, legal repercussions, and damage to reputation. These weaknesses were partly attributed to lack of security policies and procedures.

3.2. Weaknesses in Pension Management Information System Application Controls

3.2.1. Regulation 23 (c) of PFM (National Government) Regulations, 2015 require an Accounting Officers to in accordance with Article 226(2) of the Constitution of Kenya 2010 and Section 68(1) of the PFM Act, 2012 be accountable to the National Assembly for maintaining effective systems of internal control and the measures taken to ensure that they are effective. The audit however, identified the following weaknesses in the PMIS: -

I. Audit Trail Not Enabled in Pension Management Information System

3.2.2. An audit trail is an internal control that aims at detecting errors, fraud, and unauthorized user activities thus enhancing transparency and accountability in information systems.

3.2.3. It was established that the PMIS was not maintaining audit trail (a record of user activities in the system). The only logs that were provided are the event logs that were recording the login and logout events. Refer to **Appendix (I).**

3.2.4. This control deficiency can lead to management being unable to establish perpetrators of unauthorized activities in the event the weakness is exploited.

Further, failure to enforce accountability for the activities compromises the security of the system and can hamper problem resolution incase chronology of events is required during investigations of system malfunction or fraudulent activities.

II. Inadequate Validation Controls

3.2.5. Review of the PMIS revealed that the system did not have adequate data input validation controls. Refer to **Appendix II** showing an incoming claims data entry that allowed processing without key fields like personal number, national ID, Ministry/Department code being validated. Additionally, PMIS was not integrated with key government systems which collects and maintain primary data. These systems include Integrated Population Registration Database System (IPRS) and Integrated Payroll and Personnel Database (IPPD as well as with KRA systems.

3.2.6. Input validation controls, if well designed and implemented verifies that values provided by a user match pre-defined criterion before allowing further processing.

3.2.7. Failure to implement input validation controls may result in unreliable data being processed and maintained by the system.

III. Inadequate Standard Reports

3.2.8. It was established that PMIS did not have a provision to run payroll. As a result, the payroll officer was unable to execute the payroll process independently. The payrolls were instead being extracted by staff from ICT by running scripts directly in the database. This is contrary to the principal of segregation of duties. The process is also prone to errors and fraud due to manual intervention.

IV. Pensioners not Linked to Specific Dependants

3.2.9. Disability allowance can only be earned by the main pensioner unless the pensioner is a military officer, and the cause of death is attributable to the injury that was inflicted in line of duty. In this regard, PMIS should be configured to enforce this control.

3.2.10. Review of the system and analysis of data however revealed that there were ten (10) pensioners who received disability pension amounting to **Kshs.231,228** on account of other pensioners. Refer to **Appendix III(a) and III(b).** This implies that the PMIS is not configured to link the pensioner with his/her dependants.

V. Irregular Payment of Disability Allowance to Deceased Pensioners

3.2.11. Analysis of data for the year under audit revealed thirty (30) accounts of dead pensioners which continued to be credited with disability allowance totaling **Kshs 5,710,803.** Refer to **Appendix IV(a) and IV(b).**

3.2.12. The Pension Management Information System was therefore not configured to automatically stop processing of disability allowance upon death of the pensioner.

VI. Pensioners Earning Disability Allowance without Disability Records in PMIS

3.2.13. Analysis of PMIS data revealed twenty-two (22) pensioners who earned a disability allowance totalling to **Kshs.428,772** during the year under review yet their disability records did not exist in PMIS. Refer to **Appendix V and VI.**

VII. Unreliable Data Maintained by the PMIS

3.2.14. Analysis of data maintained by the PMIs revealed data integrity issues on tax PINS, ID numbers and date of birth which are key fields used in determining eligibility of pensioners and processing payments to pensioners, dependants and KRA as detailed below:

i. There were **9,205** pensioners in the main payroll for June 2023 whose tax PIN were not captured in the system or had invalid PINs captured. Refer to **Appendix (VII).** Further, PIN numbers for some dependants were not captured.

ii. There were **35,997** pensioners in the main payroll for June, 2023 who had invalid ID numbers captured in the system. Refer to **Appendix (VIII)**

iii. There were three (3) and eighty-five (85) records for main and dependant payroll respectively that had either incomplete or future date as date of enrollment. Refer to **Appendix (IX)(a) and Appendix (IX)(b)**

iv. There were 31 pensioners in the main payroll for June 2023 whose date of birth was similar to the date of enrollment. Refer to **Appendix (X)**

v. There were **2,469** deceased principal pensioners who had their name captured as "DUMMY". Refer to **Appendix (XI)**

3.2.15. During the year under review, pension paid to pensioners and dependants with data integrity issues amounted to **Kshs7,347,868,838.** Refer to **Appendix (XII).** Further analysis revealed that thirty-one (31) pensioners had both ID and Tax Pin integrity issues as shown in **Appendix (XIII).**

3.2.16. Other details in pensioner's data that were found to be incomplete or invalid included names, employment details and employment history, residency particulars. Refer to **Appendix (XIII)**.

3.2.17. Incomplete or inaccurate data may lead to errors and fraud in pension processing and administrative inefficiencies, hence financial loss arising from irregular payments. In addition, penalties and fines may be imposed by Kenya Revenue Authority to the department. On the other hand, pensioners whose PIN are invalid or not captured may not get timely services from the Kenya Revenue Authority.

VIII. Discrepancies of Withholding Tax Deductions

3.2.18. Recalculation of Withholding Tax (WHT) from dependent's payroll for the year ended 30 June 2023 amounted to Kshs.369,784,104. However, payroll summaries deductions processed for payment amounted to Kshs.68,964,468 resulting in a variance of Kshs.300,819,636. Refer to **Appendix (XIV)(a)** and **Appendix (XIV)(b)**. This is contrary to Section 3(2)(c)(i) of the Income Tax Act, 2021 which states that a pension, charge or annuity; are subject to tax.

3.2.19. Even though the discrepancies could have been caused by weaknesses in PMIS like unreliable date of birth, the management did not provide evidence on how the deductions reflected in payment summaries were arrived at.

3.2.20. Arising from the above non-payment of tax, the Pensions department risks incurring penalties.

IX. Irregular Monthly Payments to Dependants

3.2.21. Analysis of both main pensioner payroll and dependant payroll for the year under review revealed that there were thirty-one **(31)** dependants who were paid a gross total of **Ksh.329,873** while the pensioners were also in the main pensioner payroll. This implies that either the pensioners were alive or were not removed from the main payroll before commencing payments to their dependants. This is contrary to Pensions Act 17 (1) (a) of the Pensions Act (CAP 189) which states that, where an officer who has had ten or more years' service dies after he has retired from the service of the government having been granted a pension under this Act, there shall continue to be paid a dependants' pension to the widow or the children of the officer for a period of five years next following the date of the officer's death, at the rate of the officer's pension at the date of his death. Refer to **Appendix (XV).**

3.2.22. This implies that the PMIS was not enforcing control on main pensioners and the dependants not earning pension at the same time.

X. Payment to Dependants for more than Five Years

3.2.23. Analysis of dependant payroll for the year under review established that there were Ten **(10)** widows who were paid deceased officers' pension for a period exceeding 5 years. This is contrary to section 17(1)(a) of the Pensions Act CAP 189 which caps the period to 5 years. In the financial year under review, these dependants were irregularly paid pension amounting to **Ksh.1,319,829.** Refer to **Appendix (XVI)**

3.2.24. This implies that the PMIS is not configured to automatically remove from the payroll the widows after the five-year period resulting to the department incurring financial loss.

XI. Deceased Pensioners in the Payroll

3.2.25. Review of the pensioner death enrollment data against main pensioner payroll for the year ended 30 June, 2023 revealed that there were 2,953 deceased pensioners who were being paid pension despite being captured in the system as deceased. The total payment for the year amounted to Kshs.350,585,153. Refer to **Appendix (XVII)**

3.2.26. The management explained that there are instances where deaths are not reported promptly by beneficiaries, leading to the continued remittance of pension beyond the date of a pensioner's death. That upon receipt of death reports, the death enrollment is effected, and pension remittances beyond the date of the pensioners' death are recalled from the financial institution or recovered from dependant's entitlement. However, the department did not provide any Memorandum of Understanding (MoU) with the financial institutions to that effect. There are also instances where pensioners do not have dependants to recover from. Failure by the department to have a mechanism where death is reported promptly coupled with failure to have MoU with financial institution has resulted to the department incurring financial loss arising from irregular payments to accounts of deceased pensioners.

3.3. Other Findings on Pension Management Information System

I. Delayed Enrolment

3.3.1. The enrolment data had 412,252 enrolled pensioners, out of which 18,438 were enrolled in the year ending 30 June 2023. Further analysis of the 18,438 pensioners established that only 1,323 (7.2%) were enrolled within 9 months before date of exit. The remaining 17,115 officers representing 92.8% were enrolled after dates of exit, with 350 officers enrolled more than 10 years after exiting the service. This is contrary to Section D.34 sub-section (1) of the Human Resource Policies and Procedures Manual for Public Service, 2016, which states that in cases where the retiring officer is eligible for retirement benefits under the Pensions Act, a claim for such benefits should be submitted to the Pensions

Department, National Treasury on the appropriate Form G.P. 178 or 179 as the case may be, at least nine (9) months before the date of retirement.

Table 4:Delayed Enrolment

Years Between End of Service Date and Enrollment Date	Enrolled Pensioners
Enrolled 10 years + after exit	350
Enrolled 10 years after exit	31
Enrolled 9 years after exit	42
Enrolled 8 years after exit	81
Enrolled 7 years after exit	113
Enrolled 6 years after exit	196
Enrolled 5 years after exit	280
Enrolled 4 years after exit	401
Enrolled 3 years after exit	951
Enrolled 2 years after exit	2,459
Enrolled 1 year after exit	12,211
Enrolled 9 months before Exit	1,323
Total	**18,438**

II. Delay in Payments of Lumpsum and Monthly Pay

3.3.2. It was established that out of the 18,438 pensioners enrolled during the year under audit, 15,969 were active. Analysis of the 15,969 records revealed that 11,758 pensioners representing 74% were paid both the lumpsum amounting to Kshs.30,441,277,886 and monthly amounts totaling Kshs.2,463,703,010. Out of the remaining 4,211 pensioners, 489 pensioners were paid either monthly or lumpsum totalling **KShs.754,499,590.** The remaining 3,722 active pensioners were not paid. See the following table:

Table 5:Payment of Lumpsum and Monthly pension

Payment Status	Number of Pensioners	Lumpsum Payment	Monthly Payment	Total
Active Pensioners paid both lumpsum and Monthly Pension	11,758	30,441,277,886	2,463,703,010	32,904,980,896
Active Pensioners paid either lumpsum or Monthly Pension	489	744,747,300	9,752,290	754,499,590
Active and not paid	3,722	-	-	-
Not Active	2,469	-	-	-
Total	**18,438**	**31,186,025,186**	**2,473,455,300**	**33,659,480,486**

3.3.3. Failure to pay the 3,722 active pensioners can be attributed to the time of the year they were enrolled. Two thousand, eight hundred and forty (2,840) of the 3,722 pensioners, were enrolled in the last 90 days of the year 2022/2023. The remaining 882 were enrolled before the 90 days. This means 93% of active pensioners enrolled in the first 9 months of the year under review received at least lumpsum or monthly payments. This shows dedication by the pension department in ensuring pensioners are paid in time.

4. CONCLUSION

4.1. The audit identified control weaknesses including lack of IT policies which are required to ensure consistency in IT practices during access and use of IT assets and resources. Further, the department may not be well prepared to recover on time in event of a disaster and/or disruption. The department is therefore exposed to risk of potential data breaches, unauthorized access, operational disruptions.

4.2. The Pension Management Information System did not have adequate data input validation controls which check values provided by a user to ensure they match expected criteria, and processing controls designed to enforce controls embedded or configured in the business processes. These weaknesses affect the reliability of data maintained by the Pension Management Information Systems and increases possibility of irregular payments. In addition, the department was not producing the financial statement from the systems but was instead extracting data, analyzing and summarizing to produce the financial statements.

4.3. The audit identified instances of non-compliance with laws, regulations, directives, policies, and best practices related to public debt management. Notably, the were instances of non-compliance with Public Finance Management (National Government) Regulations, 2015 and Pensions Act (CAP 189).

5. RECOMMENDATION

5.1. In view of the findings and conclusions of the audit, the Auditor-General proposes the following recommendations for implementation by The National Treasury: -:

5.2. Ensure the development, approval and operationalization of key ICT policies and procedures. In addition, Business Continuity Plan, Disaster Recovery Plan and back up procedures should be developed and implemented and backups regularly tested regularly for restoration. This will ensure continuity of critical business operations.

5.3. To ensure data maintained by Pension Management Information System is accurate, complete and valid, The National Treasury should:

i. Clean data maintained in the system. This should be done before migration to the new Pension Management System.

ii. Implementing a robust data input validation mechanism. Further, in collaboration with State Department for Immigration, State Department for Public Service and Kenya Revenue Authority, integrate the Pension Management Information System with Integrated Population Registration Database System (IPRS), Human Resource Information System (HRIS) and KRA systems.

iii. Develop Standard Operating Procedures detailing step-by-step process that must be taken to properly perform routine activities. In addition, implement mechanisms to monitor and enforce adherence to the Develop Standard Operating Procedures, emphasizing the importance of following documented procedures for consistency and quality assurance.

5.4. To ensure no public funds are lost, The National Treasury should investigate all payments to dependants with data integrity issues and recover any loss of public money. In addition, ensure all money irregularly paid to pensioners and dependants is recovered.

5.5. In order to ensure compliance with relevant laws, regulations, directives, policies and best practices, The National Treasury should configure the Pension Management Information System to enforce adherence to relevant Acts and approved business processes. In this regard, the system should reject payment to dependants when the Pensioner is alive and automatically stop dependants from earning main pensioner's pension after 5 years.

5.6. To eliminate errors and irregularities that might arise from manual interventions, the management should configure the Pension Management Information System to produce standard reports like payroll.

5.7. To reduce the delay in enrolment of pensioners, the National Treasury should foster collaboration with Ministries, Departments, Agencies and other stakeholders involved in the pension administration process.

6. APPENDICES

The appendices referenced in the report and which are listed below will be provided in soft copies:

1. Appendix I – Failure to maintain audit trails in PMIS
2. Appendix II - Lack of data validation controls
3. Appendix III(a) - Sample Pensioner earning allowance on account of other pensioners
4. Appendix III (b) - Pensioners not linked to specific dependants
5. Appendix IV(a) - Sample of a deceased pensioner earning allowance
6. Appendix IV(b) - Failure to stop processing disability allowance of deceased pensioners
7. Appendix V - Sample Disability record not in PMIS
8. Appendix VI - Disability records not in PMIS
9. Appendix VII - Invalid Tax PINs
10. Appendix VIII - Invalid ID Numbers
11. Appendix (IX)(a) - Incomplete and future dates -Main payroll enrollment
12. Appendix (IX) (b)- Incomplete and future dates - Dependant payroll enrollment
13. Appendix X - Date of Birth Similar to Date of Enrollment
14. Appendix XI - Dependants Enrolled on Invalid Pensioners' Names
15. Appendix XII - Amount Paid to Pensioners with Data Integrity Issues
16. Appendix XIII – Deceased principal pensioners names captured as "Dummy"
17. Appendix XIV - Pensioner enrollment data anomalies
18. Appendix XIV(a) – Re-computation of Withholding Tax
19. Appendix XIV(b) - Discrepancy in Withholding Tax
20. Appendix XV – Irregular payments to dependants
21. Appendix XVI - Payment to dependants for more than 5 years
22. Appendix XVII -Deceased pensioners in the payroll

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