



Ministry
of Defence

Defence Internal Audit Report

Army – Controls over the Payment of Flying Pay (RRP(F))

Group Head of Internal Audit – [REDACTED]

July 2013

Audit Code: 3031/01/13

Assistant Head: [REDACTED]

Team Leader: [REDACTED]

Auditor(s): [REDACTED]

Entity Owner: LF Res Director

Contents

Executive Summary	1
Annex A – Detailed Findings & Agreed Management Action	A1 – A12
Annex B – Audit Objective and Scope	B1 – B3
Annex C – Audit Opinion and Findings Categories	C1

Executive Summary

Introduction

1. Defence Internal Audit (DIA) is responsible for providing PUS and the Defence Audit Committee with an independent, objective assurance on the effectiveness of MOD's systems of governance, risk management and internal control.
2. This audit was included in our 2013/14 programme to contribute to that assurance. It reviewed the control framework that was in place to manage the risks associated with Army Recruitment and Retention Pay (Flying) (RRP(F)). Fieldwork was conducted during April – June 2013 primarily within Land Forces.
3. Annex A reports our detailed findings, and agreed management actions, for areas where we found weaknesses in control design or effect. Annex B is the text of the agreed Audit Remit. Annex C lists our audit opinion and findings categories.

Audit Opinion & Conclusion



Land Forces management of RRP(F) could not ensure that the qualified personnel received RRP(F) at the right time and at the right rate which risks overpayments continuing to occur. We found changes to the Reserve Band system and the uncertainty over the outcome of the investigation into previous errors in payments were impacting on both the Army Air Corps' career management obligations and aircrew retention.

Key Findings

4. Since promulgation in 2003, policy definition of course completion date had been misinterpreted and resulted in an incorrect date for initiation of RRP(F) for all attendees.
5. Scrutiny of RRP(F) was not included in any Regimental/Unit Admin Office monthly Statement of Earnings checks increasing the risk of overpayments due to undetected errors.
6. It was difficult to reconcile actual numbers in receipt of RRP(F) with those posts flagged eligible for RRP(F). JSP 754 had been amended to ensure that an annual review of RRP and RRP related posts is conducted to address this but was not due to take place until October/November 2013.
7. We found that the Reserve Band system, and specifically changes to it in April 2013, was having a detrimental impact on those willing to serve in non flying related posts for both career prospects and to meet the AAC's manning requirements.
8. There had been significant work to address the identification of previous errors in flying related payments. It was found that these errors had been both checked and confirmed as correct when queried by many recipients who consequently had received the payments in good faith. For this reason, together with the cost of replacing trained pilots who were leaving as a result, HQ AAC were preparing a business case for write-off action.

Detailed Findings and Agreed Management Actions

**Annex A to
3031/01/13
dated June 2013**

Business Objective: Qualified personnel receive RRP(F) for flying or flying related posts

Area of Risk: Post Identification (PID) and RRP(F) flagging process

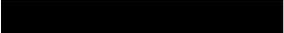
No	Finding	Risk	Priority	Management Action	Person Responsible & Target Date
1.1	<p>Land Forces identify flying and flying related posts and ensure that these positions are flagged so that incumbents, with the appropriate competency, receive Recruitment and Retention Pay (Flying) (RRP(F)).</p> <p>LF-DPS(A)-PS10 was the authorising body responsibility for all RRP position flagging for the Army. Army positions that required RRP(F) flag amendments were first reviewed and approved by SO2 Pers, HQ AAC. Although we found that this process was generally understood, it was not documented and individuals had attempted to request changes without appropriate scrutiny.</p> <p>Information extracted from JPA identified:</p> <ul style="list-style-type: none"> • 731 RRP(F) flagged posts; 	<p>If positions are not correctly flagged, and the process for flag amendments is not documented, it increases the risk of:</p> <ul style="list-style-type: none"> • Incorrect RRP(F) or Reserve Banding payments being identified; and • Poor decision making as a result of incorrect management information. 	Medium	<p>During annual audit of flagged positions, inline with JSP 754, DPS(A) will initiate the removal of any flags not required – the criteria for this will be if it is empty and is not due to be refilled, and in agreement with the AAC, or if the Job Description for that post no longer justifies the receipt of RRP(F) for the incumbent</p> <p>AAC guidance to be reviewed to ensure PID/flagging approval process is documented.</p>	<p>Nov 2013</p> <p style="text-align: center;">██████████</p> <p>PS10(A)</p> <p style="text-align: center;">██████████</p> <p>AAC</p> <p>31 Nov 2013</p>

No	Finding	Risk	Priority	Management Action	Person Responsible & Target Date
1.1 contd	<ul style="list-style-type: none"> • 664 in receipt of RRP(F); and • 38 in receipt of Reserve Band (Army Air Corps (AAC) personnel not in flying posts – see 3.2). <p>This was due to both a manpower shortfall and a number of obsolete posts that had yet to be deleted. This made it difficult to reconcile posts with personnel numbers and hindered the ability to identify incorrect payments.</p>				

Business Objective: Qualified personnel receive RRP(F) at the right time and at the right rate.

Area of Risk: Policy and communication of the entitlement

No	Finding	Risk	Priority	Management Action	Person Responsible & Target Date
2.1	<p>RRP(F) policy is clear, understood and communicated to all relevant personnel within Land Forces.</p> <p>JSP 754 stated that, providing they were fulfilling a flagged position, RRP(F) should be initiated for personnel who had the correct competency. For Army personnel this competency was achieved on successful completion of Conversion to Type (CTT) training and this date was recorded in flying logbooks.</p> <p>We found that this policy had been misinterpreted. Dates recorded in logbooks, as completion being the date of the Final Handling Test (FHT), not the final day of the course; a difference ranging from a few days to several weeks. Although not significant in itself, this practice had been in place since the policy was issued in 2003, therefore the cumulative effect both administratively and financially was significant.</p>	<p>If the CTT date is not clearly defined, understood and correctly recorded it increases the risk of over payments being made leading to either recovery or write-off action impacting on finite Department resources.</p>	<p>High</p>	<p>Successful completion of CTT is to be defined as the last day of course and it is this date that is to be recorded in logbooks on JPA. JSP 754 should be amended to reflect this.</p> <p>AAC to issue instruction:</p> <ul style="list-style-type: none"> • To ensure LF-DPS(A)CTT guidance is followed; • Process for CTT to be authorised for JPA input is consistent; and • Course dates are recorded on JPA to support qualification. 	<p>██████████ PS10 (A) 31 Oct 2013</p> <p>██████████ 31 Oct 2013</p>

No	Finding	Risk	Priority	Management Action	Person Responsible & Target Date
2.1 contd	<p>The majority of Army pilot CTT courses were undertaken at the AAC Centre. 673 Squadron (Sqn) for those converting to Attack Helicopter (AH) and 671 Sqn for all other helicopter types. We found that the Sqns used different processes for authorisation of the competency to be recorded on JPA. AH course attendance was not recorded on JPA, meaning that the specialist qualification was recorded and payment initiated without evidence of the supporting course attendance.</p>				
2.2	<p>RRP(F) ceases for all LF personnel who apply to terminate their service prematurely.</p> <p>Army instructions¹ stated that the period of notice to prematurely terminate their service for Officers commenced from the date the application form or JPA workflow was initiated.</p> <p>JSP 754 stated that RRP(F) ceased from the date an application to prematurely terminate their service was approved. As certain applications had to be submitted to the Army Retirements Board (ARB) for</p>	<p>If notice to terminate commencement and associated RRP(F) cessation are not aligned it increases the risk of inconsistencies in payment and potential overpayment of public funds</p>	<p>Medium</p>	<p>LFA to approach PS10(A) to examine a way forward for changes to the tri-service policy.</p>	<p> 31 Dec 2013</p>

¹ Army General and Administrative Instruction (AGAI) Volume 2 Chapter 38 (Issue 168) – Officers: Premature Voluntary Retirement (PVR) from the Active List

No	Finding	Risk	Priority	Management Action	Person Responsible & Target Date
2.2 contd	approval (which met six times a year) RRP(F) stopped, for officers serving on a seven month time frame to terminate, between the five and seven month point. We found this was inconsistent and dependent on the date an application was submitted could lead to a possible variance of up to £2700.				

Area of Risk: Payment process

No	Finding	Risk	Priority	Management Action	Person Responsible & Target Date
3.1	<p>RRP(F) is initiated on the date individuals successfully complete CTT training. Progression to next the payment rate is time based.</p> <p>See 2.1 for findings related to RRP(F) commencement.</p> <p>Once initiated we found that JPA automatically managed incremental progression correctly.</p>	<p>If RRP(F) initiation date is incorrect it will have a cumulative effect as individuals progress to next rates increasing the risk of over payments leading to either recovery or write-off action impacting on finite Department resources.</p>	<p>High</p>	<p>See 2.1</p>	
3.2	<p>Personnel who received RRP(F) on a Continuous Career Basis are entitled to receive Reserve Band payments for periods when temporarily not employed in an RRP(F) flagged post.</p> <p>We found that guidance on Reserve Band was clear and JPA workflows correctly automated relevant payments.</p>				

No	Finding	Risk	Priority	Management Action	Person Responsible & Target Date
3.2 contd	<p>Our testing indicated that 24% of those in receipt of Reserve Band for April 2013 should have been in receipt of RRP(F) but their positions had not been correctly flagged. We found the main contributors to these errors were:</p> <ul style="list-style-type: none"> • A lack of management checks at unit level (see 4.1); • A lack of individuals taking responsibility for reviewing their own pay statements; • Payment statements not providing sufficient detail in relation to specific rates of RRP(F); and • No clear reconciliation between RRP(F) flagged posts and those in receipt of RRP(F) (see 1.1) 	<p>If incorrect payments of Reserve Banding are not identified it increases the risk that individuals are not correctly reimbursed for their role.</p>	<p>Medium</p>	<p>LF D Pers Admin issue instruction/guidance to all RAO personnel for implementation of management checks to include RRP(F)</p> <p>LF D Pers Admin LF submit request SPVA to increase RRP(F) detail to include rate and qualifying days completed on pay statements</p> <p>HQ AAC issue regular reminder for personnel to review pay statements</p> <p>Review in 1.1 should reconcile those in RRP(F) recipients and post incumbents</p>	<p>██████████ Admin 31 Oct 2013</p> <p>██████████ Pers 31 Oct 2013</p> <p>See 1.1</p>
3.3	<p>Although not in the original scope of the audit, during fieldwork we identified issues relating to the Reserve Band system. These had impacted on AAC manning liability</p>				

No	Finding	Risk	Priority	Management Action	Person Responsible & Target Date
3.3 contd	<p>requirements and individuals' future career choices:</p> <ul style="list-style-type: none"> • To meet AAC manning liability requirements and to enhance an individual's experience for career prospects, AAC personnel were required to fill non RRP(F) related posts – for which they receive Reserve Band rates of RRP(F); • In April 2012 Reserve Band rates had changed, which were detrimental to the individual²; • Periods of Reserve Band did not count towards qualifying time to move to the next level of RRP(F) as the difference between the initial and reaching the enhanced rate of RRP(F) per annum for a Maj and below was £11172³ the impact of this was significant; and • We found there was a 75% shortfall in the AAC's liability to fill non RRP(F) related posts at Capt level. 	<p>Reserve Band policy could increase the risk of meeting retention requirements potentially effecting 2020 manning liability.</p> <p>Alternatively a lack of an effective Reserve Band policy would increase the risk of unnecessary costs to the Department.</p>	Medium	AAC should request that MAS(A) complete a review/Deep Dive of both costs and the impact or Reserve Band for potential case to change RB rules.	<p>██████████ Pers 31 Oct 2013</p>

² Pre 2012 Reserve Band was period up to 6 years, 100% of RRP(F) for three years, then 75%, 50% and 25% for year six, post 2012 this was reduced to three years, 100% for first two and 50% for year three.

³ Recruitment and Retention Payment (Flying) – Annex C to REM 04.01.06A dated 27 March 2013

No	Finding	Risk	Priority	Management Action	Person Responsible & Target Date
3.3 contd	<p>However, Reserve Band did address the additional costs to the Department:</p> <ul style="list-style-type: none"> • During the period the individual was not actually in a flying post; • When he returned to a flying post it was likely he would require additional refresher training; and • The individual may never return to a flying post. 				
3.4	<p>LF select a number of AAC personnel each year, commensurate with Army manning requirements, to serve on the Pilot Employment Stream (Army) (PES(A)). On selection RRP(F) will cease and basic pay is enhanced to reflect flying skills.</p> <p>The PES(A) Selection Board sat annually, however, we found:</p> <ul style="list-style-type: none"> • There was no evidence of Army manning requirements being identified or considered; and • The Board consisted solely of AAC personnel with no independent member. 	<p>If PES(A) requirements are not established it increases the risk of too many individuals being approved increasing manning liability and the Department's future pension costs liability.</p> <p>No independent Board member to challenge decisions increases the risk of the perception of an unfair or biased process.</p>	<p>Low</p>	<p>AAC to establish manning requirements prior to Board selection</p> <p>AAC to liaise with CM Pol SO1 Audit and review PES(A) Selection process</p>	<p>██████████ with DMA</p> <p>31 Oct 2013</p> <p>██████████ Pers</p> <p>31 Oct 2013</p>

Area of Risk: Monitoring and Review of RRP(F) payments

No	Finding	Risk	Priority	Management Action	Person Responsible & Target Date
4.1	<p>All pay statements for LF personnel are subject to personal and unit Statement of Earnings checks to identify incorrect RRP(F) payments.</p> <p>We found that 3 and 4 Regt AAC had not included verifying the correct level or rate of flying pay in their Statement of Earnings checks since the introduction of JPA in 2007, stating that they could not access relevant information and were advised to refer any RRP(F) issue to HQ AAC. Further investigation revealed that no AAC RAO or unit personnel staff undertook scrutiny of RRP(F) in their management checks.</p> <p>Onus was also on individuals to check their own pay statements, however, those in receipt of RRP(F) stated that their Statement of Earnings had not provided sufficient detail in terms of relevant rate or qualifying period to enable them to identify issues or errors.</p>	<p>If SoEs are unclear or checks not completed it increases the risk of RRP(F) errors being undetected resulting in either under or over payments being made.</p>	<p>High</p>	<p>See 3.2</p>	

No	Finding	Risk	Priority	Management Action	Person Responsible & Target Date
4.2	<p>Where errors in RRP(F) payments are identified LF ensure that a review is completed and subsequent management action taken.</p> <p>As a result of inconsistent interpretation and/or ambiguity in flying pay policy, incorrect payments had been identified in 2012 spanning a period of back to the early 1990s. An investigation, which included involvement from; HQ AAC, SPVA, LF D Pers Admin and PS10 was ongoing. The scope included:</p> <ul style="list-style-type: none"> • Identification of those who had been affected; • Calculation of individual over or underpayments; • Calculation of the cumulative total for payment, recovery or write-off action; and • Rectifying JPA and policy action to be taken. 	<p>If investigation is not resolved in a timely manner and write off action is not approved it increases the risk of retention issues, particularly for experienced pilots that could impact on future operational capability, and increased training costs to meet this potential shortfall.</p>	<p>High</p>	<p>Meeting 6th June 2013 had set targets for completion of calculations for SPVA to take associated JPA action by July 2013.</p> <p>Business case to be submitted by September 2013.</p>	<p>██████████ AAC</p> <p>████████████████████ - D Pers Admin</p> <p>31 Oct 2013</p> <p>██████████ AAC</p> <p>31 Oct 2013</p>

No	Finding	Risk	Priority	Management Action	Person Responsible & Target Date
4.2	<p>We found that individuals had received flying related pay in good faith. Many enquiries about the validity of flying pay payments had been raised over the period and had been checked and confirmed by; unit pay staffs, Headquarters Directorate of Army Aviation (HQ DAAvn) and SPVA.</p> <p>The approximate total cost to the Department was estimated, at the time of the report, to be circa £1m. The investigation and the potential recovery action, had resulted in retention issues with increased numbers ⁴ terminating their service citing this issue as the reason. In addition to the impact on manning liabilities this exodus also had significant cost implications, for example, the cost to train and replace one Apache pilot was circa.£3.62m. To address these issues, and because these monies had been received in good faith, HQ AAC were producing a business case for write-off action to be approved.</p>				

⁴ 25 between November 2012 (when the issue was identified) and May 2013 compared to an average of 21 per annum over the past six years.



Ministry
of Defence

Annex B to
3031/01/13
dated June 2013

Defence Internal Audit Remit

Army – Controls Operating Over the Payment of Flying Pay

Audit Code: 3031/01/13

Entity Owner: [REDACTED]

Date: Apr 13

Introduction

1. Defence Internal Audit (DIA) is responsible for providing PUS and the Defence Audit Committee (DAC) with an independent and objective assurance on the effectiveness of MOD systems of governance, risk management and internal control. This audit was included in our 2013/14 programme to contribute to that assurance.

Audit Objective

2. The objective of the audit will be to provide an independent and objective opinion on the adequacy and effectiveness of controls, and the management of risks, associated with Army Recruitment and Retention (Flying) (RRP(F)).

Audit Scope

3. The audit will assess the adequacy and effectiveness of controls in the areas identified below. Our work shall not necessarily be restricted to these areas. Testing may extend to other areas and risks, identified during the audit, that are not stated here but may be relevant to the formation of our opinion.

Business Objective	Qualified personnel receive RRP(F) for flying or related posts.
Area of Risk	Post Identification (PID) and RRP(F) flagging process.
Business Objective	Qualified personnel receive RRP(F) at the right time and the right rate.
Area of Risk	Policy and communication of the entitlement
Area of Risk	Payment process
Area of Risk	Monitoring and review of RRP(F) payments

Audit Approach

4. Using a risk based approach, we will conduct the audit with due professional care in accordance with established audit practice and DIA Standards. These require us to plan and perform audits to obtain reasonable assurance that controls are working as intended and may be relied upon. We will review files, records and other evidence, both manual and electronic, and where necessary interview relevant personnel. This will form the basis of our opinion on the effectiveness of control.

5. The nature of testing and the inherent limitations of an audit (and those of any system of internal control) mean that there is an unavoidable risk that some weaknesses may not be identified. Although DIA audits can point to weaknesses where there is a risk of fraud occurring, they cannot be relied upon to identify instances of fraud or irregularity. It is management's responsibility to ensure that internal control systems are adequate to manage risk and to prevent and detect fraud.

Responsibilities of Management

6. We expect to have access to all the personnel, files, records, information and assets necessary to perform our work and form our opinion. Management’s agreement of the Audit Remit will be taken as a commitment to ensure that all personnel and resources required for the audit will be made available. Any failure to meet these requirements will cause delay to the audit process and cannot be attributed to us.

Planned Dates

Notification of Audit	10 April 13
Audit Planning	10 April 13
Start of Fieldwork	24 April 13
End of Fieldwork	7 June 13
First Draft Report	21 June 13
Closing Conference	5 July 13
Final Report	19 July 13

Audit Team

Team Leader	██████████
Team Members	██████████

**Annex C to
3031/01/13
dated June 2013**

Audit Opinion and Findings Categories

Audit Opinion



System of internal control established and operating effectively.



System of internal control established and operating effectively with some minor weaknesses.



System of internal control operating effectively except for some areas where significant weaknesses have been identified.



System of internal control poorly developed or non-existent, or major levels of non-compliance identified.

Audit Findings

High Priority

Critical control weaknesses that result in serious risks and/or an unacceptable level of risk to the delivery of key objectives.

Medium Priority

Control weaknesses that carry a risk of undesirable effects in loss, exposure, poor value for money or missed business opportunities and benefits.

Low Priority

Minor control weaknesses and/or areas that would benefit from the introduction of improved working practices.