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**Audit West**

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## **Internal Audit Report**

**Confidential**

# **Pension Transfers and Aggregations**

**January 2018**

## Executive Summary

### Audit Opinion:

Assurance Rating	Opinion
Level 5	The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary
Level 4	<b>The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary</b>
Level 3	The systems of internal control are satisfactory and reasonable assurance can be provided. However there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan
Level 2	The systems of internal controls are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
Level 1	The systems of internal controls are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee

### Assurance Summary:

Assessment	Key Control Objectives
Good	There are comprehensive procedures and guidance in place that comply with legislation.
Excellent	Relevant officers have appropriate skills and experience.
Excellent	All transfers and aggregations are properly authorised before being entered onto the system, and there are checks in place to ensure the accuracy of processing.
Good	Parameter data is updated where necessary and changes are checked / authorised.
Excellent	Mismatched, rejected data and unusual or large amounts are promptly and independently investigated.
Excellent	Transfer and aggregation quotes are subject to appropriate checks and independent authorisation before communication to scheme members.
Excellent	Only authorised transfers are made to other providers.
Excellent	Payments are properly reconciled and appropriately authorised.
Satisfactory	Transfers and aggregations are undertaken on a sufficiently timely basis.

### Detailed Report

#### Opinion:

Internal Audit has undertaken a review of the risks and controls related to the Avon Pension Fund's administration of Transfers and Aggregations. The framework of internal control has been assessed at Level 4 'Good'. A total of 6 audit recommendations are detailed in the Action Plan.

#### Scope and Objectives:

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above.

#### Background:

The Avon Pension Fund has a team of around 40 staff that are responsible for the administration and safeguarding of the Fund which has net assets in the region of £3.7bn (as reported in the 2017 Pension Fund Performance Guide).

The Member Services Team regularly process transfers both into and out of the Fund as members join or leave the Scheme.

As at the time of the audit, the following numbers of transfers had occurred within the current financial year:

Transfers in: 105, valued at £4,221,940

Transfers out: 98, valued at £3,961,821

Aggregations of Scheme members' contributions are also processed by the Member Services Team as a result of members re-joining the scheme. Due to significant changes in public sector pensions legislation, such as the introduction of Career Average Re-valued Earnings in 2014, aggregations are not straightforward but are applied based on a range of criteria related to the member's former membership.

As at the time of the audit, 984 members had been aggregated since 3 January 2017. These consisted of the following number of aggregation processes.

Type A – 310: Post 2014 Membership aggregation;

Type B – 238: Pre/post 2014 Membership aggregation

Type D – 450: Pre 2014 Membership aggregation

Type DOPT - 104: Pre 2014 Membership aggregation, option form received

In many instances the member would have required processing as a mixture of aggregation types.

#### Context and Audit Comment:

The current audit has been conducted as part of the 2017-18 Audit Plan and has sought to confirm that pension transfers and aggregations have been processed in such a way as to minimise the risk of loss or error.

In order to arrive at our conclusions, we have met with officers from a number of teams to discuss processes and have reviewed a selection of supporting evidence for the processes concerned.

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Our overall view is that the Avon Pension Fund has good systems of internal control that effectively reduce the risks associated with the processing of transfers and aggregations. Good practice was apparent in a number of areas and the issues identified within this report do not include any matters considered to constitute a significant risk to the effective operation of the fund.

### **We identified the following strengths:**

Procedures included a number of 'workflow' processes that have been developed within excel and incorporated into Altair. These guide officers through a number of 'tasks' and 'checklists' containing mandatory/optional actions that help ensure all key steps within a process are carried out.

Workflow 'tasks' for transfers out provide a good degree of separation of duties, ensuring that they are carried out by officers of a suitable seniority and that calculations are independently checked for reasonableness, reducing the risk of errors.

Good records are retained of relevant qualifications held by and training attended by APF staff which shows that there is an active and on-going programme ensuring staff development.

Processes are in place for monitoring changes in legislation or regulations and these changes and their implications are regularly discussed by APF managers.

The ability to update and amend standing data such as factor tables/RPI/CPI which could affect transfer and aggregation calculations is restricted to a small number of system administrators and there are good records of changes that have been made.

High value transfers out (over £100k) require an additional level of checks and authorisation, ensuring effective supervisory control.

BACS payment runs are approved by an APF manager before being released by a member of the Pensions Payroll team. In addition, there is robust evidence retained of checks by both a member of the Pensions Payroll team as well as an APF manager that all proposed payments match those on the individual payroll interface documents generated by the Member Services team.

Relevant and comprehensive information had been provided to all members within our sample including letters notifying them of automatic aggregations as well as option forms with supporting background information in cases where more than one option was available.

The Altair system is effectively used to hold supporting records for transfers out and aggregations.

Transfers out are only completed once the approval of the member has been received.

Counter fraud processes include research and background checks on Schemes Receiving Schemes for transfers out.

### **We identified the following weaknesses:**

There is a significant backlog of cases that require aggregation. These have arisen due to the complex nature of aggregations following the introduction of CARE in 2014 and delays in the issuing of regulation amendments by central government, which it is hoped will simplify the process.

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Target times for the preparation of transfer quotations and processing of transfer actuals are currently being RAG rated as 'red'. It is noted that the quotation times have been improving throughout the previous year (based on the most recent report to the APF Committee).

Some key processes such as those for inter-fund transfers have yet to be work-flowed and incorporated into Altair as tasks and checklists.

Evidence had not been retained of quality checks following the update of factor tables to Altair.

Links to reference material contained within the 'Transfer Out Control Spreadsheet' were broken in three instances.

Task TVOAYES contained a number of checklist items whose designation as 'mandatory' or 'optional' were not felt to flow logically.

### **Audit & Risk Personnel:**

Lead Auditor: Gary Spratley

### **Acknowledgements:**

Sincere thanks to Geoff Cleak, Pensions Manager and members of the Pensions team for their help and assistance provided throughout the Audit review.

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**ACTION PLAN**

<b>MEDIUM RISK EXPOSURE</b>				
	<b>Weakness Found</b>	<b>Implication or Potential Risk</b>	<b>Recommendation(s)</b>	<b>Responsible Officer Management Comments Implementation Date</b>
<b>M1</b>	<p><b><u>Aggregation Backlog</u></b></p> <p>There is understood to be a significant backlog of aggregation cases numbering around 2,000. This is believed to be due to a number of factors including complexity of current regulations and delays in the publication of revised guidance from central government.</p> <p>As the processing of these aggregation cases is not deemed to be urgent, management have felt that it may be better to delay their processing until updated guidance has been received from central government, which may simplify the process and allow the cases to be dealt with more efficiently. The timescales for this guidance arriving however, are as yet unknown.</p> <p>From discussion with management it was also indicated that this is an issue affecting all LGPS pension funds across the UK.</p>	<p>Pension calculations may not be accurate or may not reflect the options desired by the member.</p>	<p>The APF should continue with its plans for a project to tackle and eliminate the backlog of aggregation cases.</p>	<p>We are currently working on a proposal which should enable the team to clear the backlog of aggregation cases by the end of the Summer 2018. Once these cases are cleared it is hoped that the amendment regulations will have been issued greatly simplifying the process, however, if this is not the case then we will further consider how we ensure that any new cases are dealt with as and when they arise.</p> <p>Proposed Implementation date:- March 2018</p>

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<b>MEDIUM RISK EXPOSURE</b>				
	<b>Weakness Found</b>	<b>Implication or Potential Risk</b>	<b>Recommendation(s)</b>	<b>Responsible Officer Management Comments Implementation Date</b>
<b>M2</b>	<p><b><u>Performance Indicators</u></b></p> <p>The APF have established challenging targets for the time taken to process transfer out quotations and transfer out payments, being 10 working days in each case. The report to the Pensions Committee dated 8 December 2017 shows that performance against these targets is rated 'red' for each quarter during the preceding twelve months.</p> <p>For quotations, the % of cases processed within 10 days has ranged from 5.3% to 33.1% and has been improving across all four quarters reported.</p> <p>For transfer out payments, the % of cases processed within 10 days has ranged from 32.3% to 66.7% and has fluctuated across each quarter.</p> <p>It is noted from discussion that statutory targets for these processes are much lower, being in the region of three months.</p>	<p>Member satisfaction may be impaired.</p> <p>Reputational damage to the APF.</p>	<p>The APF should continue working to improve its processing times for quotations and transfer out payments.</p> <p>Consideration should also be given to reducing the targets to a more realistic and meaningful level.</p>	<p>We will be putting in place new reporting on statutory requirements, with regards to the processing of transfers out, to ensure that we are at least satisfying these requirements.</p> <p>Whilst we have in the past considered relaxing existing SLA targets that are currently in place to a more realistic level, as these targets are based on CIPFA benchmarking we feel that it is important to continue to test ourselves against these. We will consider relaxing the RAG rating attached to these reports.</p> <p>Proposed Implementation date for new statutory reporting:- End February 2018</p>

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<b>MEDIUM RISK EXPOSURE</b>				
	<b>Weakness Found</b>	<b>Implication or Potential Risk</b>	<b>Recommendation(s)</b>	<b>Responsible Officer Management Comments Implementation Date</b>
<b>M3</b>	<p><b><u>System Parameter Changes</u></b></p> <p>There are currently no records of spot checks undertaken on the correct importation of factor amendments into the Altair system, other than a system generated control report which states the number of warnings/errors that have occurred.</p>	<p>Uploaded data may be applied at the incorrect rate or to the incorrect group of members without being promptly identified.</p>	<p>Consideration should be given to carrying out spot checks, say 10 per upload, that factor figures have been imported accurately and applied to the correct member category.</p>	<p>Whilst we were unable to provide evidence of spot checking having been carried out in respect of the factor changes picked up, we are confident that we have an informal system in place for this. Going forward we will ensure that cases that are used for spot checking are evidenced following each new factor table update.</p> <p>Proposed Implementation date:- Immediately (i.e. January 2018)</p>

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	<b>Weakness Found</b>	<b>Implication or Potential Risk</b>	<b>Recommendation(s)</b>	<b>Responsible Officer Management Comments Implementation Date</b>
<b>M4</b>	<p><b><u>Process Workflow Development</u></b></p> <p>Whilst there are very detailed workflow processes established for aggregations and some types of transfers out that have then been incorporated into Altair as tasks and checklists, some significant processes such as inter-fund transfers have not yet been reviewed and streamlined in this way.</p> <p>We note however that there are historical procedures which are available to staff covering these areas.</p>	<p>Working practices may not be optimised for peak efficiency.</p> <p>Risk of errors may be increased.</p>	<p>The APF should continue its planned project work to ensure that remaining key processes such as those relating to inter-fund transfers are reviewed and streamlined into workflows that can be incorporated into Altair as tasks and checklists.</p>	<p>The continuation of development of new workflows is ongoing with 8 new workflows, including interfunds in and out, having been developed and passed to the systems team for creation in December 2017.</p> <p>Proposed Implementation date:- Imminent (i.e. by end March 2018)</p>

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<b>LOW RISK EXPOSURE</b>				
	<b>Weakness Found</b>	<b>Implication or Potential Risk</b>	<b>Recommendation(s)</b>	<b>Responsible Officer Management Comments Implementation Date</b>
<b>L1</b>	<p><b><u>Workflow Processes</u></b></p> <p>Checklist items within the TVOAYES workflow task did not always appear logical. Item "Have Discharge Forms Prev been Sent" is an optional action, whilst the follow on checklist item "Yes-Check Necessary Forms Fully Comp" is mandatory. A further follow on item "No - Generate Relevant Discharge Forms" is optional.</p> <p>This suggests that it is not mandatory for an officer to consider whether discharge papers were previously sent but even if they did consider this and found the papers had not been sent, it would not be mandatory for them to do so now.</p>	<p>Increased risk of errors in transfer out processing.</p>	<p>Consideration should be given to whether these checklist items should be revised in terms of whether they are optional or mandatory.</p>	<p>This checklist has been reviewed and amended in line with the recommendation.</p> <p>Proposed Implementation date:- Already Actioned</p>

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<b>LOW RISK EXPOSURE</b>				
	<b>Weakness Found</b>	<b>Implication or Potential Risk</b>	<b>Recommendation(s)</b>	<b>Responsible Officer Management Comments Implementation Date</b>
<b>L2</b>	<p><b><u>Guidance Documents</u></b></p> <p>As at the time of testing the following links within the 'Transfer Out Control Spreadsheet' were found to be broken:</p> <ul style="list-style-type: none"> <li>• Transfer Out GAD Guidance April 2016;</li> <li>• Transfer Out Factors April 2016;</li> <li>• Transfer Out GAD Guidance March 2014.</li> </ul>	<p>Out of date guidance/reference material may increase the risk of errors.</p>	<p>Guidance/reference documents such as the 'Transfer Out Control Spreadsheet' should be updated periodically to ensure they remain current.</p>	<p>The control spreadsheet has been reviewed and updated in line with this recommendation and will be reviewed periodically to ensure all links are active and correct.</p> <p>Proposed Implementation date:- Already Actioned</p>