

Internal Audit Report

Confidential

Avon Pension Fund Employee Contributions

June 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	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
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
Excellent	Employee contribution information received from employers is effectively monitored to ensure completeness of submission.
Good	Appropriate assurances are obtained as to the completeness, validity and accuracy of information received, and effective action taken where assurances are insufficient.
Good	The provision of accurate information is written into formal agreements.
Good	The completeness and accuracy of system entries is effectively checked, with invalid entries being prevented.
Good	Potentially erroneous information is promptly investigated.
Good	The Pension Fund system is regularly and effectively reconciled to employee contribution information received from employers.
Good	Amounts received are effectively monitored to ensure completeness and accuracy of payment.
Weak	The Pension Fund system is regularly and effectively reconciled to the Pension Fund bank account.
Good	Robust quality monitoring processes are in place.

Detailed Report

Opinion:

Internal Audit has undertaken a review of the risks and controls related to Avon Pensions Fund Employee Contributions and assessed the framework of internal control to be at 'Level 4'. 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.

Context & Audit Comment:

The current audit has been conducted as part of the 2017/18 Audit Plan, and has sought to confirm that the risks relating to employee contributions are effectively mitigated by reviewing and testing those mitigations and reporting on their suitability and effectiveness.

In order to arrive at our conclusions, we have met with officers primarily from the APF Data Quality and Finance Teams to gain an understanding of the systems at play and have reviewed supporting records and conducted sample testing of transactions and records.

With such a wide variety of employers (352 currently) within the fund, ensuring that they are kept informed and comply with contribution submission requirements is a task requiring a good degree of forward planning, co-ordination and communication, as well as robust systems for the day to day and year end processing tasks required to manage and record the contributions received.

Our overall view is that the suitability and effectiveness of measures used to mitigate employee contribution risk are well established and operating to a good standard, with evidence of good practice embedded within these measures.

A small number of further improvements are possible which in our opinion could further reduce risk exposure however this report does not include any matters considered to constitute a significant risk to the effective operation of the fund.

Furthermore those issues identified were in areas where further work to address is either already underway or being considered going forward.

Where low risk findings have been identified, these have been discussed verbally with the Pensions Manager and so are not reproduced below in the main findings table. These consisted of:

- Some control boxes within the I-Connect upload progress spreadsheet had not been populated, such as the date on which system reports had been run and by whom;
- The 2017 year end control spreadsheet did not always record that a response had been received from employers in respect of queries raised or that they had been chased.

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Background

The Avon Pension Fund has 29,293 active members as at February 2018. Employee (member) contributions are deducted at source and paid across to the Fund on a monthly basis by the 352 employers who are part of the Fund.

The payment of employee contributions by a specified date is a statutory requirement (source The Pension Regulator Code of Practice 14 paragraph 148) and is monitored closely by the APF Finance Team. The Team are currently operating with reduced capacity however based on the auditors work it was concluded that this was not having a significant impact on the day to day ability to manage employee contributions and recruitment activities are understood to be underway to fill the vacancy in the near future.

Ensuring that member records within Altair are accurate and up to date is the work of the Employer Services Data Control team, who are currently conducting their year-end exercise which involves obtaining a complete member dataset from all employers, matching this against currently held data and uploading and validating the new data into Altair. This process takes several months to complete and is fairly resource intensive.

Audit Summary Findings

We identified the following strengths:

- LGPS50 forms used to notify APF of contribution payments are processed on a daily basis, and promptly matched to income received to the APF income suspense bank account.
- There are relatively few incidents of late payments and where these do occur they are promptly identified and action taken. Such incidents are also regularly reported to the Pension Board and Committee.
- Having observed three years of successive year end control spreadsheets, it is apparent that each year the record has been refined, improved and developed to ensure it meets the needs of the service.
- The staffing structure includes a team dedicated to Data Control, a key function of which is ensuring the accuracy and reliability of pension information on Altair, including employee contributions.
- Potential issues with data quality are regularly identified and actions taken by way of exception reporting and data matching.
- Separation of duties is used to ensure a degree of oversight in key processes, including reconciliations undertaken by the finance team.
- APF regularly communicates with employers to ensure they have the most up to date information, for instance regarding contribution rates to apply for the coming year.
- Complex or multi stage processes such as those for the year-end data update and I-Connect monitoring are summarised into a single record which allows management to easily monitor progress.

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We identified the following weaknesses:

- Employee contribution amounts posted to the Altair pensions system are not reconciled to actual amounts received from employers during the year and subsequently posted to the general ledger. Therefore potential variances in the value of contributions posted to Altair and the general ledger may not be identified.
- A signed Service Level Agreement is not in place for all employers. This is because the existing SLA template has been under review for an extended period. It was noted that the existing SLA states that meetings with the employer to review joint working arrangements will take place every six months as a minimum. In practice however these meetings are only held with the four larger employers as standard.
- Standard checks on data being uploaded via I-Connect do not include the identification of potentially incorrect contribution amounts.
- A review of a sample of active member records on Altair revealed that non-standard contribution rates were shown in two instances. We note the year end exercise currently underway includes checks and balances that should eliminate these anomalies in the coming months.
- Key reconciliation processes were not always as timely as they could be, sometimes taking two to three months to complete.
- Year-end assurances sought from employers as to the accuracy of contribution information provided are not worded in a particularly robust fashion.
- Although the process itself has been refined and developed, the year-end exercise to update member records for the majority of employers is inefficient and labour intensive in comparison to other options such as I-Connect. We note a project is already planned to tackle this issue so have not made a recommendation in this regard.

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

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M1	<p><u>System Reconciliation</u></p> <p>There is no reconciliation carried out between member contributions recorded within Altair (the pension system) and actual contributions received into the bank account and subsequently posted to the general ledger.</p> <p>Management explained that reconciliation had been attempted and it proved difficult to carry out based on factors such as maternity pay, part time working and changes to pay occurring during the year.</p>	<p>There are robust controls in place to ensure the accuracy of much of the data entered onto the Altair system, however with no reconciliation to the actual contributions received into the bank, there's a risk that these amounts are incorrect as the checks in this area are weaker.</p> <p>Any under or overpayments could therefore go undetected.</p> <p>The fund may suffer financial loss.</p>	<p>A reconciliation between employee contributions posted to the Altair system and those posted to either the bank account or Agresso general ledger should be introduced going forward.</p>	<p>The reconciliation between the Altair system and bank account is an area that the Fund is looking to develop.</p> <p>A project to achieve monthly data returns across the whole employer base via Altair's IConnect system commenced in April 2018.</p> <p>The development and introduction of Altair's ERM (employer record management) system will facilitate the ability to reconcile between bank account/general ledger and Altair</p> <p>Employer Services Team/Finance & Systems Manager Expected implementation date - by April 2019</p>

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MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M2	<p><u>Timeliness of Reconciliations</u></p> <p>Both the main bank reconciliation (to the general ledger), and also the separate reconciliation between the bank and the LGPS50 returns, are not generally completed by the end of the following month, but can take 2 to 3 months to finalise.</p>	<p>Delays in identifying variances may create a backlog of work and make the job of tracing the cause more onerous.</p>	<p>Wherever possible we would expect monthly reconciliations to be completed by the end of the following month.</p> <p>The first quarter can be an exception as we acknowledge there will be other priorities such as closedown of the accounts.</p>	<p>There were a small number of occasions when the main bank account reconciliation to general ledger was delayed in completion. Fund Administrators will aim to complete this earlier going forward.</p> <p>Reconciliation between the bank and LGPS50 returns are undertaken on receipt. Discrepancies identified are taken up with employers immediately. However, the final completion of this monitoring cannot be achieved until employers have resolved all their differences.</p> <p>Finance & Systems Manager</p>

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MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M3	<p><u>Service Level Agreements</u></p> <p>The 'one size fits all' approach traditionally used for SLA's is no longer considered appropriate, given the variety and range in sizes of employers joining the scheme. To illustrate, the existing SLA requires (as a minimum) six monthly review meetings with each employer; however in practice these are not considered necessary for smaller employers. Even for larger employers such as Bristol, we did not always find evidence of such meetings occurring with the specified frequency, for example, there was no record of a meeting being held between March 2016 and June 2017.</p> <p>A revised SLA has been in development since 2015, with the summer newsletter of that year stating it would be issued soon. As the intention however is to issue the new SLA alongside a revised Admin Strategy and the Admin Strategy review is not yet complete, the updated SLAs have yet to be issued.</p>	<p>If existing agreements are seen as no longer fit for purpose, they may become unenforceable.</p> <p>For employers without any SLA at all, holding them to account for maladministration may become more difficult.</p> <p>The Fund may be subject to reputational damage if it is seen to be negligent in fulfilling its duties under the SLAs, such as the requirements for service review meetings.</p> <p>Inaccurate or incomplete information may be supplied whilst still complying with the SLA.</p>	<p>Up to date and relevant SLAs signed by both parties should be in place and their requirements maintained.</p> <p>New SLAs should include the requirement for employer organisations to have sufficiently adequate internal controls in place to ensure that information provided to the Pension Fund is complete and accurate.</p>	<p>The SLA is a statement of intent on the part of both parties and is not legally enforceable. The only real recourse for the Fund for regulatory breaches is to the regulator.</p> <p>The Fund cannot insist on internal controls within employers their own auditors should identify this risk.</p> <p>One size must fit all as the regulations are for all and do not differentiate between employers</p> <p>The Fund has regular scheduled performance review meetings with all Unitary Authorities. In response to the IA comment - there was a scheduled SLA meeting with BCC in September 2016 however the record of the meeting is unavailable</p> <p>It should be noted that APF also issue standard information (Admission Agreement) to all new</p>

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	<p>Some newer employers such as Virgin are currently operating without an SLA in place, due to the delays in issuing the revised documents.</p> <p>In addition, although current SLAs require the provision of information to the Pension Fund within specific timescales, they do not require that employer organisations have sufficiently adequate internal controls in place to ensure that the information provided is complete and accurate.</p>			<p>employers, which includes details of their responsibilities for employee contributions.</p> <p>To comply with TPR Code of Practice 14 & PSP (Record Keeping & Misc. amendments) 2014, The Fund continually measures all employer data submitted to ensure compliance. Employers who fail to meet required levels of compliance are required to sign up to an improvement plan which is monitored.</p> <p>Pensions Manager/ Employer Services Manager</p>
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M4	<p><u>Annual Declarations</u></p> <p>Currently, annual declarations are required from all employers, where the signatory certifies that the data submitted has been completed correctly, in accordance with the APF guidance.</p> <p>This provides little assurance that the employer signatory has considered what assurance they themselves have received, that the information being provided by them as an employing body is accurate, complete and valid.</p> <p>Nor does it provide APF with assurance that the employer has carried out relevant examination or testing of their payroll information to ensure that information provided and contributions paid are accurate.</p>	<p>Declarations may be signed without the employer signatory having proper regard to the assurance that the declaration should theoretically provide.</p> <p>This could result in inaccurate, incomplete or invalid contributions information and related payments being provided to APF, even though a signed declaration may have been received.</p>	<p>The Pensions Team should consider how the declaration wording can be enhanced to ensure that proper consideration by the employer signatory is given as to the assurance being provided.</p> <p>Consideration should also be given to obtaining assurances from the employer's internal auditors, where relevant, or alternatively the employer's payroll provider.</p> <p>This should also be written into the new SLAs, as mentioned above.</p>	<p>The Fund will undertake a review of the current employer declaration to ensure wording is enhanced to provide independent assurances to validity and accuracy of information submitted.</p> <p>The reality is that many employers will have sent the Fund inaccurate or incomplete data for which the Fund carries out an annual data cleanse. As part of the process APF will develop monitoring reports to address issues to the employers auditors</p> <p>Pensions Manager & Employer Services Manager.</p> <p>Date: March 2019</p>

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	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M5	<p><u>Contribution checks</u></p> <p>A number of reports are run to verify the data uploaded via I-Connect. We understand that although these reports cover potential anomalies including duplicates, omitted employees and contributions from members who are recorded as having opted out, there is no report run that identifies potentially inaccurate employee contributions.</p>	<p>Contribution data uploaded to Altair may be inaccurate.</p>	<p>Where I-Connect is not used, member records on Altair are updated as part of the year end exercise which involves recalculating the expected contribution amount based on the contribution rate and pensionable pay, and comparing it to the actual contribution deducted. This control provides significant assurance as to the accuracy of the data held on Altair. Management should consider devising a report to apply a similar check on data uploaded via I-Connect.</p>	<p>With all employers required to submit data monthly via iConnect, this is not an area that can be efficiently monitored on a manual basis</p> <p>The Fund will log this with the software provider as a potential development request to add validation to the contribution received field to ensure it matches the appropriate rate. This should also link in with M6 below.</p> <p>As only one Employer pays contributions based on actual pay in the month and all the rest average theirs the report is only necessary for one employer</p>

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M6	<p><u>Contribution Rate Errors</u></p> <p>From a sample of 20 'active' members whose records we checked on Altair, we noted two instances where a non-standard contribution rate of 5.9% and 6.49% were shown.</p>	<p>The integrity of system data may be called into question.</p>	<p>All active member records should display a standard contribution rate that is in line with their current salary.</p> <p>The two non-standard contribution rates should be investigated and any subsequent issues resolved where applicable.</p>	<p>The year-end process for 2017-18 now has additional checks that will help to prevent and or correct non-standard contribution rates from being uploaded to the system.</p> <p>Data Control Team Leader June 2018 see above</p>