
Audit West

Internal Audit Report
Confidential

Avon Pension Fund
Pensions Payroll

January 2019

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
Good	Procedures are developed, reviewed and updated, and made available to all staff.
Satisfactory	Management reporting is relevant, accurate and timely.
Excellent	Statutory returns are compiled accurately and submitted by deadline dates.
Satisfactory	System access is appropriate, and amendments are properly authorised.
Good	Payments are accurate and only made to eligible recipients.
Excellent	Payments are accurately made on a timely basis.
Good	Payments and related information is accurate and sent to external organisations on a timely basis.
Satisfactory	Regular payroll reconciliations are undertaken.

Detailed Report

Opinion:

Internal Audit has undertaken a review of the risks and controls related to Avon Pension Fund Payroll service and assessed the framework of internal control to be at 'Level 4'. A total of 3 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

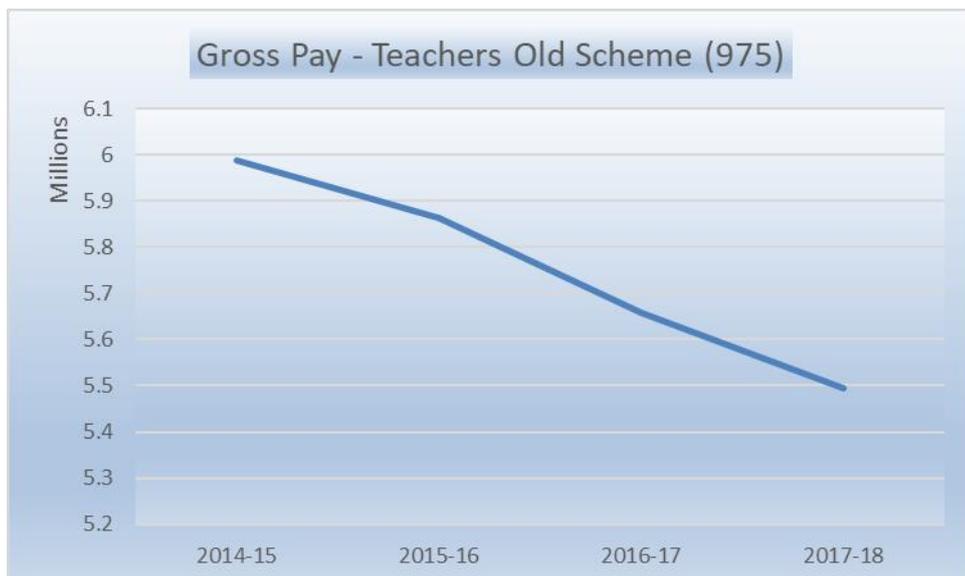
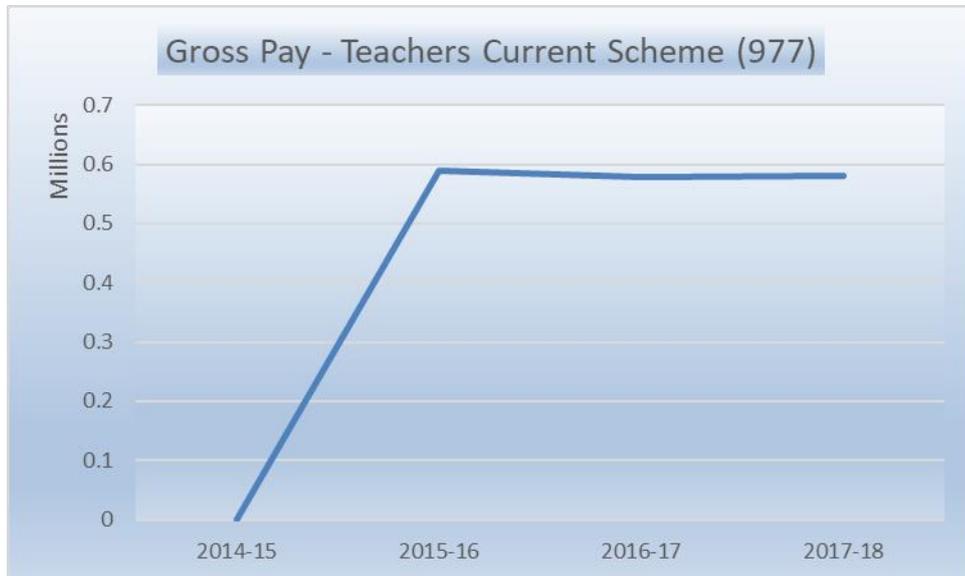
The Avon Pension Fund has a team of around 40 staff that are responsible for the administration and safeguarding of the Fund which has net assets in the region of £3.7bn (as reported in the 2017 Pension Fund Performance Guide).

The Pensions Payroll Team consists of two officers who are responsible for the day to day processing of starters, leavers and adjustments as well as making sure that the monthly, weekly and interim payroll runs all occur on time.

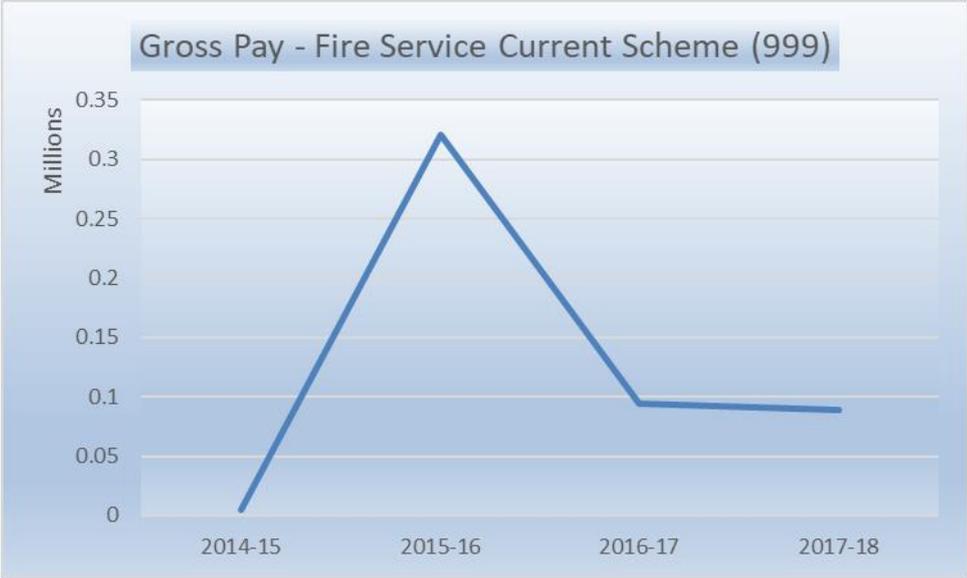
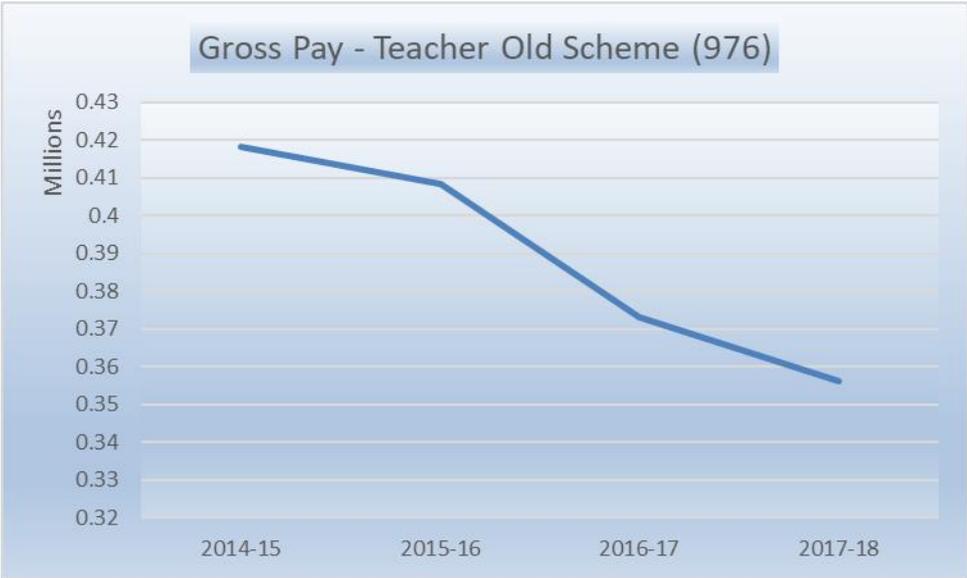
The charts below provide an indication of the sums involved and the trends over the last four to five years.



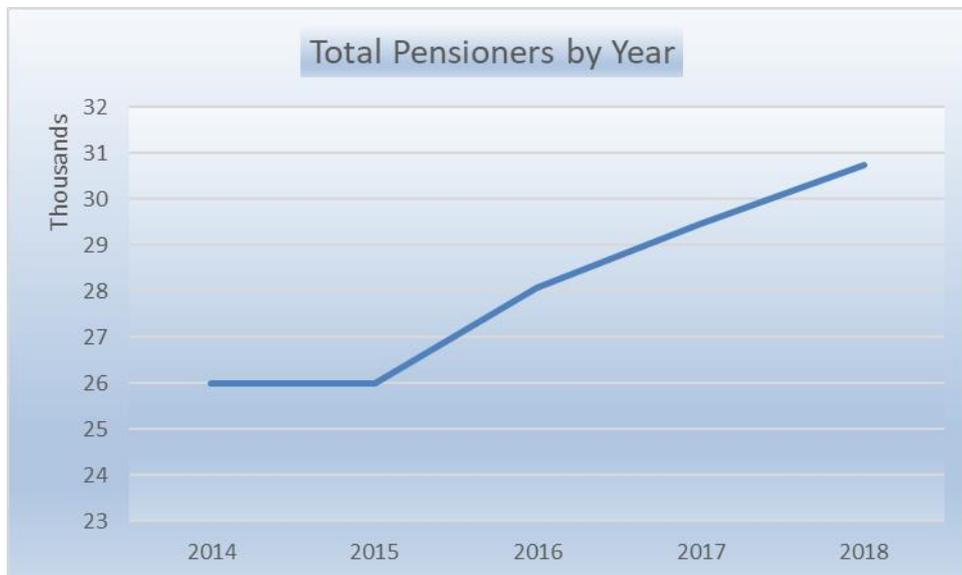
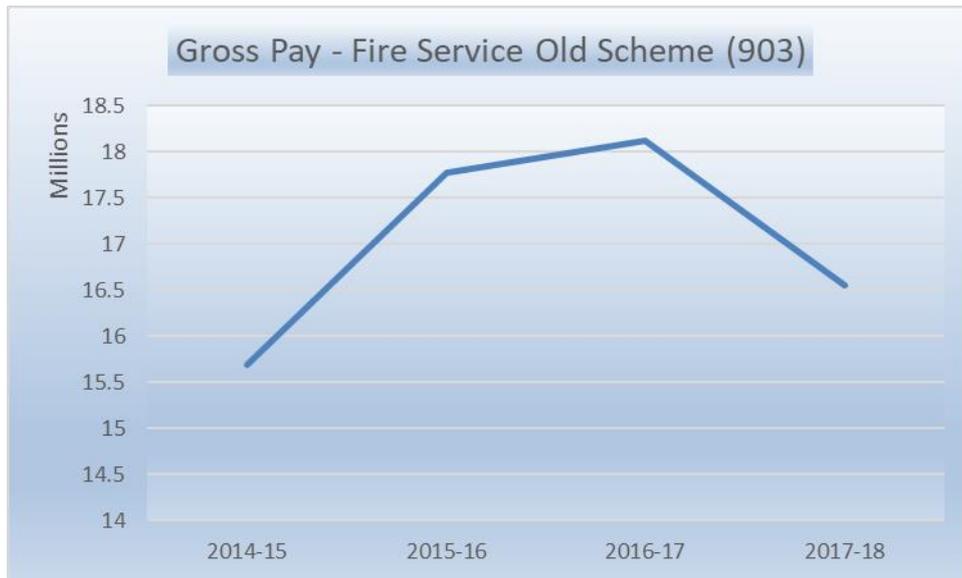
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Context & Audit Comment:

The current audit has been conducted as part of the 2018/19 Internal Audit Plan and has sought to confirm that the key risks relating to pensions payroll are effectively mitigated by reviewing and testing those mitigations and reporting on their suitability and effectiveness.

To arrive at our conclusions, we have met with officers from the APF Payroll and Finance Teams to gain an understanding of the systems used and have reviewed supporting information and conducted sample testing of transactions and records.

For each of the control objectives (and its associated risk) reviewed, we found established processes and actions that, when implemented effectively, help to reduce the impact and/or likelihood of risk to levels which are deemed acceptable to management. Some improvements to both the processes themselves and their implementation are advised.

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The audit identified evidence of good practice being employed within day to day processes.

This report does not include any findings considered to constitute a high risk to the effective operation of the fund, however improvements are possible in some areas which, when implemented, could further reduce risk exposure.

Low risk findings, for example where controls had generally been effective but an isolated lapse with limited impact was found, have not been reproduced within this report but have been discussed and agreed separately with the Pensions Manager and Pensions Payroll Team.

Audit Summary Findings

We identified the following strengths:

- Documented procedures are in place covering many aspects of the work as undertaken by both Pensions Payroll and Finance Teams
- Statutory returns such as those relating to Fund Tax are processed promptly and accurately
- Authorised request forms had been received by the system administrators in respect of new system users
- System Administrators introduce new controls where a system weakness has been identified (e.g. recently in respect of deleting leavers from the system)
- New retirees had been processed promptly and accurately
- First time payments made through an 'Interim' payment batch are subject to independent checks by a pension fund Manager
- Fully signed and authorised records were found for all new retirees within our test sample
- The Pensions Payroll team make effective use of digitization for the retention of records
- Adjustments to monthly pensions had been processed promptly
- Deletions or adjustments due to death or commutation had been processed promptly
- A lump sum payment in excess of £100k had been escalated to a Senior Manager for approval
- The Real Time Information (RTI) link with HMRC enables tax information to be exchanged and individual tax codes to be updated automatically
- Failures of the RTI link to update tax information automatically are monitored regularly, investigated and resolved
- Instructions from Heywood, together with data obtained from HMRC had been used to update tax band information accurately at the start of the financial year
- Independent checks had been conducted to ensure that standing data had been updated correctly
- Matches from the 2016 National Fraud Initiative (NFI) had been fully investigated and resolved
- Data for the 2018 NFI had been promptly submitted to the Department for Works and Pensions
- Exception reports such as bank change details, gross pay over £2.5k and an Immediate Payments-Paid Adjustments are run and used for balancing and to identify unexpected transactions. These reports are initialled and dated
- PAYE deductions had been promptly and accurately paid to HM Revenue and Customs (HMRC)
- PAYE payments to HMRC are reconciled to the payroll system data
- BACS totals are independently checked and authorised by a pension fund manager
- Checklists are used for many of the day to day processes, reducing the risk of steps being omitted

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We identified the following weaknesses:

- The PAYR user role within Altair does not allow for sufficient separation of duties. A user with this level of access could create a ghost pensioner and begin payments
- Long term to short term adjustment records in several instances had not been fully signed, reducing the ability to evidence that all necessary checks had been carried out
- The payroll to general ledger reconciliations did not include evidence of independent review and sign off or details of who had completed the reconciliation

Audit & Risk Personnel:

Lead Auditor: Gary Spratley

Acknowledgements:

Sincere thanks to Geoff Cleak, Pensions Manager and members of the Pensions Payroll and Finance teams 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)	Management Response
M1	<p><u>System Access Controls</u></p> <p>Users assigned to the PAYR group have almost unrestricted access to all functions within the payroll system. The system does not therefore automatically ensure that the expected separation of duties is applied.</p>	<p>A user with PAYR level access could create a ghost pensioner within any scheme including LGPS, insert them into the main payroll run and setup regular payments to them, bypassing manual controls such as the manager review that occurs for all 'interim' payments.</p>	<p>User roles within the payroll system should be amended to ensure that no one officer has permissions to undertake all the steps necessary to create, approve and pay a pensioner.</p>	<p>Due to operational needs we have decided against restricting the PAYR group permissions and will accept the risk associated with this decision.</p> <p>To mitigate, a report which shows all new starters across all schemes that have been set up manually within a period, will be passed to one of the Pension Managers to review and sign off.</p> <p>Responsible Officer: GC, Pensions Manager Target Date: January 2019</p>

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MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Management Response
M2	<p><u>Evidence of Adjustment Processing</u></p> <p>Where an adjustment is made to switch a dependent's pension from short term to long term, the standard practice is for a 'Monthly Elements Sheet' to be completed and signed by two members of the member services team and two members of the pensions payroll team; the first as the preparer / inputter, and the second as an independent checker. For three of the five cases within our sample, we noted that one or more of the evidential signatures was missing. In one of these cases, the adjustment had resulted in an incorrect amount being paid to the pensioner, albeit a very minor amount in this instance.</p>	<p>Although Altair uses 'tasks' to record specific actions completed by officers within the Member Services teams, these 'tasks' do not exist for the work undertaken by members of the Payroll Team and so not having fully completed 'Monthly Elements Sheets' reduces the level of accountability.</p> <p>Missing evidence of independent checks may also indicate that the checks themselves have not been fully completed and as a result there is an increased risk of errors such as the one identified during testing.</p>	<p>All relevant officers should ensure that the required checks are undertaken, and the 'Monthly Elements Sheet' is signed as evidence that these have been carried out.</p>	<p>Agreed. Reminder to relevant staff and process to be tightened up.</p> <p>Responsible Officer: KS, Member Services Manager Target Date: December 2018</p>

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MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Management Response
M3	<p><u>Payroll to General Ledger Reconciliation</u></p> <p>The reconciliation spreadsheets (main and separate PAYE rec) do not record the name of the completing officer and are not independently reviewed and signed off.</p>	<p>Lack of separation of duties and supervisory control may lead to management remaining unaware of unresolved variances.</p>	<p>The reconciliation should be independently checked and certified and should record the names of the completing and checking officers.</p>	<p>We will ensure that the payroll reconciliation is independently reviewed and that details of officers preparing and checking the reconciliation are recorded.</p> <p>Responsible Officer: MP, Finance Manager Target Date: February 2019</p>