

**Internal Audit Report**  
**Confidential**

**Avon Pension Fund**  
**COP14 – Maintaining Contributions**  
**& Providing Member Information**

**February 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
Satisfactory	A complete and accurate contributions monitoring record is maintained.
Excellent	Actual payments are effectively monitored
Good	Late payments are properly assessed and reported to the regulator where appropriate
Excellent	Timely and complete benefit statements are provided to members
Good	Comprehensive information is made available to members and other relevant persons

## Detailed Report

### Opinion

We have assessed the framework of internal control to be at 'Level 4'. A total of two audit recommendations are detailed in the Action Plan section of this report.

### 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 Public Service Pensions Act 2013 (the 2013 Act) introduces the framework for the governance and administration of public service pension schemes and provides an extended regulatory oversight by The Pension Regulator (TPR).

TPR is required to issue one or more codes of practice covering specific matters relating to public service pension schemes. COP14 sets out the legal requirements for public service pension schemes in respect of those specific matters. It contains practical guidance and sets out standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.

COP14 is particularly directed at scheme managers and the members of pension boards of public service pension schemes and connected schemes. Scheme managers must comply with various legal requirements relating to the governance, management and administration of public service pension schemes. Pension boards must also comply with certain legal requirements, including assisting scheme managers in relation to securing compliance with scheme regulations and other legislation relating to the governance and administration of the scheme, any requirements of the regulator and with any other matters specified in scheme regulations.

### Context & Audit Comment

The current audit has been conducted as part of the 2018/19 Internal Audit Plan.

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

We have also considered the current position with respect to a key recommendation that was made in the Employee Contributions audit which was finalised in June of this year; namely, the agreement to enable a reconciliation between contribution data within Altair and actual contribution payments received. Work is currently underway on this project but there are technical difficulties that have yet to be overcome, not least being the sheer number of employers involved, and the project is further dependent on the migration of employers to one of the iConnect methods of uploading contribution data. It is anticipated that a further 12 to 18 months will be required before the new reconciliation process encompasses the bulk of employers.

The fund currently administers pensions on behalf of 415 employers. Of these, 161 are iConnect enabled, which equates to 63% of members data.

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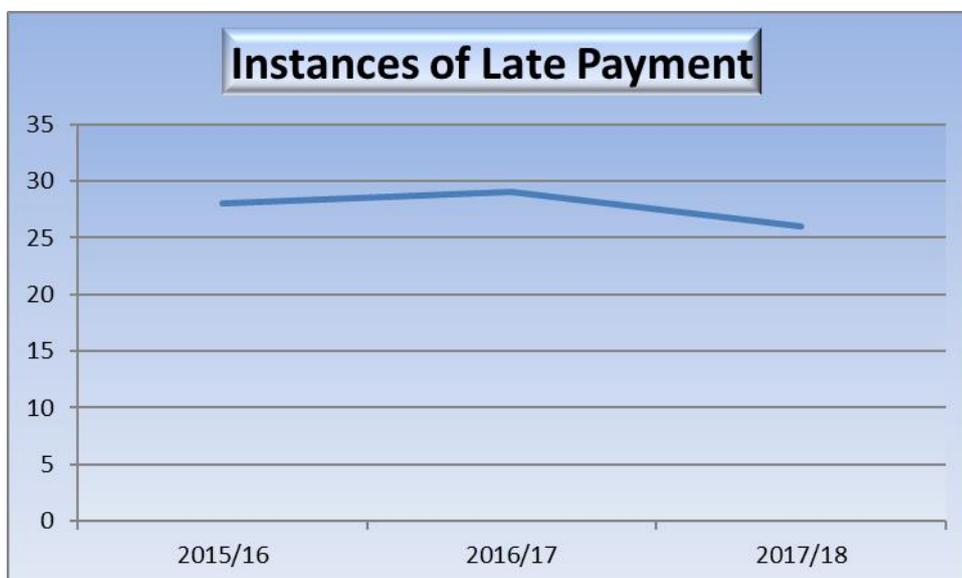
Overall, we found that the control framework in place and operating was enabling the achievement of the control objectives subject to review. Although risks cannot be eliminated entirely, the systems and processes in place do help to reduce the residual risk level to one that is considered acceptable.

Not all areas were without some weakness however and improvements are possible to both system design and implementation going forwards. The principal finding for this audit is the need to further develop and embed a robust monitoring process for iConnect, however it is acknowledged that the APF is already working on the development of day to day systems and reporting processes which will improve both control and efficiency.

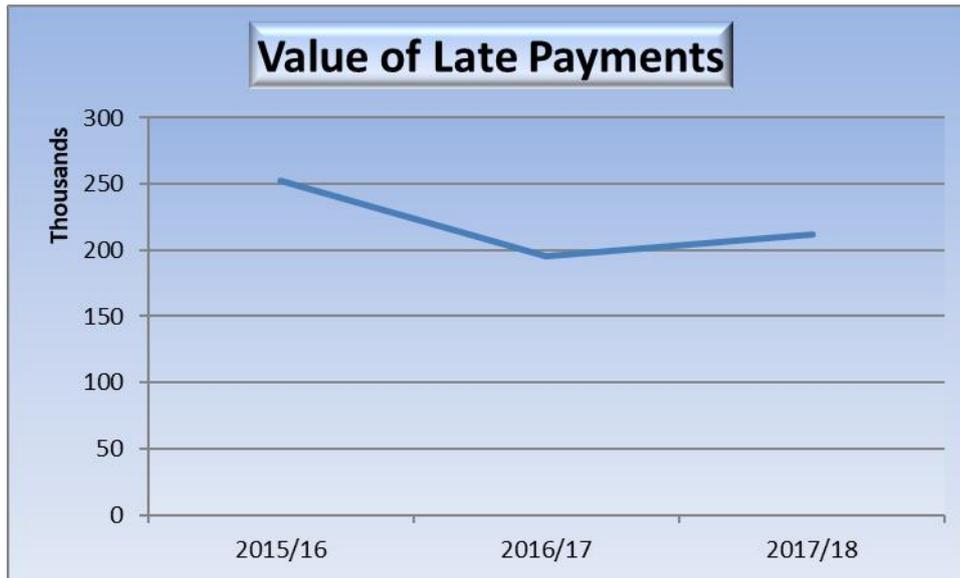
Regarding transparency and meeting the Code's requirements in respect of communications with members, we found that there is a communications policy in place (although due to be updated) and that information is, on the whole, shared in a timely way. The APF website was found to contain relevant information such as newsletters for active, deferred and retired members, a further news bulletin page, information on changes to the LGPS, copies of annual reports and general background information on the scheme. Annual Benefits Statements had been issued by the statutory deadline.

Where low risk findings have been identified, for example isolated control lapses with limited impact, these have not been reproduced within this report but have been discussed and agreed separately with the Pensions Manager.

The following charts are included for information and context and show how the total number and value of late payments has changed since April 2015. As at the time of testing the number of late payments in respect of the 2018 financial year and recorded in the Breach Control Spreadsheet (which included entries up to September 2018) stood at 18 with a total value of £363,535, indicating that the current year is likely to be the highest yet for late payments. We note, however, that this includes two high value late payments, valued at £166,353 during May and £110,200 during June. In both instances the payments were received within a few days and there have been no reoccurrences related to the employers in question. We understand that there have been no late payments that have been considered of sufficient significance to warrant being reported to TPR, however a formal letter was recently sent to one employer who had repeatedly paid late and paid amounts that did not match the LGPS50.



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### Audit Summary Findings

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

- Requirements for employers regarding contribution payment deadlines have been clearly defined and are communicated to employers.
- Contribution rates for employers are clearly recorded within the monitoring spreadsheet.
- Contribution rates for employees are clearly recorded within Altair.
- Tolerance checks are applied to the gross employee contributions received compared to gross pay to identify potential variances.
- Income is monitored daily and reconciled to LGPS50 returns submitted by employers.
- A major project to migrate employers to one of the iConnect solutions is underway, with the potential to improve efficiency and reduce the work required at year end.
- Documented procedures are in place and a process well established to identify and report late payments from employers.
- Production and issue of Annual Benefits Statements is subject to forward planning which begins many months in advance and includes a retrospective appraisal of the prior exercise including lessons learned.
- TPR checklists and guidance are used to ensure the ABS process is conducted in accordance with good practice.
- The APF website was found to contain a range of useful and informative pages and documents that are freely accessible to interested third parties and stakeholders.
- An ABS is issued not only to active but also deferred members as standard.
- Testing confirmed that an ABS had been issued to all members (including deferred) within our sample, excepting those where valid reasons for non-issue existed.
- Information for new members had been issued within the timescales outlined by the COP.

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

- Monitoring processes relating to iConnect uploads are still to be fully developed and documented and remain a work in progress.
- Working documents used to record details of late payments did not have all the required information in some instances.

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### **Audit & Risk Personnel**

Lead Auditor: Gary Spratley

### **Acknowledgements**

Sincere thanks to Geoff Cleak, Pensions Manager and members of the Pensions Administration and Finance teams 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>Management Response</b>
<b>M1</b>	<p><b><u>iConnect Monitoring</u></b></p> <p>Monitoring systems used to identify and resolve late or missing iConnect returns are very much still in development and require further enhancement to scope and efficiency.</p> <p>For example, the current process which APF use for monitoring the submission of online returns via I-Connect requires a large degree of manual processing, by loading each employer record into I-Connect and noting the relevant dates in a spreadsheet. The process also excludes I-Connect users who upload data via a csv file</p> <p>Going forward, the addition of an ERM module within Altair, due to occur in February, is expected to allow a more comprehensive, automated and streamlined reporting and monitoring process.</p> <p>Due to the monitoring processes being in a state of flux, documented procedures covering the process have also to be drawn up.</p>	Data quality may be impaired.	Efficient, effective and comprehensive monitoring and reporting processes should continue to be developed (as planned). Documented procedures covering these processes should then be drawn up and approved by the Employer Services Manager.	<p>Yes agree with recommendations as stated. We are continuing to develop procedures and are looking into alternative methods, as well as seeking additional guidance from our Financial Systems Team to see if other ways of reporting are possible. We have also set out expectations of employers for the submission of monthly returns in our draft Admin Strategy and SLA.</p> <p>Responsible Officer: ES Manager Target Date: March 2020</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>Management Response</b>
<b>M2</b>	<p><b><u>Incomplete Breaches Control Spreadsheet</u></b></p> <p>The following points were noted regarding the Breaches Control Spreadsheet entries for 2018, this being the working document used to record and assess late payments: 'Reason/Action' is blank for three incidents.  'Significance' is blank for six incidents.  The late payment by Eurotaxi in May 2018 was the fourth such incident in as many months, however this cumulative total had not been recorded for the May late payment.  One significant missed payment for £110k states 'unable to obtain reason due to school holidays'.</p>	<p>APF may not be able to demonstrate that it has complied fully with the COP in all instances.</p> <p>Furthermore, without full details of breaches it may be more difficult to identify patterns or trends, ensure employers are taking appropriate actions to prevent reoccurrences and may reduce the level of detail regarding breaches that is reported to stakeholders.</p>	<p>The Finance Manager should ensure, by periodic monitoring and supervision, that team members are fully completing the breaches control spreadsheet in all instances, including follow up actions to identify late payment causes where the late payments are significant.</p>	<p>Our priority is to work with employers to minimize late payments in future. The team always follow up late payments. This involves establishing a relationship with employers that we would not wish to jeopardise by insisting on the provision of a disproportionate level of information.</p> <p>Reason / Action and Significance columns are always completed in the Committee Report.</p> <p>Eurotaxi had particular problems when they joined the Fund. The correct number of cumulative incidents was always reported to the Committee. Following our efforts the performance of the company greatly improved.</p> <p>The payment of £110k was only two days late from an employer that regularly pays on time or up to a week early. At the time of preparing the Committee report including this late payment the schools were closed for the summer and nobody was</p>

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				<p>available to explain it. This was therefore honestly reported to the Committee. Since the employer has a very good record it could have been unproductive and possibly detrimental to our working relationship to require an explanation for a two day late payment so long after the event.</p> <p>Responsible Officer: Martin Phillips Target Date:</p>
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