

Internal Audit Report

Confidential

**Avon Pension Fund
Data Integrity - Scheme Record
Keeping**

April 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	Necessary member information is promptly, completely and accurately transferred by employers.
Good	Member information is completely and accurately entered into the system.
Good	Member information is regularly reconciled to that held by employers.
Good	Employer non-compliance is effectively addressed.
Good	Information relating to non-active members is kept up to date.
Excellent	Information reported to the Board is appropriate and sufficiently detailed.
Good	Action taken to address missing or poor quality information / data is effectively monitored.
Excellent	Board meeting records held are in compliance with relevant regulations

Detailed Report

Opinion

We have assessed the framework of internal control to be at 'Level 4'. A total of 4 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

Pension funds have a duty to administer records for its current and deferred members as well as pensioners. Requirements for this are set in legislation including The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 and are further outlined in The Pension Regulator Code of Practice 14 - Governance and Administration of Public Service Pension Schemes.

Without accurate and reliable common data such as member address information, maintaining contact with the members becomes more difficult and may result in an inability to disseminate important information or to commence pension payments.

As a result, the focus of this audit was to look at non-financial member data and provide assurance on systems and processes used by Avon Pension Fund to maintain the accuracy and reliability of this data.

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 records.

The fund administers pensions on behalf of 415 employers and holds in the region of 122,000 member records for public sector schemes covering workers in Local Government, Teaching and the Fire Service.

Submission of Member Data

Several methods are currently in place by which employers submit member data, such as that relating to starters, leavers and amendments. The fund is currently migrating employers to the I-Connect methods which when complete will eliminate the need for a large-scale year-end data control exercise. 161 employers are so far I-Connect enabled, which equates to 63% of the member base. I-Connect allows employers to submit member data which the system validates and posts directly to Altair.

We found controls to be in place that help ensure data exchanged via I-Connect is accurate, timely and complete. These include detailed user guides with screenshots, optional training for employers and data submission using a standardised format with mandatory data fields. A monitoring process is currently in place which helps identify late or incomplete returns and this includes an escalation process if employers do not respond. The monitoring process is being refined and is subject to change, with greater efficiency and automation being introduced once the new ERM module of Altair is introduced.

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Using I-Connect, we sampled starters, leavers and record amendments and confirmed that they had been correctly and promptly posted through to the Altair system. For starters, this included a check that key or 'common' data fields had been provided.

A significant amount of member data is uploaded to Altair by APF, most notably during the year-end data control exercise, which is being phased out. The most recently completed exercise was in respect of the 2017-18 financial year. Supporting records for this exercise had been retained and demonstrate the controls used to help ensure data quality is preserved. Data received from employers was reconciled to Altair in what are referred to as 'pre and post load checks', with employers then engaged in respect of any queries. Most of these uploads were timely (April to June 2018), however a few late or anomalous submissions were apparent from upload dates (July 2018).

Activity is planned for later this year to further improve the accuracy and timeliness of record keeping including the introduction of a revised Pensions Admin Strategy; Service Level Agreements with employers; and production of a scale of charges that inform employers of the penalties or costs that may be incurred by them for failing to submit accurate and timely data.

Unlike with I-Connect, employers using the year end submission method of data transfer are not required to confirm member details such as addresses, as this information was not required by the return. Reliance is placed on the employer to inform APF when changes occur as and when throughout the year. The matter of amending the spreadsheet return to include either the Members full address or Post Code to enable a data matching exercise to identify discrepancies was discussed. The discussion identified that there would be complications with carrying out the process to extract data (for matching purposes) and that there was also insufficient time to make the changes to the electronic return. It was also flagged that by September 2019 that all the remaining employers would be using I-Connect.

Member Data Reconciliation

The year-end data control exercise has been useful not only in updating member records with information such as contributions but also in reconciling these records to ensure APF records remain accurate.

With the migration to I-Connect, the employer will effectively be carrying out their own reconciliation of member data every month, as the system compares existing member data to that being submitted and flags up any discrepancies. This should mean that a snapshot of active member data taken at any point during the year will be more accurate than under the previous system. The role of APF will therefore be focussed more on monitoring and when necessary chasing employers.

Unrelated to this audit, but worth mentioning, is the reconciliation of member contributions. Historically this has not been possible however the longer term goal of APF is to be able to reconcile this data. The migration to I-Connect should assist with this and APF are exploring how best to link the monthly submissions via I-Connect to the actual payments received from employers.

Employer Non Compliance

APF have an established process in place for identifying employers who may be in breach of legislative / The Pension Regulator requirements e.g. late processing of payments or high levels of member data errors. APF work with employers to try and prevent these issues arising by way of: 1) information provided to employers on their responsibilities, 2) monitoring employer performance and reporting any concerns; 3) occasional targeted training sessions.

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Breaches are also regularly reported to the Pension Board and where necessary fines are levied. However, APF's approach has been to try and encourage improvements in employer administration rather than penalise them, e.g. the APF will often offer to waive the fine if the employer representatives attend further training.

As employers migrate across to I-Connect, the move will be supported by a new policy framework which includes the Pension Administration Strategy and a Service Level Agreement that is considerably more detailed and comprehensive than prior versions. A new scale of charges will also explicitly highlight to employers that they may be fined for unacceptable levels of non-compliance and incur admin charges for unreasonable amounts of additional work that APF are forced to carry out because of non-compliance.

Data Quality for Non-Active Members

Over 43,000 members are currently listed as deferred. Maintaining accurate records for deferred members presents additional problems for the fund as there is no regular update of information such as would be provided by the current employer. Whilst pension funds do have a statutory responsibility to maintain accurate records, achieving a 100% accuracy would be unrealistic and prohibitively expensive. APF have therefore adopted a pro-active risk-based approach to data quality for these members.

Existing measures to promote good data quality for deferred members include an area of the fund website where members can update their details, and regular communications informing the member about the ability to update personal details online.

The single largest number of data errors relates to the current address. As reported in the November Compliance Report to the Pension Board the total figure stood at 5,415, with 4,170 of these in respect of deferred members. Updating these records presents even greater difficulty as all direct contact with the member has been lost. APF have, during the current year, stepped up their efforts to tackle this issue. As standard, APF will seek to validate contact information for all members who are approaching retirement age via the use of an online search tool and subsequent use of an external tracing agency. However, it is still necessary for APF to validate these results by contacting the member using the new address. If the member fails to respond, as does happen, the new details are retained but it cannot be verified that the address is correct, i.e. the benefits of the tracing exercise are not realised.

Supporting evidence of the tracing exercise carried out by Accurate Data Services was reviewed and found to be satisfactory. The tracing process has four stages, each attracting higher costs, which range from a mortality check costing £0.15 per unit to a detailed manual search which is estimated at £45 per unit. So far, APF have restricted the searches to the first three levels to ensure the most cost-effective use of available resources. Further discussions have yet to be held within APF to decide whether progressing to more expensive manual checks is justified. Considerations would include the value of the pension pots involved and whether the costs of these searches can be charged to the individual's pension pot. For younger gone away pension members the risk to the Fund is that they may move many times during their working life and if they fail to notify APF of their whereabouts then the Fund may need to repeatedly trace the same individual incurring additional costs each time. The spreadsheet listing the original batch of 5,481 members shows that 979 addresses had, at the time of testing, been updated because of the exercise, which has so far cost a total of £21,613, against an original budget of £25,000.

Monthly Data Error Monitoring

Monthly reports are run to identify potential data errors within Altair. These are then split by employer and sent to them for resolution. The employers concerned tend to be those who have yet to migrate to I-Connect, (I-Connect has a good degree of inbuilt data validation, preventing users from uploading poor/incomplete data in the first instance).

Spreadsheets are used to record the progress of this monitoring exercise and these were reviewed during the audit to independently verify timely completion.

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Whilst the risk of data error cannot be eliminated entirely the systems and processes in place help to effectively identify and correct errors in data.

Reporting to the Pension Board

A review of Pension Board minutes and compliance reports found the level of information being provided on data quality to be of a good standard. There is evidence of improvements in reporting, namely the addition of green/red colour coding, trend arrows and an overall TPR data score.

We compared the compliance report to one from another South West fund and found the APF report to be more detailed and comprehensive in scope. APF themselves indicated that although they had attempted to compare their compliance reports to neighbouring funds within the Brunel group, this proved unproductive due to there being no consistent reporting methodology or standards of reporting to enable a meaningful comparison.

We also considered the effectiveness of Pension Board meetings themselves in terms of frequency, attendance, engagement and participation, and do not have any significant concerns in this regard. However, a greater degree of input from employer representatives may be beneficial in term of developing future compliance reporting.

Audit Summary Findings

We identified the following strengths:

- Employers are being migrated to the I-Connect system which will allow member records to be updated with greater frequency.
- Migration to I-Connect will ease work pressures at year end by spreading the workload throughout the year, for example in relation to data queries.
- The I-Connect system has a good degree of inbuilt controls designed to reduce the possibility of erroneous data being input and forces the employer to review any changes in data since the previous period.
- The administrative section of the fund has a good level of resourcing including a team whose primary function is data control.
- Key documents such as the Pensions Administration Strategy and Service Level Agreements are currently being updated and expanded and should provide a more robust and comprehensive framework for supporting the key objectives of the fund.
- APF provided a good level of support for employers, including guidance manuals and procedures as well as training sessions and briefings.
- The fund routinely monitors data quality issues, identifying and if necessary fining employers whose data quality is considered below standard.
- Where member data is shared with employers, for instance in relation to TPR queries, it is exchanged via the Globalscape secure portal, helping to prevent unauthorised access.
- Various methods are used to inform members of the need to keep in touch and update personal information such as address details.
- Regular system reports enable monitoring of TPR errors, which relate to erroneous or missing member data.
- Members who are approaching normal retirement age are identified and an address validation exercise undertaken regardless of whether the address is believed to be accurate.
- The current tracing project has so far managed to update 980 of the 5840 member addresses known to inaccurate.
- Performance reports submitted to the board are detailed and comprehensive and showed evidence of having been improved over the last year.
- The number of board meetings was deemed to be sufficient and exceeded that of a neighbouring fund which was used as a comparator.
- The level of interaction and challenge by the board was deemed to be good, as was the overall quality of meeting records and minutes.

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We identified the following weaknesses:

- Until the I-Connect migration project is complete, the full benefits will not be realised and there will be a need to maintain multiple work streams to cover all the methods used by employers to exchange data, reducing efficiency.
- System access controls for I-Connect were not adequate based on the likelihood that User ID's were being shared.
- Employer declaration forms regarding data quality are not collected from all employers and were in some cases significantly late following the last year end exercise.
- Records indicated that several employers were not engaging sufficiently with APF to clear outstanding data quality issues.
- A number of tasks within Altair related to the address validation of preserved into payments members appears to have stalled.

Audit & Risk Personnel

Lead Auditor: Gary Spratley

Acknowledgements

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ACTION PLAN

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Management Response
M1	<p>I-Connect Security</p> <p>Regarding system security for I-Connect, we determined via discussion with the Senior Pension Officer responsible, that in several instances, employers do not have a sufficient number of login credentials, leading to the sharing of usernames and passwords; It is not possible to assign a user a read-only role.</p>	<p>Lack of audit trail and therefore accountability.</p>	<p>APF should ensure that each I-Connect user has a unique log in. For some larger employers this may require multiple credentials being issued.</p> <p>APF should liaise with Heywood on the possible introduction of a read-only role to the I-Connect system.</p>	<p>A meeting has taken place with our Financial Systems Team to review system security for IConnect. A Data Protection Impact Assessment has also been carried out in conjunction with our Information Governance Team. Agreed actions are to:</p> <ul style="list-style-type: none"> -review authorisation form and refuse generic user names & emails where possible -review existing generic users and request person specific users instead -carry out annual review of users and disable / delete unused accounts -make recommendations to Heywood to implement increased password strength and expiry <p>Responsible Officer: Employer Services Manager Target Date: Sept 2019</p>

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MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Management Response
M2	<p>Declaration Forms</p> <p>Employers are required to submit a declaration regarding the quality of member data submitted. We noted that:</p> <ol style="list-style-type: none"> 1) These declarations do not currently cover I-Connect users; 2) Year-end declarations from other employers were in some instances received significantly later than the 30 April deadline, examples being employers 00757 and 00696, who submitted their returns in June and August respectively. 	<p>Member data may be unreliable or inaccurate.</p>	<p>Declaration forms should be completed by all employers and submitted promptly by the due date. APF may wish to discuss with Heywood to see if a declaration can be built into I-Connect that the employer reads and clicks to confirm during every submission.</p>	<p>Declarations are currently under review and there will be separate declarations for IConnect online returns, extracts and also for the old style year end returns. All employers will be given a deadline of 31 May for return of the declaration. We do chase until received but currently there is no fine. A decision was made several years ago not to hold up the loading of the data until the declaration was received due to knock on consequences of not having the data on the system. E.g. issue of Annual Benefit Statements</p> <p>Responsible Officer: Employer Services Manager Target Date: May 2019</p>

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Management Response
M3	<p>Employer Engagement</p> <p>Records of TPR monitoring activity suggest that many employers are failing to engage promptly with APF to rectify data quality issues. Document '2018-19 Employers TPR Control Sheet' which relates to a previous</p>	<p>Data quality issues go unresolved, resulting in APF holding inaccurate data on its members.</p>	<p>APF should consider how best to further encourage employers to promptly deal with TPR data issues.</p>	<p>Employers are made aware of their responsibilities when the join the fund. A letter is also due to be going out next week to all employers reiterating the need to provide accurate data and respond promptly to queries. The letter will state that unreliable data</p>

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	<p>quarter, was showing 60 entries within the 'Sent' tab, indicating the queries had been sent to the employer but not yet resolved.</p>		<p>could result in higher employer contribution rates as set by the actuary in the forthcoming valuations.</p> <p>Responsible Officer: Employer Services Manager Target Date: January 2019</p>
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MEDIUM RISK EXPOSURE

	Weakness Found	Implication or Potential Risk	Recommendation(s)	Management Response
M4	<p>Address Validation Exercise for Preserved into Payments Members</p> <p>Whilst PIPTRACE tasks raised between August and October 2018 had been cleared promptly (on the same day for those in our sample), PIPTRACE tasks raised during December and early January have had no actions recorded against them at all In addition, follow on task PIPESCAL had been raised in a number of cases between June and September 2018 but have yet to be resolved and actions recorded against them.</p>	<p>Members who are preserved into payments are approaching normal retirement age. Any delay in validating their address details could impact the ability to begin pensioner payments to them.</p>	<p>APF should ensure that the data validation exercise for preserved into payments members is promptly progressed and resolved.</p>	<p>A procedure is in place to deal with cases promptly. A work monitoring spreadsheet has recently been set up for the Team Leader to monitor that monthly jobs and tasks are completed on time.</p> <p>Responsible Officer: Employer Services Manager Target Date: March 2019</p>