

The logo for Audit West features the company name in a bold, orange, sans-serif font. The text is centered between two horizontal grey lines. The top line has a small upward-pointing arrowhead at its center, and the bottom line has a small downward-pointing arrowhead at its center.

Audit West

Internal Audit Report
Confidential

Avon Pension Fund (APF)
Pensions Payroll

September 2021

Executive Summary

Audit Opinion:

Assurance Rating	Opinion
Level 5 - Full Assurance	The systems of internal control are excellent with a number of strengths, no weaknesses have been identified and full assurance can be provided over all the areas detailed in the Assurance Summary.
Level 4 - Substantial Assurance	The systems of internal control are good with a number of strengths evident and substantial assurance can be provided as detailed within the Assurance Summary.
Level 3 - Reasonable Assurance	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 - Limited Assurance	The systems of internal control are weak and only limited assurance can be provided over the areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.
Level 1 - No Assurance	The systems of internal control are poor, no assurance can be provided 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.

Assurance Summary:

Assessment	Key Control Objectives
Good	Management reporting is relevant, accurate and timely.
Good	Statutory returns are compiled accurately and submitted by deadline dates.
Good	Payments are accurate, timely and only made to eligible recipients.
Good	Payments and related information are accurate and sent to external organisations on a timely basis.
Good	Payroll reconciliations are undertaken regularly with the main financial system.
Good	System access is appropriately restricted.

Detailed Report

Opinion

Internal Audit has undertaken a review of the controls over the Avon Pension Fund (APF) Pensions Payroll. The framework of internal controls has been assessed and given an assurance rating of “**Substantial Assurance**”. A total of five 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

B&NES Council administers the Avon Pension Fund on behalf of approximately 464 employing bodies mostly situated in the former Avon County Council area. The four unitary councils account for circa. 50% of the contributing members. The total number of scheme members as at 31 March 2021 was 125,322, of whom 31% were contributors, 28% were pensioners, 34% deferred pensioners & 7% undecided leavers.

There are 89 Councils which administer the Local Government Pension Scheme (LGPS) in the United Kingdom and the Avon Pension Fund is one of the larger funds, with circa £4.5bn value.

The Local Government Pension Scheme (LGPS) is a statutory scheme, with all benefits guaranteed. The LGPS provides pensions based on final salary for service until 31 March 2014 and on Career Average Revalued Earnings (CARE) for service accruing from 1 April 2014.

The B&NES Member Services and Pensions Payroll teams are responsible for the enrolment, calculation, payment, financial reconciliations, and overall management of pension salaries to retired members of the Avon Pension Fund (APF).

The APF Pensions Payroll service has seven payroll interfaces that are reconciled into the main Payroll system and these are:

- 901 – Officers (main run)
- 903 - Fire Brigade
- 999 – Fire, other schemes
- 904 - Manuals
- 975 - Teachers
- 977 - Teachers
- 976 - Crombie

Payroll reconciliations are completed on a weekly and monthly basis, with separate weekly and monthly control accounts carried out to verify the financial totals. The audit review covered all seven payroll interfaces, payroll reconciliations and all major functions of the Pensions Payroll process.

Overall, the control framework in place and operating for the management of the Pensions Payroll was found to be effective. Good practice was apparent in several areas reviewed and these are detailed in the section below.

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We identified the following strengths:

- There are good checks and measures in place over missed pay runs and overpayments. These include: clear timelines for processing, review and sign off on all calculations and an error report triggered by missed BACS pay runs. To date, this error report has not been required as no pay runs have missed deadline.
- Payments to members are consistently accurate and occur within the allocated timeframe for both ad-hoc payments and the monthly Pensions Payroll.
- Monthly and annual returns to HMRC are checked by a senior accountant and independently verified before the payment is made.
- For April 2020 to date (August 2021), all parameter data and tax rates have been updated correctly. Controls for this area include an independent check before senior authorisation for all updates.
- The National Fraud Initiative data, alongside internal reporting, is regularly reviewed and to date no fraudulent activity has been identified.
- For the financial year 2020/21, imbalances and exceptions on monthly payroll BACS runs and all rejected payments have been investigated and resolved in full. For the financial year 2021/22 to date, 90% of these have been investigated and resolved. The remainder (10%) are more recent and are awaiting responses from members.
- New retirees are added to the payroll system accurately and in a timely manner. All new retiree pension details are checked and then independently authorised by a senior officer before pension scheme payments start.
- A new retiree's identity is verified before pensions scheme payments begin.
- Payroll reconciliations are undertaken completely, accurately and on a timely basis, in line with all associated documented procedures.
- There is a separation of duties in place between making BACS payments and processing payroll amendments.
- The Pensions Payroll system is known as Altair and it holds a full audit trail of all member details and records.
- When amendments are made to member records, two pension staff are involved in the process (one staff to action the amendment and another to check that member details have been amended accurately).
- System access to Altair is properly authorised for all users and access is appropriate for officer roles and responsibilities.
- All payroll system users have unique usernames, log in details and passwords.
- Altair payroll system access levels are reviewed routinely, with any anomalies investigated and resolved. The Altair users' list is up to date with no duplications and all users have a unique Journal Reference, unique Email and a National Insurance number recorded.
- The National Insurance number of each user is utilised by Altair as a safety measure to ensure that pension staff cannot edit their own details on the payroll system.

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We identified the following weaknesses

- Comprehensive Policies and Procedures for Pensions Payroll are in place, but these have not been reviewed and updated on a regular basis, some documents have not been reviewed since 2014.
- Monthly exception reports do not include a check of multiple payments to the same bank account, instances of which may be an indicator of error (duplicate payments or potentially fraudulent activity).
- The monthly and year-end payroll reconciliation adopted procedures do not require formal check and approval by a qualified senior officer.
- The Pension Fund relies on the gov.uk “Tell us Once Service” and the biennial National Fraud Initiative to identify non-declared deceased pensioners. There is a requirement to notify the Pension Fund of the death of a member but for a number of reasons the death may not be reported.
- Altair does not force a two person check on member detail amendments. It is recognised that a two-person manual check is currently a process conducted by the two members of the team, but this is an unrealistic task when staff are not office based.

Audit & Risk Personnel

Auditor: Alec Austin

Audit Manager, IT and Finance: Tariq Rahman

Head of Audit: Andy Cox

Acknowledgements

Sincere thanks to Sally Brewer, Anna Capp, Matt Williams, David Richards, Hannah Dawson, Vicky Brasier and Marc Goodman for all their help and assistance throughout the Audit Review.

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Action Plan

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication of Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M1	<p>Policies & Procedures Comprehensive Policies and Procedures for Pensions Payroll are in use by staff, but these are not reviewed and updated on a regular basis.</p>	<p>Policies & procedures used to guide / train staff are out of date and actions / checks etc are not carried out or not carried out in line with 'best practice'.</p>	<p>Senior APF Officers should ensure that policies & procedures are: - reviewed on an annual basis to ensure that the information contained within is accurate, relevant, and importantly up to date. - version controlled to record document updates e.g. date of review.</p>	<p>Agreed Implementation Date: 1st Feb 2022. Responsible Officer: Member Services Manager, Anna Capp.</p>
M2	<p>Member Detail Amendments As home working becomes the new normal, the current manual two person check on member amendments is not feasible since staff are not office based to receive, review and sign documentation.</p>	<p>Inadequate audit trail.</p>	<p>Altair system parameters should be investigated to determine whether workflows can be created that would force two persons to be involved in the member detail amendment process - one system user to action the amendment and another user to check and authorise that member details have been amended accurately.</p>	<p>Agreed Implementation Date: 1st April 2022 Responsible Officer: Pensions Payroll Team Leader, Sally Brewer.</p>
M3	<p>Payroll Exception Reporting Exception reports are generated for all pay runs to identify issues which could result in payments being processed in error. However, checks to detect multiple payments to the same bank account are not carried out as part of the suite of exception reports.</p>	<p>The APF may incur a financial loss.</p>	<p>The Pensions Payroll Team Leader should investigate whether it is possible to generate an exception report or carry out a basic data analytics routine to identify multiple payments in a single payment period to the same bank account. If it is possible, these checks should be carried out with the same frequency as the other existing exception reports.</p>	<p>Agreed Implementation Date: 1st Feb 2022. Responsible Officer: Member Services Manager, Anna Capp. Comments: Request to be made to software provider, Heywood, to ascertain if functionality for reporting is possible.</p>

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Action Plan

LOW RISK EXPOSURE				
	Weakness Found	Implication of Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
L1	<p>Payroll Reconciliation Authorisation The monthly and year-end payroll reconciliations adopted procedures do not require formal check and approval by a qualified senior officer.</p>	<p>Financial statements could be mis-stated if accounting errors are not identified and corrected.</p>	<p>The Pensions Finance and Systems Manager should review and approve the payroll reconciliation figures before the amounts are reconciled in Agresso and a record of these checks should be retained.</p>	<p>Agreed Implementation Date: 1st October 2021. Responsible Officer: Finance & Systems Manager (Pensions), David Richards. Comments: Each reconciliation is given its own URN within Agresso once reconciled. A screen shot of the reconciled items will be saved and filed with authorisation</p>
L2	<p>Deceased Pensioners The Pension Fund relies on the gov.uk "Tell Us Once" service and the biennial National Fraud Initiative to identify non-declared deceased pensioners. There is a requirement to notify the Pension Fund of the death of a member but for a number of reasons the death may not be reported.</p>	<p>APF may incur a financial loss and recovery action, following identification of overpayments, will incur costs to the Pension Fund.</p>	<p>The Pensions Payroll Team Leader should investigate potential data sources that could be combined with data analytical tools to ascertain the deceased status of pensioners. On an annual basis, the Pensions Payroll Team Leader should contact retirees over a specified age (determined by the APF) and confirm that they are still eligible for a pension. Where no response is received, and DWP and/or</p>	<p>Agreed Implementation Date: 1st Feb 2022. Responsible Officer: Member Services Manager, Anna Capp. Comments: A contract is in place for mortality checking, but the current Council IT infrastructure does not support the application.</p>

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			Tell Us Once hold no up to date records, consideration should be given to suspending the account pending further investigation.	