

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. A small grey diamond shape is positioned at the top center, between the two lines, pointing downwards towards the text.

Audit West

**Internal Audit Report
Confidential**

**Avon Pension Fund – Pensions
Governance Code of Practice
(COP14) – Maintaining
Contributions and Member
Information**

July 2022

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
Satisfactory	1. Records are complete and accurate, and managed in-line with regulatory requirements.
Good	2. Payments of contributions are effectively monitored to identify late or failed payments, in a timely manner.
Excellent	3. Late payments are properly assessed and reported to the regulator, where appropriate.
Excellent	4. Timely and complete benefit statements are provided to members.
Excellent	5. Comprehensive information is made available to members and other relevant persons, and compliant with regulatory requirements.

Detailed Report

Opinion

Internal Audit has undertaken a review of the risks and controls related to Avon Pension Fund – Pensions Governance Code of Practice (COP14) – Maintaining Contributions and Member Information and assessed the framework of internal control at Level 4 – Substantial Assurance. A total of 6 audit recommendations are detailed in the Action Plan.

Scope and Objectives

The scope and objectives of our audit work 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 Public Services Pensions Act 2013 (the 2013 Act) is the primary legislation introduced by the government to provide greater transparency, simplicity and certainty around Public Sector Pensions. The 2013 Act introduced new governance arrangements for public sector service pension schemes. Regulatory oversight is provided by The Pensions Regulator (TPR). The 2013 Act permits TPR to issue Codes of Practice (COP) in relation to public service pension schemes.

Through the Codes of Practice, TPR gives practical guidance to scheme managers on how to comply with the legal requirements of pensions regulation. As of May 2022, there are 15 COPs that provide guidance over a wide range of topics, including breach reporting, trustee knowledge and governance and administration. TPR has issued a draft new Single Code of Practice, which sets out proposed new governance standards for pensions schemes and will be a consolidation of 10 out of the 15 existing COPs, as well as a significant update and extension of the existing codes. The Single Code of Practice is expected to come into force by the summer of 2022.

The current 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 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.

The Avon Pension Fund (APF) administers the Local Government Pension Scheme (LGPS) for over 440 employers and over 120,000 members in the former Avon area. Employers include local unitary councils, universities, academies, town and parish councils, housing associations and charities. The fund is administered by Bath & North East Somerset (B&NES) Council, who are legally responsible for the fund. The Council delegates its responsibility for administering the fund to the Avon Pension Fund Committee, which is its formal decision-making body.

The current audit has been conducted as part of the 2021/22 Internal Audit Plan. The audit scope has focused on the Administration aspects of the COP14, particularly: maintaining contributions and providing information to members. The audit scope did not extend to any other elements of the COP14.

This audit was last conducted in the 2018/19 Internal Audit Plan, where the Audit Opinion was also “Level 4 – Substantial Assurance”. Of the five risks that were reviewed as part of the audit scope, four have either received the same assessment or improved. Controls to ensure that payments of contributions are effectively monitored to identify late, or failed payments have deteriorated from the previous “Excellent” rating but remain assessed as “Good”.

The APF’s controls around providing information to members, such as Annual Benefit Statements (ABS) and ad-hoc requests, such as Subject Access Requests (SARs), remain robust. Information is provided to members in a timely manner and there are adequate controls in place to ensure completeness and quality. It was also observed that on the isolated occasions when the deadline for a SARs was missed, there was timely remediation through staff training and procedure updates. Additionally, whilst the controls to monitor for late or failed payments could be further improved, the APF continues to proactively monitor and take action with employers. Consequently, there have been no reportable breaches to TPR.

In respect of payment monitoring, it was observed that improvements have been made to the payment monitoring spreadsheets, since the previous audit. No concerns were noted with the completeness of the spreadsheet or follow-up actions taken by the team. However, payment monitoring can be further improved through introducing appropriate End-User Computing controls, such as password protection and cell lockdown for key formula.

The APF continues with its programme to migrate employers to using i-Connect for submission of pensions contribution data. At present, around 60% of employers have been migrated to i-Connect, accounting for approximately 80-85% of the total membership base. The APF anticipates that all employers will use i-Connect for data submission by the end of 2023. Controls around i-Connect monitoring have improved since the previous audit, notably that automated tolerance

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checks have been introduced. The tolerance checks prompt the Employer Services team to query data outside of the defined tolerance bands directly with the employer. However, further improvements are required to ensure that adequate records of any follow-up enquiries and the outcomes are retained for accountability purposes.

The audit also identified that the APF is currently unable to recertify user access to Globalscape, which is used by the APF to securely transfer data between the APF and employers. Whilst it is noted that Globalscape is an application used across the Council and managed by the Council's IT Services on behalf of the APF, the absence of any recertification process may mean that any incorrect access may not be identified and remediated in a timely manner and increase the risk of personal data breaches.

We identified the following strengths:

- The APF has in place a Pension Administration Strategy and a Personal Data Retention Policy, which covers its records retention and personal data protection practices, in-line with COP14 requirements.
- Automated tolerance checks are in place to identify any material variances in data from the previous month's submission, and act as a prompt for Employer Services to query discrepancies with employers in a timely manner.
- Employer Services maintains an accurate record of employers' authorised contacts, from whom they are permitted to accept instruction. Authorised contacts are notified to Employer Services via an LGPS53 or LGPS53A form, which is retained on the file of the employer.
- User access to Altair, i-Connect and ESS was found to be appropriately assigned to current staff members or the employers' authorised contacts, and commensurate with expected job roles. Altair, i-Connect and ESS are key systems used by the APF in administering pensions.
- The Avon Pension Fund (APF) Accounts team performs monthly monitoring to check that incoming contribution payments are accurate against the expected contributions to be paid and that payments are not late or missing.
- The Avon Pension Fund's late payment procedures are documented in the APF's Pension Administration Strategy Statement, which outlines the scenarios when financial penalties may be issued or reporting take place to the regulator. The Accounts team also has a procedure which gives them guidance on when to escalate missing payments to the Team Manager, for consideration for reporting to The Pensions Regulator.
- Reporting of late or failed payments to The Pensions Regulator takes place where documented materiality thresholds are breached. No cases were identified in testing which would warrant escalation.
- Annual benefit statements are issued annually to active and deferred members, in-line with statutory requirements.
- The production of Annual Benefit Statements for Active and Deferred members is governed by a robust Quality Assurance (QA) process to ensure that the Annual Benefit Statements are produced in-line with statutory requirements.
- The Avon Pension Fund's Communication Policy Statement complies with COP14 requirements and details who it will provide information to, what information will be provided, the frequency and how information will be

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provided. In addition, there is clear communication to members regarding how they can change their communication preferences.

- The Governance & Risk Advisor monitors incoming Subject Access Requests (SARs) and Freedom of Information requests (FOIs) to ensure that the APF complies with regulatory timeframes to fulfil requests. Internal Audit verified that remedial actions have been taken on the isolated occasions where an error has occurred.
- The APF monitors regulatory and legal sources to ensure that key information is communicated to members and employers, in a timely manner. A log is maintained of all communications that take place via e-mails, newsletters and the APF's websites.

We identified the following weaknesses:

- The Personal Data Retention Policy has not been reviewed annually, in-line with the APF's stated review frequency. However, the review is already scheduled to take place in the 2022/23 financial year.
- Employer Services does not always retain adequate record of contribution data submission queries sent to employers, or that data submissions were received from an authorised contact at the employer or Payroll Provider.
- Employer Services does not always retain adequate evidence that Year End Declarations have been received from employers, to attest to the completeness and accuracy of their pensions' contribution data.
- The APF uses Globalscape for the secure transfer of files between themselves and external parties, such as employers. Whilst Globalscape is managed by B&NES Council's IT Services on behalf of the APF, nonetheless, Globalscape does not have a user access reporting facility and consequently, the APF is unable to gain assurance that user access is current and appropriate, on a periodic basis.
- There is no formal review and sign-off of the monthly payment monitoring process by the team manager, on a monthly basis. Consequently, errors may not be detected until the manager reviews as part of the quarterly updates to the Pension Board.
- The spreadsheet used to monitor for missing and late payments is not password-protected, and key formula used for look-ups and calculations are not locked to prevent accidental or deliberate changes.
- There is a lack of Key Performance Indicators (KPIs) to monitor compliance with SARs and FOIs reporting timescales.

Audit & Risk Personnel

Lead Auditor: Samantha Cheung

Acknowledgements:

Sincere thanks to Geoff Cleak, Claire Newbery, Anna Capp, David Richards, Jason Morel, Carolyn Morgan and all service staff 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>Payment Monitoring Enhancements</u></p> <p>There is a lack of formal manager review and sign-off by a team manager for the monthly incoming payment monitoring control. At present, the team manager only conducts a formal review as part of the quarterly reporting process to the Avon Pension Fund's (APF) Pension Board. Consequently, errors may not be detected for up to three months.</p> <p>In addition, the Moving Totals and Contributions spreadsheets are used to monitor for missing or late payments, but these are not password-protected. The Contributions spreadsheet is set to read-only by default. However, key formulae in the spreadsheets, which are used for look-ups and calculations are not locked to prevent accidental or deliberate changes. Further, Internal Audit review identified an error where a look-up formula appeared to apply</p>	<p>Inadequate monitoring for late or missing payments may result in the non-timely detection of employer failures, and lead to a delay in reporting to The Pensions Regulator.</p>	<p>The APF should enhance its payment monitoring procedures to include:</p> <ul style="list-style-type: none"> • Team Manager review and sign-off of the monthly monitoring; • Password controls over the monitoring spreadsheets, with passwords changed on a regular basis and only shared with team members who require access. • Review of the key Excel formula used and introduction of cell protection to reduce risk of accidental or deliberate changes. 	<p>Agreed</p> <p>Responsible Officer: Finance & Systems Manager (Pensions), David Richards</p> <p>Implementation Date: 31st August 2022</p>

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	<p>incorrect Multi-Academy Trust (MAT) or Group Codes, although this error did not have a material impact on the accuracy of the payment monitoring.</p> <p>Internal Audit sample testing of the payment monitoring controls did not detect any other errors.</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>Employer Data Submissions Monitoring</u></p> <p>Although it is the employers' responsibility to ensure that data submitted to the Avon Pension Fund (APF) is complete, accurate and timely, the APF Employer Services team monitors data submissions to support employers with early detection of errors. However, evidence that queries have been raised with the employers' is not always retained. Consequently, it may not be possible to determine accountability in the event of a complaint.</p>	<p>Member data errors may not be identified and remediated in a timely manner.</p>	<p>APF Employer Services should review and enhance its procedures so that there is:</p> <ul style="list-style-type: none"> • Adequate records to demonstrate that queries were followed-up with the employer, including who they contacted (e-mail / telephone), when contact took place, the outcome and any follow-up actions that need to take place; and • Verification that manual data submissions are received from authorised employer contacts. 	<p>Agreed</p> <p>Responsible Officer: Employer Services Manager,</p> <p>Implementation Date: 31st March 2023</p> <p>Management Comment:</p> <p><i>In certain circumstances data has been verified via a phone call or email and subsequently not fully evidenced against the data submission.</i></p> <p><i>APF are going through a period of change and data validation & monitoring processes will be reviewed, confirmed and documented as part of the Digital Services team set up.</i></p>
<p>From a random sample of 19 employer data submissions, the following was noted:</p> <ul style="list-style-type: none"> • For 10 cases, insufficient evidence was retained to demonstrate that Employer Services had followed-up tolerance breach queries or missing data submissions with the employer in a timely 				

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	<p>manner; and</p> <ul style="list-style-type: none">• In 2 cases, where member data was submitted manually, it was not possible to confirm that the employers' data submission was received from an authorised employer contact.			
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MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M3	<p><u>Globalscape User Recertification</u></p> <p>User access reports cannot be extracted from Globalscape. These reports support key controls such as periodic user access recertification, which enable the organisation to identify and remediate cases of users with inappropriate access or who have left.</p> <p>Globalscape is an application used by the Council to facilitate secure transfer of files between Council service areas and external parties. The Avon Pension Fund (APF) is one of the service areas that utilises Globalscape to enable employers to securely transfer pension data.</p> <p>Users are set-up with access to specified folders for each employer. However, the absence of user access reports may result in the APF being unable to verify that access is restricted to the appropriate folders.</p>	<p>Personal and confidential data may not be adequately restricted to authorised individuals, resulting in a data breach.</p>	<p>The APF should escalate to IT Services the need to conduct a risk assessment for Globalscape. The risk assessment should seek to determine if user access reporting can or should be implemented to facilitate periodic user access recertification, and document any mitigating controls in place to reduce risk.</p>	<p>Agreed</p> <p>Responsible Officer: Financial Systems Manager, John Hewlett and Employer Services Manager, Yolanda Dean</p> <p>Implementation Date: 31st March 2023 (subject to collaborative support from B&NES IT)</p> <p>Management Comment:</p> <p>APF Management have raised the recommendation with B&NES IT.</p> <p>APF Action</p> <p>Review current i-Connect employer portal and explore what alternative options there might be.</p> <p>Review authorised contacts and will liaise with B&NES IT to consider other options available to</p>

<p>In partial mitigation, the APF Pensions Data Quality Team and the authorised employer contacts receive an automatically generated notification from Globalscape, when a file is uploaded or downloaded. The notification includes the name of the person performing the file transfer, the name of the file and the folder that the file is being transferred in / out of. The mailbox is monitored daily, and e-mail notifications are retained on the S Drive. In the event that an unauthorised person accesses a file, the APF retains records to determine accountability and when such an event occurred.</p>		<p>reconcile authorised users.</p> <p>IT Management Comment: <i>B&NES IT do not have the Globalscape Reporting Tool as it's an additional cost for the software. Attempts to extract the user access reporting data internally have been unsuccessful. The service support company would require development costs to produce a basic script to enable information to be gathered.</i></p> <p><i>Audit have previously agreed with B&NES IT that the current process which provides users with email alerts was sufficient.</i></p> <p>IT Audit Comment: The IT landscape has changed considerably in the last 2-3 years, particularly with increased remote and hybrid working amongst Council staff. Changing technologies and external threats, such as zero-day cyber security</p>
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			<p>risks, will have an impact on the effectiveness of existing mitigating controls for Globalscope. Consequently, as per the above action, APF should review the internal controls for Globalscope to determine whether the residual risk remains within risk appetite and look at alternative options.</p>
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MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M4	<p><u>Year End Declaration</u></p> <p>Employers are required to complete a Year End Declaration on an annual basis to attest that their payroll and member data is complete and accurate.</p> <p>In 2 out of a random sample of 10 employers, no evidence was provided that Employer Services had received the Year End Declaration from the employer in a timely manner.</p> <p>Per the Avon Pension Fund's Pensions Administration Strategy Statement 2019 (the Strategy), fines may be issued to employers when there is late or inaccurate submission of data or late payment of contributions. Additional charges extend to late return of data at year end, excessive queries or data submitted in the wrong format. Currently, employers are not penalised for non-return of the Year End Declaration.</p>	<p>Member data may not be complete and accurate, leading to errors in the Annual Benefit Statement and potential regulatory sanction.</p>	<p>The APF should review and enhance procedures so that:</p> <ul style="list-style-type: none"> Follow-up queries relating to missing or late submission of year end data is retained for accountability purposes (including any decisions regarding penalty payments). <p>Alongside its planned review of the Pensions Administration Strategy Statement (the Strategy), which will be applied from the 2023/24 financial year, the APF should ensure that:</p> <ul style="list-style-type: none"> Employers are reminded of their data submission responsibilities; Employers are fully aware of the penalties for late submission and procedures that are in place for collection of charges (where the concerns are deemed a material breach); and The Strategy is clear on employers' responsibilities and deadlines for the Year End process, including the Year End Declaration. 	<p>Agreed</p> <p>Responsible Officer: Employer Services Manager, Claire Newbery</p> <p>Implementation Date: 31st March 2023</p> <p>Management Comment:</p> <p>As per APF PAS, employers are not fined for the non-receipt of a declaration. This will be reviewed as part of the Admin Strategy review in 22/23</p> <p>In addition, a process will be reviewed and implemented for the non-receipt of a declaration that does not have a detrimental effect on the members ability to receive an annual benefit statement.</p>

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LOW RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
L1	<p><u>Personal Data Retention Policy</u></p> <p>The Personal Data Retention Policy has not been reviewed annually, in-line with the Avon Pension Fund's stated review frequency. The most recent update took place in November 2020.</p> <p>Testing of Subject Access Requests (SARs) did not identify any material issues. Whilst 2 cases out of a sample of 20 SARs and Freedom of Information Requests (FOIs) were identified where a response was not provided for a SAR within the 30 days stipulated by the GDPR, evidence was provided that training was subsequently provided to staff to address these issues.</p>	<p>The Personal Data Retention Policy may not adequately reflect material changes to data protection regulations including, but not limited to, the General Data Protection Regulation (GDPR).</p>	<p>The Personal Data Retention Policy should be reviewed to ensure that it remains fit-for-purpose and aligned to the GDPR. It is acknowledged that the review is part of the planned 2022/23 work schedule for the Governance & Risk Advisor.</p> <p>Following the review, training should be provided to APF team members who may be affected by material changes to the Policy.</p>	<p>Agreed</p> <p>Responsible Officer: Governance & Risk Advisor, Carolyn Morgan</p> <p>Implementation Date: 31st March 2023</p> <p><i>A review will be started over the coming months with the assistance of the Governance & Risk Officer, who has just started in her role.</i></p>

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LOW RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
L2	<p><u>Subject Access Request & Freedom of Information Request Key Performance Indicators</u></p> <p>The APF does not have Key Performance Indicators (KPIs) in place to monitor compliance with regulatory timeframes to fulfil Subject Access Requests (SARs) and Freedom of Information requests (FOIs).</p> <p>Under the GDPR, organisations are required to respond to a SARs within one calendar month. The Freedom of Information Act (FOIA) requires public authorities to respond to requests promptly, and by the twentieth working day following the date of receipt of the request.</p>	<p>A lack of KPIs may result in trends in resourcing issues or training pertaining to GDPR or FOIA going undetected. As a result, statutory obligations may not be met.</p>	<p>As planned by the Governance & Risk Advisor, data protection processes and training should be reviewed and refreshed, where necessary.</p> <p>The Governance & Risk Advisor should liaise with Information Governance (Data Protection) to ensure appropriate KPIs are in place to enable APF Management to monitor compliance with statutory data protection obligations.</p>	<p>Agreed</p> <p>Responsible Officer: Governance & Risk Advisor, Carolyn Morgan</p> <p>Implementation Date: 31st March 2023</p> <p>Management Comment: <i>A formal a review of KPIs is due to be undertaken as part of the Scheme Advisory Board's (SAB) Good Governance Review. SARs & FOIs will be considered as part of that review.</i></p>