

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

Final Internal Audit Report
Confidential

Avon Pension Fund - Pensions
Payroll

September 2024

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
Excellent	Payment schedule - interim and monthly pay runs are processed timely and accurately to enable the service to prepare and check each pension payroll.
Good	Management and Exception reports– are reviewed to identify any errors in the reconciliation of records including payroll variances.
Excellent	Segregation/separation of duties – for the processing of payroll and approval of payments.
Excellent	Centralised payment process –payments are made through a centralised process and using approved BACS software to ensure that payments are secure.
Satisfactory	Bank validation system – ensure that payments are made to the correct bank accounts.
Excellent	Approval and authorisation - all payments are subject to secondary approval and authorisation.
Good	Taxation – tax is correctly calculated, reconciled and deducted via RTI and tax codes applied to pensions are kept under review.
Satisfactory	Payroll records are maintained and kept up to date – to evidence payment process (including any checks undertaken and sign off).
Excellent	Systems access is managed, and user access is set appropriately and kept under review.

Detailed Report

Opinion

Internal Audit has undertaken a review of the risks and controls related to the Avon Pension Fund - Pensions Payroll and assessed the framework of internal control at **Level 4 - Substantial Assurance**.

A total of 4 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

Background/Context

Internal Audit has undertaken a review of pension payroll. The purpose of this review was to provide assurance that the pension service provides timely and accurate payments to existing pensioners, and there are effective internal controls applied to pension payroll processes.

As part of this review, we undertook a walkthrough of the payroll process (including controls), reviewed pension records, and undertook sample testing in several areas.

Although the pensions payroll team process several payrolls, the focus of this audit was the 901-pension payroll only (main Local Government scheme).

Annual pension increases (including processes and controls) were not covered in this review. This area will be reviewed as part of a separate audit for 2024/25.

Payroll system and processes

Pension payments are administered on a regular basis (through an agreed payment schedule) which includes full payment runs (monthly) and interim payments.

The APF deploys a Payroll team, and a Payroll Manager (recently appointed). Their roles and responsibilities include administering of monthly and interim payrolls, administering death claims/payments, calculating and processing payments to third parties, and managing annual pension increases.

Pension payroll is processed through an established payroll module within the Altair system. This module is supported by the APF Financial Systems team who are responsible for managing user access. Heywood (Altair system provider) apply upgrades to the system/module circa four times per year. Bath and Northeast Somerset's IT service process the Altair back up (which includes all payroll data) and these occur on a nightly basis.

The APF Payroll team maintain procedure guidance notes (including step guidance on how to process pay runs) which is held centrally and is subject to review.

The APF are currently working with an external consultant who has agreed to develop process maps across the pensions service (including payroll). We understand this review will include a review of internal controls applied to current pension processes.

Final Internal Audit Report – Avon Pension Fund - Pensions Payroll – 23-019B

Payroll Management and Exception reports

The payroll system provides various management and exception reports which are used to check and reconcile payroll data. These reports are held on a central record and are checked by the Payroll team prior to payments being made to existing pensioners.

These reports enable the Payroll team to.

- check and reconcile payroll figures (including carry forward balances).
- review any payroll variances (checks undertaken on variances over £50+).
- review starters, leavers, and deleted members.
- check and monitor bank changes. The APF Payroll team undertake 100% check.
- generate and administer payslips for payroll members (normally applied where there is £5+ variance covering changes such as annual pension increases).
- check Real Time Information (RTI) submission – interface between Pension and HMRC records.
- prepare payments to third parties (including HMRC).
- prepare and submit pensioner payments (BACS payment).

BACS Payment and Processes.

BACS files are automatically generated when the pension payroll service run a payroll. These files are received on the Altair server and are then automatically transferred into the PTX payments system (BACS solution). All BACS payments require a secondary check and approval before the payment can be processed. Approval and authorisation is controlled by a scheme of delegation, and user access to the BACS solution (allowing segregation of duties in submitting and approving payments).

The pension service is in the process of developing a bank validation system (currently not used within the live system) and this will be used to check and validate bank accounts.

Real Time information (RTI) and Tax.

Altair Payroll module includes Real Time Information (RTI) which allows for tax information to be shared and updated between pension records and HMRC in real time.

The pension payroll service monitors this interface, and they receive system generated reports confirming data submission.

HM Revenue & Customs treat pension as 'earned income' and the Avon Pension Fund are required to deduct Income Tax from any pension payments (as instructed by the Tax Office).

Tax deductions are calculated by the payroll module using tax system parameters which are updated by the payroll team with instructions provided by Heywood's, the system provider.

The Pensions Finance team are responsible for checking and reconciling PAYE data, and for making payments to HMRC. They maintain a central record of PAYE reconciliations (excel spreadsheet) which are kept under review.

Conclusion

Overall, for the payroll areas we reviewed, there are effective controls within these processes which should ensure that pensioners are being paid accurately and timely.

The payroll team maintain a good record to support each payroll (both monthly and interim payments). This includes management and exception reports which are used consistently to check and reconcile pension payments.

System User access is well controlled within the Altair payroll module, this includes use of role profiles (allows for reasonable segregation), setting up and regular review of individual users.

Final Internal Audit Report – Avon Pension Fund - Pensions Payroll – 23-019B

There was also effective controls for managing BACS payments. This includes financial controls applied to payment processes (including user access, segregation of duties, secondary checks, and approval processes).

The Payroll team undertake regular checks on bank account changes as part of their payroll service. The APF are in the process of developing bank validation software (not currently used on live system) which would provide further assurance in this area.

As part of this review, we reviewed and sample tested payroll records (2023/24) and we identified no errors in processing payroll (our sample testing included management and exception reporting, payroll variances, payroll starters, interim payments, BACS processes, pension reconciliations and tax payments).

We were able to confirm that there were effective processes (and controls) for submitting tax payments to HMRC and reconciling PAYE data.

The current Avon Pension risk register recognises cyber risk which could lead to disruptions in paying pensioners correctly and timely. The Avon Pension fund should ensure that they have a good understanding of exposure to this type of risk and the controls in place to mitigate this risk, including those related to business continuity and disaster recovery plans.

We did identify some areas where we considered improvements should be made to current processes (and controls).

- **Evidencing completed payroll checks** - evidencing types of checks undertaken such as payroll variances highlighted within management reports.
- **Using the payroll checklist** – for recording steps taken as part of each pay run, recording checks and sign off.
- **Tax parameters** – evidencing check and sign off when applying changes/updates to tax parameters and checking that the system is correctly calculating tax for individual pensioners.
- **Process maps** – the service has recently worked with an external consultant who has produced initial mapping of the payroll process. These should be further developed by the service and kept under review.

Final Internal Audit Report – Avon Pension Fund - Pensions Payroll – 23-019B

We identified the following strengths.

- Payroll Schedule - Interim and monthly pay runs are processed timely and enable the service to prepare and check each pension payroll.
- Management reports – are produced consistently for each payroll and assist the APF in checking and reconciling payroll data.
- Secondary checks – are undertaken for each payroll (these include checks on payroll variances, bank changes, new starters, payroll amendments and PAYE reconciliations).
- Segregation of duties – in calculating individual payroll, administering payroll and payment processes.
- BACS processes- pension payments are processed using approved BACS software.
- Real Time information (RTI) - the pension system is RTI compliant, and there are processes for checking RTI submissions.
- Pay as you earn (PAYE) - is being paid to HMRC correctly and timely, and subject to secondary checks and reconciliation.
- User access - payroll user access levels is appropriate and kept under review.
- Pension payslips - are checked and issued to pensioners based upon scheme guidelines and best practice.
- Reconciliation of pension data – the Payroll team check and reconcile pension data (including current payroll and carry forward figures).
- Use of central record – the Payroll team maintain a good central record (including monthly and interim payroll processes).
- Procedure guidance - the Payroll team maintain procedure guidance (directional control) for pension payroll processes.

We identified the following weaknesses.

- Management reports – lack of evidence to support all checks being undertaken as part of the payroll process (including review of payroll variances).
- Payroll checklists - are not being completed for each payroll to evidence steps undertaken for each pay run, confirm checks have been undertaken, and allow for review/sign off.
- Tax parameters – lack of review and sign off to support changes/updates to tax parameters.
- Process mapping - pension payroll processes and controls have not been formally mapped. The APF is developing process maps with support from an external consultant.
- Bank Account Validation system – it is acknowledged that there is no methodology in place to verify bank details. However, bank verification software is currently being developed within a test environment and will be introduced to the live service in due course. A recommendation for this area has not been made but we will review progress as part of our follow up review.

Final Internal Audit Report – Avon Pension Fund - Pensions Payroll – 23-019B

Audit & Risk Personnel

Lead Auditor: David Hodgson, Senior Internal Auditor.

Acknowledgements:

Sincere thanks to Claire Newbery, Pensions Operations Manager, Anna Capp, Member Services Manager, Alexandra Russell, Pensions Payroll Team Leader, Vicky Brazier, Senior Technical Payroll Officer, Matt Williams Financial Systems & Projects Lead Pensions, David Richards Finance & Systems Manager (Pensions) Marc Goodman, Pensions & Projects Accountant for all their help and assistance throughout the Audit Review.

Final Internal Audit Report – Avon Pension Fund - Pensions Payroll – 23-019B

Action Plan

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication of Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M1	<p><u>Evidencing payroll checks</u> The payroll team perform various checks for each monthly and interim payroll.</p> <p>At present, there is limited evidence to support some checks being undertaken during the payroll process. This would include checks on payroll variances (£50+) for individual pension payments.</p>	<p>Could increase the likelihood of over/under payments of payroll (if potential errors and variances are not being checked).</p> <p>Lack of evidence (assurance) to support checks undertaken by the payroll service.</p> <p>Staff could be criticised in the event of any errors in processing.</p>	<p>The Payroll team should ensure that all relevant checks to payroll data are clearly recorded and maintained on their payroll records.</p>	<p>Agreed.</p> <p>Responsible Officer: Pensions Payroll Manager, Anna Capp and the Technical Senior Pension Payroll Officers.</p> <p>Implementation Date: December 2024</p> <p>Management Comments: Payroll team to record the checks as part of the process. To be agreed and implemented by December 24.</p>
M2	<p><u>Use of Payroll checklists</u> The payroll team has developed payroll checklists (for both interim and main pay runs).</p> <p>Currently the Payroll team are not using these checklists for each main and interim payroll.</p> <p>This checklist could be useful for the payroll team for documenting the process undertaken for each payroll, evidencing secondary checks and sign off.</p>	<p>Lack of ownership and oversight of payroll processes.</p> <p>Could result in steps in the payroll processes being missed and affect payments to pensioners.</p>	<p>The Payroll team use the checklist for evidencing steps undertaken for each payroll, evidencing checks undertaken, and sign off (payroll Manager).</p>	<p>Agreed.</p> <p>Responsible Officer: Pensions Payroll Manager, Anna Capp.</p> <p>Implementation Date: December 2024</p> <p>Management Comments: Payroll check lists to be saved in the relevant payroll report file.</p>

Final Internal Audit Report – Avon Pension Fund - Pensions Payroll – 23-019B

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication of Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M3	<p><u>Tax parameters.</u> The Payroll team are responsible for maintaining Tax parameters within the payroll system.</p> <p>Currently the payroll team are not maintaining a central record of Tax table changes and ensuring these changes are recorded, checked, and signed off.</p> <p>In addition, the payroll team are not undertaking any checks to ensure that the payroll module was correctly calculating tax based upon any changes to tax parameters.</p>	<p>Tax could be calculated incorrectly if there are errors made when updating tax parameters.</p> <p>Could result in additional work to rectify any errors in tax calculations.</p> <p>Limited assurance to stakeholders.</p>	<p>The payroll team should ensure that any changes/updates to Tax parameters are subject to secondary checks and signed off.</p> <p>We recommend the payroll team tests a sample of individual pension payments to check that the payroll system has correctly calculated tax (following changes to tax parameters).</p> <p>A record of these checks should be maintained.</p>	<p>Agreed.</p> <p>Responsible Officer: Pensions Payroll Manager, Anna Capp and the Technical Senior Pension Payroll Officers.</p> <p>Implementation Date: April 2025.</p> <p>Management Comments: Tax parameters are updated annually We will develop and implement a process to evidence sample checking as part of the annual update.</p> <p>Technical Senior Payroll Officers to complete after the Annual update.</p> <p>Personal tax is updated directly by HMRC.</p>

Final Internal Audit Report – Avon Pension Fund - Pensions Payroll – 23-019B

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication of Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M4	<p><u>Process maps.</u> The Pension Payroll team have not previously developed process maps (used to document process and internal controls).</p> <p>The Avon Pension service has recently used an external company who has developed some initial mapping of payroll processes.</p>	<p>Gaps and/or duplication in processes and controls leading to potential inefficiencies within processes and controls.</p> <p>Limited assurance to stakeholders due to lack of documented process and controls.</p>	<p>The Payroll team should ensure that process maps are developed and kept under review on at least an annual basis or when changes in process occur.</p>	<p>Agreed.</p> <p>Responsible Officer: Pensions Payroll Manager, Anna Capp.</p> <p>Implementation Date: January 2025.</p> <p>Management Comments: Immediate and monthly payroll processes now mapped with external company. These will be reviewed, and process maps maintained.</p> <p>Training officer will own this and support the payroll team with any changes.</p>