



Specialist Professional Services

Final Internal Audit Report

Audit Title:

Pension Payroll processes

Date of Issue:

December 2025

Prepared for:

Avon Pension Fund (APF)



Assurance Rating

Based on our review, Internal Audit have concluded the following assurance rating:

Level 3 - Reasonable Assurance

The systems of internal control are satisfactory, and reasonable assurance can be provided. However, there are a number of areas which require improvement.

Executive Summary

Overall, we have given a Reasonable Assurance rating since there are effective controls over the payroll processing, that includes payroll administration as well as management of spousal pensions and death grants. In addition, there has been further improvements made to pension increase processes.

The latest pension increase reconciliation reports identified a high number of variances between admin and payroll records, some of which are significant and would have a financial impact on individual pensioners. However, the Pensions Payroll Team are aware and are in the process of undertaking a review of these variances.

Similar to previous years, error and warning messages were identified on management reports generated during the annual pensions increase process. Whilst the majority of pension increases have been correctly applied, these reports show errors which require further review as well as a high number of warning messages.

There are some improvements which should be considered for bank validation and bank change processes. The Avon Pension Fund (APF) are in the process of upgrading their online portal and are also planning changes to their bank validation software which should help in administering these more efficiently and securely.

Recommendations for Improvement

A total of 5 recommendations have been raised as a result of our review.

Recommendations are given priority ratings which reflect the significance of the findings and the need for remediation.

| Priority | Recommendations |
|----------|-----------------|
| ▲ High | 1 |
| ▲ Medium | 4 |
| ▲ Low | 0 |

Full details of recommended actions, responsible officers and implementation dates are included in the report Action Plan.

Follow Up Review

Work detailed in the Action Plan is to be actioned before the end of December 2025.

After this date we will conduct a follow up review to assess the implementation of recommendations and responsible officers will be required to provide an update on progress with the agreed actions.

Audit Personnel

Lead Auditor: David Hodgson
Audit Manager: Tariq Rahman



Audit Methodology

This audit has been undertaken in accordance with the 2025/26 Internal Audit planned programme of work, as approved by the Audit Committee.

It has been conducted in conformance with the Global Internal Audit Standards (GIAS).

The focus of the review was to provide assurance that the Avon Pension Fund (APF) are administering pensioner's payroll correctly, including any annual pension increases which are due and applied to individual pensions timely, accurately and correctly.

Assurance was also sought to evidence that spousal payments including death grant payments, and pensions are being administered in accordance with the scheme requirements.

Audit Scope

The scope of audit work undertaken during this review was discussed and agreed as per the Audit Brief issued in September 2025, with the following objectives:

- Appropriate checks undertaken for each monthly payroll including bank change requests.
- Annual pension increases are being applied correctly and timely.
- Spouse pensions and lump sum death grants are correctly administered by the pension scheme, including payments and ongoing checks to confirm continued eligibility.

Background

Monthly Payroll processes & bank accounts

The APF deploys a Pensions Payroll Team, and a Pensions Payroll Manager. 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 payments are administered through an agreed payment schedule which includes full payment runs (monthly) and interim payments.

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 Pensions Payroll Team prior to payments being made to existing pensioners.

Bank Change requests

Bank change requests are received by the Pensions Payroll Team through various methods including bank changes via pension online (self-service), completion of bank change forms sent via post, as well as notifications from their BACS software provider.

As part of the monthly payroll process, the Pensions Payroll Team generate a report showing a breakdown of bank changes that have been processed within the month. Secondary checks of all bank change requests are undertaken to validate these requests, and to check that bank details have been processed correctly.



Bank Validation processes

The APF has recently adopted bank validation software, and this is being used to check and validate individual member's bank details. Whilst this is not a requirement for the LGPS, it is recommended practice to perform these types of checks in order to verify account ownership, improve data accuracy and prevent fraud and overpayments.

Bank account details are checked and validated when the APF Member Services Team process a member's retirement. Bank validation results are provided in real time, though in some cases, bank details are not successfully verified by the software and can lead to further information being required from the pension member, to complete this process. The Pensions Payroll Team also perform bank validation checks when administering bank changes for current pensioners receiving regular pension payments under the scheme.

Annual pension increases

Under the LGPS scheme active pension accounts, deferred pensions and pensions in payment are adjusted each April in line with the cost of living.

The Pensions Payroll Team, with support from the Quality Assurance (QA) Team, are responsible for managing the annual pension increases on existing pensions.

It is recommended by the software provider, for AFP to undertake a check and reconciliation between admin and payroll records as part of the PI process including prior to and following applying pension increases onto the live system.

There is a range of management and exception reports which are generated by the Altair system, and these are used by the Pensions Payroll Team when uploading the pension increases onto the system including warning and error messages.

APF applied annual pension increases for the majority of pensioners under the main pension scheme. However, there was still 168 pension errors following this year PI's process which are outstanding and will require resolution.

Spouse/Partner and dependent payments

Death grant payments are paid if the member dies, this includes active members (in service), deferred members and pension members receiving a pension.

Death grant payments and spousal pensions (including partners and children) are subject to eligibility checks and are calculated by the Member Services Team before they are passed to the Pensions Payroll Team to administer payment and add onto the existing payroll.

The Pensions Payroll Team perform various ongoing checks of the spouse, partner and children's pensions. This includes mortality screening (cross matching of payroll data) which is undertaken monthly through a 3rd party.

The APF also participate in the Tell Us Once Service (TUO). Tell Us Once (TUO) is a digital service run by the Department for Work & Pensions (DWP) across England, Scotland and Wales. It allows citizens to notify multiple government departments of a bereavement through a single form. The Pensions Payroll Team have system access to the DWP system to review notifications that have been issued to them.



Summary of Findings

Monthly and interim pension payrolls are subject to effective checks, and reconciliations. This audit was able to confirm that management reports were being used and checked by the Pensions Payroll Team for each monthly and interim payroll run. The Pensions Payroll Team had completed checklists which provide confirmation of each payroll, including checks that have been undertaken.

The Pensions Payroll Team does have effective processes for checking bank change requests. This includes bank change requests which have been submitted via Online system and manual bank change forms. However, we considered there were some improvements that should be considered for this process which are included in our findings below.

This audit was also able to confirm that bank validation software was being used to verify bank details and there were effective controls in place for current bank validation processes such as user access, segregation of duties and secondary checks undertaken. However, feedback from pension staff, and sample testing would indicate there is a high proportion of bank account details which do not pass the verification software and require additional information from the member. In some cases, this would involve corresponding with the member using a personal email address which could increase the risk of fraud and error. The Members Services Manager confirmed that the AFP are in the process of migrating to a new version of the online portal (November 2025) which, once integrated, should allow members to upload documents more securely. In addition, it was also fed back during this audit that there will be changes to the bank validation software provider, which should also reduce the number of accounts requiring additional verification.

For this year's PI exercise, the Pensions Payroll Team ran two different reconciliation reports, to check and reconcile the differences between pension values held in admin and payroll records. These reports show a high number of variances between these two pension records some of which could have a financial impact on individual pensioners. The Pensions Payroll Team should ensure that these payroll variances are reviewed, and records corrected where this is needed.

Payroll records would indicate that the latest annual pension increases have been applied successfully on the live system for the majority of pension records. However, there was still some pension records where the annual PI had not been applied automatically, and these will require further work to be addressed.

The Pensions Payroll Team perform various post checks on pensioners, spousal and children's pensions, including regular mortality screening. Current processes do ensure that any 'high' risk matches identified during mortality screening are being identified timely and added to a workflow. At present the Pensions Payroll Team are not undertaking any further work to investigate 'low' risk matches, which are high in volume, and could result in overpayments for some of these pensions. A recommendation has been made for this area.



Positive Observations

- Monthly Payroll records – the Pensions Payroll Team maintain a good central record (including monthly and interim payroll. This includes completion of checklists for each payroll to evidence the process.
- Management reports for monthly payroll - these are produced consistently and assist the Pensions Payroll Team to check and reconcile payroll data.
- Monthly and interim payrolls – are subject to secondary checks and approval.
- Payroll variance checks – the Pensions Payroll Team are reviewing payroll variances (£250+) as part of the monthly payroll process.
- Bank change requests – are subject to review before bank details are input onto pension records. This includes secondary checks that are undertaken during the monthly payroll process.
- Bank Validation Software – is being used to check and validate individual member bank details. There are also effective controls within the process, including user access, segregation of duties, and secondary checks.
- Spouse/children pension payments and death grant claims are subject to various controls - including segregation of duties, secondary checks and approval.
- Post checks are being undertaken for spouses, partners and children's pensions - these include mortality screening and the Tell Us Once service. Children's pensions are also subject to ongoing review to verify eligibility.
- The majority of pension increases have been successfully applied in this year's annual pension increase exercise.
- Improvements in segregation of duties in this year's pension increase exercise.
- Error & warnings and reconciliation reports were generated as part of this year's pension increase exercise.

Weaknesses and areas for improvement identified during the course of the audit review are captured in the report Action Plan.



Action Plan - High Priority Findings

| Identified Weakness | Potential Implication | Recommendation | Agreed Actions |
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| <p>H1</p> <p><u>Reconciliation between Admin and Payroll records</u> The Pensions Payroll Team generated reports to compare pension values held in admin and payroll records. This was undertaken prior to applying this year's pension increases.</p> <p>This report identified 1,870 variances between pension admin and payroll records including 149 individual member records which show a high variance (£500+), 199 records which show a medium variance (£100-£499) and 1,522 records which show a low variance (0-£99)</p> <p>A separate reconciliation report was also generated following this year's PI's exercise. This report also highlighted some high variances for some pension members.</p> | <p>Pension values may not reconcile between Admin and Payroll records which could result in incorrect pension amounts being applied.</p> <p>Pensioners could be impacted financially if they are receiving a lower amount of pension.</p> <p>Incorrect data could result in non-compliance with regulatory requirements as well as reputational damage to the service.</p> | <p>The Pensions Payroll Team should ensure they undertake a review of the variations identified in the reconciliation reports.</p> <p>In particular, any medium and high variances should be prioritised, fully reviewed and corrected.</p> <p>Low variances could be due to rounding, and timing differences but should be investigated.</p> | <p>Implementation: On going and currently live.</p> <p>Management Comment: Work is underway on the reconciliations difference identified on the report. We are starting with the highest variance and will complete the work in a phased approach.</p> <p>Phase 1: The highest variances cleared with a target date April 2026</p> <p>Phase 2: The medium variance cleared with a target date July 2026</p> <p>Phase 3: Low variance cleared with a target date October 2026</p> |
| <p>Responsible Officer</p> | <p>Anna Capp Pensions Payroll Manager</p> | <p>Target Implementation Date</p> | <p>October 2026</p> |



Action Plan - Medium Priority Findings

| | Identified Weakness | Potential Implication | Recommendation | Agreed Actions |
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| M1 | <p><u>Pension increase errors and warnings</u> Following this year's pension increase exercise, 168 errors were recorded as well as 5738 warning messages.</p> <p>The Pensions Payroll Team has kept a separate record to demonstrate that some checks were carried out on individual errors as part of this year's PI exercise. However, this record does not clearly indicate which specific errors and warnings have been reviewed or remain unreviewed.</p> | <p>Errors identified in these reports would prevent a PI from being applied on the system.</p> <p>Warning messages could indicate underlying system issues. Ignoring them may compromise the integrity of the pension system, leading to broader operational issues.</p> | <p>The Pensions Payroll Team should ensure that all errors on pension records are resolved in this financial year and prior to next year's pension increase.</p> <p>In addition, the Pensions Payroll Team should ensure they keep a clear record to demonstrate review of error and warning messages.</p> | <p>Management Comment: To clear the remaining 168 error following the 2025 PI exercise.</p> |
| | <p>Responsible Officer</p> | <p>Anna Capp Pensions Payroll Manager</p> | <p>Target Implementation Date</p> | <p>April 2026</p> |



| | Identified Weakness | Potential Implication | Recommendation | Agreed Actions |
|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| M2 | <p>Bank change requests Feedback from Payroll staff, and sample testing would indicate some inconsistency in validating bank account details when responding to bank change requests submitted from existing pensioners.</p> <p>In addition, pensioners who are making these requests are not receiving notification confirming the change of bank details.</p> | <p>Could increase the risk of fraud and error if bank account validation is not undertaken for bank change requests.</p> <p>A fraud or error may not be detected timely if notification is not issued to the pensioner.</p> | <p>The Pensions Payroll Manager should ensure that bank account validation procedures are discussed with the Pensions Payroll Team and agree when these checks should be undertaken.</p> <p>The Pensions Payroll Team should issue notification to the pensioner confirming the change of bank details.</p> | <p>Management Comment: All bank changes received to be acknowledge confirming the bank details have been updated.</p> |
| | <p>Responsible Officer</p> | <p>Anna Capp Pensions Payroll Manager</p> | <p>Target Implementation Date</p> | <p>December 2025</p> |



| Identified Weakness | Potential Implication | Recommendation | Agreed Actions |
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| <p>M3</p> <p><u>Bank Account Validation processes.</u> Currently the Member Services Team are seeking additional information from pension members to validate bank account details. In some instances, this is resulting in communications with the pension member via personal email addresses.</p> | <p>Confirming bank details with pensions members via personal email addresses could increase the risk of fraud and error.</p> | <p>The APF should ensure the new version of the online portal will allow members to upload documents as part the bank account validation process.</p> | <p>Management Comment: We only contact members via their personal email addresses if they have registered for My Pension Online and their details have been validated via the portal. Any members who have not registered for My Pension Online would be sent a request via the post.</p> <p>Document upload development to MPO for members target date December 2026.</p> |
| <p>Responsible Officer</p> | <p>Rebecca Clark Member Services Manager</p> | <p>Target Implementation Date</p> | <p>December 2026</p> |



| Identified Weakness | Potential Implication | Recommendation | Agreed Actions |
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| <p>M4</p> <p><u>Mortality Screening processes</u> A monthly mortality screening exercise run for October 2025 identified approximately 5500+ pensioners with a 'low' risk match.</p> <p>These have been identified as 'low' risk due to missing or mismatches between pension records and the data records used by the mortality screening company including name, date of birth, and address details.</p> <p>Currently these records are being included in further mortality screening exercises, but no further actions are taken by the Pensions Payroll Team on 'low' risk matches.</p> | <p>Continued pension payments to deceased members due to missed death notifications can result in significant overpayments as well as potential fraud risk.</p> | <p>Pensions Payroll Team should undertake a review of current mortality screening processes and determine whether any further actions are needed in review of 'low' risk matches.</p> <p>The Avon Pension Fund should develop and implement policy, and procedural guidance that clearly classifies and categorises mortality risk ratings.</p> | <p>Management Comment: To review the current mortality screening process and develop a process for cases flagged that aren't already being reviewed.</p> <p>Document the process covering each category.</p> |
| <p>Responsible Officer</p> | <p>Anna Capp Pensions Payroll Manager</p> | <p>Target Implementation Date</p> | <p>April 2026</p> |



Guide to Assurance Ratings

| Assurance Rating | Opinion |
|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level 5 Full Assurance | The systems of internal control are excellent with a number of strengths evident. No weaknesses have been identified, and full assurance can be provided. |
| Level 4 Substantial Assurance | The systems of internal control are good with a number of strengths evident and substantial assurance can be provided. |
| Level 3 Reasonable Assurance | The systems of internal control are satisfactory, and reasonable assurance can be provided. However, there are a number of areas which require improvement. |
| Level 2 Limited Assurance | The systems of internal control are weak and only limited assurance can be provided. 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, and no assurance can be provided. There are fundamental weaknesses, and urgent action is necessary to reduce the high levels of risk exposure. |

Report Distribution

This report has been shared with key audit clients and service area management. You may wish to further share this report with colleagues directly involved in this area and any other interested parties.

Acknowledgements

Internal Audit thank management and service staff for the cooperation and assistance throughout this audit review.