To all Members of the Pension Board

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Ask for: Theresa Grayell

Date: 12 October 2018

Dear Member

PENSION BOARD - FRIDAY, 19 OCTOBER 2018

I am now able to enclose, for consideration at next Friday's meeting of the Pension Board, the following report(s), which were unavailable when the agenda was printed.

Agenda Item No

6   **Appendix to Internal Audit Report** (Pages 3 - 14)

8   **Report - Pension Board Administration** (Pages 15 - 20)

Yours sincerely

Benjamin Watts
General Counsel

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Pensions Contributions
CS03-2019

Release: Final Draft

Date: 2/10/2018

Report Author: Richard Benjamin

Audit Manager: Sarah Bubb

The engagement was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing

Internal Audit Report

Report Distribution & Authors

MEMBERS	
Leader & Cabinet Member for Business Strategy, Audit and Transformation	Paul Carter
Chair of Governance & Audit Committee	David Brazier
Deputy Leader and Cabinet Member for Finance & Traded Services	Peter Oakford
Cabinet Member for Customers, Communications and Performance	Susan Carey

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Corporate Director of Business Strategy & Support	David Cockburn
Head of Finance (Policy, Planning & Strategy)	Dave Shipton
Treasury & Investments Manager	Alison Mings
Senior Accountant - Pension Fund	Steve Tagg
Business Partner – Pension Fund	Nick Vickers

AUTHORS	
Report Author	Richard Benjamin
QA	Sarah Bubb

1 EXECUTIVE SUMMARY

1.1 Introduction

1) As part of the approved 2018-2019 Audit Plan it has been agreed that Internal Audit will undertake an audit of Pension Contributions. The aim of the audit is to provide assurance that controls are in place to ensure that contributions for pensions are being correctly received and processed by the Kent Pension Fund.

2) The Kent Fund is part of the Local Government Pension Scheme, and Kent County Council are responsible for administering the Kent Fund. This includes receiving the monthly contributions to the fund from the member employers. The value of the annual contributions for 2017/18 was c£222m

3) The Pension Contributions process was last audited in February 2016 and received an overall audit opinion of Substantial.

AUDIT OPINION & PROSPECTS FOR IMPROVEMENT	
Opinion There is a sound system of control operating effectively to achieve service/system objectives. Any issues identified are minor in nature and should not prevent system/service objectives being achieved.	High
Prospects for Improvement The operation has satisfactory building blocks present for future improvement, there are minor improvements required in leadership, direction and capacity	Good

1.2 Rationale

The audit identified that there are robust controls in place to manage the employer contributions to the Kent Pension Fund. Automated processes ensure that the contributions due from providers are calculated correctly and align to the actuary valuation of the fund. There are also monthly and annual reconciliation processes that ensure the correct amount is received into the fund.

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There are minor improvements required with regard to ensuring procedure documentation is reviewed and kept up to date and that year end reconciliations are completed and signed off for 2017/18.

Our opinion of High is based on the following strengths and areas of development

Key Strengths
- Procedure notes are detailed and contain adequate information to reproduce the monthly/annual processes for collecting employer contributions. They are kept centrally where they are accessible to the staff that would require them.
- Correct employers pension contributions are received on a monthly basis and coded correctly on the Councils financial systems. Any exceptions/differences in amounts received are picked up in a timely manner and addressed.
- The automated creation of contribution Journals each month means there is minimal risk of incorrect amounts or coding.
- Calculation of the KPI (percentage of contributions received by 19th of the month) is robust.
- The debtor analysis undertaken at the year-end effectively identifies any balances due from each employer. Outstanding balances are investigated, although a number of smaller debts have not been addressed for some time.
- Bank reconciliations are carried out regularly during the year. Adequate evidence is retained, and each reconciliation is reviewed and authorised
- There is a reliable year end reconciliation process in place to ensure that the correct contributions have been received with regard to employers' pensionable pay.
- The contributions data and spreadsheets maintained by the team are backed up.
- A risk register is maintained by the team - the risks it contains are appropriate and all have adequate mitigating actions against them.
- Quarterly reports are submitted to the Superannuation Fund committee which contain accurate and sufficient information regarding fund contributions and related issues.

Areas for Development
- The year end contributions reconciliation for 2017/18 is not yet complete. Although the risk of inaccurate payments lies with the employer as this will affect future valuations and contribution levels
- The procedure notes for the collection and reconciliation of Employer Contributions are have not been reviewed and updated since 2014/15. **Issue 1**
- There are capacity issues with the document library on Sharepoint. This has affected the storage of employer documentation. **Issue 2**

Prospects for Improvement have been assessed as Good due to the following factors:
- There has been little turnover in the team and therefore there is a good level of knowledge and understanding of processes and they are open to way to improve.
- There is an awareness of weaknesses and consideration has been made to

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possible ways to address these.
- Issues raised have been accepted and management action plans developed

Summary of management responses

	Number of issues raised	**Management Action Plan developed**	**Risk accepted and no action proposed**
High Risk	0	0	0
Medium Risk	0	0	0
Low Risk	2	2	0

2 ISSUES IDENTIFIED & MANAGEMENT ACTION PLAN

1. Procedure Notes	
Issue Although procedure notes for the collection and reconciliation of Employer Contributions are detailed and adequately cover the key processes, they have not been reviewed since 2014/15. The lack of a review means it is possible that they are not up to date and accurate for any new or covering staff to understand the process. **Risk** If procedure notes are not kept accurate and up to date, then it may not be possible to reproduce the key processes by new or covering staff. This may lead to incorrect collection of Employer Contributions **Route Cause** There has been little change in processes and a due to low staff turnover in the department all existing staff are experience and familiar with the proceses	**Risk Rating** Low
Management Response **Action Plan** We have recently recruited a new member of staff and will use this opportunity to review the procedures to confirm they are still accurate. **Responsible manager – Alison Mings, Treasury and Investments Manager**	**Timescales** 31 December 2018

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2. Document Storage	
Issue There are capacity issues with the document library on SharePoint. This has affected the storage of employer documentation. Consideration should be made on whether this is the best repository for the Pensions library in the future. **Risk** Capacity issues with document storage may lead to the loss of key documentation to support the process **Route Cause** As the number of employers on the fund has increased there not been sufficient document management, and SharePoint has a limit to the number of documents in each library	**Risk Rating** Low
Management Response **Action Plan** We are presently reviewing our use of SharePoint as a document repository for the Fund particularly taking into account the functionality of the ALTAIR ERM system which is part of the Pensions Admin system. If we decide to continue to use SharePoint we will undertake a review of all documents saved to the system.	**Timescales** 31 December 2018

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Responsible manager – Alison Mings, Treasury and Investments Manager

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Appendix A – Definition of Risk Ratings

We categorise our issues according to risk rating as follows:

High
There is a gap in the control framework or a failure of existing internal controls that results in a significant risk that service or system objectives will not be achieved.

Medium
There are weaknesses in internal control arrangements which lead to a moderate risk of non-achievement of service or system objectives.

Low
There is scope to improve the quality and/or efficiency of the control framework, although the risk to overall service or system objectives is low.

Appendix B – Engagement Plan

Objective

The aim of the audit is to provide assurance that controls are in place to ensure that contributions for pensions are being correctly received and processed by the Kent Pension Fund.

Scope

Receipt of Employer
- Procedure notes are made available to all relevant staff.
- New Employers are added to the database in the correct month and with the correct contribution rate.
- The PEN 4/1 forms are received by the Council in a timely manner each month and used to raise the pension contribution debtor.
- Employer contribution values provided by the independent actuary are accurately input onto the PEN 4/1 forms.
- The daily BACs download is coded correctly with any unidentified amounts being investigated and cleared promptly.
- The 'transaction listing' is reviewed to ensure the payments received match the PEN 4/1 debtor amounts.
- The 'contribution monitoring dashboard' is promptly updated and reviewed.
- Bank reconciliations are prepared monthly and reconciling items are identified and cleared.

Year End Reconciliations
- Annual employer returns (PEN 4/B form) are completed by all employers and submitted to the Council in line with agreed timescales.
- These returns are used in the year end reconciliation of pension contributions which is reviewed and signed off on completion.

Back Up and Recovery Arrangements
- Regular back-ups are performed of the key spreadsheets used to monitor and control contribution receipts.
- There is a 'disaster recovery' plan that has been tested.

Risk Management
- There is an appropriate risk identification and monitoring process.

Reporting
- The Pension Fund reports regularly to the Superannuation Fund Committee.
- Reports are accurate and fairly reflect the level of contributions received and any related issues faced by the Kent Scheme.

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By:	Corporate Director of Finance and Procurement
To:	Pension Board – 19 October 2018
Subject:	**PENSIONS ADMINISTRATION**
Classification:	Unrestricted

Summary: **FOR INFORMATION**	To provide members with a comprehensive update of administration issues including:- • Workload position • Achievements against Key Performance Indicators (KPIs) • Data Quality and Preparation for the Valuation of the Fund 2019

INTRODUCTION

1. This report brings members fully up to date with a range of issues concerning the administration of the Kent Pension Scheme.

WORKLOAD POSITION

2. Appendix 1 shows the year on year comparison of work levels being received in the section together with the levels in the 6 months ending 30 September 2018.

3. Assuming that workloads continue at the same level for the remainder of 2018/19 then the majority of work categories will have increased when compared to previous years.

4. As reported previously the category where there is a continuing increase year on year is with regard to communications to the section.   We encourage members of the scheme to visit our website www.kentpensionfund.co.uk, with a current average of 8280 visits a month, to answer as many of their questions as possible however many still require a personal response. These figures do not include telephone calls received in the section, which averages at approximately 2000 each month.

5. Communications increase following the despatch of the deferred benefit annual updates, normally in June each year, and the Annual Benefit Illustrations, for current members of the scheme, despatched at the end of August. In June 2018, 38303 deferred benefit annual updates were issued with 46291 Annual Benefit Illustrations being issued at the end of August.

6. The number of deferred benefit calculations completed has increased during the first 6 months of the year as we seek to clear some of the outstanding cases we have in this area.

ACHIEVEMENTS AGAINST KEY PERFORMANCE INDICATORS (KPIs)

7. Appendix 2 shows the achievements of the section in meeting its KPIs for the 6 months to 30 September 2018 compared to the previous 4 years.

8. We are required to complete 95% of the recorded KPI tasks, within the agreed target turnaround times.

9. You will note in the categories of dependant benefits and correspondence that there has been a slight improvement in the KPI percentage with a fall in the percentage in the other 2 categories. The first 6 months of the year are always particularly busy when dealing with our normal workload as well as the despatch of the deferred benefit update statements and Annual Benefit Illustrations. In addition as has been demonstrated in Appendix1 we have also seen an increase in our workload over this period however we are hopeful that the annual figures for 2018/19 will see an improvement in these areas.

DATA QUALITY AND PREPARATION FOR THE VALUATION OF THE FUND 2019

10. As explained previously The Pensions Regulator now requires all pension schemes to measure the quality of their data with regard to 'Common Data' and 'Scheme Specific Data'

11. We understand that the LGPS Scheme Advisory Board, together with the Government Actuary Department, are still in discussions with regard to the actual 'Scheme Specific Data' that should apply in the case of the LGPS however a basis has been decided between the software providers in order that information can be provided to the Pensions Regulator with regard to each scheme's quality of data.

12. Our software provider Aquila Heywood have run an analysis against our database and in September 2018 provided reports with regard to the quality of our data. I detail below some of the initial findings.

13. With regard to the 'Common Data', there are 8 categories of data that are measured, such as valid National Insurance number format, name, current address etc   7 of the 8 categories met the highest benchmark of greater than 98% with 2 categories not recording a single failure. Overall the percentage of member records without a single common data failure is 94.4% and this is the figure that TPR will be requesting on the scheme return.

14. With regard to the 'Scheme Specific Data' the analysis incorporates in the order of 100 individual tests against data. The overall percentage of tests passed for Kent's scheme-specific data is 93.6%. The percentage of member records without a single scheme-specific data failure is 64.6% and this is the figure that TPR will be requesting on the scheme return.

15. As explained these reports have only been produced recently and therefore we will now study them in detail and produce a data improvement plan, with priority being given to the areas identified as highest risk.

16.   In addition to the improvement in data quality we are also considering various options with regard to our outstanding workloads that will need to be completed before August 2019 in order that the scheme actuary can undertake the Valuation of the Fund.

RECOMMENDATION

17.   Members are asked to note this report.

Barbara Cheatle
Pensions Manager
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Tasks completed in key administration areas
Workload summary

Case Type	2014/15	2015/16	2016/17	2017/18	6 months to September 2018
Benefit calculation	1928	1766	2238	2008	1220
Correspondence	3450	4719	5370	5339	3175
Divorce case	293	385	381	329	204
Estimate calculation	2541	2810	3145	3025	1891
Deferred benefit	2475	993*	1357*	1720*	2265
Transfer/Interfunds in	189	204	286	422	125
Transfer/Interfunds out	558	651	644	859	347
Dependants	323	377	410	377	249
Total	**11,757**	**11,905**	**13,831**	**14,079**	**9,476**

*These represent the number of leavers that have been identified as deferred benefits and have been processed. It does not include members who have left the scheme where we have still to process the leaver

Achievements against Key Performance Indicators

Case Type	Target Time	14/15		15/16		16/17		17/18		6 months to September 2018	
		No	% in target	No	% in target	No	% in target	No	% in target	No	% in target
Calculation and payment of retirement benefit	20 days	1928	99%	1766	96%	2238	95%	2008	98%	1220	93%
Calculation and payment of dependant benefit	15 days	323	87%	377	86%	410	95%	578	99%	249	98%
Calculation and provision of benefit estimate	20 days	2541	63%	2810	62%	3145	67%	3025	72%	1891	64%
Reply to correspondence	15 days	3450	98%	4719	98%	5370	99%	5339	99%	3175	100%

NB.   All target turnaround times commence when we have all the necessary documentation to complete the particular task.

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