

To: Kent Pension Board – 8 June 2023

From: Chairman – Kent Pension Board
Corporate Director of Finance

Subject: Pension Administration Audit

Classification: Unrestricted

Summary:

To outline the findings of an Internal Audit of the administration of the Kent Pension Fund (CS04-2023 – Pension Scheme Admin, May 2023).

Recommendation:

The Board is asked to review and comment on the updated Risk Register.

FOR INFORMATION

1. Background

1.1 Internal Audit undertook a review of the administration of Kent Pension Fund between February and March 2023. The Audit findings were presented in April 2023. A summary of the findings is attached in the Appendix. The audit involved a review of relevant documentation, interviews with key officers and sample testing of controls. Key focus areas of the audit were:

- Governance & oversight arrangements
- Policies, procedures and staff training
- System access, data security and data quality
- Pension scheme administration
- Compliance with scheme rules and regulations
- Capacity and resourcing of the pension scheme administration team

1.2 The Internal Audit summary report of the Fund was taken to KCC's Governance and Audit Committee on 18 May 2023.

2. Report Conclusions

2.1 The Audit Opinion given was 'Adequate' meaning that "internal control, governance and management of risk is adequate overall, however there were areas identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk "*(Pension Scheme Administration, CS04-2023, Internal Audit Report, 25 April 2023 - Definitions)*.

- 2.2 The Prospect for Improvement assessment was 'Good' meaning that "there are satisfactory building blocks in place for future improvement with reasonable leadership, direction of travel and capacity in place "(*as above reference*).
- 2.3 A total of seven issues were raised in the report (two high risk, three medium risk and two low risk). All seven issues identified have a management action plan identified to facilitate improvement.
- 2.4 Officers are comfortable with the findings of the Audit and content that both the Audit Opinion of 'Adequate' and 'Good' Prospects for Improvement are a fair reflection of the current situation and future plans. In most cases the items identified already had plans in place for improvement as part of the already developed plans in place.

3. High Risks Identified in the Report

- 3.1 There were two areas considered high risk in the report, these were:
- Annual Benefit and Annual Allowance Statements
 - Member Data
- 3.2 For Annual Benefit and Annual Allowance Statements, concerns related to missing governance and historical practices not being reviewed. An Action Plan is in place to improve controls and outcomes. Specifically, three actions have been proposed, to be completed by 31 December 2023, that relate to digital solutions, improving monitoring systems and a review of current practices.
- 3.3 For Member Data, concerns relating to the McCloud data remedy project and data quality. An Action Plan with two actions has been proposed to improve data management and data quality. Specifically, a full tender exercise is currently underway, and data is to be collected from Employers; and a Data Quality Policy has been drafted. The Data Quality Policy is to be reviewed at June's Pension Fund Committee. The actions proposed are timetabled for completion by 30 September 2023, ahead of the McCloud Remedy Regulations expected to come into force on 1 October 2023. An update on progress of the McCloud project is elsewhere on today's agenda.

4. Medium Risk items identified in the Report

- 4.1 There were three areas considered medium risk in the report, these were:
- Pension Scheme Governance
 - Key Performance Indicators (KPIs)
 - Late Provision of Leaver Information by Scheme Employers
- 4.2 For Pension Scheme Governance, one area was identified which related to the number of meetings of the Pension Board that were held in the previous twelve months. Members will be aware that this was due to issues previously

with getting full quorate meetings, but this has been addressed in the recent recruitment exercises.

- 4.3 For Key Performance Indicators, concerns related to the reporting of KPIs, and the time taken to process leavers and transfers out. An Action Plan has been proposed to improve processes and outcomes. Specifically, three actions have been proposed, with medium term targets for 31 December 2023 and a longer-term target of 31 March 2025 for scheme member self-service and iConnect. These proposed improvement actions relate to the introduction of digital reporting; benchmarking and sharing best practice with other Funds; recruitment; and the introduction of digital automation for bulk processes.
- 4.4 For Late Provision of Leaver Information by Scheme Employers, concerns related to delays in making payments to members. An Action Plan has been proposed to improve processes and outcomes. Specifically, three actions have been proposed, which include the introduction of the Administration Strategy (now adopted); increased utilisation of iConnect for Employer data submissions; and recruitment. A medium-term target for 30 September 2023 has been set for recruitment into the Employer Support Team, with a longer-term target of 31 December 2025 for iConnect due to the number of Employers that will need to be onboarded to the system.

5. Low Risk items identified in the Report

- 5.1 There were two areas considered low risk in the report, these were:
- Housekeeping
 - Members owed Deferred Refunds
- 5.2 For Housekeeping, concerns related to the need to update administrative procedures and materials, the need to review temporary workarounds, website information and policies. An Action Plan has been proposed to correct and complete these matters by 31 March 2024, with quick wins proposed by 30 April 2023 (since completed) for the some of the housekeeping required. Specifically, six actions have been proposed that include business administration corrections, recruitment; investigations into digital solutions; and the preparation of a new Security Access policy.
- 5.3 For Members owed Deferred Refunds, a concern was raised that officers were reactive, rather than proactive in their approach. In response to this concern, a new process is to be developed for Frozen Refund Members by 31 December 2023. The process will form part of the annual data cleanse and will be included in the Breaches Log going forward.

6. Good Prospects for Improvement Identified in IA Report

- 6.1 The management action plans in place include a broad range of proposals that strengthen the Fund's strategies in recruitment (increasing capacity), procurement (outsourcing data rectification), governance (new policies and

procedures) and offer digital solutions to manage demand. A number of these initiatives are to be delivered imminently or are in progress and were already integral elements in the Fund's Business Plan, to achieve the objective of delivering a best-in-class service to all our members and employers.

- 6.2 The Board will be updated at future meetings, as management actions are completed, and solutions developed.