Teesside Pension Fund - Pension Fund Administration

Middlesbrough Council

Internal Audit Report 2020/21

Business Unit: Finance
Responsible Officer: Director of Finance
Service Manager: Head of Pensions Governance and Investments
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	P1	P2	P3
Actions	0	1	2
Overall Audit Opinion	Substantial Assurance		

Summary and Overall Conclusions

Introduction

Teesside Pension Fund (TPF) is financed by way of contributions from employers and employees, based upon a percentage of pensionable pay, and supplemented by earnings from fund investments. The TPF's assets, after payment of benefits, are invested as directed by the Pension Fund Committee.

The day to day running of the TPF is delegated to the Director of Finance of Middlesbrough Council who is responsible for implementing the strategies and policies set by the Pension Fund Committee. Supporting the Director is the Head of Pensions, Governance and Investments who oversees two groups. The Pensions Administration Team is responsible for the calculation and payment of pension benefits and for looking after employer interests in the TPF. This function is currently outsourced and is delivered by XPS Administration.

The Pensions Governance and Investments Team manages the investment of the TPF in conjunction with the advice of TPF's external investment advisors, as well as providing support to the Pension Fund Committee and Teesside Pension Board (TPB). The TPB assists Middlesbrough Council, as the Administering Authority, to: a) secure compliance with the regulations, any other legislation relating to the governance and administration of the scheme, and requirements imposed by the Pension Regulator in relation to the scheme; and b) to ensure the effective and efficient governance and administration of the TPF.

The 2020/21 XPS Administration service delivery report confirms that, as at Q2 total membership was 73,851, broken down as follows: 23,018 actives (31.2%), 25,936 deferred (35.1%), 21,763 pensioner (29.5%), 3,134 widow/dependent (4.2%). Every three years the TPF has its triennial health check known as the valuation. The last health check was undertaken in 2019 and confirmed that the TPF had a surplus of £527.3m relative to the liabilities, meaning that the funding level (the value of assets divided by the liabilities) was 115%.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that:

- Pensions Administration is operated in accordance with relevant legislation and agreed processes, and that that support and guidance is provided to employers to ensure the quality of returns.
- Correct and timely payments are received from employers, which are regularly reconciled to Business World and to the TPF bank account.
- For those members who retired early where there is a strain on the fund payments from employers are monitored to ensure the deficit is paid in full within agreed timescales.
- Processes are in place for monitoring and recording the receipt of income from member transfers in from previous employment.

The scope that was originally agreed included an objective 'To confirm that effective controls are in place for applying pension increases, creating and paying new pension records, and identifying and recovering overpayments'. However these areas will now be included in a separate piece of work to be undertaken during 2021/22.

Key Findings

We were provided with evidence and explanations to confirm that pension administration is being operated in accordance with relevant legislation and that processes ensure any changes in legislation are identified and acted upon promptly. We have noted that there are several governance documents that have exceeded their review date. The documents have not been updated since 2017, and although we did not note any fundamental changes that are required, they do not reflect any requirements arising from the introduction of (UK) GDPR in 2018. There are also references to the previous administration provider and the links to the Teesside pensions website contained in these documents are broken.

We found that detailed guidance is provided to TPF employers in relation to their year-end annual returns, and that the employee liaison team works closely with TPF employers to address any issues relating to data quality. The guidance details the option for the TPF to pass on fines received from the pensions regulator in the event of statutory deadlines being missed, if TPF employers were the cause of the delay. Our work at a partner council found that the North Yorkshire Pension Fund (NYPF) has produced a charging policy that details the option to charge employers for costs incurred from additional work needing to be undertaken in a range of areas including data quality, year-end returns, monthly contributions, accounting, actuarial and legal advice, and technical advice. TPF management should consider producing a similar document in order to ensure a clear and consistent approach to be taken in respect of data quality issues from TPF employers.

We requested data relating to the number of annual returns that have been submitted late for the current and previous 2 years, or the number of data errors identified via sample testing of annual returns. XPS management confirmed that this information hasn't been regularly collated and analysed in the past, but is now starting to be gathered for analysis, with the employer liaison team then approaching TPF employers to address any issues identified. XPS Administration are also currently exploring methods to report on Conditional Data (data that links a person to their particular pension scheme). The TPF has not missed its statutory deadline for issuing annual benefit statements by the 31st August in the time that the Head of Pensions and Investments has been in post (3 years), which suggests that any data quality issues are not impacting on the statutory obligations of the TPF.

Our testing confirmed that correct and timely payments are received monthly from employers and are reconciled to the TPF bank account. Late payment statistics are reported quarterly by XPS to the Pension Fund Committee. The latest statistics reported to the Committee show that, between April 2020 and March 2021, the average number of TPF employer late payers was 2.7% of employers per month.

We reviewed pension strains relating to 2020/21 and identified that some invoices were paid late and others had not been paid at all. Payment should be made within 14 days as stated on the invoice and there are no reasons why the payments should not have been made. It was confirmed that there is currently no formal, documented escalation process for pursuing late payments, in order to help ensure that the TPF receives income owed to it in a timely manner.

Our review of members transferring into the TPF did not highlight any concerns. The lack of any issues reflects the results the XPS performance report presented to the pension fund committee in March 2021, which states that the transfers-in process should be completed within 1 month of the date of receipt of the request, with minimum performance target of 98.5%. Performance data due to be presented to the Pension fund Committee in June 2021 confirms that this target was exceeded in every month between April 2020 and March 2021.

We reviewed new pensioner records created during the year and found no areas for concern. Again, this is consistent with the results of the XPS performance report which states that all new entrant are processed within eighteen working days of receipt of notification being received by pensions. Performance data due to be presented to the Pension fund Committee in June 2021 confirms that this target was exceeded in every month between April 2020 and March 2021.

Overall Conclusions

A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

1 Pension fund governance documentation

Issue/Control Weakness	Risk
Several strategy and policy documents relating to the administration of the TPF have passed their scheduled review date of September 2020, contain outdated information, and make no reference to their requirements under the (UK) GDPR.	Governance documentation does not reflect current best practise, or the TPF's requirements under the (UK) GDPR.

Findings

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the TPF, is required to draw up a statement(s) of policy concerning communications with members and Scheme employers, and a Governance Policy which sets out the procedures for the governance of the TPF. The regulations also provide the conditions and regulatory guidance surrounding the production and implementation of an Administration Strategy.

The TPF Communication Strategy states that the document was approved in September 2017 and will be formally reviewed every 3 years or sooner if the communication management arrangements or other matters included within it merit reconsideration. Examples of this would be if there are any changes to the LGPS or other relevant regulations or guidance which need to be taken into account. The communications strategy has not been reviewed since September 2017. We saw that the strategy makes multiple references to the previous administration provider (Kier) and contains contact emails addresses relating to Kier. The document makes no reference to any obligations or requirements as a result of (UK) GDPR implemented in 2018.

We also reviewed the Funds Administration strategy and the Governance Policy, and noted the same issues as highlighted for the communications strategy. All 3 documents also contain links to the TPF website which are broken, due to a recent refresh of the website. Additional governance documents that have not been reviewed within the required 3 year timeframe are the training policy, the conflict of interest policy, the risk management policy, and procedures for reporting breaches of law. The requirement to update all of the above documents was included in the XPS performance report that was presented to the Pension Fund Committee in March 2021.

Agreed Action 1.1

Updates to the governance-related policies had been delayed pending the outcome of the Scheme Advisory Board's Good Governance Project (launched in April 2019). It now looks likely that the final recommendations will be consulted on later on 2021 and implemented in Q1 2022. However, given the delay in reviewing the governance-	**Priority**	2
	Responsible Officer	Head of Pensions Governance and Investments

related policies highlighted in this audit it is reasonable to update the policies before the final regulations / guidance are in place based on existing guidance / best practice and taking into account the final report from the Good Governance Project and any available draft regulations / guidance where relevant. Revised documents can be prepared and presented to the December 2021 Pension Fund Committee.	**Timescale**	31 December 2021

2 Charging policy

Issue/Control Weakness	Risk
The TPF does not currently have a charging policy document.	Financial loss to the TPF resulting from excessive time taken to resolve data quality issues.

Findings

The LGPS regulations provide pension funds with the ability to recover from an employer any additional costs associated with the administration of the scheme incurred as a result of the poor level of performance of that employer. Guidance is provided to TPF employers by XPS detailing what is expected from them in relation to their year-end annual returns. The guidance details the option for the TPF to pass on fines received from the pensions regulator in the event of statutory deadlines being missed, if TPF employers were the cause of the delay.

Our work at a partner Council found that the North Yorkshire Pension Fund (NYPF) has produced a charging policy that details the option to charge employers for costs incurred from work needing to be undertaken in a range of areas including data quality, year-end returns, monthly contributions, accounting, actuarial and legal advice, and technical advice. The approach of the TPF is to work collaboratively with TPF employers to resolve any data quality issues; however management should consider the benefits of implementing a structured, documented policy which ensures a consistent approach to addressing data quality issues.

Agreed Action 2.1

The Fund already routinely recharges employers for work in relation to accounting, actuarial and legal advice, and technical advice. It does not have an agreed approach for routinely charging employers who are late in submitting information to the Fund. This could be developed and introduced as part of a refresh of the Pension Administration Strategy document (see action 1.1 above). Liaison with XPS and consultation with employers is likely to be required progress this. Discussions will be held with colleagues at NYPF (and perhaps other administration contacts at within Border to Coast or more widely) to understand how effective a charging policy has been in practice and whether there are any learning points which our Fund could adopt from their introduction and maintenance of such a policy.

Priority	3
Responsible Officer	Head of Pensions Governance and Investments
Timescale	31 December 2021

3 Pension strain costs

Issue/Control Weakness	Risk
Income relating to pension strain costs is not being received within the required payment terms.	Delay in receiving income that is owed to the TPF.

Findings

Pension strain costs occur when there is a clear shortfall in the assumed level of funding needed to provide a particular pension benefit. Often, strain costs occur when a member draws their benefits earlier than expected.

We reviewed a sample of payment strains and identified that 8 invoices were raised in respect of these strain costs. The payment terms on the invoices issued by TPF are 14 days. Two of the 8 were paid late and a further 2 due for payment at the end of January 2021 but not been paid at all at the time of the audit. Therefore 4 out of 8 (50%) had not been paid within the 14 day payment terms stated on the invoice.

It was confirmed by XPS that there was no reason why payment had not been received within the required deadline, and that there is no formal process for escalating invoices that continue to go unpaid.

Agreed Action 3.1

Discussions will be held with XPS to agree a formal process for chasing, escalating and reporting on unpaid invoices. Initial investigations have confirmed the scale of this issue is as outlined in the findings above, and XPS has agreed the following as an initial response:
“Going forward we have implemented a process where all outstanding invoices will be chased the first week of the month. We are sending chasers now for the invoices that are currently outstanding.” Work will continue with XPS to develop and document a more formal escalation and reporting process for outstanding invoices.

Priority	3
Responsible Officer	Head of Pensions Governance and Investments
Timescale	31 October 2021

Audit Opinions and Priorities for Actions

Audit Opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Our overall audit opinion is based on 4 grades of opinion, as set out below.

Opinion	Assessment of internal control
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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