

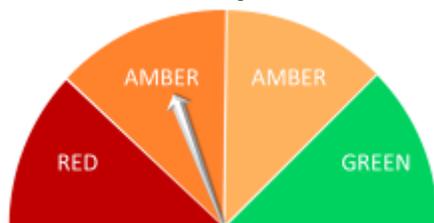
Flintshire Internal Audit

Audit Report

Title: Pensions Administration & Contributions (2017/18)
Portfolio: External
Issued Dated: June 2018
Report No: 40-2017/18
Report Status: Final Report

Internal Audit engagements are conducted in conformance with the Public Sector Internal Audit Standards.

Audit Opinion



1 Executive Summary:

Introduction and Scope:

An Audit of Pensions Administration was undertaken as part of Internal Audit's Annual Plan 2017/18.

The current Clwyd Pension Fund's Pension Administration Strategy (1st April 2017) document sets out the responsibilities of both the Administering Authority and the employers under the Scheme and the performance standards they are expected to meet to 'ensure the delivery of a high quality, timely and professional administration service'. This is a high profile strategy which is an important element of an effective governance arrangement.

The Clwyd Pension Fund comprises of 42 employers with active members and approximately 45,000 scheme members, including active, deferred and pensioner members.

The review has focussed on the following:

- Performance against the standards set in the Pension Administration Strategy.
- The processing of Lifecycle Events.
- Accuracy of membership data.
- Task and backlog management.
- We did not review the New Starter information for Flintshire County Council to the information held by Pensions Payroll. This is planned as a separate review in 2018/19

This has been a challenging year for Pensions Administration with a number of projects ongoing which coupled with staff training have impacted on the service delivery. The volume of work has risen and this in turn has had a negative effect on tasks outstanding. A KPI monitoring system has been developed and published from April 2017 with targets having been set in relation to Legal, Administrative and Overall

Audit Opinion:

In each report we provide management with an overall assurance opinion on how effectively risks are being managed within the area reviewed. Appendix A of the report details our assurance levels:

Assurance:	Explanation
Amber Red - Some	Significant improvement in control environment required: •System/process objectives are not being met. Conclusion: key controls are generally inadequate or ineffective.

The table below highlights the number and priority of agreed actions to be implemented.

Priority	High (Red)	Medium (Amber)	Low (Green)	Total
No.	1	1	3	5

compliance. Performance reporting across the first three quarters (April 2017 to January 2018) has revealed performance below the set targets and in particular, non-compliance with legal requirements. Some improvement can be seen in quarter three, however performance has fallen in the beginning of quarter four.

Pensions Administration have responded positively by changing the ways of working within the section and are continually looking to improve performance by reviewing task management and their methodology. Embedded within the Clwyd Pension Fund Business Plan for 2017-2020 is an improvement plan for Administration (including Communications). This details the key strategic actions and timescales to achieve them. Progress is monitored and reported quarterly to Committee. However, on an operational level, outstanding tasks and volumes of work will require even closer management to deliver significant improvements in performance and achieve legal compliance.

2 Summary Findings:

Areas Managed Well	Areas for Further Improvement
<ul style="list-style-type: none"> • The Clwyd Pension Fund’s Administration Strategy has a high profile within an effective governance arrangement. • Life Cycle events are being processed accurately. • Communications with stakeholders are delivered in line with the Communications Strategy. • Disaster Recovery testing is carried out annually. • The member Self-Serve facility on the Clwyd Pension Fund website has been successfully implemented. • Control accounts and reconciliations are regularly performed for Cancelled pay and Lump sums and these are closely monitored. • Monthly contributions from all contributing bodies are regularly reconciled and monitored. 	<ul style="list-style-type: none"> • Performance is below the standards set by the Key Performance Indicators under the Administration Strategy. • The number of outstanding tasks yet to be completed, with particular regard to pensioner deaths and retirements, have increased impacting on task management and workloads. • Inadequate operational management action plan to facilitate timely interventions to ensure service objectives keep on track. • The Pensions administration team consists of many relatively inexperienced members who require a significant amount of training and support increasing the time taken to process and reduce workloads.

3 Action Plan:

Priority	Description
High (Red)	Action is imperative to ensure that the objectives of the area under review are met.
Medium (Amber)	Requires action to avoid exposure to significant risks in achieving the objectives of the area.
Low (Green)	Action encouraged to enhance control or improve operational efficiency.

No.	Findings and Implications	Agreed Action	Who	When
1 (R)	<p>Key Performance Indicators (KPIs) are an important tool by which to monitor and report a service area's performance in meeting specific objectives. The Clwyd Pension Fund have devised seven key indicators reporting on three areas:</p> <ul style="list-style-type: none"> • Legal Requirement (set target of 100%). • Overall Position • CPF Administration element target (set target of 90%). <p>The CPF commenced publishing their KPIs from April 2017 having set aspirational targets under their Administration Strategy. These are monitored and reported to Committee quarterly.</p> <p>We reviewed the KPIs as reported to Committee from July 2017 to January 2018. The KPIs for quarters two to four show that for the majority reported, achievement is below both the administration and legal targets. Our testing on legal compliance identified that :</p> <ul style="list-style-type: none"> • Legal compliance has only be achieved in 5 instances from July 2017 to January 2018 across the seven indicators. These were: achieved 100% for the indicator 'To inform members who leave the scheme of their leaver rights and options' in April, May, August and November 2017, and achieved 100% in 'provide details of transfer value for transfer out on 	<p>Pension's management team meetings are held every two weeks where the KPIs and any issues are discussed.</p> <p>Discussions at these meetings and any issues and resulting solutions will be recorded in a more formal action plan with immediate effect.</p> <p>URN 02180</p>	Helen Burnham	30/06/2018

No.	Findings and Implications	Agreed Action	Who	When
	<p>request' in December 2017. For the remaining five indicators 100% compliance has yet to be met.</p> <ul style="list-style-type: none"> Data published for indicator seven 'calculate and notify dependant/s of the amount of death benefits', has produced the lowest results against the target of 100% with July 2017 achieving 17% and November 2017 13%. <p>Management have advised that it should be noted the Legal Requirement KPIs do not take into account delays experienced in receiving information from third parties.</p> <p>The CPF Administration element target of 90% has not been consistently achieved. In January 2018 the percentage of cases meeting the 15 working days target for informing members leaving the scheme of their leaver rights and options was 8%. Testing revealed that the pattern emerging from the KPIs is that of a fluctuating performance.</p> <p>KPIs should be meaningful and drive improvement. The indicators should provide assurance that the actions the service is taking operationally are having a positive impact. Whilst aspirational targets can be useful, they must be realistic or they can also be demoralising if the service is starting from a lower position.</p> <p>CPF does not have a formalised action plan in place nor interim targets in place to drive operational improvement across these key legal compliance or administration indicators.</p> <p>We have not tested the robustness of the performance data in this review.</p>			

No.	Findings and Implications	Agreed Action	Who	When
	<p>The risk of not achieving legal compliance is that the CPF may be reported to the Pension Regulator and incur fines.</p>			
2 (A)	<p>Task management is important to monitor the workloads within the Pensions Administration section and ensure that tasks are assigned and completed in a timely and efficient manner.</p> <p>A number of changes have been implemented since the previous review to try and address the increasing workload and manage tasks on an operational level:</p> <ul style="list-style-type: none"> • More specialised teams have been created to deal with specific tasks. • A new online dashboard facility is now available showing cases overdue, due today or open. • Due Date Plan gives the number of cases within the Operations Team, Employee Liaison Team, Aggregation Team and those cases with consultants. <p>System weekly reports continue to be run showing those tasks on time, running late and overdue and cases overdue. Principal Pension Officers assign and monitor tasks on a daily basis using information from the system and the weekly system reports.</p> <p>Whilst these are useful operational tools, giving management a sense of the workload facing the service, they do not represent an action plan to address or improve performance across the current workload. A formal action plan would enable management to identify and monitor operational objectives, help the team to identify milestones and internal targets for completion and focus the available internal resource in the most</p>	<p>A Business Case is being produced which is seeking to increase the resource in the team. This will address the trend of increasing case load and the need for specialist in house resource.</p> <p>We will investigate incremental targets at the next internal management meeting and link actions accordingly.</p> <p>URN 02177</p>	Helen Burnham	31/08/2018

No.	Findings and Implications	Agreed Action	Who	When
	<p>efficient way.</p> <p>The service is further impacted by new and an inexperienced team, subject to a significant amount of training, as well as having to respond to a number of internal projects and legislative changes.</p> <p>The risk is that without a defined plan to direct the team's efforts the workloads will continue to increase and be outsourced at significant cost.</p>			
3 (G)	<p>Accuracy of Life Cycle processing is crucial to maintain the integrity of Clwyd Pension Fund information.</p> <p>Our testing did not reveal any issues with information processed but found that processes could be more consistent to aid more efficient ways of working. Evidence to support the independent checking of calculations for Life Cycle events was agreed as being sufficient via the Member task facility, however worked and signed calculations are still being rescanned into Altair.</p> <p>There is a risk of inconsistent working practices across the team leading to inefficient use of resources.</p>	<p>A message reiterating that documents showing calculations are only to be rescanned for manual interventions and training purposes will be made at the next section meeting.</p> <p>URN 02199</p>	Helen Burnham	31/05/2018
4(G)	<p>Training is essential to ensure staff within Pensions are up to date with current regulations and are competent to undertake their tasks. The department is made up of a large number of new recruits without a great deal of experience. Extensive training has been undertaken during the current year.</p> <p>We reviewed the Principal Pensions Officer's spreadsheet of training. Despite the training undertaken</p>	<p>Team Leader appraisals identified the requirement for the Team Leaders to devise training plans for the members of their respective teams. These are being completed and will include a column to detail training still required.</p>	Helen Burnham	30/09/2018

No.	Findings and Implications	Agreed Action	Who	When
	<p>only one member of staff is shown as fully competent on all key areas of Pensions administration. Over 50% of staff are shown as having little or no knowledge in over 50% of key areas. Knowledge in all key areas is not required as members of the team are trained to undertake specific tasks.</p> <p>The department has been re-organised into teams of certain specialisms to address key areas of outstanding tasks. There is an opportunity to evaluate the impact of the current training programme on the speed and effectiveness of clearing current caseloads.</p> <p>The risk is that time is being lost in being able to complete tasks at the expense of training that may not be delivering the required results.</p>	URN 02178		
6 (G)	<p>Each year all contributing bodies send over a spreadsheet with every member's contributions for the financial year. This information is uploaded to the CPF and reports produced to show discrepancies. At the time of testing (March 2018) there were several unresolved queries for leavers for both Wrexham and Flintshire and all of the queries relating to Coleg Cambria were still outstanding (from having the information in October 2017). Subsequently the Lead Technical Development Officer has copied the Head of Finance in to the request for information and some responses have now been received. There is a risk that requests are sent to officers without sufficient authority to respond.</p>	<p>A process of escalation for responses to queries will be put in place and communicated to the department at the next section meeting.</p> <p>URN 02200</p>	Helen Burnham	31/05/2018

4. Additional Audit Comments:

The purpose of this section is to inform Managers of those areas where:

- A finding has been discussed but which has not been included within the overall audit opinion.
- Value for money has been considered and areas of opportunity for further improvement have been identified.

No.	VFM Findings/Suggestions	Management Comment
Value for Money:		
1	We reviewed the statistics spreadsheet showing cases completed and those added each month. We noted that the totals are not governed by a formula to ensure accuracy.	Noted and will review
2.	The use of trend analysis across the statistic spreadsheet, KPIs and consultants costs would help identify patterns in workloads, performance and costs to support management decisions.	Noted- this will in the first instance be reported to and considered by the Advisory Panel.
3.	The increased backlog of work in the current year has resulted in outsourcing more work to Mercers and Equiniti. Mercers have been approached to collate information and perform initial calculations on aggregation cases and Equiniti appointed to ensure the changes in legislation regarding Guaranteed Minimum Pensions are complied with. Close monitoring of the work outsourced and associated costs will be required to ensure the CPF is able to demonstrate VFM and reviewing other alternatives.	This matter will in the first instance be reported to and considered by the Advisory Panel. Backlog is closely monitored through the Committee and Pension Board meetings. Monthly progress reports on the work undertaken by consultants are also received by the Pensions Administration Manager. Costs associated with outsourcing are reported as part of the budget process each financial year. The Pensions Finance Manager maintains a spreadsheet of the costs.
4.	There is a legal requirement to communicate the Annual Benefit Statements to Active and Deferred Members by 31 st August each year. Our testing revealed that written confirmation was not	An email will be sent out to all members who have registered for Self-Serve notifying them of when they will be able to view their Annual Benefit Statements. There is no legal obligation to send out in the post to those that have not registered. Members who have opted for postal receipt of statements will receive them in this way.

	<p>secured to evidence the mailing within the legal requirements. At the time of distribution only verbal confirmation was received from Adare. An email requesting the information from Adare was supplied to us.</p> <p>As Annual Benefit Statements will be distributed via the Members Self-Serve facility in the future Pensions will need to manage the legal requirement in house against the burden of the additional workload this will create.</p>	
5.	GDPR obligations will need to be investigated (if not already completed).	All preparatory work has been completed ahead of GDPR.

5. Distribution List:

Name	Title
Philip Latham	Accountable officer for the implementation of agreed actions
Colin Everett	Chief Executive Officer
Philip Latham	Clwyd Pension Fund Manager
Helen Burnham	Pensions Administration Manager

Appendix A – Audit Opinion:

The audit opinion is the level of assurance that Internal Audit can give to management and all other stakeholders on the adequacy and effectiveness of controls within the area audited. It is assessed following the completion of the audit and is based on the findings from the audit. Progress on the implementation of agreed actions will be monitored. Findings from **Some** or **Limited** assurance audits will be reported to the Audit Committee.

Assurance	Explanation
Green - Substantial	<p>Strong controls in place (all or most of the following)</p> <ul style="list-style-type: none"> • Key controls exist and are applied consistently and effectively • Objectives achieved in a pragmatic and cost effective manner

	<ul style="list-style-type: none"> • Compliance with relevant regulations and procedures • Assets safeguarded • Information reliable <p>Conclusion: key controls have been adequately designed and are operating effectively to deliver the key objectives of the system, process, function or service.</p>
<p>Amber Green – Reasonable</p>	<p>Key Controls in place but some fine tuning required (one or more of the following)</p> <ul style="list-style-type: none"> • Key controls exist but there are weaknesses and / or inconsistencies in application though no evidence of any significant impact • Some refinement or addition of controls would enhance the control environment • Key objectives could be better achieved with some relatively minor adjustments <p>Conclusion: key controls generally operating effectively.</p>
<p>Amber Red – Some</p>	<p>Significant improvement in control environment required (one or more of the following)</p> <ul style="list-style-type: none"> • Key controls exist but fail to address all risks identified and / or are not applied consistently and effectively • Evidence of (or the potential for) financial / other loss • Key management information exists but is unreliable • System / process objectives are not being met, or are being met at an unnecessary cost or use of resources. <p>Conclusion: key controls are generally inadequate or ineffective.</p>
<p>Red – Limited</p>	<p>Urgent system revision required (one or more of the following)</p> <ul style="list-style-type: none"> • Key controls are absent or rarely applied • Evidence of (or the potential for) significant financial / other losses • Key management information does not exist • System / process objectives are not being met, or are being met at a significant and unnecessary cost or use of resources. <p>Conclusion: a lack of adequate or effective controls.</p>