

KPMG BENCHMARKING UPDATE

1. This report asks the Committee to note the activities the Wiltshire Pension Fund would need to undertake to improve of the current scores in the KPMG Pensions Schemes Financial Controls Peer Group Comparison.

Introduction & Background

2. On 25 February 2010 KPMG presented their Pension Schemes Financial Control Peer Group Comparison paper (see attached) to this Committee. The purpose was to provide an overview of how the Wiltshire Pension Fund compared with its peer group (audit clients with assets over £1billion) which included both public and private sector schemes.
3. The areas covered were:
 - Scheme Governance
 - Dealing with Members: Defined Benefit
 - Investments: Segregated Funds
 - Investments: Pooled Investment Vehicles
 - Scheme Accounting
4. In most areas the Fund compared favourably with its peer group. However, the Committee requested a report be brought to this meeting to include proposals to improve those areas which have not achieved full marks.

Main Considerations for the Committee

5. To achieve the top rating in all areas would be an extremely stretching target. To achieve performance in line with the peer group is realistically more achievable and should be the area of focus for the Fund. The biggest drawback will be resources available.
6. The survey includes both private and public sector funds. Some of the areas assessed are not fully aligned to Local Government Pension Schemes (LGPS) so the Fund will by definition have a low score.
7. The areas where full marks (out of 10) haven't been achieved are outlined below along with the Fund's performance against the peer group.

Scheme Governance

External Audit – Score 6 (Peer Group 8)

8. The Fund does not have a separate audit committee to monitor the performance of its auditors. This decision lies with the Audit Commission and is representative of how local authority Funds operate compared to its private sector peers. The Fund's

accounts form part of Wiltshire Council's Statement of Accounts which are presented and reviewed at the Audit Committee. There appears little scope to improve this score.

Internal Audit – Score 6 (Peer Group 6)

9. Internal Audit hasn't reviewed the operations of the Fund within the last two years. This was a conscious decision due to the Fund starting its LEAN review in 2008. The intention was to invite internal audit for a full review when this had been completed.
10. Although much work was undertaken the review of procedures will continue to be an on-going process. Therefore, the recommencement of a rolling internal audit program would now be appropriate. This has been discussed with Internal Audit and is planned in this financial year. This action should assist in the Fund's scores in future years.

Risk Management – Score 8 (Peer Group 8)

11. The Fund already scores highly through the introduction of its risk register last year which is monitored quarterly in line with best practice. To enhance this process further the Fund could look to test the risk controls outlined in the register on a rolling basis.

Management Accounting – Score 4 (Peer Group 7)

12. This area can be improved. Currently, the Committee only receive a budget report and an outturn statement annually. If full management reports were presented to Committee on a more regular basis the score should improve. The intention is to provide the Committee with budget monitoring updates bi-annually which would move the Fund in line with its peers. The Fund could report more often but this would tie up both officers and committee agenda time without perhaps adding significant additional value.

Investments – Score 8 (Peer Group 9)

13. The Fund performs well here but doesn't achieve better marks due to it not having a separate Investment sub-committee. This has been explored before but the feeling from Members was the current arrangements are adequate and investment issues are dealt with in sufficient detail within the normal committee not to warrant a sub-committee with the additional administration and resource this will take up in both officers and Members time.

Custody – Score 9 (Peer Group 8)

14. The Fund almost achieves full marks and is above the peer group. KPMG appear satisfied with the Fund's arrangements and it is difficult to improve from here. The Fund could commission specialist consultants more often to ensure the custodian's performance remains in line with the market (currently this is done when reviewing the contract every 3-5 years) but this takes up more resource in terms of cost and officers time which is not currently felt to outweigh any short-term benefits over this period.

Administration – Score 2 (Peer Group 7)

15. The Fund will score poorly here as it doesn't have a separate administration committee and due to the on-going issue of membership data only being reconciled annually.
16. For similar reasons given in paragraph 12 on investments, the Fund doesn't have an administration sub-committee. However, the Fund does now have an Administration

Strategy in place which the Committee receives updates on. The implementation of a workflow system will assist in monitoring administration performance and the Fund has recently joined the CIPFA Pension benchmarking club which will be used, along with specific internal benchmarks to measure administration performance.

17. Membership data reconciliation is an audit action point and work is being undertaken to set up more regular monitoring to ensure records are as correct as possible.

Funding – Score 8 (Peer Group 8)

18. The Funding level is regularly assessed at the triennial valuations' which informs the employers' contributions and ultimately the cost to the tax payer. This is also monitored quarterly at a high level through the actuary's 'Navigator' reports. There is no requirement to undertake more regular valuations and to do this would not prove value for money unless the scheme substantially changed.

Dealing with Members

Contribution Financial Record Keeping – Score 2 (Peer Group 6)

19. This is an area the Fund is weak and work is underway to improve this. Currently active member records are only reconciled annually, which although was traditionally adequate the Fund needs to undertake this at least quarterly to keep up with its peer group.

Contribution Controls – Score 8 (Peer Group 6)

20. The Fund scores well here and higher than the peer group. A high level review of contributions received from employers is undertaken monthly and actions taken when appropriate. The Fund is looking at carrying out more detailed monthly monitoring but relies on data coming from employers.

Benefit Controls – Score 9 (Peer Group 8)

21. The Fund has scored well in this area and is above the peer group. As part of the on-going review of procedures additional controls and quality assurance checks are being considered which may help in further increasing the overall score.

Pensioner Payroll Controls – Score 8 (Peer Group 8)

22. This is an area where the Fund was doing relatively well with a score equal to the peer group. With the migration to SAP the pensioner payroll reports were more difficult to obtain. This has now been rectified and pension officers now have access to run their own reports which will enable these reconciliations to be undertaken more regularly again.
23. Pensions are currently paid through SAP payroll by payroll services and not direct from the Pension's Alt-Air database. This inevitably leads to reconciliation issues between the two systems although work is on-going to make this transfer of data less manual to avoid errors.

Membership Data Controls – Score 7 (Peer Group 8)

24. As discussed in paragraph 14 the Fund does need to reconcile the membership movements more frequently than annually and the aim is to undertake this at least quarterly to improve this score.

AVC Controls – Score 3 (Peer Group 5)

25. The reason the Fund scores low here reflects the nature of AVCs on LGPS schemes. AVCs are not part of the accounts for LGPS Funds and the contributions into these schemes and value of the investments are reported by way of a disclosure note only.
26. AVC contributions are made direct by the employer's payroll to the provider and the Fund does not see this transaction. The AVC position is important to the Fund when paying out benefits as it counts against the lifetime allowance thresholds. Collating and maintaining additional records would not add value to the administration of the Fund.

Investments: Segregated Funds

Investment Managers – Score 5 (Peer Group 6)

27. The Fund currently receives the AAF01/06 or SAS70 reports from investment managers which are audit reports on their systems and controls. These are reviewed at a high level for any exceptions and passed onto internal audit.
28. The Fund's officers should periodically be discussing these reports along with their systems and controls more regularly with the investment managers. This is an area which officers can try to build into their annual meetings with investment managers. However, without specialist knowledge from either officers or internal auditors' limited value will be added from a detailed exercise. To a certain extent the system report provided offers some assurances as it has been carried out by auditors with the relevant knowledge and skills set.

Custodian – Score 9 (Peer Group 8)

29. The Fund scores highly here and above the peer group. The performance of the custodian could be monitored as discussed in paragraph 14. It would be difficult for officers to undertake this because of the need for specific knowledge and understanding of the market.

Investments: Pooled Investment Vehicles

Investment Managers – Score 5 (Peer Group 6)

30. The same comments as in paragraph 27 and 28.

Segregation of Duties – Score 5 (Peer Group 6)

31. With pooled funds the actual administration of the assets is more opaque than in segregated accounts as the Fund only holds units and not the assets itself. More formal reviewing of these funds by officers in terms of their managers, administrator and custodian could be undertaken. Again, this requires a certain element of specialist knowledge and resource. However, a high level review of the pooled fund accounts would seem appropriate with any specific concerns passed to an investment specialist to investigate.

Scheme Accounting

Key Financial Reconciliations – Score 8 (Peer Group 8)

32. The Fund undertakes most of the key reconciliations. As mentioned in paragraphs 19 to 24 there are areas that can be improved and developed in regards to contributions received and pensioner payroll which will assist performance here.

Consistency of Accounts with Annual Report – Score 7 (Peer Group 9)

33. This refers to the reconciliation of membership movements which were described in paragraphs 15 to 17. More regular monitoring of members would ensure a quality audit trail for the figures that are presented in the annual report. These are currently based on the pension database as at 31 March each year. Implementing this would keep the Fund in line with its peers.

Summary

34. As described above there are a number of changes that can be implemented to assist in improving the score. Some are relatively straight forward and require an additional reconciliation or amendment to current procedures which are already audit action points.
35. Other areas, like the systems testing of the investment managers and custodian require significant investment in terms of resources and the additional value of achieving a higher score needs to be measured against its overall usefulness to the Fund.
36. It should also be remembered the KPMG report compares both the private and public sector clients. It is hoped future reports will look at our performance against public sector peers to provide a more meaningful analysis on this sector and may reduce the anomalies' which are not relevant to LGPS funds.

Risk Assessment

37. The report looks at the financial controls and the governance of the Fund. A low score can indicate a lack of suitable processes or procedures which could impact on the following risks PEN002: *failure to collect and account for contributions from employers and employees*, PEN005: *loss of funds through the fraud and misappropriation and* PEN010: *failure to keep pension records up to date and accurate* which are highlighted in the risk register elsewhere on the agenda.

Environmental Impact of the Proposals

38. There are none.

Financial Considerations & Risk Assessment

39. There are no direct financial considerations. However the failure to have proper financial controls and good governance within the Fund could lead to poor management of assets, incorrect payments being made and ultimately maladministration claims from the membership with fines from the pension regulator.

Proposal

40. The Committee is asked to note the report and actions being taken to improve the performance of the Fund.

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Unpublished documents relied upon in the production of this report:

None.