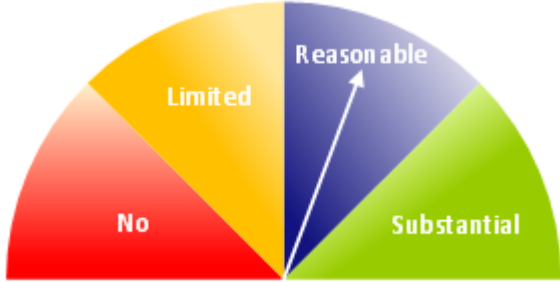


Pension Fund Key Control Review

Final Report

Issue Date: 6th October 2020

Executive Summary

Assurance Opinion		Recommendation Summary	
	Reasonable	Priority	Number
	<p>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.</p>	Priority 1	0
		Priority 2	2
		Priority 3	3
		Total	5

Audit Conclusion

A total of two Priority 2 recommendations and three Priority 3 recommendations have been made within this review. The key findings we identified during our review have been summarised as follows:

1. Inefficiencies in the administration of the pension fund could lead to service disruption, financial loss, legal challenge, and reputational damage.

Some weaknesses and inefficiencies have been identified in relation to the new procedure for the iConnect system, which have been met with a priority 2 recommendation. Two priority 3 recommendations have also been made regarding National Insurance database checks not having been completed as expected or integrated into the relevant workflow task list, and relating to a Data Officer not being set up to use the automated mail distribution system, Docmail.

Two recommendations made in our previous 2018-19 audit also remain outstanding. These relate to the reconciliation process between the pensions system and SAP Payroll as well as the implementation of an improvement plan to assist in clearing a workload backlog relating to the processing of data aggregations and record deferrals.

2. Non-compliance with legislative requirements could lead to legal challenge, fines, and reputational damage.

Two recommendations have been made in relation to the guidance and training, as well as the completion of Data Protection Impact Assessments (DPIA).

Aside from one observation made in respect of MiFID II compliance which was discussed with and actioned by management prior to distribution of this final report, we made no adverse findings in relation to the Fund's handling of compliance with MiFID II.

We made some other observations during process walkthroughs that have since been resolved. These were discussed with Senior Management during the close out meeting and so not included in the wider distribution of this report.

Although there are a number of recommendations and some other observations made, a reasonable assurance opinion is given overall as we found the Fund's management team to have a high awareness of the weaknesses identified, and to have made significant progress towards implementing several projects to improve the efficiency of the Fund's administrative processes. This includes the continued implementation of workflow processes, the iConnect system, Member Self Service, and other process efficiencies. Good practice observations and actions taken to resolve issues identified during our previous audit review have been summarised in the "Summary of Control Framework" section of this report.

Background

As part of the 2020/21 Internal Audit Plan for Wiltshire Council, an audit has been undertaken to assess the effectiveness of the controls in the end to end process for the administration of The Wiltshire Pension Fund. The audit reviewed the process from new member enrolment in the scheme through to payment and considered the adequacy of the Fund's protection of personal data. In addition to this, the Fund's compliance with their responsibilities under MiFID II were also assessed to provide assurance in this respect to the Pension Fund Board and Committee.

The Wiltshire Pension Fund administer the Local Government Pension Scheme (LGPS) on behalf of over 170 participating employers, including Councils, Schools, Police and Fire Authorities, other public bodies, charities, and private sector companies. As at 24th September 2020, total membership was reported at over 77,000 (including active, deferred members and pensioners) with holdings of over £2.8bn of investment assets, an increase of c£3m since March 2019.

Corporate Risk Assessment

Objective

To provide assurances in respect of the end-to-end key financial controls in place for the pensions scheme and to ensure compliance with the data protection legislation and the Markets in Financial Instruments Directive (MiFID) II.

Risk	Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
1. Inefficiencies in the administration of the pension fund could lead to service disruption, financial loss, legal challenge, and reputational damage.	High	Medium	Medium
2. Non-compliance with legislative requirements could lead to legal challenge, fines, and reputational damage.	High	Medium	Medium

Scope

The scope of our review included the following expected controls:

1. New scheme members are enrolled appropriately, with amendments and any payments to and from the fund being correctly authorised, processed and reviewed (including member contributions, lump sums out on death, and payroll transfers).
2. Key steps in the process are well monitored, are evidenced through an effective audit trail, and are accurately reported.
3. All complaints are fully recorded, appropriately actioned, and monitored in accordance with the Complaints Policy.
4. The service has appropriate Data Protection Policy and procedures in place which are subject to regular review, understood by staff and are implemented effectively in practice. The areas selected for audit testing were the Data Protection Policy, staff's data protection awareness and training, data breaches, data retention procedures, and Data Protection Impact Assessments (DPIAs).
5. The service has taken appropriate steps to align their Pension Fund processes to the principles of the EU Markets in Financial Instruments Directive (MiFID) II, to maintain its "Professional Investor" status.

Insurance coverage to share the risk of any financial loss due to third-party non-compliance was not covered within the scope of this audit review. The Fund have implemented various controls to reduce the inherent medium risk of their PI status-related investments to an overall low residual risk. However, the Fund could also consider whether it would be prudent to ensure they hold evidence of their third-party Investment Manager's insurance policies, to ensure there are satisfactory arrangements in place that the Fund could leverage to absorb any large financial shortfall that might otherwise significantly compromise the Fund's investment(s) if the investment product purchased was found to be non-compliant.

Our audit process included interviews and process walkthroughs with various Pension Fund employees and Managers and was also informed by the collation of relevant documentation to support our findings. The arrangements in respect of MiFID II were compared with results from an information gathering exercise across SWAP's professional networks, and from other research, to ensure a balanced-opinion could be granted in respect of the Fund's efforts to ensure compliance with this legislation.

Findings and Outcomes

Summary of Control Framework

Pensions Administration and compliance with the General Data Protection Regulations (GDPR)

The Pension Fund have several effective controls which ensure their administrative processes are well controlled and have made good progress in addressing some of the control weaknesses identified in previous audit reviews.

New enrolment process weaknesses identified in last year's audit have been resolved through process simplification and will be further strengthened through the implementation of the iConnect system, whereby employers enter their data directly without manual intervention by the Fund's Officers. Manual printing and distribution of new client packs has also been removed through the introduction of an automated mailing system, Docmail. Employers have also been issued with the Fund's Pension Administration Strategy, containing the Fund's expectations of them and an issue escalation policy.

Last year it was found that an unallocated amount of approx. £770,000 sat within the Fund's suspense account, with the oldest transaction in the account being from November 2013. Since then, the balance has been reduced to approx. £38,000. This reduction in unallocated funds related to improvements in the employee administration agreement process, whereby they are now actioned more promptly – as soon as a rates and adjustments certificate is received from the Fund actuary. A new income code has also been implemented to better manage unallocated funds.

Further to a suggestion in our previous audit report to make their payment calculation process more efficient, the Fund are imminently introducing a tiered system of self and peer reviews for those calculations which lead to payment. This more risk-based system of quality checks is based on peer review result data collated by Fund management.

A Data Minimisation and Retention Strategy has been written and approved by the Local Pension Board. Work to develop and document procedures by which to apply the Strategy in practice is underway.

Other good practices identified during our audit have included:

- Monitoring of staff productivity among other Fund performance measures through quarterly Board performance reports.
- The recent introduction of a Death Grant Policy to aid Officers in making well-informed, consistent decisions during the Death Grant process.
- A quality review system is due to be introduced imminently, whereby sample audits will be completed by Fund management across various processes involving all members of Pension staff. The purpose of these audits is to review random cases and provide feedback to staff re: the findings of the audits. The findings will also be shared among the management team in terms of any lessons which can be learnt and process improvement opportunities.
- The Fund are due to deliver additional training to staff in respect of complaint handling among other topics, following a recent training needs assessment.

Markets in Financial Instruments Directive (MiFID II)

The Fund have set about introducing good governance arrangements to ensure they maintain their “Professional Investor” status in respect of relevant investments made with their third-party Investment Managers, and to ensure they can continue to ‘opt-up’ to PI status for future investment opportunities.

We reviewed these governance arrangements as part of our audit and deemed these arrangements to be satisfactory. Our observations were as follows:

- A risk assessment of non-conformance with the PI status had been undertaken, and a supporting plan of actions to reduce the inherent risk from medium to low has been put in place and progressed by the Head of Pensions Fund Investments.
- Fund Officer’s knowledge and awareness of the requirements of MiFID II compliance was deemed to meet the requirements of the Fund.
- Annual training plans have included, and continue to include, investment-related topics and specific sessions around MiFID II compliance. Members of the Fund’s Investment Sub-Committee, and substitute committee members, have also been required to self-certify they hold sufficient qualifications and have an appropriate level of MiFID II awareness required to advise and oversee the Fund’s investments. This self-certification will be renewed annually. There are also plans to seek self-certification from members of the full Pension Fund Committee in respect of their oversight role too, pending their agreement.
- A record of confirmation by the Fund’s Professional Advisors that they continue to be appropriately qualified to advise the Fund on their investments was obtained and confirmation was also obtained from the Fund’s Investment Partnership that they will treat the Fund’s relevant investments in accordance with their PI status under MiFID II.
- Formal acceptance from the Fund’s third-party Investment Managers was received confirming that they will treat the Fund’s relevant investments in accordance with their PI status.
- The Fund’s Investment Strategy was adapted to align with MiFID II, as was Protocol 2 (part a) regarding the Pension Fund Committee’s terms of reference, which is reflected in the Council’s Constitution. A review of the terms of reference of the Investment Sub-Committee has also been scheduled to align it with the updated Protocol 2a and ensure member’s accountabilities are fully documented.

1.	Inefficiencies in the administration of the pension fund could lead to service disruption, financial loss, legal challenge, and reputational damage.	Medium
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1.1 Finding and Action

Issue

Some weaknesses and inefficiencies identified in relation to the new procedure for the iConnect system.

Findings

The iConnect system had been introduced to approx. 17 of the Fund’s smaller employers at the time of the audit. These employers are now required to complete their monthly submissions through the iConnect platform with the Fund following an updated procedure to process these payments, and to reconcile them. However, there were two weaknesses highlighted during our review in relation to this new procedure, as detailed below:

- The iConnect procedure is not capturing the total amount of contributions being paid, nor the total value of their deficit and amount of deficit contributions being paid. This is leading to inefficiencies in the process the Accounting Technician completes to ensure these are banked and coded correctly.
- There is a manual workaround currently being used during the employer contribution process, due to the lack of current capability within the iConnect platform. The manual workaround involves a vast amount of pension and personal data being taken from iConnect and manually entered into a Master Monthly Submissions Spreadsheet for these c17 employers in order to calculate their contribution totals among other necessary figures to administrate pensions; resulting in potential for errors to be made, for alteration of data and of variances between the data held within the spreadsheet to that held in Altair and SAP.

Concerns were brought to our attention during the audit process that the issues noted above regarding the capability of the new iConnect contribution process have not been captured by any immediate plans to mitigate the risks they pose. If not resolved, the issues experienced now will increase in terms of risk as the remaining approx. 150 employers are brought into the iConnect process. We are also informed that the issues noted have also led to a current blur in the different team’s responsibilities for administration of these payments.

Recommendation	Priority Score	2
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We recommend that the Head of Pension Administration and Relations liaises with the Head of Pension Fund Investment to ensure that a review of the member contribution issues raised in our finding is undertaken promptly, to future-proof the processes used and ensure appropriate efficiencies are made.

SWAP Ref: 44260

Agreed Action

We have agreed to work together to find a satisfactory solution which enables the appropriate checks to take place in an efficient way.

Responsible Officer	Head of Pension Administration and Relations, and Head of Pension Fund Investment	Timescale	31 st December 2020
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1.2 Finding and Action

Issue
Checks of the “National Insurance” (NI) database are not consistently completed during the early stages of the sampled death grant payments.
Findings
NI database checks should be completed by Pensions Officers on receipt of notification of a death where a death grant will need to be processed. It is important that this check is completed at the beginning of the process as the highest-valued fund (which may not necessarily be the one held by WPF) should be used to calculate the death grant payment.
On conducting the walkthrough of relevant samples with the Senior Pensions Officer, an NI database check had been completed in each case to see whether any other pension pots are held by the deceased members and no other funds were identified for the cases we sampled. However, the NI checks for our sampled cases were completed at the later payment authorisation stage, which could have led to incorrect actions being taken by the Fund resulting in inefficiency.
The Senior Pensions Officer and Benefits Manager identified that although this check forms part of the standard procedure completed by Officers, there is no workflow task in Altair currently to prompt the completion of this NI database check at the beginning of the processes.

Recommendation	Priority Score	3	
We recommend that the Head of Pensions Administration and Relations ensures that the Altair workflow for processing death grants is updated to include the check of the NI database on notification of death at the beginning of the process. This is to ensure efficiency by the Fund acting accordingly where it is identified that the member has an alternative pension fund of higher value than that held with WPF.			
<i>SWAP Ref: 44232</i>			
Agreed Action			
We agree with the recommendation and we will make this change.			
Responsible Officer	Head of Pensions Administration and Relations	Timescale	30 th November 2020

1.3 Finding and Action			
Issue			
A Data Officer has not yet been set up to use the automated Docmail system.			
Findings			
During the process walkthrough of the new enrolments process with the Data Officer, it was established that they could not use the Fund's Docmail system themselves, and are currently relying on a workaround whereby a colleague completes the mailing of new starter packs on their behalf. The Officer had recently returned from long-term annual leave and was yet to be added as a user and inducted in the Docmail system at the time of this audit.			
Recommendation			Priority Score
We recommend that the Head of Pensions Administration and Relations ensures that the Data Officer is set up with the access required to the Docmail system and inducted on its use as required.			3
<i>SWAP Ref: 44215</i>			
Agreed Action			
We agree with this action and we will ensure the data officer concerned, as well as other relevant new staff, are set up on Docmail. Part of the set process requires involvements from IT which may cause some delay.			
Responsible Officer	Head of Pensions Administration and Relations	Timescale	31 st October 2020

2. Non-compliance with legislative requirements could lead to legal challenge, fines, and reputational damage.

Medium

2.1 Finding and Action

Issue

We identified several issues in relation to the guidance and training for, and the completion of, Data Protection Impact Assessments (DPIA).

Findings

We sampled the DPIA completed for the Fund's 'Docmail' system. A DPIA was required as the Fund were introducing an automated mailing system online to replace their manual, paper-based print and post procedure; therefore, the procedures used to process personal data had changed.

However, we identified the following issues with the completion of that DPIA:

- The DPIA form was sent to the Docmail system owners to complete, and not further completed by the Project Manager themselves, or by the Information Governance (IG) Team as required. There were multiple references within the form "To be specified by the Data Controller", aka the Fund, which were incomplete.
- There was no record of the issues posed by the change to processing within the form, nor a completed assessment of the potential data protection risks. The Project's Planning spreadsheet was used to begin recording related data protection risks; however, this was not completed in full to stipulate what action should be taken, nor by whom.

We also identified that those responsible for the completion of DPIAs have not received any formal training or other awareness raising in respect of their DPIA responsibilities, other than being issued with a copy of the Fund's DPIA procedural guidance and template, the latter of which was found to contain some conflicting instructions and was not clear or easy to follow. The procedural guidance would also benefit from the inclusion of risk assessment methodology and guidance, which is not currently given within.

Recommendation

Priority Score

2

We recommend that the Head of Pension Administration and Relations:

- Completes a review of the Docmail system's DPIA to ensure that all risks relating to the processing of personal data have been captured and appropriately mitigated to the satisfaction of the Fund.
- Ensures that all staff and managers with specific responsibilities for the completion of DPIAs receive any further training required to complete the procedure effectively.

SWAP Ref: 44252

Agreed Action

We agree with this recommendation and we will action accordingly.

Responsible Officer

Head of Pension Administration and Relations

Timescale

31st December 2020

Recommendation		Priority Score	3
<p>We recommend that the Governance and Performance Manager:</p> <ul style="list-style-type: none"> • Reviews the current DPIA procedure and standard DPIA template to ensure they consistently reflect the procedures, are clear and easy to follow, and to provide risk scoring methodology and assessment guidance. • The above documents should then be re-communicated to relevant staff and managers and their feedback invited to ensure they have a good understanding of the procedures to be used. <p style="text-align: right;"><i>SWAP Ref: 44174</i></p>			
Agreed Action			
We agree with this recommendation and we will action accordingly.			
Responsible Officer	Governance and Performance Manager	Timescale	31 st December 2020

Other Observations

At the time of this audit the Data Protection Policy had undergone a review by the Governance and Performance Manager to align it with the current data protection procedures employed by the Fund. This is expected to be submitted to both the Fund's Committee and Board for their approval by the end of December 2020.

There has been no reconciliation of the Fund's and Information Governance team's record by the Fund, nor any statistical reports received from the Information Governance team regarding breaches. On speaking with an Information Governance Officer, they confirmed that a new process is due to be implemented imminently, whereby a shared MS SharePoint site will be used to collate all records relating to data breaches. This will be accessible by Directors and other management who report breaches or otherwise have interest in such incidents (i.e. the Fund's Governance and Performance Manager and Head of Pensions Administration and Relations). We are informed that the introduction of a Share point site should reduce the need for duplicate record-keeping by the Fund, and reduce any reliance on reporting by the Information Governance team to ensure their records agree, as management will have direct access to the live breach information for their respective areas. We reconciled the Fund and the Information Governance team's data breach records and found no conflicting or missing entries. As such, we suggest that the Governance and Performance Manager liaises with the Information Governance team to ensure they can access the Information Governance SharePoint site once this is available. The Fund's Data Breach Procedure document should also be updated to reflect the SharePoint process once implemented.

During the audit we distributed a Data Protection Survey to a selection of 25 Fund employees to gain a view of their confidence regarding data protection, the results of which are included within **Appendix 1**. Results returned a positive picture of employee's understanding of their roles and responsibilities over the protection of the personal data they process. Some of the questions asked scored an average of below 4.5/5 (5 representing a "high level of confidence"). Based on the lower-rated results represented in **Appendix 1**, the Fund could consider re-communication of the Fund's main Data Protection Procedures to all staff, inviting questions from anyone who is unsure of their related responsibilities, to further mitigate the low risks posed by the survey results with an aim to raise all employee's confidence on the procedures to a high level. This could be repeated on an annual basis to continually refresh and raise employee's awareness of the procedures.

We are informed by the Technical and Compliance Manager that, to their knowledge, there have been no requests for policies in alternative formats to date, although the Fund should be able to obtain alternative formats (such as braille) from their approved printing supplier on request. On review of the Fund's website to obtain policies for the audit, we identified that there is no clear prompt for customers to request policies (or any associated guidance) in alternative formats should they, or their dependents, require them. Contact details for the Fund are readily available, but the Fund could also consider adding a statement within relevant pages of the website inviting customers to seek alternative formats if needed, to ensure inclusivity of disabled customers, or those with other impairments.

Audit Framework and Definitions

Assurance Definitions

None	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.
Limited	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.
Reasonable	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.
Substantial	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Definition of Corporate Risks

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.

If you require the report in an alternative format, please contact SWAP Head Office.