

Governance & Administration risks in Public Service Pension Schemes: Engagement Report Findings & Analysis

Record-keeping

tPR findings	tPR recommendations	Pension Fund comment
Many scheme managers have moved from annual to monthly member data collection and found this enabled them to verify data at an earlier stage, with some funds providing monthly reports to employers highlighting the quality of data submitted and action points they need to complete	Scheme managers should be aware of how the member data they hold is measured. Data quality needs regular review. A robust data improvement plan should be implemented as appropriate.	Through the implementation of i-Connect, the Fund is moving to monthly data collection and aware from end of year reporting. Where possible member data is measured in accordance with tPR guidelines. Where those guidelines require clarification Fund officers have interpreted the requirement & recorded that interpretation. As tPR clarify their definitions the Fund will adopt them. A data improvement plan has been approved by the Board & data cleansing has started to form part of officers regular work.
Well-run funds are aware of the quality of the common and scheme specific data they hold. Where it is not entirely accurate robust and measurable, data improvement plans are in place. scheme managers of these funds consider a range of methods to improve data quality, including tracing exercises and improving contract management methods.	The quality of member data should be understood by the Scheme Manager and Pension Board. It should be recorded and tracked to ensure common and scheme specific data is of good quality. An action plan should be implemented to address any poor data found	Common & Scheme specific data is measured annually, but not tracked more regularly due to complications and costs in doing so. Not all sub-data improvement plans have been fully implemented.
They also generally have a robust PAS in place which detail rights and obligations of all parties to the fund.	Although not a legal requirement, a PAS could be implemented clearly setting out responsibilities and consequences of not complying with duties to the fund. The Pension Board should review the PAS and ensure it will stand up to challenges from employers.	The new PAS will be submitted to the Board at their 14th November 2019 for review.

Internal Controls

tPR findings	tPR recommendations	Pension Fund comment
There were a range of approaches to identifying, monitoring and mitigating risks to the funds we engaged with. Some funds had detailed risk	A risk register should be in place and cover all potential risk areas. It should be regularly reviewed by the pension board	The Fund's risk register is updated each quarter and submitted to both the Committee & Board meetings for review

management frameworks in place and clear defined procedural documents. Others lack detailed risk registers or do not review the risks to the fund on a	The scheme manager should take a holistic view to risks and understand how they are connected	The risk register enables a holistic view. Risks are divided into Horizon, Dynamic, Ongoing & Dormant, with an evidence based identification
We found evidence across a number of funds of key person risk, where a long serving member of staff has developed a high level of knowledge about their role and internal processes but this knowledge is not documented. This leaves these funds exposed to the risk of a sharp downturn in administration and governance standards should the key person unexpectedly leave their role.	The pension board should have good oversight of the risks and review these at each pension board meeting.	The Board review the risk register each quarter
	Internal controls and processes should be recorded, avoiding an over reliance on a single person's knowledge levels.	The Fund is managed via a framework of high level policies/strategies. A documentation hierarchy exists and officers have instigated a project to ensure that all procedures & other documents, at all levels within the hierarchy remain up to date.
Funds with an engaged s.151 officer who has a good relationship with the scheme manager are more likely to have clear and robust internal controls.	The scheme manager should ensure all processes are documented and reviewed on a regular basis.	A project is in place, however progress is slower than hoped due to the Fund's current management of multiple improvement projects.
	Decision and action logs covering all decisions provide a useful reference point as decisions recorded in minutes can be hard to locate	Both the Board & the Committee have actions logs which are regularly maintained
Administrators		
tPR findings	tPR recommendations	Pension Fund comment
Better performing scheme managers have a close relationship with their administrator, whether they use a third party provider or an internal team. In these instances robust SLAs are in place which are routinely monitored by senior managers. These scheme managers are also willing to effectively challenge reports from administrators to ensure they fully understand the work being done.	Scheme managers must agree targets and have a strong understanding of what service providers are expected to achieve. The scheme manager should challenge and escalate as appropriate should agreed standards not be met.	Targets & service expectations are set out in the Scope of service section of provider contracts. A programme of annual service provider performance reviews is undertaken by officers.
	Contract lengths should be known and planned against to allow sufficient time to consider contract extensions or for the tender process, as appropriate. This mitigates risks in handing over to a new administrator.	A contract management schedule exists and Fund officers work closely with Wiltshire Council's Procurement Dept.

Not all scheme managers have clear oversight of the work being done by administrators or question the information provided by them when it is appropriate to do so. This leads to the scheme manager not understanding how well the fund is performing and can act as a barrier between the scheme manager and both participating employers and members.	It is helpful for the administrator to attend and present to pension board meetings as pension board members can use their knowledge and understanding to effectively challenge reports being provided.	The Scheme Manager regularly attends Board meetings. Attendees are the s151 Officer, Head of Pension Administration & Relations, Investment Manager & Fund Governance & Performance Manager
There is a variety of methods used to appoint third party administrators, and scheme managers generally carefully consider the best approach for the individual circumstances of their fund.	Scheme managers should hold regular meetings with their service providers to monitor performance.	At least annual reviews are held with all key service providers & a schedule of reviewing all service providers is in place.
Member Communication		
tPR findings	tPR recommendations	Pension Fund comment
A number of scheme managers are currently reviewing the documents they send to savers. It is widely appreciated that pensions and retirement provision is complicated, and communication with savers needs to be in plain English. A variety of methods are being used, with the strongest scheme managers in this area working closely with a technical team and also enlisting the assistance of	Information sent to members should be clear, precise and free from jargon.	Documentation Management & End to End process review projects have been implemented to ensure member documentation is clear & relevant
	There should be senior oversight of communications sent to members and prospective members.	An updated Communications strategy is to be presented to the Board on 14th November 2019. The Fund has a Communication's Manager to provide day to day senior oversight.
Not all scheme managers fully appreciate the extent of their duties to provide information to savers, with some not knowing about the legal duty to inform active members where employee contributions are deducted but not paid to the fund within the legislative timeframe.	It is often helpful for scheme managers to measure the effectiveness of their communication with savers, eg measuring website traffic and running surveys	A regular framework for measuring the effectiveness of not just member communications, but all communications needs to be implemented. Officers will consider the options available to complete this task
Internal Dispute Resolution Procedure (IDRP)		
tPR findings	tPR recommendations	Pension Fund comment
Some scheme managers have clear procedures in place for recording, and learning from, complaints and disputes they receive. They use this information	There should be a clear internal policy on how to handle complaints, including escalation to suitable senior members of staff.	A clear IDRPP policy exists & was updated in 2019. It was reviewed as appropriate during the Board meeting in August in conjunction with the SWAP Audit report

to make changes to the way the fund is run in order to provide the best possible service to beneficiaries.	People entitled to use the IDRPs should be given clear information about how it operates.	Clear steps are held on the Fund's website and included in correspondence issued to a complainant
Not all the complaints procedures and IDRPs we saw were clear about who was entitled to use them, and in some cases details of how to complain were not clearly published. This limits the ability of people with an interest in the funds to raise concerns and	This information should be easily available, eg on the fund website.	Yes, it is.
	The pension board and scheme manager should have oversight of all complaints and outcomes, including those not dealt with in-house.	The Fund's Technical & Compliance Manager maintains a log of all IDRPs managed by the Fund.
Not all scheme managers have a clear definition of a complaint. It is important for scheme managers to act in a consistent manner and if what a complaint looks like is not known this will affect its ability to put things right.	Complaints and compliments could be analysed to identify changes that can be made to improve the operation of the fund.	Analysis is not formally undertaken at the moment. Due to the low number of cases currently being experienced, analysis of themes could be considered unreliable. However, officers always consider learning points and making changes in processes following complaints.

Pension Boards

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Scheme managers have a variety of methods for appointing pension board members and the structure of these boards also varies between funds. In some cases board member rotation is staggered to help preserve knowledge levels. Additionally, some boards have independent chairs, depending on the needs of the individual pension board.	The scheme manager should arrange training for pension board members and set clear expectations around meeting attendance.	A three year training plan was implemented in 2019, which includes annual training reviews. Board members are expected to attend 4 meetings per annum.
	Individual pension board member training and training needs should be assessed and clearly recorded.	Annual assessments take place
We also found a mix of engagement levels amongst pension board members. Some scheme managers are able to call on strong, committed pension boards to assist them with the operation of the fund. Other scheme managers face challenges around pension board members who routinely fail to attend meetings or complete the training they need to meet the required level of knowledge and understanding	The pension board should meet an appropriate number of times a year, at least quarterly.	Board members meet at least 4 times per annum
	Processes should be in place to deal with an ineffective pension board member by either the chair of the pension board or the scheme manager	The process for managing an ineffective Board member is set out in the Board's Terms of Reference
	Scheme managers should be aware of the risk of pension board member turnover and ongoing training needs.	An ongoing programme of member appointments & induction training is designed to mitigate this risk.

The relationships between pension boards and scheme managers varied - where the pension board had a strong relationship with the scheme manager, including a willingness to challenge, we found better-run funds.	Regular contact between the scheme manager and chair of the pension board is helpful. An open and auditable dialogue outside of formal meetings can help improve the governance and administration of the fund.	The Board chair is invited to attend Committee meetings and Committee training. The Chair also attends planning meeting organised by Fund officers.
	The chairs of the pension board and pension committee should consider attending each other's meetings to observe as this leads to better transparency.	This is done on a regular basis.
	Pension board members should be fully engaged and challenge parties where appropriate.	Officers believe that the Fund's LPB is both active & experienced, enabling this requirement to be fulfilled
Employers & Contributions		
tPR findings	tPR recommendations	Pension Fund comment
Scheme managers monitoring the payment of contributions often face the challenge of payroll providers making a single payment for several employers and delaying sending a breakdown of the amount paid. Some scheme managers have been working with participating employers to encourage them to provide training to payroll providers where the payroll company won't engage with a body it doesn't have a direct contractual relationship with.	Scheme managers should understand the financial position of participating employers and take a risk-based and proportionate approach to identifying employers most at risk of failing to pay contributions. Red, Amber, Green reporting often provides extra focus.	The Accounts team update the Governance officer monthly, who in turn completes the Fund's tPR breach report. Where an employer repeatedly fails to pay contributions the Fund's escalation policy is implemented.
	Employer solvency should be considered on an ongoing basis and not just at the time of each valuation.	An annual programme of employer solvency & covenant reviews should be formally implemented by officers.
Scheme managers have a variety of ways of assessing the risk of employers failing to pay contributions or having a disorderly exit from the fund, depending on the fund's resources. Better resourced and funded scheme managers will carry out detailed covenant assessments of all participating employers, with other scheme managers only reviewing those they believe to pose	Where employers outsource the payroll function, early engagement with the employer on the potential risks will help them manage their supplier.	The number of Sponsoring Employers to the Fund has increased significantly in recent years. The Fund should consider the level of resource devoted to the management of its employers
	Employers may exit the fund so it is helpful to have a principle based policy on how to manage this given that circumstances are likely to vary in individual situations.	The Fund has an up to date Employer cessation policy and the mechanism for individual employer's to exit the Fund is set out in documents like their Admission Agreements
Most scheme managers seek security from employers to mitigate the risk of a failure to pay contributions. Some scheme managers rely on guarantees, particularly in relation to participating	Scheme managers should develop an understanding of the risk and benefits of a range of security types, such as charges, bonds and guarantees.	The Fund already does this as part of its cessation policy and approach to setting up new employers.

employers providing outsourced services. Others expect the majority of employers to set up a bond. Only a few scheme managers accepted a wide range of security types, generally those with larger funds.	Scheme managers should consider whether accepting a range of security types will offer more effective protection to the fund, rather than focussing on a single form of security.	Following the 2019 valuation it is intended that an employer covenant review will take place. Consideration of security types should form part of that review.
Decisions around what security to require are often based on previous ways of operating, rather than considering the best option in individual circumstances.	Scheme managers should understand which employers have not provided any security for unpaid contributions and consider what appropriate steps can be taken to secure fund assets.	Admitted body are covered by a Scheme Employer guarantee while we monitor contribution payments for all other employers. Ultimately, if an employee fails to pay contributions then their funding position suffers and there isn't a direct risk to the rest of the Fund.
	Where security is in place, Scheme Managers should have a policy on when the security should be triggered	Please refer to the Employer cessation policy

Cyber Security

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Most scheme managers are heavily reliant on the security systems put in place by the Local Authority, with some not engaging with how the procedures in place affect the fund. Scheme managers of well run funds have a good understanding of the IT systems in place, even where these are implemented by the Local Authority.	Scheme managers and pension boards should understand the risk posed to data and assets held by the fund so steps can be taken to mitigate the risks. This should be reflected in the risk register.	Cyber risk is recorded in the risk register (PEN018). Annual reports will be requested from the Fund's key IT providers Wiltshire Council & Heywood's covering their cyber security arrangements
	Regular, independent, penetration testing should be carried out. Scheme managers should consider physical security as well as protection against remote attacks.	Officers will attend a cyber security seminar in January 2020 to understand this requirement. As required, Wiltshire Council will use the services of GCHQ to assist in managing this function.
Some scheme managers have not given consideration to the risks posed by cyber crime. For these funds, cyber security did not appear on the risk register before our engagement with the scheme manager.	Where cyber security is maintained by the Local Authority rather than the scheme manager, the scheme manager should understand the procedure and ensure the fund's requirements are met.	It is intended to request an annual report from 2020 & where required invite a member of Wiltshire Council's IT team to a Board meeting to fully explain the Council's procedures.
Scheme managers that are aware of the risks associated with cyber crime generally have robust procedures in place to test the effectiveness of both cyber security and resilience methods.	Scheme managers should be aware of the cyber security processes used by third party providers, such as the administrator or custodian, that handle fund assets or data.	It is intended to request an annual report from 2020 & where required invite a member of Heywood's IT team to a Board meeting to fully explain Heywood's procedures.

Internal fraud and false claims

tPR findings	tPR recommendations	Pension Fund comment
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<p>Scheme managers generally appear to have an awareness of the risks of fraud against their fund, both from an internal and external source. We found scheme managers are generally aware of publicised fraudulent activity that have affected other pension schemes and have taken steps to review their own procedures.</p>	<p>Scheme managers should regularly review their procedures to protect the fund's assets from potential fraud.</p>	<p>Procedures are reviewed annually as part of SWAP Key Controls audit. Fund Officers intend to implement additional reviews whereby Managers will periodically audit staff against operating procedures.</p>
	<p>A clearly auditable process should be in place for the authorising of payments. Ideally, this would require more than one person to provide authority to make the payment.</p>	<p>A process of separate checkers and authorisers are in place within both the Admin & Accounting/ Investment areas. Authorisation levels are also specified and monitored. This check forms part of the SWAP internal audit.</p>
<p>Scheme managers of well run funds typically take steps to regularly screen member existence. Their scheme managers are also aware that not all incorrectly claimed pension benefits are the result of an attempt to defraud the fund and can identify when to treat a situation with sensitivity.</p>	<p>A scheme manager should have a policy in place to differentiate between a potential fraud and a potential honest mistake by a saver.</p>	<p>A bespoke policy for such determinations doesn't exist at the WPF. The suite of procedures currently in operation, the escalation policy and the discretion delegated to senior officers is considered sufficient to manage this rare eventuality. NFI & certificate of existence exercises are periodically undertaken to identify such situations.</p>
<p>Most scheme managers have introduced multiple levels of sign offs, with more than one person being required to agree to a payment being made. The scheme managers were also aware of frauds involving other funds, where this had been made public. They had taken steps to reduce their own vulnerability to similar issues.</p>	<p>Where a fraud is detected in the scheme manager's fund, or another one, they should take steps to stop the fraud and analyse causes to prevent a reoccurrence.</p>	<p>The occurrence of a fraud will be recorded as a TPR breach. It will be escalated to the Head of Pensions and appropriate action taken, which will include, where appropriate, communication with the Board & Committee</p>
	<p>Where paper records are being used they should be held securely to prevent the risk of loss or misappropriation.</p>	<p>Paper records are no longer used, however where the Fund holds historic paper records they are kept secure in locked cabinets and safes</p>