

CYNGOR SIR POWYS COUNTY COUNCIL

Powys Pension Board  
22<sup>nd</sup> May 2020

REPORT BY: Board Secretary

SUBJECT: TPR Review of Governance and Administration Risks in  
Public Service Pension Schemes

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REPORT FOR: Information

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1. **Summary**

Between October 2018 and July 2019, including considerations from the results of the annual governance and administration survey, the Pensions Regulator (TPR) identified that improvements being made across the Local Government Pension Scheme (LGPS) were not progressing at the rate that was expected.

As a result, they engaged with a cohort of 10 LGPS Funds from around the UK to better understand scheme managers' approaches to a number of key risks. As part of each engagement, feedback was provided on good practice and suggestions made on improvements that could be made.

The report is available for reading [here](#).

2. **Key findings from the report**

2.1 The report identified a number of common areas where improvements could be made. These are summarised as follows:

- **Key person risk:** While most scheme managers demonstrated a good knowledge of what was expected, many funds have a lack of comprehensive documented policies and procedures.
- **Pension boards:** Engagement levels varied, with concerns being raised about the frequency some pension boards meet and their appetite to build their knowledge and understanding.
- **Fraud / scams**
- **Employers:** TPR found variance in the approaches taken to dealing with the risks surrounding employers, such as receiving contributions and employer insolvency.

- 2.2 The report provided additional detail from their findings and also made some recommendations. These are as follows:

### **Record keeping**

- Data quality needs regular review. A robust data improvement plan should be implemented as appropriate.
- Data Quality 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.
- Although not a legal requirement, an Administration Strategy 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.

### **Internal Controls**

- A risk register should be in place and regularly reviewed
- The scheme manager should take a holistic view to risks and understand how they are connected.
- The pension board should have good oversight of the risks and review these at each pension board meeting.
- Internal controls and processes should be recorded, avoiding an over reliance on a single person's knowledge levels.
- The scheme manager should ensure all processes are documented and reviewed on a regular basis.
- Decision and action logs covering all decisions provide a useful reference point as decisions recorded in minutes can be hard to locate.

### **Administrators**

- Scheme managers must agree targets and have a strong understanding of what service providers are expected to achieve.
- Contract lengths should be known and planned against to allow sufficient time to consider contract extensions or for the tender process, as appropriate.
- 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.
- Scheme managers should hold regular meetings with their service providers to monitor performance.

### **Member Communications**

The law requires scheme managers to disclose information about benefits and scheme administration to scheme members and others. This allows savers to understand their entitlements and make informed financial decisions.

- Information sent to members should be clear, precise and free from jargon.
- There should be senior oversight of communications sent to members and prospective members.
- It is often helpful for scheme managers to measure the effectiveness of their communication with savers, eg measuring website traffic and running surveys.

### **Internal Dispute Resolution Procedure (IDRP)**

- There should be a clear internal policy on how to handle complaints, including escalation to suitable senior members of staff.
- People entitled to use the IDRP should be given clear information about how it operates.
- This information should be easily available, eg on the fund website.
- The pension board and scheme manager should have oversight of all complaints and outcomes, including those not dealt with in-house.
- Complaints and compliments could be analysed to identify changes that can be made to improve the operation of the fund.

### **Pension Boards**

The role of the pension board is to assist the scheme manager with the operation of the scheme. Pension board members are required to have an appropriate level of knowledge and understanding in order to carry out their function.

- The scheme manager should arrange training for pension board members and set clear expectations around meeting attendance.
- Individual pension board member training and training needs should be assessed and clearly recorded.
- The pension board should meet an appropriate number of times a year, at least quarterly.
- 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.
- Scheme managers should be aware of the risk of pension board member turnover and ongoing training needs.
- 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 chairs of the pension board and pension committee should consider attending each other's meetings to observe as this leads to better transparency.
- Pension board members should be fully engaged and challenge parties where appropriate.

## **Employers and Contributions**

Contributions must be paid to the scheme in accordance with scheme regulations. Scheme managers are also reliant on employers to provide accurate and timely member data, which is required for the effective administration of the scheme.

- 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.
- Employer solvency should be considered on an ongoing basis and not just at the time of each valuation.
- Employers may exit the fund so it is helpful to have a principle based policy on how to manage this.
- Scheme managers should develop an understanding of the risk and benefits of a range of security types, such as charges, bonds and guarantees.
- 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.
- 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.
- Where security is in place, Scheme Managers should have a policy on when the security should be triggered.

## **Cyber Security**

Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals. scheme managers need to take steps to protect their members and assets accordingly.

- 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.
- Regular, independent, penetration testing should be carried out.
- 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.

- 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.

### **Internal Fraud and False Controls**

Schemes without strong internal controls are at greater risk. This includes having a clear separation of responsibilities and procedures which prevent a single member of staff from having unfettered access to scheme assets. Strong internal controls, particularly over financial transactions, also help mitigate the risk of assets being misappropriated.

- Scheme managers should regularly review their procedures to protect the fund's assets from potential fraud.
- 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.
- A scheme manager should have a policy in place to differentiate between a potential fraud and a potential honest mistake by a saver.
- 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.
- When paper records are being used they should be held securely to prevent the risk of loss or mis-appropriation.

### **3. Recommendation**

Board are asked to note the contents of this report.