

MEETING

PENSION FUND COMMITTEE

DATE AND TIME

MONDAY 26TH JULY, 2021

AT 6.00 PM

VENUE

HENDON TOWN HALL

Dear Councillors,

Please find enclosed additional papers relating to the following items for the above mentioned meeting which were not available at the time of collation of the agenda.

Item No	Title of Report	Pages
18	CHAIRMAN'S URGENT ITEM	3 - 18

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Pension Fund Committee

26 July 2021

Title	Internal Audit Report – Pensions Administration Governance Transition
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Internal Audit Report
Officer Contact Details	George Bruce, Head of Pensions 0208 359 7126 george.bruce@barnet.gov.uk

Summary

Barnet's Internal Audit have undertaken a review of the management of the transition of administration services to West Yorkshire Pension Fund. Their draft report is attached.

Officers Recommendations

1. That the Pension Fund Committee note the Internal Audit report.

1. WHY THIS REPORT IS NEEDED

- 1.1 Barnet Internal Audit undertook a review of the governance of the pension administration transition to West Yorkshire Pension Fund (WYPF) during July & August 2020 and ongoing thereafter. IA's report is attached. There are five recommendations, although at a summary level this is quoted as six:

Partly Implemented

Continuing to monitor and report on the data improvement plan.

Monitoring controls around calculations that are not fully automated.

Further circulate the 'lessons learned' report for feedback from external parties involved in the transition.

Addressing the backlog of admissions, cessations and bonds (previous IA finding)

Fully Implemented

Report to Pension Fund Committee of additional administration costs incurred.

- 1.2 Further details on each of the partly implemented conclusions are given below.

Data Improvement Plan

- 1.3 The need for data improvement has been evident since the 2016 triennial valuation and increased in focus following the involvement of the Pension Regulator in 2017/18. Initially, the plan to address the backlog of data gaps agreed with the previous administrator utilised the team allocated to Barnet, although that team was supplemented by additional staff at shared cost in 2020. Progress was made in updating members records over that time, although we still had to report problems in issuing 2020 annual benefit statement and the 2019 triennial valuations (completed spring 2020) highlighted continued data gaps.
- 1.4 The data improvement plan undertaken by Capita ceased October 2020 as data was made ready for the move to WYPF. There followed a period of bedding in the transferred data and catching up with cases placed on hold during the transition. It was agreed pre-transition that WYPF would undertake a data review and produce their own data improvement plan. This is fully reported under agenda item 7 (para 1.11). In essence 50% of the gaps identified by WYPF have been corrected between March 2021 and July 2021. As noted in the administration report, those data issues impacting on annual benefit statements have a target resolution date of 31 July 2021 and the remainder by end 2021.

Success will be measured by full issuance of ABS's and by testing the data through the Actuaries portal circa Autumn 2021. WYPF will also be undertaking common and conditional data quality scores July and December 2021.

Controls for manual Calculations

- 1.5 Running an efficient administration service is enhanced by a high level of benefit calculation automation. This was one of the reasons for appointing WYPF and is supported by the activity level; In the three months to 31 May 2021 period 1,622 calculations were undertaken of which 3 contained a manual element. This equates to 99.82% fully automated. During June 2021 all calculations were fully automated. WYPF have agreed to report numbers of calculations that contain a manual element and although we consider the processes around manual calculations to be robust (workflows & templated to guide the calculations, work undertaken and checked by senior pensions officers and periodic checking of calculations by WYPF Actuary) we have agreed that the internal Barnet team will review a sample to check reasonableness.

Lessons Learned Report

While all the evidence points to the transition as being successfully concluded, IA identified aspects of the governance that could have been improved. A lesson learned report was prepared and IA have recommended that other parties involved in the transition are given an opportunity to comment on the report.

Admission, Bonds and Cessations

- 1.6 While not related to the transition, IA have commented on a previous recommendation on addressing the backlog of admissions, cessation and bonds. There is a separate paper on this issue, agenda item 9, which discussed progress.

2. REASONS FOR RECOMMENDATIONS

- 2.1 It is appropriate for the Committee to review the Internal Audit findings and managements planned actions.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 None

4. POST DECISION IMPLEMENTATION

- 4.1 The actions discussed in the paper are ongoing and progress will be reported at each Committee meeting and in respect of the data plan also to the Local Pension Board.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 A positive Internal Audit report on the Pension Fund's activities plays a key role in providing assurance that the Pension Fund's financial risks are managed in an environment of sound stewardship and control.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 5.2.1 N/A.

5.3 Social Value

- 5.3.1 Contributing to the Pension Fund ensures that contributing members have a secured income on retirement.

5.4 Legal and Constitutional References

- 5.4.1 The Constitution states that the Committee has responsibility for all aspects of the governance, investment and administration of the LB Barnet Pension fund. The matters discussed in the report are considered relevant to the reports they receive on investment activity, participating employers, financial management and budgetary control.

5.5 Risk Management

- 5.5.1 The audit report attached highlights areas of good control and areas of weakness which need to be addressed. Failure to do so carries the risk of adverse financial and/or reputational consequences.

5.6 Equalities and Diversity

- 5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty

5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not required.

5.8 **Insight**

5.8.1 N/A.

6. **BACKGROUND PAPERS**

None.

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Internal Audit Report

Pensions Administration Governance Transition – Follow-up July 2021

To: Anisa Darr – Executive Director of Resources
George Bruce - Head of Finance – Pensions

Copied to: Mark Fox – Pensions Manager
Nigel Keogh – Strategic Pensions Consultant
Gavin Roberts - Pensions Administration Manager

From: Caroline Glitre, Head of Internal Audit

We would like to thank management and staff of Barnet Council for their time and co-operation during the internal audit follow-up.

1. Executive Summary

Overall implementation level	Action status			
	Superseded or closed	Not implemented	Partially implemented	Fully implemented
Partially Implemented	0/0	0/6	5/6	1/6
Scope				
<p>This follow-up review was undertaken as part of the 2020/21 Internal Audit and Anti-Fraud Strategy, which has been approved by the Council's Audit Committee on 14 July 2020.</p> <p>An internal audit review was undertaken in July and August 2020 to provide assurance over the governance of the pensions administration transition project from Capita to West Yorkshire Pension Fund (WYPF) before go-live on the 1 November 2020. The draft report was issued in September and management comments were provided in October. Due to the delays finalising the report, as a result of being unable to reach agreement on the findings raised, we included management comments in response to our findings. As the pensions' administration transitioned to WYPF as of 1 November 2020 and some of the findings of the review were superseded by events, the management action plans aimed to build a way forward to address the concerns raised in the report and known ongoing data improvement issues inherited by WYPF.</p> <p>The audit identified four high risk, four medium risk and two low risk findings, which required a total of five agreed actions to be taken forward.</p> <p>As part of this follow up review, we have also followed up one partially implemented management action arising from a high risk finding in respect to admissions, cessations and bond agreements from the July 2019 "Pension Fund Finance and Investment" review.</p> <p>This Follow up review was completed in April and May 2021 to follow up six management actions in total. After the completion of this review, five actions had not been fully implemented.</p>				
Summary of findings				
<p>We identified that five of the six actions were partially implemented and one action has been fully implemented.</p> <p>One (17%) agreed action has been fully implemented:</p> <ul style="list-style-type: none"> See reference 5. Transition and remediation costs report was provided to the Pension Fund Committee at the February 2021 meeting (Medium risk finding). <p>Five (83%) agreed actions have been partially implemented:</p> <ul style="list-style-type: none"> See reference 1, 2 & 4 (Consists of two management actions). As a number of the data issues affect a number of top priorities for the Scheme including the annual benefit statements, pension savings statements and incorrect calculations, there is still a significant amount of work required before critical data issues will be resolved. As WYPF and Barnet are in the early stages of resolving the data issues this action has been deemed partially implemented. (Three high risk findings). 				

- See **reference 6-10 (this is one management action)**. Note the lessons learnt has been pulled together by the Strategic Pensions Consultant in isolation of the Project team. Furthermore, the lessons learnt have not been shared with the Project team. (Three medium and two low risk findings).
- See **reference 2a**. 3/13 or 23% admission agreements and 1/10 or 10% bonds and bond renewals are still outstanding. (One high risk finding).
- See **reference 3**. Automation target has been set at 98% and WYPF has achieved this. Plans for ongoing monitoring of benefit calculation automation and reporting to the Local Pension Board are still to be embedded into the governance process. (High risk finding).

2. Findings and Action Plan

No.	Action agreed	Audit procedure	Outcome	Status	Further action required
<p>Finding 1 No data improvement plan has been agreed with WYPF to address the backlog of cases post transition (High risk)</p> <p>Finding 2 No data improvement plan has been agreed with WYPF to improve the quality and completeness of member data post transition (High risk)</p> <p>Finding 4 The project and subsequent project reporting do not consider necessary improvements required to the pension administration provision and key interdependencies (High risk)</p>					
1, 2 & 4	<p>Finding 1: Discussions with WYPF have commenced as planned post transfer to identify key priorities, including data gaps and resolving backlog cases. It is anticipated that a plan will be agreed during quarter 1.</p> <p>Timescale to complete will be determined by the contents of the action plan.</p> <p>Finding 2:</p>	<p>We will:</p> <p>a) Obtain the plan agreed between LBB and WYPF to identify key priorities, including a data improvement plan and a plan for resolving the backlog of cases.</p> <p>b) Review the data improvement plan and plan for resolving the backlog of cases to ensure that actions and owners are assigned and timescales to complete are reasonable.</p> <p>c) Where applicable, we</p>	<p>WYPF have prepared a data improvement project plan which was shared with Barnet at the end of March 2021.</p> <p>We inspected the data project tasklist and noted that it sets out at a high level the data tasks that need to be completed, the resulting impact if not actioned, the action owner and the deadline. The number of affected entries is not detailed on the tasklist.</p> <p>The deadlines run from 25 March to 31 July 2021. As at 19 April 2021 only one of the three tasks due has been completed. A further update has been provided at May 2021 and four of the seven tasks due had been completed. Barnet has agreed the prioritisation of data tasks with WYPF.</p> <p>In addition to the data improvement plan, WYPF are providing a data quality update report which highlights the starting position of the number of technical data fields missing and the position as at 31 May 2021.</p> <p>WYPF provide updates on a fortnightly basis. It is not clear from the data quality progress reports how the summary of current issues interacts with the data project tasklist. The link between the data project tasklist and progress reporting needs to be clear.</p> <p>The Pensions Manager confirmed that going forwards the admin calls with WYPF would include a standing agenda item re the data improvement plan.</p> <p>WYPF have also committed to providing an updated common and conditional quality check and provide the data scores in July 2021.</p>	<p>Partially Implemented</p>	<p>a) LBB Pensions team need to continue to monitor WYPF progress against delivering the data improvement project plan that provides clear numerical progress reporting against each task (including the starting and current position) and agreed deadlines. The link between the data project tasklist and progress reporting needs to be clear.</p> <p>b) Progress against the data improvement plan to be included as a standing agenda item on the pensions admin calls between LBB and WYPF. Reports provided to LBB should be used as the basis for monitoring WYPF progress with resolving the data remediation plan and other Scheme priorities for example issuing annual benefit statements.</p> <p>c) Reporting to the Pension Fund Committee on 26 July 2021 will provide key numerical data to demonstrate WYPF progress made against the remediation plan and other priorities for the Scheme.</p>

No.	Action agreed	Audit procedure	Outcome	Status	Further action required
	<p>As discussed above, a data improvement plan will be agreed with WYPF that will have specific data improvement measures and timelines, which will be monitored and tracked. Progress against the agreed data improvement plan will be reported to the Pension Fund Committee.</p> <p>Finding 4: For data remediation and reporting, see action plans against findings 1 and 2.</p>	<p>will request a sample of supporting evidence to validate that the data improvement plan and plan for resolving the backlog of cases are being monitored and resolved.</p>	<p>WYPF has also been working through the backlog of cases (3,454) inherited from Capita. As at 9 June 2021 this number has reduced to 1,493.</p> <p>WYPF progress against the data remediation plan, outstanding items inherited from Capita and missing member data has been reported to the Pension Fund Committee on the 4 May 2021. No numerical data has been provided to the Committee in respect to the progress against the remediation plan including the circa 1500 members missing leaver forms.</p> <p>As a number of the data issues affect a number of top priorities for the Scheme including the annual benefit statements, pension savings statements and incorrect calculations, there is still a significant amount of work required before critical data issues will be resolved. As WYPF and Barnet are in the early stages of resolving the data issues this action has been deemed partially implemented.</p>		<p>Responsible Officer: Mark Fox, Pensions Manager</p> <p>Target Date: 31 July 2021, with the exception being the “Outstanding leavers” which has a rolling target date but with the aim of completing by 31 December 2021. (It is dependent on information being provided by many employers).</p>

No.	Action agreed	Audit procedure	Outcome	Status	Further action required
Finding 3 No benefit calculation automation schedule in place (High risk)					
3	Finding 3: Benefit process will be routinely discussed with WYPF.	We will: a) Obtain evidence of formalised minutes to demonstrate that the benefit process, including benefit calculation automation, has been discussed with WYPF.	<p>A process document has been provided by WYPF that sets out the process for testing automated calculations set up in the system.</p> <p>The Pensions Manager has requested that the benefit calculation automation is added as a standing agenda item moving forwards at the WYPF Management Review meeting which is held every two months.</p> <p>WYPF has provided reporting that demonstrates for the period 1 March 2021 to 31 May 2021 that a 99.82% automated benefit calculation rate has been achieved. The agreed target is 98% and so WYPF has exceeded the target set.</p> <p>There are a small number of cases that will be non-automated and WYPF has provided detail of the controls in place in respect to manual calculations.</p> <p>WYPF have agreed to log any non-automated cases and to include these as part of their monthly report update. Reports to the Local Pension Board will include the level of automated benefit calculations.</p>	Partially Implemented	<p>a) Reporting to be provided to the Local Pension Board that outlines the current level of benefit calculation automation achieved for the Scheme. The first update will be provided to the Local Pensions Board on 12 October 2021.</p> <p>b) Ongoing monitoring of non-automated benefit calculation cases to be included as a standing agenda on the WYPF Management Review meeting commencing from 27 July 2021.</p> <p>c) The Council to agree with WYPF how assurance (controls report or WYPF internal audit activity) can be obtained to provide comfort that the controls in respect to the manual calculations and controls more broadly are operating effectively.</p> <p>Responsible Officer: Mark Fox, Pensions Manager</p> <p>Target Date: Ongoing</p>

No.	Action agreed	Audit procedure	Outcome	Status	Further action required
Finding 5 Capita remediation plan to address the backlog of cases does not provide clear data on progress made (Medium Risk)					
5	<p>Finding 5:</p> <p>As requested at the October Pension Fund Committee meeting, a report will be submitted detailing the financial arrangements relating to the termination of the Capita contract for pension administration. The report will include reference to costs incurred by the pension fund due to poor performance by the administrator.</p>	<p>We will:</p> <p>a) Obtain the report detailing the financial arrangements relating to the termination of the Capita contract for pension administration.</p> <p>b) We will review the report and confirm that it includes reference to costs incurred by the pension fund due to poor performance by the administrator.</p>	<p>Transition and remediation costs report provided to the Pension Fund Committee at the Feb 2021 meeting.</p> <p>The report includes the following key items;</p> <ul style="list-style-type: none"> • The costs relating to addressing the data gaps. WYPF are not charging any additional costs for addressing inherited data issues. Costs, c£28k in respect to the Capita remediation plan pre-transition are to be shared between Capita and LBB. Capita did not charge any additional costs for supporting the transition. • Capita failures to issue pension savings statements and any associated compensation to members are recoverable by the pension scheme. <p>No further action required from the Pension Fund Committee therefore action closed.</p>	Fully Implemented	N/a

No.	Action agreed	Audit procedure	Outcome	Status	Further action required
<p>Finding 6 Project risk register is not routinely reviewed and updated (Medium risk)</p> <p>Finding 7 Workstream task list is not sufficiently detailed (Medium risk)</p> <p>Finding 8 Instances of non-attendance at Project Board meetings by core Project Board members (Medium risk)</p> <p>Finding 9 s101 agreement with WYPF is not in place (Low risk)</p> <p>Finding 10 No collaboration tool in place for project document sharing and/or editing (Low risk)</p>					
<p>6 to 10</p>	<p>Finding 6: The finding will be considered as part of the formal project debrief and captured in the lessons learnt.</p> <p>Finding 7: See post transition report in the action plan for finding 6.</p> <p>To address the data gaps, see action plans for findings 1 and 2.</p> <p>Finding 8: See formal project debrief and lessons learnt action</p>	<p>We will:</p> <p>a) Obtain the lessons learnt document and evidence that this has been included within it.</p> <p>b) Obtain the agenda and formalised minutes from the lessons learnt process to ensure that relevant parties were consulted, and appropriate lessons were captured within the document.</p> <p>c) Validate that the results of the lessons</p>	<p>Post Implementation Report: Pensions Administration Transition Project including lessons learnt has been provided to the Pension Fund Committee dated 24 February 2021.</p> <p>Note the lessons learnt has been pulled together by the Strategic Pensions Consultant in isolation of the Project team. Furthermore, the lessons learnt has not been shared with the Project team. Finding 9 re delays in signing the s101 agreement with WYPF has not been included in the lessons learnt as agreed in the management action plan.</p> <p>The objective of a documented lessons learned is to provide future project teams with information that can increase effectiveness and efficiency and to build on the experience that has been learned by each completed project.</p>	<p>Partially Implemented</p>	<p>The documented lessons learnt should be shared with the wider Project Team with the opportunity for the Project team to add any further items as appropriate.</p> <p>Responsible Officer: Mark Fox, Pensions Manager</p> <p>Target Date: 31 August 2021</p>

No.	Action agreed	Audit procedure	Outcome	Status	Further action required
	<p>plan in finding 6.</p> <p>Finding 9: See formal project debrief and lessons learnt action plan in finding 6.</p> <p>Finding 10: This will be considered as part of the formal project debrief and lessons learnt action plan in finding 6 – and the use of</p> <p>Teams will be considered for future projects.</p>	<p>learnt exercise has been shared and discussed with Senior Management, including Director of Finance.</p>			
2a Admission agreements, bonds and cessation agreements (High Risk) - May 2020 “Pensions follow up review”					
2a	<p>We will promptly complete admission agreements, cessation agreements and renewals of admission bonds for all employers identified in</p>	<p>We will:</p> <p>a) Obtain, for each employer identified in the report to the Pension Fund Committee on 30 May 2019, the relevant</p>	<p>The list of outstanding admission, cessation agreements and bonds and bond renewals from the 30 May 2019 minutes was reviewed against the latest corresponding listings maintained by the Pensions Manager. From our review we noted the following:</p> <ul style="list-style-type: none"> • 3/13 or 23% admission agreements still outstanding • No cessation agreements outstanding • Bonds and bond renewals 1/10 or 10% still outstanding. 	Partially implemented	<p>a) Management to continue monitoring and chasing outstanding admission, cessation and bonds and bond renewals agreements.</p> <p>b) Management to ensure that trackers clearly show the audit trail of action taken to resolve and the date.</p>

No.	Action agreed	Audit procedure	Outcome	Status	Further action required
	the report to the Pension Fund Committee on 30 May 2019 to minimise risk to the Fund.	agreement to confirm the agreement has been completed.	From review of the listings it was not always clear from the update commentary the date the last action has been taken.		Responsible Officer: Mark Fox, Pensions Manager Target Date: 31 December 2021