

Teachers' Pension Scheme Pension Board - Finance, Risk and Audit Report.

The purpose of this document is to advise the Managing Risk and Internal Controls Sub-Committee and the Board of recent key events relating to the financial management, risk and auditing of the scheme so as to assist it in its assurance role - in particular in the areas of risk management / arrangements for maintaining control over the business and collecting contributions to the scheme. The report also aims to assist the Board in its strategic role by providing information on specific actions and projects that aim to ensure the administration continues to improve and best serve all stakeholders' needs.

Through this Sub-Committee the Teachers' Pension Scheme Pension Board can gain insight and hence assurance over the financial administration of the scheme with a focus on how wider strategic risks are managed. Particular focus is given on:

- how we ensure finances are properly accounted for in the annual accounts;
- how we oversee budgets/spending, including the OBR estimating process;
- how we monitor contributions collection;
- how we monitor debt management
- the risk management process, including how we set the audit plan and monitor actions/follow up; and
- any specific projects.

Finance

Cash Income and Expenditure (net cash requirement)



1. The year end position finished within tolerance for both income and expenditure at 0.15% - £9.3million (m) more received - and 0.11% - £10m more spent - respectively. As a result the scheme remained within its net cash requirement.
2. April showed income was £15.4million (m) below estimate, a variance of 2.9%. £518m was received during the month compared to the forecasted £533.4m.
3. Monthly expenditure reported a variance of 4.4% (£34.3m) with £745.8m paid out against the forecast £780.1m. This was effected, as in March, by the change in accounting treatment of month-end payrolls funded for in advance.

TPS Forecasting Exercises



4. TP will adjust the forecasts at the next Autumn OBR exercise to account for the change in accounting treatment of month-end payrolls which are currently effecting the position. TP and DfE have met over the past quarter to review the OBR tracker and identify further areas of data interest which may be of use in future forecasts.

Resource Accounts (net expenditure out-turn) Position	
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5. The final NAO (Deloitte) audit visit will commence the week of 22 May. In the meantime both project and steering group meetings have been held monthly to review actions and risk registers in advance of this. The draft of the annual report and accounts has also been finalised for providing to Deloitte upon their arrival.
6. As per the net cash requirement position the net resource position also finished comfortably within tolerance at the year-end.

Contributions	
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7. **Unallocated Contributions** – Scheme contributions are paid by default to a suspense account, and allocated to the appropriate account once a ‘paying in’ slip has been received from the corresponding employer. Late receipt of this supporting data can lead to delays in allocating contributions. There is a structured approach to pursuing this outstanding data.
 - The year-end reported an all time low final position of £45m. Following April’s activity, and in line with historical trends post the year-end, this had risen to £68m. This consists of £8.7m from 2015-16, £40.4m from 2016-17 and the remaining £18.8m from April.
 - The breakdown by sector shows the majority is attributable to the following areas - £25.7m to Local Authorities and £25.2m to Academies.
8. **End of Year Certificates (EOYC)** – A further ten returns were secured during April to leave 31 outstanding EOYC’s, all from non-LA establishments. The 31 consist of 18 Academies, 9 Independents, 1 FE, 1 Function Provider, 1 HE and 1 MAT.
9. **Pensions Regulator Reporting** –
 - No employers were reported for failing to pay contributions for a period of 90 days or more (or failing to adhere to a previously agreed payment plan to recover arrears due) during April. However two establishments have been warned of impending reporting should they fail to bring their contributions payments up to date.
 - All 31 employers with an outstanding EOYC for 2015-16, per section 8 above, have been reported following conclusion of the escalated reminder process and consideration of historic performance.

Debt	
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10. **Member Overpayments** – The outstanding balance dropped during April to £13.3m having threatened to reach £14m as a result of, amongst other factors, the remarriage declaration exercise. The effects of that exercise now seem to have peaked, and it is anticipated that debt in this area will return to ‘business as usual’

levels, with the average level of debt per case falling significantly reflecting that 'current' cases are being dealt with as opposed to historical ones being uncovered.

11. **Arrears of Contributions** – The outstanding balance of member and employer arrears debt was £3.37m at the end of April. The last few months having seen encouraging reductions since the position hovered around £4m.

Contractor & DfE Costs	
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12. The administrative levy (0.08% of employer contributions) has been in place from September 2015. For the period of this report April 2017 (one month), the amount collected from the levy totalled £1.4m.

13. The figures below represent the spend to date in the current financial year (one month).

	YTD Profile	YTD actual	Variance	Narrative
Capita	£ [REDACTED]	£ [REDACTED]	-£ [REDACTED]	Capita Contract Spend. Contract charges less than profiled. Also some invoices not showing as being paid on system.
TPSPB	£ [REDACTED]	£ [REDACTED]	-£ [REDACTED]	Fees, travel and expenses. Fees for Board Chair not showing as being paid on system.
GAD	£ [REDACTED]	£ [REDACTED]	-£ [REDACTED]	Invoice for April not received until May.
OH Assist	£ [REDACTED]	£ [REDACTED]	-£ [REDACTED]	Medical services contract. April's invoice not received until May.
DfE	£ [REDACTED]	£ [REDACTED]	-£ [REDACTED]	Pensions Team and Finance.
Total	£ [REDACTED]	£ [REDACTED]	£ [REDACTED]	

Risk Update

1. The risk management process remains robust, with regular monthly meetings held between key members of DfE and TP's teams to review the current status of active risks and discuss potential emerging risks. TP can supplement this process by calling upon wider Capita Group expertise where required. TP's Senior Finance Manager is currently chairing committee meetings until a new Governance manager is appointed.
2. The Strategic Risk Register is provided to the Pension Board Sub-Committee. Below are the current key risks from an operational perspective for reference.

Key Risk Updates**Monthly Data Collection (MDC)**

3. There is a risk the drive to convert all employers to MDC submissions by April 2018 might not be able to be supported by TP Operational teams if the profile of the conversions is unknown. The profile of conversions is unlikely to be consistent and 'spikes' of activity might be difficult to absorb. This risk is exacerbated by the increase in academy conversions as all new academies are required to convert to MDC as part of the conversion process.
4. The Net Risk is currently GREEN; following good progress with a number of activities to gather and analyse key statistics. This informs the profile volume and provides a more accurate forecast of the pipeline of activity. Further work has also been undertaken to communicate with those establishments yet to commit to MDC in order to establish onboarding dates.
5. The dedicated MDC operational and project teams continue to work closely with employers. The April cohort was successfully managed with those not onboarding as expected contacted to establish when they would be doing so. This has allowed TP to report on the current status of all and effectively manage the knock on effect to future months. Additionally, TP continues to work closely with payroll and software suppliers to ensure awareness of software releases to enable employers to comply ahead of the December onboarding deadline (and allow for three months of test files prior to a April 2018 go-live).

Guaranteed Minimum Pension Records

6. Good progress continues to be made from a TP perspective on the GMP reconciliation, however, the net risk for the project has been increased to RED. This is as a result of the delays being experienced receiving responses to queries from Her Majesty's Revenue and Customs and the uncertainty as to when the outcome of policy decisions will be known due to the General Election. The Department has written to Her Majesty's Treasury outlining concerns here and seeking reassurance on how these issues are being dealt with.
7. Progress continues to be reported to the GMP project Board on a monthly basis.

I.T. Systems

8. Following the data centre incident in May TP have undertaken a refresh of all the IT related risks. Once the full incident report has been prepared TP will conduct a full review of all IT risks. As a matter of course the disaster recovery plan will be reviewed to incorporate any learning from the recent incident. An update full report will be presented at the meeting.
9. Following the recent cyber attack which impacted organisations on a global basis TP have reviewed the control framework for cyber security. TP was not impacted by the the attack and considers it's control framework to be sound. Further work was undertaken to establish if any security patching update was required. Some limited patching was required and was undertaken. The assessment of the net risk remains GREEN.

Overview of all Risks

10. There are currently 25 **Strategic Risks** under management (up from 18 at the last reporting period). Only one of which carries a 'RED' net risk rating and relates to the accreditation of the core secure environment. A security working group meeting is arranged for 5 June to discuss. The remaining 24 feature 6 with AMBER net risk scores whilst the rest are GREEN, plus one new risk for which the risk score is to be determined at the next meeting. All have a number of existing controls in place and continue to be actively monitored and mitigated.
11. In addition there are a further 24 **Service Delivery Risks** under management (from 19 last period). One risk in respect of academy conversions carries a RED net risk score at present as TP look to formalise which employer administrative models are to be accepted moving forward ahead of MDC phase 2 project implementation. The rest are at GREEN (18) or AMBER (5).

Group Internal Audit (GIA) Update

The main focus of activity during the month has been the progression of Q1/Q2 assignments from the 2017 Assurance plan. Fieldwork is in progress for the GIA reviews of Change Management and Customer Communications (Events). Fieldwork is complete following the Business Assurance review of SLA Reporting and the 'Draft' report is currently being produced. The TOR for the review of Second Bite PI Remediation has been issued with fieldwork to commence during May. The Plan remains on track.

The Capita Employee Benefits AAF01/06 and ISAE3402 report conducted by KPMG was published on 13 April. There were no control exceptions identified that impact on the administration of the TPS.

There are no open or overdue actions to report.

Outstanding Issues

Overdue 1-30 days: Green; 31-60 days: Amber; 60 days plus: Red																	
Source	Total Open				0 to 30 days				31 to 60 days				60 days +				Trend
	C	H	M	L	C	H	M	L	C	H	M	L	C	H	M	L	
TPS Operations	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	↔

There are no overdue issues to report.

Progress against Audit Plan for 2015/16

Audit Title	Q1	Q2	Q3	Q4	Current Status ¹	Target Final Draft ToR*	Actual Final Draft ToR*	Final ToR	Target Final Draft Report*	Actual Final Draft Report*	Final Report	E/IR/SIR/I ²	C	H	M	L
CIBS Service Level and Management Reporting	✓				Final Report Issued	Feb 2016	Feb 2016	01/03/16	Apr 2016	19/05/16	27/05/16	E	-	-	-	-
CIBS Quality Management	✓				Final Report Issued	Feb 2016	Feb 2016	24/02/16	May 2016	29/06/16	04/07/16	E	-	-	1	-
CIBS Pension Administration – TPS Scheme Accounting	✓				Final Report Issued	Feb 2016	Feb 2016	15/02/16	Apr 2016	27/04/16	06/05/16	IR	-	-	4	1
CIBS Financial Crime			✓		Fieldwork	Jul 2016	01/07/16	07/07/16	Sep 2016							
CIBS Data Integrity – Member Records***					Dropped	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-	-	-	-
CIBS TPS Internal Fraud Follow Up Controls Evaluation		✓			Draft Report	Mar 2016	Apr 2016	15/04/16	Jun 2016	05/09/16*	Oct 2016	E	-	-	2	2
CIBS Regulatory Compliance – Legal		✓			Final Report Issued	Jun 2016	Mar 2016	31/03/16	May 2016	20/05/16	27/05/16	E	-	-	-	-
CIBS IT Application Management (including TPS) Hartlink Change)			✓		Fieldwork	Jul 2016	Aug 2016	07/09/16	Sep 2016							
CIBS Business Continuity / Disaster Recovery				✓	Fieldwork	Sep 2016	29/07/16	05/08/16	Sep 2016							
Annual Assurance Statement (2015 / 2016)	✓				Final	Apr 2016	N/A	N/A	N/A	N.A	N/A	N/A	-	-	-	-

KEY: ¹Report Rating: E=Effective; IR=Improvement Required; SIR=Significant Improvement Required; I=Ineffective

***Scope of Divisional review amended and coverage 'Dropped' from TPS Plan; will be captured for consideration as part of 2017 Planning cycle (discussed at June KiT Meeting)