

## 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 July year to date position reported income at £16.8million (m) down against the forecast of £2,111m with £2,094m received. This represents a variance of 0.8%. Expenditure saw a variance of 1.91% at this stage, £58.6m less than forecast with £3,009m paid out compared to the £3,068m forecasted.
2. July in isolation showed income was £11.9million (m) below estimate, a variance of 2.2%. £521m was received during the month compared to the forecasted £533m.
3. The month's expenditure reported a variance of 6.1% (£45.9m) with £713m paid out against the forecast £759m. This was effected again, as previously reported, by the change in accounting treatment of month-end payrolls funded for in advance.

#### TPS Forecasting Exercises



4. TP are on track to deliver the 7 year Autumn Office of Budgetary Responsibility (AOBR) forecast by the deadline of 18 September. All relevant income and expenditure account options have been produced and recommendations discussed in detail with the DfE via challenge meetings. As a result all accounts have been signed off in principal. Work is now underway to produce the accompanying narrative document.

<b>Resource Accounts (net expenditure out-turn) Position</b>	
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5. The TPS Annual Report and Accounts for 2016-17 were successfully laid before Parliament in July. The NAO Audit completion report (including management letter) recommended an unqualified audit opinion, without modification. There were no current year findings of significance and all prior year recommendations have now been closed, barring two where the risk is accepted by management.
6. The current 2017-18 net cash requirement and net resource positions give no cause for concern at this stage of the financial year.

<b>Contributions</b>	
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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 position at the end of July was £87m and reflected a static position throughout the quarter as both May and June reported £85m. The balance consists of £8.7m from 2015-16, £30.7m from 2016-17 (previously reported at £40.4m) and the remaining £47.7m from 2017-18.
  - The breakdown by sector shows the majority is attributable to the following areas - £38.4m to Local Authorities (up from £25.7m last quarter) and £26.6m to Academies (up from £25.2m). It is expected the balance can be reduced over the coming months following the school holidays.
8. **End of Year Certificates (EOYC)** – The number of outstanding 2015-16 returns has been reduced from 31 at April to 18 at the end of July. The 18 consist of 7 Academies, 9 Independents, 1 HE and 1 MAT.
9. **Pensions Regulator Reporting** –
  - One employer was 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) in July. This was Winston Way Primary School (Academy). They were also reported in May and June along with EBN Free School who have now paid all outstanding contributions.
  - All employers with an outstanding EOYC for 2015-16, per section 8 above, continue to be reported. The Regulator has requested details of all TP correspondence to date to review with a view to writing to the employers as per last year’s successful exercise.

<b>Debt</b>	
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10. **Member Overpayments** – The outstanding balance at July was £12.9m which

represents a reduction of circa £400k since April. As expected new debts arising have steadily returned to 'business as usual' levels following the conclusion of the remarriage declaration exercise. Across the quarter 1,733 invoices were raised totalling £2.242m with an average cost per case of £1,293.

11. **Arrears of Contributions** – The outstanding balance of member and employer arrears debt was £3.8m at July compared to £3.4m at April. Over the quarter 196 invoices were raised worth £1.5m with an average cost per case of £7.7k. Regulator reporting is being considered for employers with multiple invoices outstanding.

<b>Contractor &amp; DfE Costs</b>	
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12. The administrative levy (0.08% of employer contributions) has been in place from September 2015 and to end of September 2016 had collected £20.6m (13 months). For the period of this report April 2016 to September 2016 the amount collected from the levy totalled £9.4m.

13. The figures below represent the spend to date in the current financial year (6 months).

	YTD Profile	YTD actual	Variance	Narrative
Capita	£ [REDACTED]	£ [REDACTED]	-£ [REDACTED]	Capita Contract Spend. A number of invoices for September, are not showing as paid on RM. Once these are included the variance will be lower.
TPSPB	£ [REDACTED]	£ [REDACTED]	-£ [REDACTED]	Fees, travel and expenses. Quarterly invoicing from Capital Cranfield iro Pension Specialist received in October for period July-Sept 2016.
GAD	£ [REDACTED]	£ [REDACTED]	-£ [REDACTED]	Invoice for September received in October.
OH Assist	£ [REDACTED]	£ [REDACTED]	-£ [REDACTED]	Medical services contract. September's invoice was received in October.
DfE	£ [REDACTED]	£ [REDACTED]	-£ [REDACTED]	Pensions Team and Finance. Difference is due to delay in recruiting the G6 in the pension team.
Total	£ [REDACTED]	£ [REDACTED]	-£ [REDACTED]	

## **Risk Update**

14. The risk management process remains robust, with regular monthly meetings held between key members of DfE and TP teams to assess the level and 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 Analytics and Risk Manager (appointed 19 June 2017 and replacing the TP Governance Manager role) is now managing the risk framework and chairing the Risk Committee meetings.
15. 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**

### **I.T. Systems**

16. The Data Centre outage experienced at the end of May 2017 presented a number of challenges to the business. Once hardware issues were resolved, a review of Business Continuity and Disaster Recovery measures was undertaken.
17. The net risk score was escalated to HIGH following the initial outage but once the hardware issues had been resolved and an incident report had been provided, an item was added to the Risk Committee agenda to specifically monitor the actions identified from the review. The net risk score was reduced to MEDIUM.
18. The security accreditation for the secure core TP IT environment within the Data Centre is due by the end of December 2017 presenting a risk of non-compliance with HMG security standards. The net risk has been scored as MEDIUM as the lead accreditor is in discussions with the Capita Security Working Group to ensure re-accreditation is obtained prior to expiry.

## **Guaranteed Minimum Pension (GMP) records**

19. Good progress continues to be made from a TP perspective on the GMP reconciliation with investigation of 244k active members commencing in June and analysis of responses received from Her Majesty's Revenue and Customs (HMRC).
20. However, the net risk for the project remains HIGH. This is as a result of the continued delays experienced in receiving responses to queries from HMRC and the uncertainty as to when the outcome of policy decisions will be known due to the General Election. A letter has been sent by the DfE to Her Majesty's Treasury outlining these concerns.
21. Progress continues to be reported to the GMP project Board and the Service Delivery Board on a monthly basis.

## **Deloitte Audit Methodology**

22. Potential changes to the Deloitte audit methodology to be applied for the 2017/18 audit present a risk to the delivery of the audit and the level of assurance provided. DfE have been working with the National Audit Office (NAO) to review the Security Management Plan provided by Deloitte. The net risk score remains at MEDIUM until further information can be provided to understand the implications for the 2017/18 audit process.

**Overview of all Risks**

23. There are currently 25 **Strategic Risks** under management (as last reporting period). Only one of which carries a HIGH net risk rating and relates to the GMP reconciliation. TP now has a direct escalation route to Director level at HMT for outstanding policy decisions but with no further decisions from HMT, the risk of additional IT development requirements and increased costs is heightened.
24. There are five strategic risks with MEDIUM net risk scores and the remaining 19 are LOW. All have a number of existing controls in place and continue to be actively monitored and mitigated.
25. In addition there are a further 24 Service Delivery Risks under management (as last period). Two risks are rated as HIGH. One relates the GMP reconciliation (as per the strategic register); and one relates to the complexities and specialist IT resource requirements for the core IT environment. Ongoing monitoring of the IT service delivery continues. The remaining risks are rated MEDIUM (5) or LOW (17).

**Group Internal Audit (GIA) Update**

The main focus of activity during the quarter has been the progression of 2017 Assurance plan reviews.

Delivery of the 2017 Plan remains on track. The report for the Business Assurance review of SLA Reporting was issued in 'Final' during the period with controls being found to be operating effectively and risk managed 'within tolerance'. GIA reviews of Change Management and Customer Communications (Events) are at 'Draft' report stage. The TOR for the Staff Vetting review has been shared with DfE for review/comments. Fieldwork is in progress for the Business Assurance review of Second Bite PI Remediation.

The main focus of the next period is the continued progression and delivery of 2017 Assurance plan reviews, and commencement of planning for 2018.

**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	0	↓

There are no overdue issues to report.

**Progress against 2017 Assurance Plan**

Review Title	Q1	Q2	Q3	Q4	Current Status	Target Final Draft ToR	Actual Final Draft ToR	Final ToR	Target Final Draft Report	Actual Final Draft Report	Final Report	E/IR/SIR/I <sup>2</sup> <sup>1</sup>	C	H	M	L	
<b>Capita Group Internal Audit (GIA)</b>																	
TPS Change Management	✓				Fieldwork Complete	Mar 2017	31/03/17	08/05/17	Jun 17								
CIBS Customer Comms / Events		✓			Fieldwork Complete	Mar 2017	31/03/17	18/05/17	Jun 17	10/08/17							
CIBS Staff Vetting			✓		Draft TOR	Jul 2017	26/07/17										
CIBS Data Protection (EU Regulations)				✓	Planning	Sep 2017											
GIA Annual Assurance Statement 2016 / 2017	✓				Final	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-	-	-	-	
<b>CEB Head of Business Assurance Activity (HoBA)</b>																	
CEB AAF 01/06 (KPMG)	✓				Final Report	N/A	N/A	N/A	N/A	N/A	13/04/17	N/A	-	-	-	-	
SLA Management & Reporting	✓				Final Report	Mar 2017	08/03/17	23/03/17	May 17	Jun 17	20/06/17	WT	-	-	-	1	
2 <sup>nd</sup> Bite PI Remediation		✓			Fieldwork	Mar 2017	05/04/17	09/05/17	Jun 17								
Exception Report Management			✓		Not Started	Aug 2017											
Quality Framework & Reporting				✓	Not Started	Oct 2017											

**KEY:**

<sup>1</sup>GIA Report Rating: E=Effective; IR=Improvement Required; SIR=Significant Improvement Required; I=Ineffective

Business Assurance Rating (Aligned to Group Risk Framework): WT = Within Tolerance; AT = At Tolerance; U = Uncomfortable; C = Critical