



Local Pension Board

Date: 23rd October 2019

Risk Management and Internal Audit (for information and discussion)

Report of the Head of Pensions

Purpose of Report

1. This report contains the current Fund level risk register and the internal audit programme.
2. The Board is asked for its views on the risk register and the internal audit programme.
3. The Board is recommended to note the report.

Risk Management and Internal Audit

Background

4. The Committee has delegated the quarterly monitoring of the risk register and the internal audit programme to the Local Pension Board. The Committee will, however, continue to receive annual reports on these matters.
5. The Fund's approach to the review, control and internal reporting of risk is set out below.
 - The risk register is reviewed quarterly, or more frequently if required, by officers and the updated document is posted on the Fund's website
 - The Local Pension Board reviews the risk register in full each quarter
 - The Committee receives an annual report on the risk register each September
 - The Committee and the Board include risk management in their training programme. The training event in September 2018 included two sessions on risk management
6. The approach to the preparation, implementation and internal reporting of the internal audit programme is set out below:
 - The annual programme is prepared by the Corporate Assurance Manager and is presented to the Committee at the June meeting and to the Local Board in July. This includes the forthcoming programme for the coming year, along with a summary of the audits undertaken in the past year
 - The programme is undertaken by the Internal Audit Service and Deloitte
 - Completed audits are posted in the password protected part of the Fund's website
 - A summary of the outcome of each audit is presented to the Local Board at each quarterly meeting
 - The Committee's attention will be drawn to any material audit findings

Approach to Managing and Reporting on Risks

7. The Fund has to identify and control the risks that it faces as part of the ongoing delivery of the service.
8. In addition to the risk register, the outcome of this process appears in a range of documents produced by the Fund. The requirement to include this information is often prescribed in regulations. For example:

Risk Management and Internal Audit

- The Funding Strategy Statement includes a summary of risks to the funding strategy and the setting and collection of employer contributions
 - The Investment Strategy Statement includes a summary of risks to the delivery of the investment strategy
 - The Notes to the Report and Accounts include a summary of risks to the value of the Fund's assets
9. The approach to the quarterly review of the risk register by the officers is set out in an attachment to this report entitled "Risk Assessment Methodology". It is based on the net risk, i.e. the risk that remains after all appropriate controls have been applied, which is ranked on a scale of:
- critical
 - high
 - moderate
 - minor

Current Risk Register

10. The current version of the risk register was reviewed on 30th September 2019.
11. There were two changes to the risk register.

Risk		From	To	Reason
Ref	Title			
A1	<p>The title of this risk has changed from</p> <p>The funding level fails to recover in accordance with the recovery plan, or worsens, due to investment returns being below the levels assumed in the triennial valuations, i.e. relative return to discount rate.</p> <p>To</p> <p>The funding level worsens and falls below 100% due to investment returns being</p>	Negligible/ Possible (Minor)	Marginal/ Possible (Moderate)	Now that the new funding level has been confirmed it is appropriate to review the risk which previously related to the funding level failing to recover in accordance with the recovery plan. In addition, because of the knowledge of the significant improvement in the funding level at the last quarter end date the risk was downgraded.

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	below the levels assumed in the triennial valuations, i.e. relative return to discount rate.			However, now that the risk has changed to worsening or falling below 100% as a result of investment returns, the impact is considered to be higher. Therefore the risk score has also been amended.
F1	<p>The title of this risk has changed from</p> <p>The funding level fails to recover in accordance with the recovery plan, or worsens, due to outturn differing from valuation assumptions.</p> <p>To</p> <p>The funding level worsens or falls below 100%, due to outturn differing from valuation assumptions.</p>	Marginal/ Possible (Moderate)	No change	<p>The change in the risk description is the same issue as A1 above.</p> <p>There is however no change to the risk score. This risk looks at valuation assumptions rather than investment returns. The impact on this was already in the marginal category.</p>

12. The practice of the Local Pension Board is to review two risks in more depth at each quarterly meeting, one being a relatively high risk and one lower risk.

13. For this quarter, the two risks selected are shown below.

- F8 high risk – Employees do not join or remain in the Fund, either for financial reasons or because their employer does not promote the scheme or structures employees away from the Scheme (scheduled and admitted bodies) or prevents membership (admitted bodies only). Fewer new starters re use of short term contracts by employers allied to the two year vesting period in the new scheme

This has been selected as consultation on a move to a four year valuation cycle also included an option for Colleges and Universities to be able to close LGPS membership eligibility for future recruits (existing staff are to be protected). The Fund has opposed this proposal as Colleges and Universities are large scale employers and should they close active membership, this could impact on cashflows and bring forward the maturity of the scheme

- L1 low risk – Failure to apply the Regulations correctly in relation to benefits

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This risk was initially introduced into the risk register a number of years ago when the new CARE scheme was brought in. Due to the late release of the regulations surrounding CARE it was not possible to get the systems re-written in time and consequently there were a significant amount of manual calculations undertaken. Over time this risk has been reduced and is now in the lowest category for both impact and likelihood. Given this, one issue to consider is whether this risk should remain on the risk register.

14. A discussion on these two risks will take place at the meeting.
15. At the Board's meeting in March 2019 risk G2 was discussed. This risk is rated as high in the risk register. It is described as "There will be enforced changes to the governance arrangements from proposals to pool investments across the Scheme which may lead to sub optimal decisions being taken on behalf of Tyne and Wear Pension Fund".
16. The Board's view was that the rating is too high, bearing in mind the current control measures and the actions as detailed.
17. However, the likelihood rating of possible, and the impact rating of significant which equates to a moderate short term impact, has led officers to believe that this rating is appropriate as it reflects the governance arrangements and not the financial impact.
18. This contrasts with risk A13 which is about the financial impact. The risk is described as "There will be enforced changes to the investment and governance arrangements from proposals to pool investments across the Scheme which may result in increased costs and impact on net returns".
19. In this case, the likelihood of the risk is rated as near certain, but the impact rating is negligible. This equates to a financial impact of less than 1% of the value of the Fund, which equates to approximately £90 million.
20. Deloitte will be undertaking a due diligence review of pooling arrangements in 2019/20. Following this review, these two risks will be reassessed.
21. A copy of the full risk register is attached to this report. The Local Board's views on the risk register are requested.

Internal Audits

22. During the quarter, there have been no audit reports received.

Recommendation

23. The Board is asked for its views on the risk register and the internal audit programme.

Risk Management and Internal Audit

Reason for Recommendation

24. To ensure the risks and the internal audit programme are appropriately monitored and managed.

Risk Management and Internal Audit

Appendix

Risk Assessment Methodology

Impact

Impact/Area	Negligible	Marginal	Significant	Substantial
Governance	Little or no impact	Minor short term	Moderate short term	Sustained
Assets	Less than 1% of asset	1-5% of assets	5–15% of assets	Over 15% of assets
Liabilities/ Funding	Minor or no impact on liabilities/ funding level	Low impact on liabilities/ funding level	Significant but recoverable impact	Significant and irrecoverable
Legal	Minor short term	Moderate short term	Serious short term	Serious long term
Service Delivery	Minor short term	Moderate short term	Serious short term	Serious long term
Reputation	Minor short term	Moderate short term	Serious short term	Serious long term

Likelihood

Event is expected to occur	Near certain
Event should occur at some time	Probable
Event could occur at some time	Possible
Event may occur only in rare circumstances	Improbable

Risk Management and Internal Audit

Risk Register

Review – 30th September 2019

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near certain	Moderate A7, A9, A13, S1	High S7	Critical	Critical
Probable	Moderate L4	High F8, S6, S13	Critical	Critical
Possible	Minor A4, A5, A6, A8, A10, A12, F5, L5, L6, L7,	Moderate G1, G3, A1, A3, F1, S2, S3, S9, S10,	High G2	Critical
Improbable	Minor F3, L1, L8	Minor	Moderate S12	High

Risk Management and Internal Audit

Changes at this Review

Risk		From	To	Reason
Ref	Title			
A1	<p>The title of this risk has changed from</p> <p>The funding level fails to recover in accordance with the recovery plan, or worsens, due to investment returns being below the levels assumed in the triennial valuations, i.e. relative return to discount rate.</p> <p>To</p> <p>The funding level worsens and falls below 100% due to investment returns being below the levels assumed in the triennial valuations, i.e. relative return to discount rate.</p>	Negligible/ Possible (Minor)	Marginal/ Possible (Moderate)	<p>Now that the new funding level has been confirmed it is appropriate to review the risk which previously related to the funding level failing to recover in accordance with the recovery plan. In addition, because of the knowledge of the significant improvement in the funding level at the last quarter end date the risk was downgraded. However, now that the risk has changed to worsening or falling below 100% as a result of investment returns, the impact is considered to be higher. Therefore the risk score has also been amended.</p>
F1	<p>The title of this risk has changed from</p> <p>The funding level fails to recover in accordance with the recovery plan, or worsens, due to outturn differing from valuation assumptions.</p> <p>To</p> <p>The funding level worsens or falls below 100%, due to outturn differing from valuation assumptions.</p>	Marginal/ Possible (Moderate)	No change	<p>The change in the risk description is the same issues as A1 above.</p> <p>There is however no change to the risk score. This risk looks at valuation assumptions rather than investment returns. The impact on this was already in the marginal category.</p>

Risk Management and Internal Audit

Approach to Considering Risks

1. The risk register is scored on a net basis, which means after all controls have been applied.

Notes on Potential Future Risks

2. Continue to monitor the position on the pension freedoms re DB to DC shift. The number of transfers is increasing and this may start to impact on cashflow. At this stage it is still not considered significant enough to be a separate risk. It is however, noted in cashflow risks. Recent changes to the regulations in May 18 to allow current deferred members to collect benefits (without employer approval) from 55 subject to actuarial deduction may reduce the impact of this.
3. The impact of Brexit will be considered through the risks already included in the Risk Register rather than as a separate risk in itself.
4. One potential risk from shared services and the take on of Northumberland data is in relation to the adequacy of the data quality. This cannot be properly assessed at this stage. There should be no impact on the quality of the Tyne and Wear data. The review of data quality undertaken for the regulator for 2018 suggests that the Northumberland data quality is slightly lower than Tyne and Wear but not materially. It is suggested that this potential risk will be monitored until the data quality review for 2019.
5. The move to greater electronic communication with employers and members may give rise to additional risks. A wider review of this is to be undertaken which will then inform the risk register.
6. The Scheme Advisory Board review of the role for the Administering Authority and potential separation issues has been highlighted as a potential emerging risk. The initial report from Hymans has been produced. Following an initial review this does not suggest any significant concerns from the Fund the position will be monitored. Deloitte has been asked to consider this as part of their annual governance review.
7. There are a number of risks that relate to investment pooling. In particular risk G2 and A13 which are specific pooling related risks. At the current time they are still considered to be relevant. Other risks such as a failure on an investment manager process will also impact. As more assets transfer over a holistic review of the risk from pooling will need to be undertaken. This will take place after the Deloitte audit on pooling, which is scheduled to take place in 2018/19.
8. Climate change is becoming a bigger and more significant issue. It is highlighted as a significant financial risk in the Investment Strategy

Risk Management and Internal Audit

Statement and the Funding Strategy Statement. Specific mention has also been made of this in risk G3 on ESG. This approach is considered appropriate but will be kept under review.

Other Notes

9. None.

Risk Management and Internal Audit

No.	xxxx	Ref.	G1	Risk Owner	Pensions Committee	Updated	02/11/2018
Risk	There may be a lack of knowledge and understanding by the Committee and Local Pension Board.						
Impact	Potential for poor decision making and lack of challenge to officers and advisors.						
Controls	Training Policy and Programme in place based on CIPFA Code of Practice and Knowledge and Skills Frameworks for Pensions Committees and Local Pension Boards. Diverse skills base amongst Members. Size of Committee provides protection against turnover. Annual Committee self assessment of skills base and review of governance structure. Availability of advisors and officers. Local Pension Board strengthens governance structure. A joint training policy has been agreed by the Committee and the Local Pensions Board. The Committee and the Board in 2018/19 scored themselves against the CIPFA KSF and this will be used to inform the training programme. Induction training delivered to new members.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod xxxxx	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Moderate	Strategy	Treat
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Action Required	Continue the emphasis on development and delivery of Training Policy and Programme.
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Risk Management and Internal Audit

No.	xxxx	Ref.	G2	Risk Owner	Head of Pensions	Updated	As G1
Risk	There will be enforced changes to the governance arrangements from proposals to pool investments across the Scheme which may lead to sub optimal decisions being taken on behalf of Tyne and Wear Pension Fund. (see A13 also).						
Impact	Potential for the Fund not being able to fully implement its Investment Strategy. May need to compromise on what is in the best interests of the Fund. Material short term governance burden as new arrangements are researched and put into place.						
Controls	Actively participate in the establishment of the governance arrangements for the pool and ensure the position of the Fund is protected. External advisors have been appointed. Strategy and asset allocation decisions remain at the Fund level.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod	High xxxxx	Critical
Improbable	Min	Min	Mod	High

Net Risk	High	Strategy	Treat
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Action Required	Take forward the Committee's decision on pooling, and continue to keep Committee informed of developments. Contribute to the Pool's deliberations in this area. Officers to take an active part in all working groups at Border to Coast on each sub fund in which the Fund will invest. Liaise with Investment Advisor on these sub funds. Audit by Deloitte of pooling governance to take place in 2019/20.
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Risk Management and Internal Audit

No.	xxxx	Ref.	G3	Risk Owner	Head of Pensions	Updated	As G1
Risk	Insufficient attention to environmental, social and governance (ESG) issues can lead to reputational damage.						
Impact	The Fund receives criticism for not fully observing and embracing this matter from scheme members and in the press. The Fund also needs to be aware of the statutory guidance in this respect which requires the Fund to make the pursuit of financial return its predominant concern. ESG facts can and should be taken into account but only if doing so would not involve significant risk of financial detriment to the scheme and believe that scheme members would support the decision.						
Controls	The Fund's Investment Strategy Statement and Corporate Governance Policy cover the extent to which social, environmental and ethical considerations are taken into account in the selection, retention and realisation of investments. Member of the LAPFF. Climate change is recognised as a significant financial risk. The Fund has a policy of requiring managers (including BCPP) to engage on ESG issues rather than disinvest. The Fund requires managers (including BCPP) to consider these issues.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod xxxxx	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Moderate	Strategy	Treat
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Action Required	<p>Review ESG issues and climate change, including new potential investment products</p> <p>Update website to clearly demonstrate action taken on ESG issues and climate change</p> <p>Work with Border to Coast on Responsible Investment Policy.</p>
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Risk Management and Internal Audit

No.	xxxx	Ref.	A1	Risk Owner	Head of Pensions	Updated	As G1
Risk	The funding level worsens or falls below 100% due to investment returns being below the levels assumed in the triennial valuations, i.e. relative return to discount rate.						
Impact	Reduced investment return leading to the potential for higher employer contributions and greater volatility in level of contributions.						
Controls	Valuation assumptions are discussed and agreed with the Actuary. Conservative return assumptions have been used when setting the discount assumption of 4.3% for the 2019 valuation, and circa 5.7% for the ALM. The actual return for the period from March 2019 to September 2019 is not yet available. A decision has been taken by the Committee to de-risk the investment strategy, taking 15% out of growth assets and moving 10% to income assets and 5% to protection assets.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod xxxxx	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Moderate	Strategy	Treat
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Action Required	Implement the agree de-risking strategy
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Risk Management and Internal Audit

No.	xxxx	Ref.	A3	Risk Owner	Head of Pensions	Updated	As G1
Risk	The Fund does not have an appropriate strategic benchmark and an appropriate investment management structure.						
Impact	Possible reduced investment return, leading to the potential for higher employers' contributions and greater volatility in level of contributions. Possible need to devise and implement a revised strategy. Non-compliance with Investment Principles.						
Controls	The benchmark is reviewed in depth when up to date liability data becomes available after each triennial valuation. Interim studies and analysis are carried out in intervening years, as appropriate. 2019 review of strategy completed and signed off by Committee in September 2019. A quarterly review of tactical positions also takes place which has looked at currency hedging and equity protection.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod xxxxx	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Moderate	Strategy	Treat
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Action Required	Continue to apply controls. Continue to monitor the position with regards to hedging and equity protection. Implement the agreed de-risking strategy.
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Risk Management and Internal Audit

No.	xxxx	Ref.	A4	Risk Owner	Head of Pensions	Updated	As G1
Risk	There is inadequate monitoring of the performance of managers (including Border to Coast) and custodians. Failure to undertake formal reviews, if required.						
Impact	Possible breach of statutory duty, leading to adverse audit reports and poor publicity. Possible reduced investment return. Selection process leading to assets under care and maintenance. Cost of transition of assets. Assets in limbo in the case of a corporate failure. Move to pooling may result in reduced direct access to the underlying investment managers.						
Controls	A detailed monitoring process is in place that involves the Committee, Investment Panel, Officers and the Investment Advisor. Monthly reconciliation of portfolios. Have agreed an approach to monitoring Border to Coast.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min xxxxx	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Minor	Strategy	Treat
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Action Required	Continue to apply existing controls. Need to agree the approach to getting full risk and return analysis from Portfolio Evaluation on Border to Coast.
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Risk Management and Internal Audit

No.	xxxx	Ref.	A5	Risk Owner	Principal Investment Manager	Updated	As G1
Risk	There is a failure of an investment manager's (including Border to Coast) process that significantly affects the Fund.						
Impact	Reduced investment return, but at a level that is unlikely to be of significance to employers' contributions. Possible need to review the affected manager's investment process. Potential for adverse publicity.						
Controls	Investment strategy is subject to continuous review by managers. Investment Panel and Officers review strategy quarterly. Investment structure is well diversified. Investment Advisor and others available to provide advice, market intelligence and views. Assets may need to be moved to passive until Border to Coast pooling arrangements present suitable alternatives. The move to pooling will diversify our exposure to the underlying managers which should reduce the risk. However, as more assets transfer over there will be more direct risk from Border to Coast as our investment manager.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min xxxxx	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Minor	Strategy	Treat
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Action Required	Work closely with Border to Coast on the development of new investment sub funds. Monitor Border to Coast at a corporate level as well as the investment level.
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Risk Management and Internal Audit

No.	xxxx	Ref.	A6	Risk Owner	Principal Investment Manager	Updated	As G1
Risk	An investment, broker or stock lending counterparty fails.						
Impact	Trades fail, potential for assets (securities and / or cash) to be in limbo or lost.						
Controls	Managers review counterparties. Collateral and indemnities, custodian controls and counterparty limits in place for stock lending.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min xxxxxx	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Minor	Strategy	Treat
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Action Required	Continue to apply controls Continue to monitor the position on MF Global recovery, which stood at 90% to September 2019. TWPF is expected to receive approximately a full settlement in due course but this is dependent on the decision of the High Court, which is managing the process. A resolution is likely to be a number of years away.
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Risk Management and Internal Audit

No.	xxxx	Ref.	A7	Risk Owner	Principal Investment Manager	Updated	As G1
Risk	An investment manager is underperforming against its investment mandate.						
Impact	Reduced investment return, but at a level that is unlikely to be of significance to employers' contributions. Possible need to review the affected managers' investment process. Potential for adverse publicity.						
Controls	Investment strategy is subject to continuous review by the Fund. Investment Panel and Officers review strategy quarterly. Investment structure is well diversified. Investment Advisor available to provide proactive advice. Some assets have been moved to passive until BCPP pooling arrangements present suitable alternatives.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod xxxxx	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Moderate	Strategy	Treat
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Action Required	Continue to apply controls. Continue to monitor underperforming managers. Any issues with managers have been address in the most recent strategy review and with the move to pooling. Actions would have to be assessed against the future pooling arrangements.
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Risk Management and Internal Audit

No.	xxxx	Ref.	A8	Risk Owner	Principal Investment Manager	Updated	As G1
Risk	There is an act of fraud and/or a breach of the investment guidelines by an investment manager (including Border to Coast).						
Impact	Reduced investment return, but at a level that is unlikely to be of significance to employers' contributions. Possible need to review the affected managers' investment process. Potential for adverse publicity.						
Controls	Each manager's strategy is subject to continuous review by the Investment Panel and Officers. Monthly monitoring of portfolios is in place. Investment Advisor available to provide proactive advice. Managers' internal control reports are reviewed annually. Regulatory framework within which investment managers operate.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min xxxxxx	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Minor	Strategy	Treat
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Action Required	Continue to apply controls. Need to review the internal control reports from Border to Coast.
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Risk Management and Internal Audit

No.	xxxx	Ref.	A9	Risk Owner	Head of Pensions	Updated	As G1
Risk	That in the longer term the amount of cash coming into the fund reduces to a level that is not sufficient to cover outgoings. This is caused by the scheme naturally maturing. The speed at which it matures is being impacted by ER/VR programmes and employers restricting access to new members to the scheme.						
Impact	Decreased cash flow to rebalance structure and to meet large cash requirements such as a property purchase. Impending need to withdraw income or capital from managers in the medium term and to review the structure in the long term.						
Controls	Monthly monitoring of cash flow and of membership movements. ALM work undertaken to model the optimal structure. Latest estimate of cash flow position in 2019/20 shows that the Fund could move cash flow negative by around £100m. Report to the Local Pension Board in March 2018. This shortfall can be met from investment income.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod xxxxx	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Moderate	Strategy	Treat
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Action Required	Update the longer term cash flow forecast in the light of the total Fund valuation position and change in investment structure. Monitor position on use of wholly owned subsidiaries by scheduled bodies and the consultation on colleges and universities being able to close to new entrants. Monitor the impact of cash transfers out.
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Risk Management and Internal Audit

No.	xxxx	Ref.	A10	Risk Owner	Principal Investment Manager	Updated	As G1
Risk	In the short term there is insufficient cash for investment requirements or other commitments.						
Impact	Possible forced and disorderly realisation of assets to meet commitments if the position cannot be covered by temporary borrowing.						
Controls	System in place for weekly review of the working capital position. Power to borrow to cover certain types of shortfall. Also a monthly review of net cash flow position. Latest agreed investment strategy includes a 1% allocation to cash. In addition on a tactical basis it has been agreed that the Fund can hold up to 4% in cash.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min xxxxxx	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Minor	Strategy	Treat
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Action Required	Monitor potential large cash flows into Private Markets and UK property. Ensure that Border to Coast and Legal and General has the facility to offer income producing units to the Fund when this is needed.
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Risk Management and Internal Audit

No.	xxxx	Ref.	A12	Risk Owner	Head of Pensions	Updated	As G1
Risk	The Fund is unable to properly deal with its overseas tax liabilities and meet the requirements of overseas tax authorities.						
Impact	Over or under recovery of tax. Failure to manage filing obligations. Penalties imposed by tax authorities.						
Controls	Deloitte carried out audit work in 2015/16 and provided Adequate (second highest) assurance. Controls are comparable to those at other funds. Regular discussion with managers to evaluate positions. Use of blocking structures. The Fund had advice from Deloitte in Oct 2018 on the completion of tax exemption forms.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min xxxxxx	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Minor	Strategy	Treat
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Action Required	<p>Initially the intention was to undertake further work on this area but the responsibility for private market investments has passed to Border to Coast. We will need to contribute to the preparation of the Pool's approach to this area.</p> <p>Need to understand Border to Coast approach to tax management.</p> <p>Develop tax manual and review tax status in overseas jurisdictions. This review is on hold at the moment as it is not considered to be a priority.</p>
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Risk Management and Internal Audit

No.	xxxx	Ref.	A13	Risk Owner	Head of Pensions	Updated	As G1
Risk	There will be enforced changes to the investment and governance arrangements from proposals to pool investments across the Scheme which may result in increased costs and impact on net returns. (See also G2).						
Impact	Potential for lower gross and net investment returns, short term transition costs and forced sale of investments at a sub optimal price. In addition the Fund may not be able to fully implement its asset allocation choices with the sub funds available, including the active passive split and the choice of internal v external.						
Controls	Contribute to the Pool's deliberations in this area. Initial advice on transition costs received from Legal and General on behalf of the Pool. Strategy and asset allocation decisions remain at the Fund level. The Fund is actively involved in the transition advisors and managers for each transition with Border to Coast.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod xxxxx	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Moderate	Strategy	Treat / Tolerate
Action Required	Take forward the Committee's decision on pooling, and continue to keep Committee informed of developments. Contribute to the Pool's deliberations in this area and work with Border to Coast to ensure a robust transition process is followed. Liaise with Investment Advisor on the potential investment sub funds in the pool. Initial legal advice has been received and suggests there may be some issues regarding the ability to "share" transition costs between funds. Discussions are taking place with MHCLG on this. Monitor the funds costs and savings from pooling.		

Risk Management and Internal Audit

No.	xxxx	Ref.	F1	Risk Owner	Head of Pensions	Updated	As G1
Risk	The funding level worsens or falls below 100%, due to outturn differing from valuation assumptions.						
Impact	Potential for higher employer contributions and greater volatility in level of contributions. Financial strain on employers. Possibility of employer failure amongst smaller employers. Withdrawal from the Fund of non scheduled employers.						
Controls	Valuation assumptions are discussed and agreed with the actuary and employers. Cessation valuations for orphan liabilities have a matched strategy. Cost Management process will assist. Have considered use of inflation and interest rate protection with Hymans Robertson – no action required at present. Increased scrutiny of valuation strategies and assumptions by Scheme Advisory Board (SAB).						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod xxxxx	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Moderate	Strategy	Treat
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Action Required	Monitor position and keep employers advised.
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Risk Management and Internal Audit

No.	xxxx	Ref.	F3	Risk Owner	Principal Pensions Manager	Updated	As G1
Risk	Member data and record keeping is of poor quality due to inadequate data flows from an employer or inadequate data cleansing which leads to the Actuary adopting a more prudent approach in response to this.						
Impact	Failure to comply with the Public Service pensions (Record Keeping and Miscellaneous Amendment) Regulations 2014 and Pensions Regulator's guidance. Incorrect benefits could be paid causing reputational damage and fines for maladministration. In extreme cases, poor data could affect Fund valuations as the funding strategy could be inappropriate and the declared funding level incorrect. Failure to meet regulatory deadline for submission of data to GAD.						
Controls	The Pensions Office works with employers to obtain accurate and timely data. A Pensions Administration Strategy is in place. Comprehensive data cleansing and data checks are carried out by the Pensions Office and the Actuary. For 2019 valuation the Actuary has undertaken pre valuation data check. TPR data cleansing strategy first implemented from 2014 for Common Data and Scheme Specific Data in 2018. Scores were 100% for common data and 90% for conditional data. Data recovery plan in place.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod	High	Critical
Improbable	Min xxxxxx	Min	Mod	High

Net Risk	Minor	Strategy	Treat
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Action Required	Engaging with employers and informing Committee and Board. Fully implement the data improvement plan. The Fund will also need to review its approach to the data scoring next year once the Scheme Advisory Board provides further guidance.
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Risk Management and Internal Audit

No.	xxxx	Ref.	F5	Risk Owner	Principal Pensions Manager	Updated	As G1
Risk	The Fund is left with a deficit when an employer leaves with inadequate provision for the deficit.						
Impact	Financial loss to the Fund that has to be made up by a guarantor / insurer. In the absence of a guarantor, the funding gap would be met by the remaining employers in the Fund.						
Controls	Use a valuation strategy that reduces deficits as quickly as is reasonable. Seek additional contributions when an employer is known to be leaving the Fund. Obtain guarantees and bonds where possible. Deloitte audit in 2015/16 gave Substantial assurance. The regulations require the payment of a deficiency for all exiting employers. Colleges and Universities have been moved to an intermediate discount rate from the 2019 valuation.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min xxxxx	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Minor	Strategy	Treat / Transfer
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Action Required	<p>Monitor position on MHCLG consultation on flexibilities on exit arrangements and the status of colleges and universities. A report to be taken back to Committee once the outcome of this is known.</p> <p>Consider the position on more matched investment strategies over and above that for cessation valuations.</p>
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Risk Management and Internal Audit

No.	xxxx	Ref.	F8	Risk Owner	Principal Pensions Manager	Updated	As G1
Risk	Employees do not join or remain in the Fund, either for financial reasons or because their employer does not promote the scheme or structures employees away from the Scheme (scheduled and admitted bodies) or prevents membership (admitted bodies only). Fewer new starters re use of short term contracts by employers allied to the two year vesting period in the new scheme.						
Impact	Decreased cash flow into the Fund. Fund matures quicker than it would otherwise. Potential for increase in employers' contributions.						
Controls	Take action against employers who fail to comply with regulations on enrolment. Where possible, promote benefits of scheme membership, whilst recognising that this is sometimes not favoured by employers.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High xxxxx	Critical	Critical
Possible	Min	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	High	Strategy	Tolerate
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Action Required	Limited ability to manage this area. Continue to apply current approach. Consider membership campaign if agreed to by employers. Monitor position on impact of new pension freedoms. Monitor the position on consultation on Fair deal and on colleges and universities.
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Risk Management and Internal Audit

No.	xxxx	Ref.	L1	Risk Owner	Principal Pensions Manager	Updated	As G1
Risk	Failure to apply the Regulations correctly in relation to benefits.						
Impact	Breach of Regulations. Benefits not paid correctly to members. Risk of adverse publicity. Censure by tPR, IDRP and Pensions Ombudsman. Risk of financial penalties.						
Controls	Resources are applied to interpretation of Regulations. Checks are made on the software from the design stage. High degree of check built into the system and processes. Staff training. Cross reference opinions on regulations to other funds, the Actuary and MHCLG. Legal Services are involved in the interpretation of the Regulations.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod	High	Critical
Improbable	Min xxxxxx	Min	Mod	High

Net Risk	Minor	Strategy	Treat
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Action Required	Apply existing controls.
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Risk Management and Internal Audit

No.	xxxx	Ref.	L4	Risk Owner	Principal Pensions Manager	Updated	As G1
Risk	The Fund fails to comply with General Data Protection Regulations, or has a data protection breach.						
Impact	Enforcement action, service disruption, costs, adverse publicity.						
Controls	Corporate procedures are followed. In addition pensions service specific controls are applied. Advice is taken from Legal Services as required. Pension Fund works under the general control environment of the Council. Staff reminded of requirements. GDPR Action plan produced and all key actions completed by GDPR implementation date. Internal Audit of GDPR and Data Security undertaken in 2018/19 which provided substantial assurance. STC has implemented an e-learning approach to GDPR. A log of all data protection breaches is maintained, which includes action taken to improve.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod xxxxx	High	Critical	Critical
Possible	Min	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Moderate	Strategy	Treat
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Action Required	<p>Monitor the position on breaches. Report to Senior Management team.</p> <p>Review LGA data retention guidance.</p>
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Risk Management and Internal Audit

No.	xxxx	Ref.	L5	Risk Owner	Principal Pensions Manager	Updated	As G1
Risk	The Fund provides inappropriate or incorrect guidance to a member.						
Impact	Inferior service to member. Risk of public censure and financial penalties imposed by regulators. Risk of requirement to pay restitution.						
Controls	General issues are addressed through staff training. Staff are advised that the Fund cannot give advice.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min xxxxxx	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Minor	Strategy	Treat
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Action Required	Continue to apply controls.
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Risk Management and Internal Audit

No.	xxxx	Ref.	L6	Risk Owner	Principal Pensions Manager	Updated	As G1
Risk	Failure to manage member related tax correctly.						
Impact	Penalties and interest payments to the fund and members. Members' tax positions may be compromised.						
Controls	Periodic audits are carried out on management of tax by audit partner. Latest audit in 2016/17 which provided Substantial Assurance. Increased awareness by staff. Information included in ABS and other member communication. A further audit on Tax allowances was undertaken in 2017/18 and a full assurance was provided. Correspondence is set to members with Annual Allowance issue and/or those approach their lifetime allowance.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min xxxxx	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Minor	Strategy	Treat
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Action Required	Continue to apply controls. Considering correspondence with members nearing limit on Lifetime allowances. Review of the Annual Allowance process to be undertaken following the 2019 exercise. An action plan will be developed on the back of this.
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Risk Management and Internal Audit

No.	xxxx	Ref.	L7	Risk Owner	Principal Pensions Manager	Updated	As G1
Risk	The Fund fails to identify an issue with the health and wellbeing and financial safety of members.						
Impact	A potential or actual safeguarding issue arises and the appropriate action is not taken. Potential negative publicity.						
Controls	Revised protocol issued to staff in March 2015. Staff are required to report issues upwards to senior management, Legal Team and to the appropriate safeguarding team in the Council and or the Police. Due diligence process on pensions transfers covers pension scams. This took account of the changes and awareness campaign of the Pensions Regulator.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min xxxxxx	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Minor	Strategy	Treat
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Action Required	Continue to monitor position and promote awareness. A review to take place of the protocol and training to be delivered.
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Risk Management and Internal Audit

No.	xxxx	Ref.	L8	Risk Owner	Principal Pensions Manager	Updated	As G1
Risk	A transfer value is incorrectly managed, resulting in a Pensions Liberation Fraud						
Impact	Potential for fines by Regulator and Ombudsman, tax charges and adverse publicity.						
Controls	Systems reviewed to alert staff and members to position. TPR practices have been adopted. Strengthened disclaimer introduced. Legal and Senior Management review of cases. System in place re Freedom and Choice. Deloitte audit in 2015/16 gave Substantial assurance.						

Area	Legal
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Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod	High	Critical
Improbable	Min xxxx	Min	Mod	High

Net Risk	Minor	Strategy	Treat
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Action Required	Continue to apply controls. Monitor position on pension freedoms. Monitor the position on claims management companies.
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Risk Management and Internal Audit

No.	xxxx	Ref.	S1	Risk Owner	Principal Pensions Manager	Updated	As G1
Risk	Benefits and payments are accessed by individuals who are not entitled to receive them.						
Impact	Financial loss.						
Controls	High degree of check built into system. Name, address and bank detail checks. Selective eligibility checks, e.g child's pensions paid to students. Participated in NFI programme. The adoption of Tell Us Once and the Scheme's National NI Database will improve control.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod xxxxxx	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Moderate	Strategy	Treat
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Action Required	Continue to apply controls. Undertake the 2018 NFI exercise which should be received in 2019. This will require a review of outstanding items.
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Risk Management and Internal Audit

No.	xxxx	Ref.	S2	Risk Owner	Principal Pensions Manager	Updated	As G1
Risk	The pensions processing software system is not fully updated in a timely manner.						
Impact	Unable to carry out aspects of pensions administration efficiently in line with regulations without manual intervention. Additional working costs. Service to employers and members is compromised.						
Controls	Development of CARE largely complete. Ongoing monitoring of the performance of Civica through the use of Change Request Forms, participation in the user group and client manager meetings. Take a risk based approach to implementation to new versions of the system.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod xxxxx	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Moderate	Strategy	Treat
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Action Required	Continue to update and implement development plans. Meetings in hand with Civica and other users. Civica has attended Pensions Committee and has been required to attend further meetings. Monitor the position on cost cap calculations and McCloud
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Risk Management and Internal Audit

No.	xxxx	Ref.	S3	Risk Owner	Principal Pensions Manager	Updated	As G1
Risk	Failure to develop and introduce improved working practices across pensions processing, particularly increased automation and electronic processing and communication.						
Impact	Increased costs of processing. Additional processing backlogs arise. Statutory targets and local performance indicators are not met. Inferior service to employers and members. Risk of public censure and financial penalties imposed by regulators. Risk of requirement to pay restitution.						
Controls	Development plans are in place, but delayed due to high levels of workload. Monitor progress and report to Committee and Board. High level audit review undertaken 16/17 with the conclusion that the fund has robust processes. No significant concerns identified. The option of submitting data in hard copy has been removed where appropriate electronic means are available. Increased resources in the technical team.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod xxxxx	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Moderate	Strategy	Treat
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Action Required	Use consultancy time as required. Monitor progress against service plans and continue to report to Committee.
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Risk Management and Internal Audit

No.	xxxx	Ref.	S6	Risk Owner	Head of Pensions	Updated	As G1
Risk	Key people leave, and this places a strain on remaining resources to cover the role and responsibilities.						
Impact	Failure to deliver an adequate service. Increased stress and pressure of working.						
Controls	Structure kept under review. Continual review by senior managers of succession planning. Training programmes in place. Manuals and service planning in place.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High xxxxx	Critical	Critical
Possible	Min	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	High	Strategy	Treat
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Action Required	Continue with training and knowledge and task sharing programmes, as raised through SMT and elsewhere. A review of succession planning to take place in 2019/20.
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Risk Management and Internal Audit

No.	xxxx	Ref.	S7	Risk Owner	Principal Pensions Manager	Updated	As G1
Risk	Performance against Disclosure Regulations fails to deliver at an appropriate level.						
Impact	Breach of Regulations. Risk of adverse publicity. Censure by TPR, IDRPs and Pensions Ombudsman. Risk of financial penalties.						
Controls	Increasing staffing resources. Liaison between Client Managers and employers. Reporting back to senior management at employer and to Committee and Board. Pensions Administration Policy in place. Training is available. (Note a strict interpretation is that 100% is required, but this will never be achieved).						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High xxxxx	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	High	Strategy	Treat
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Action Required	<p>Keep staffing structure under review and fill posts. Continue to apply controls. Review working practices.</p> <p>Note that the reported position may deteriorate as the backlog is cleared.</p> <p>Set internal performance standards in addition to the disclosure requirements.</p> <p>Formalise the number of improvement plans into one overriding plan.</p>
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Risk Management and Internal Audit

No.	xxxx	Ref.	S9	Risk Owner	Head of Pensions	Updated	As G1
Risk	Insufficient resources create problems in service delivery.						
Impact	Issues with service delivery. Ongoing late receipt of Regulations and GAD Factors and system updates on the back of this has led to significant backlogs building up. Additional work re Pooling expected, which may impact more on staff time.						
Controls	Monitoring structure and key person risk. Training in place. Work flexibly re staff allocation. Working overtime selectively. Temporary staff are being used.						

Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod xxxxx	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Moderate	Strategy	Treat
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Action Required	Monitor workload v. capacity and position re pooling.
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Risk Management and Internal Audit

No.	xxxx	Ref.	S10	Risk Owner	Head of Pensions	Updated	As G1
Risk	Failure to fully rectify the members GMP values following the GMP reconciliation process.						
Impact	Potential for payment of pensions without an entitlement. May overpay or underpay pensions increases. Additional liability for the Fund.						
Controls	Data received from HMRC. Software has been purchased to review this data. A report to Pensions Committee in February 2018 set out a proposed way forward and provided budget approval. The Fund has hit the deadlines set for October 2018.						

Area	Service Delivery
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Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod xxxxxx	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	Moderate	Strategy	Treat
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Action Required	Need to undertake the full reconciliation and rectification thereafter.
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Risk Management and Internal Audit

No.	xxxx	Ref.	S12	Risk Owner	Head of Pensions	Updated	As G1
Risk	There is a risk of a Cyber Security attack corrupting systems and data and or stealing data. (See also L4 GDPR).						
Impact	There would be a service and reputational impact. Fines could be levied if inappropriate controls are considered to be in place.						
Controls	The Fund fits within the Councils main control environment. Business continuity plans are in place. The Council is Public Service Network compliant, with an annual test. The Pension Fund administration system has an independent penetration test. High level of staff awareness of malicious emails. Review of Business continuity plan completed, including staff workshops. Sit on Council's Cyber Security Working Group.						

Area	Service Delivery
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Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High	Critical	Critical
Possible	Min	Mod	High	Critical
Improbable	Min	Min	Mod xxxxx	High

Net Risk	Moderate	Strategy	Treat
Action Required	The Council is considering getting Cyber Essentials certification.		

Risk Management and Internal Audit

No.	xxxx	Ref.	S13	Risk Owner	Head of Pensions	Updated	As G1
Risk	The Fund's electronic web services are not available to either individual members or employers.						
Impact	Individual members cannot access services on line. This results in a reduced service to members and increases pressure on other modes of communication and information provision such as the helpline and by post. Employers cannot provide information to the Fund to process benefits and effectively maintain member records. Reputational impact if the system is continually unavailable.						
Controls	System scans and regular penetration tests are in place to ensure web services is not vulnerable to attack. Testing is in place prior to new modules going live. Within ICT there is a scheduled restart the servers running web services each evening. Microsoft SCOM monitoring is used which monitors the availability of the servers and the website. Any errors are displayed on screen, with emails sent to the Platform Team. In addition Pensions Technical Team have a morning routine to check web services is available. Civica UPM service desk manages any issues with web services with downtime allocated highest priority.						

Area	Service Delivery
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Impact / Likelihood	Negligible	Marginal	Significant	Substantial
Near Certain	Mod	High	Critical	Critical
Probable	Mod	High xxxxx	Critical	Critical
Possible	Min	Mod	High	Critical
Improbable	Min	Min	Mod	High

Net Risk	High	Strategy	Treat
Action Required	Continue to monitor. Meetings in place with Civica and ICT to review robustness of current controls. Actions identified will be implemented to reduce risk in future. Develop some KPIs on system availability.		

Risk Management and Internal Audit

The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:

Background Paper	File Ref:	File Location
Risk Register	n/a	Head of Pensions Office, South Shields Town Hall
Internal Audit Reports	n/a	Head of Pensions Office, South Shields Town Hall