



# South Tyneside Council

Local Pension Board  
Date: 28<sup>th</sup> March 2019

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## Risk Management and Internal Audit (for information and discussion)

Report of the Head of Pensions

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### 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.

## 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 Register in full each quarter.
  - The Committee receives an annual report on the Register in 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:
- 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.

### **Risk Management Workshop in September 2018**

10. At the Local Pension Board and Committee training event in September 2018, Deloitte facilitated a Risk Management workshop, which encouraged the Local Board and the Committee to identify a range of risks which were then scored.
11. The risks selected for scoring are set out below, along with a comment on how this scoring compares to the scoring in the Fund's risk register. These risks were scored both before and after controls were in place.
- **Loss of Key Personnel**  
  
The overall score was broadly similar when scored by the Local Board and the Committee when compared to the scoring by the Officers in the Risk Register.  
  
Risk S9 – Moderate risk (marginal impact and possible likelihood).
  - **Inappropriate Investment Strategy given the improved funding level**  
  
The overall score was broadly similar when scored by the Local Board and the Committee when compared to the scoring by the Officers in the Risk Register.

Risk A3 – Moderate risk (marginal impact and possible likelihood).

- **Impact on governance due to pooling arrangements**

The Local Board and the Committee scored this risk as Moderate (marginal impact and possible likelihood). The Officers in the Risk Register have scored this as High Risk (significant impact and possible likelihood). The difference is that a marginal impact is defined as minor short term, whilst significant impact is moderate short term. It could be argued that as the governance arrangements from pooling bed in the risk will reduce. At the current time however, it is proposed that this risk should be retained with as a high risk.

Risk G2 - High Risk (significant impact and possible likelihood).

- **Reputational damage due to holding unethical investments**

This risk was scored by the Local Board and the Committee as being Moderate (Marginal impact and possible likelihood). This risk was not included in the Risk Register at the time of the training, but a new risk has now been added. Whilst a risk to cover this issue has been added, the wording has been changed to reflect better the concern around this risk.

G3 – The wording on the Risk Register is “insufficient attention to environmental, social and governance (ESG ) issues can lead to reputational damage”. This has been scored as a moderate risk (marginal impact and possible likelihood).

- **Loss of data due to hacking or similar**

The overall score was broadly similar when scored by the Local Board and the Committee when compared to the scoring by the Officers in the Risk Register.

Risk A3 – Moderate risk (significant impact and improbable likelihood).

12. Overall the recommendations to come out of the risk management workshop and the actions taken are summarised in the table below;

<b>Recommendation</b>	<b>Action</b>
Consider whether any of the risks identified during the workshop should be included in the Fund’s risk register	The only risk not previously shown in the risk register related to unethical investments. This has been added but the risk has been redefined as noted above.
Consider whether any of the risks	A review has taken place and the Officers

currently included in the Fund's risk register are outside the Fund's control and should be removed.	are comfortable with the risks identified.
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Recommendation	Action
Alter the boundary limits for the asset impact risks, so that an impact of 1% of assets would have minimal impact	Done. This was notified to the Local Board at the last meeting in December.
Consider whether the Fund would benefit from subject matter expertise as part of its wider risk and governance framework	The Fund does use subject matter experts in a number of areas, such as investment advisors, actuary, external ICT supplies, internal ICT department. Where specific and significant risks are identified which require additional analysis other experts will be considered.

### Current Risk Register

13. The current version of the risk register was reviewed on 7<sup>th</sup> March 2019.

14. There were three changes to the risk register as part of the latest review:

Risk		From	To	Reason
Ref	Title			
S2	The pensions processing software system is not updated in a timely manner	Marginal/ Probable (High)	Marginal/ Possible (Moderate)	Civica has recently delivered the required transaction data, aggregation and re-calculation modules.  However, there needs to be caution going forward, as the delays to the cost cap calculation could result in changes to benefits which will require retrospective effect, which means manual calculations will need to take place until a system upgrade can be developed.

				Therefore, this risk may rise again in the future.
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Risk		From	To	Reason
Ref	Title			
S10	<p>Risk changed from</p> <p>Failure to reconcile GMP records with those of HMRC by the deadlines set by Government of October 2018</p> <p>To</p> <p>Failure to rectify the members GMP values following the GPM reconciliation process.</p>	Marginal/ Possible (Moderate)	Marginal/ Possible (Moderate)	<p>The reconciliation of records to HMRC has been completed, the exercise now moves to the rectification stage. There are no formal deadlines on this and further guidance is awaited.</p> <p>The risk has been retained at the same level until the final values are known.</p>
S11	The ongoing integration of Shared Services with Northumberland may cause additional processing problems	Marginal/ Possible (Moderate)	Deleted	The shared service arrangement is now considered to be fully bedded in and therefore this risk has been deleted.

15. The practice at the Local Pension Board is to review two risks in more depth at each quarterly meeting. One relatively high risk and one lower risk.

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

- G2 High 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.

This risk has been selected as it is the one discussed at the training in September where the views of the Local Board and the Committee and those of the Officers differed slightly, as noted above.

- S2 Moderate Risk – The pensions processing software system is not updated in a timely manner.

This risk has been selected as it has been downgraded following the latest review of the Risk Register in March 2019.

17. A discussion on these two risks will take place at the meeting.

18. 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

19. During the quarter, the following internal audit reports have been received;

#### Governance Review

This audit was undertaken by Deloitte and a rating of "Substantial Assurance" was provided. This is the highest level of assurance provided by Deloitte and is defined as, "Mitigations and monitoring activities accord with accepted good practice and are operating to a high standard".

This report is part of the external evidence to the Local Board and the Committee when considering their own self-assessment. A full copy of the report was provided to the Local Board at the training event in February 2019.

One medium priority recommendation was made and two minor priority recommendations. The medium priority recommendation is shown in the table below

Recommendation	Management Comment
<p>As more assets are invested through the BCPP pool, the Fund's Officers will have less oversight of investment managers and mandates. To replace this, the Fund should establish and implement a process for reviewing and monitoring assets held through the BCPP pool. This should be focused on reviewing the pool itself, following a similar procedure the Fund adopts when reviewing its investment managers.</p>	<p>Agreed. The first assets to transfer to BCPP were UK equities in mid December. The process to review and monitor these assets and mandates will initially be exactly the same as in place for the current managers. BCPP is attending the Investment Panel in early February and performance will be measured by Portfolio Evaluation. In the next few weeks the Fund's schedule of manager meetings will be drafted and it will include regular meetings with BCPP at both the Investment Panel</p>

	and with officers directly. In addition, the Joint Committee of BCPP will have a role in monitoring performance. Over time it may prove necessary to evolve the approach to monitoring BCPP.
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### GDPR Compliance, (including controls on Cyber Security)

This audit was undertaken by the Council’s Internal Audit team and was given a rating of “Substantial Assurance”. This is the second highest rating from the Internal Audit Team and is defined as “There is a sound system of control in place but some of the controls are not consistently applied or fully effective. Control objectives are largely achieved”.

One medium priority recommendation was made and six minor priority recommendations. The medium priority recommendation is shown in the table below

Recommendation	Management Comment
<p>The Fund liaise with employers to:</p> <ul style="list-style-type: none"> <li>Remind them of the need to be promptly notified of staffing changes</li> <li>Periodically review active web user accounts on UPM2 seeking confirmation records are up to date.</li> </ul>	<p>Agreed</p> <p>The Fund will send a mailshot to all employers to remind them that it is their responsibility to promptly notify the Fund of any changes to their authorised signatories and web services users and also regularly review these. Moving forward an annual reminder to this effect will be sent to all employers. In addition the Fund will produce and review a web services user activity report and flag inactivity with relevant employers.</p>

20. In addition to the two audits noted above which have been issued in a final format by Internal Audit, two other audits have been issued in draft, as follows;

- Property Portfolio – At the draft stage this is assessed as “Substantial Assurance” with two medium priority recommendations and one low priority.



- Data Quality - At the draft stage this is assessed as “Substantial Assurance” with one medium priority and two low priority recommendations.

21. Five further audits are also being progressed by Internal Audit, covering

- Shared Services
- Benefits
- Admitted Bodies
- Fraud Risks
- Business Continuity

22. The Local Boards views on the audit work set out above is requested.

### **Recommendation**

23. The Board is asked for its views on the Risk Register and the Internal Audit Programme.

### **Reason for Recommendation**

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

**Appendix**

**Risk Assessment Methodology**

**Impact**

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

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## Risk Management

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

<b>Background Paper</b>	<b>File Ref:</b>	<b>File Location</b>
Risk Register	N/a	Head of Pensions Office, South Shields Town Hall