



South Tyneside Council

Local Pension Board

Date: 17 December 2024

Risk Management and Internal Audit (for information and discussion)

Report of the Head of Pensions

Purpose of Report

1. This report contains information regarding the current Fund level Risk Register and provides an overview of 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.

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Background

4. Pensions 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 by officers, or more frequently if required, 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,
 - the Committee and the Board include risk management in their training programme.
6. The approach to the preparation, implementation and internal reporting of the internal audit programme is set out below:
 - An annual report, prepared by the Assurance and Risk Manager, is usually presented to the Committee at the June meeting and thereafter to the Local Pension Board. 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 Council's Internal Audit Service and Isio (internal audit partner).
 - 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 Pension Board at each quarterly meeting.
 - The Committee's attention will be drawn to any material audit findings.
7. Further information in relation to the processes around the Risk Register and the internal audit programme can be found in the Fund's Risk Management Policy. This policy document can be found at: [Plans and policies - Tyne and Wear Pension Fund \(twpf.info\)](https://www.twpf.info/plans-and-policies).

Approach to Managing and Reporting on Risks

8. The Fund must identify and control the risks that it faces as part of the ongoing delivery of the service.

9. 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.
10. The risks in the Risk Register are assessed on a net basis, i.e. the risk that remains after all appropriate controls have been applied. Each risk is then rated on a scale as one of the following:
- Critical
 - High
 - Moderate
 - Minor

Current Risk Register

11. The latest review of the Risk Register was undertaken on 20 November 2024. None of the risks have been assessed as Critical.
12. The most recent review of the Risk Register has seen two changes. These changes are summarised in the table below:

Risk		From	To	Reason
Ref	Title			
A9	That in the longer term the amount of cash coming into the Fund reduces to a level that is not sufficient to cover outgoings.	Probable / Negligible (Moderate)	Probable / Marginal (High)	Inter-valuation tracking shows a consistently high funding level and downward pressure on the contribution rate. At the same time the Fund is facing increased outgoings through pension payments and the private markets programme. The Fund has in recent years utilised investment

				income streams and options are now more limited going forward. Cashflow is likely to become increasingly challenging from 1 April 2026.
G5	As a result of hybrid working, the Fund may be unable to meet the more significant actions in the Service Plan. This includes, but is not limited to, the implementation of the Investment Strategy, McCloud and responding to Governance initiatives.	RISK DELETED		This risk was first introduced at the time of the Covid pandemic and the impact it would have on service delivery. The nature of the risk was subsequently changed following the pandemic as we moved to a new hybrid way of working. The hybrid way of working is now fully embedded, and this risk is now considered unnecessary duplication with risk S14. Officers have decided to delete this risk following some minor amendments to the impact of risk S14 (as shown in grey shading).

13. The general 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. For this quarter, the two risks selected are:

- **S14 - High Risk (Likelihood – Probable / Impact – Marginal) - Failure to develop and introduce improved working practices as part of move to Modern Workplace programme, leads to a reduction in productivity.**

This risk is one that poses significant challenge to the Fund. Subsequently we have widened the impact of this risk to take account of the fact that this risk does not just apply solely to backlogs of work and processing but can have a significant impact on all service plan objectives across the Fund and affect the implementation of the Investment Strategy.

We must also be mindful that with the shared Teesside Pension Administration Project ongoing, we must utilise opportunities for learning and using best practice to produce a modern, fit for purpose, service in keeping with the contractual arrangements that were agreed.

The Council have made a number of ICT improvements that have increased the effectiveness of homeworking for staff. We closely monitor and implement where appropriate the new initiatives introduced by the Modern Workplace Programme utilising the Modern Workplace Champions designated within our service areas.

We review our Fund processes to continue to streamline operations where possible to make remote working more efficient (for example the uploading of certificates). Staff have returned to the office to ensure a balanced approach to service delivery.

We continue to utilise digital and automative technology where available.

We work with our external service providers, such as Civica, to identify areas for improvement, development and efficiency.

- **F1 - Moderate Risk (Likelihood – Possible / Impact Marginal) – The funding level worsens or falls below 100%, due to outturn differing from valuation assumptions.**

This risk, although a moderate one, is very important as the resulting impact could be increased financial cost to our Employers. This in turn could cause increased employer contributions putting further pressure on employers and increasing their risk of financial failure.

To avoid this risk manifesting, we have a number of controls in place. Valuation assumptions are discussed and agreed with the actuary. Exit valuations for orphan liabilities have a matched strategy. We have considered the use of inflation and interest rate protection with Hymans Robertson – but determined that no action required at present. We are subject to increased scrutiny of valuation strategies and assumptions by Government Actuary's Department (GAD). The GAD Section 13 report received earlier this year raised no concerns for our Fund, which confirms the controls we have in place are effective.

Aon provide quarterly funding updates during non-valuation years which allows us to understand the movement of the Funding Level.

Work is underway for the 2025 Valuation. Although the Fund is currently well-positioned, we remain months out from the key valuation date (31 March 2025) and the position can change. It is therefore too early to assume reductions in contributions for employers.

14. A copy of the full Risk Register is available on the Extranet and has been emailed to Board members as a supporting document to the main agenda pack. A hard copy version can be provided upon request.

2023/24 Audit Programme

15. The audit plan for 2023/24 is now complete.
16. Since the last report to the Board, the final audit of this cycle concluded and is set out below.
17. **Performance Management Audit.** A rating of Substantial Assurance was awarded by South Tyneside Council, who conducted the audit. This is the second highest level of assurance that can be achieved.

From the audit there were two recommendations made, one of which was a medium priority and one of which was a low priority. Details of the recommendations and the management response are shown in the table below:

Recommendation	Management Response
<p>(Medum)</p> <p>To ensure a clear and consistent approach for the extraction, interpretation, measuring and reporting of data, TWPF should:</p> <ul style="list-style-type: none"> • Develop a guidance manual clearly setting out how the process works which uses standard definitions / terminology across the UPM systems reports and processes. • Ensure issues identified with the data quality are addressed. • Instigate an appropriate quality assurance process to identify and correct any further spurious data. 	<p>As noted in relation to the deceased members name being returned on the mitigation list, we are aware of this. It has no impact on calculating the PI data or mitigation list and this is discounted. Processes will be updated to remove this field when the data is downloaded. This has also been logged as a bug with our software supplier.</p> <p>Manuals and working instructions have been reviewed, this is ongoing as changes/updates are made to how we report on PI data and/or the mitigation list.</p> <p>Throughout 2024 we have been reviewing the presentation of our reports for PI Data, this is under review and as part of this, guidance and quality assurance processes will be updated.</p> <p>Considering everything we have outlined as measures we already</p>

	<p>have in place, we do not feel further action is required in relation to this recommendation.</p>
<p>(Low)</p> <p>Pension Fund management to review and re-baseline it's list of PI's, reflecting this in an updated version of the Service Standard document and have the updated list formally signed-off by Pensions Committee & Local Pensions Board.</p>	<p>To ensure a clear and consistent approach for the extraction, interpretation, measuring and reporting of data, TWPF should:</p> <ul style="list-style-type: none"> • Develop a guidance manual clearly setting out how the process works which uses standard definitions / terminology across the UPM systems reports and processes. • Ensure issues identified with the data quality are addressed. • Instigate an appropriate quality assurance process to identify and correct any further spurious data.

2024/25 Audit Programme

18. The 24/25 Audit Programme was approved at March 2024 Committee. The programme is underway and since the last report, we have received two completed audits:
19. **TWPF Admissions Audit.** Received Full Assurance (which is the highest level of assurance) and there were no subsequent recommendations from this audit.
20. **Employer Covenant Audit.** A rating of Full Assurance was awarded by South Tyneside Council, who conducted the audit. This is the highest level of assurance that can be achieved.
21. From the audit there was one recommendation made, which was a low priority. Details of the recommendation and the management response are shown in the table below:

Recommendation	Management Response
<p>(Low)</p> <p>The Governance and Funding Manager should where contribution payment information is not received request this from Financial Control, Loans and Investments Team on a monthly basis.</p>	<p>The Governance and Funding Team work closely with the Financial Control team to monitor contributions paid and resolve overdue contributions. The procedure for reporting on the monitoring carried out has been refined over recent months and now includes:</p> <ul style="list-style-type: none"> • reporting of monthly monitoring carried out by officers in the Financial Control Team; • the sharing of a completed monthly spreadsheet to record contribution income, late payers and non-payers; • for consistent non-payers, a summary of what action has been taken to date ensuring there is a sufficient audit trail of the action taken by the Fund to rectify the matter; and • a quarterly update provided by the Finance Manager to consider any breaches of the law which may need recording or reporting to the Pensions Regulator and to identify patterns of systemic failure. <p>The Governance and Funding Manager monitors receipt of both the monthly and quarterly updates to ensure receipt.</p>

Recommendation

22. The Board is asked for its views on the Risk Register and the internal audit programme.

Reason for Recommendation

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

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