



South Tyneside Council

Local Pension Board

Date: 28 March 2025

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 10 March 2025. None of the risks have been assessed as Critical.
12. The most recent review of the Risk Register has seen two changes and one deletion. These changes are summarised in the table below:

Risk		From	To	Reason
Ref	Title			
G1	There may be a lack of knowledge and understanding by the Committee and Local Pension Board.	Near Certain / Marginal	Probable / Marginal	This risk was previously increased in likelihood at the start of this municipal year given the high level of turnover on Pensions Committee. Following the level of engagement in training over this last year, this risk is now being reduced in likelihood to reflect the growing knowledge levels.

A13	Following the move to asset pooling and the transfer of assets to Border to Coast this may not result in an improvement in net returns (See also G2).	RISK DELETED		This risk was introduced at the time of the Government's requirement to pool assets and is largely a transitional risk. Asset pooling is now well established, and this risk is considered unnecessary duplication with risk A7.
S2	The pensions processing software system is not fully updated in a timely manner and poor version control leads to a deterioration in the functionality.	Probable / Marginal	Near Certain / Marginal	Following organisational review, and loss of several key people, expected service levels have dropped at our administration software service provider which has impacted on general system development.

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:

- **A9 - High Risk (Likelihood – Probable / Impact – Marginal) - 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 risk is one that poses significant challenge to the Fund. Subsequently we increased the likelihood of this risk back in 2023. If this risk manifests, and the controls and mitigations in place are insufficient, the decreased cash flow could affect our ability as a Fund to meet large cash requirements such as paying pensions and / or funding the private market programme.

We conduct monthly monitoring of cash flow and of membership movements. We also have Asset Liability Modelling (ALM) work undertaken to model the optimal investment structure. Although our current cash flow position indicates that the Fund can continue to manage its private markets programme and stay cashflow positive (including investment income), this is a position that we need to closely monitor. Subsequently we have moved some LGIM investments and Border to Coast IGC and MAC to income producing units.

As the 2025 Valuation approaches, we will continue to monitor the cashflow position and consider turning on income from LGIM Future Worlds and Border to Coast equity mandates.

We will also review the process for reconciling cashflows in preparation for monthly contributions posting.

- **L5 - Moderate Risk (Likelihood – Probable / Impact Negligible) – The Fund provides inappropriate or incorrect information and guidance to a member.**

This risk, although a moderate one, is very important as the resulting impact could cause financial and reputational damage to the Fund. We do not want to be providing inferior services to our members. We also do not want to risk public censure and financial penalties imposed by regulators as a result of giving incorrect information and guidance. If this does happen then there is a risk of requirement to pay restitution.

To avoid this risk manifesting, we try to ensure that general issues are addressed through staff training. This is particularly important with newer staff members in their ongoing induction to the Fund, but also repeating this with more experienced staff members. Ultimately staff are advised that the Fund cannot give advice.

We regularly review our communications to ensure that the information and guidance provided is up to date and in accordance with any regulatory changes. As further mitigation, we are looking to develop a formal control document for amendments and reviews of template communications to ensure better version control.

At present, we are monitoring the position of annual benefit statements in relation to McCloud as this could impact the information given out to members, so needs to be correct and considered.

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.

2024/25 Audit Programme

15. 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:
16. **TWPF Benefit Awards.** Received Full Assurance (which is the highest level of assurance from South Tyneside Council). There was one low priority recommendation from this audit as outlined below.

Recommendation	Management Response
<p>(Low)</p> <p>The Principal Pensions Manager should reinforce to staff the need for robust checks when entering key information into UPM.</p>	<p>Agreed.</p>

17. **TWPF Governance Audit (ISIO).** A rating of Substantial Assurance was awarded by ISIO, who conducted the audit. This is the highest level of assurance that can be achieved on the ISIO rating.

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

Recommendation	Management Response
<p>(Medium)</p> <p>Consideration of use of an independent advisor - Both the Pensions Committee and Local Pensions Board are well supported by the Officers of the Fund. However, as highlighted in 2019, some consideration could be given to whether the Officers would benefit from the views of an independent investment advisor. The recent Mansions House proposals also state the advantage of an independent advisor as the regulatory landscape evolves and there is a possibility appointing an independent advisor becomes mandatory.</p> <p>Since 2019, the role and benefits of the independent advisor has become increasingly commonplace across the LGPS landscape for funds of comparable scale over the recent 5 years. Given the time passed, and evolution within the industry, we recommend the Fund performs an updated periodic review of the potential merits of an independent advisor in the current environment and on an ongoing basis to ensure that the current arrangements are still fit for purpose.</p>	<p>Whilst we are currently comfortable with the existing position, with Committee supported by Officers, the Investment Advisor (Hymans Robertson), the Fund Actuary (Aon) and Fund Managers (including Border to Coast), we are very mindful of the changing LGPS landscape. We agree that the position needs to be kept under review, particularly in the context of the LGPS: Fit for the Future proposals. It is planned for the Fund to review this position in greater detail over the next 6 - 12 months and consider the value of appointing an independent advisor.</p>

<p>(Low)</p> <p>Independent Board members - The Board currently operates a three-year cycle, with four member and employer reps each. There is no staggering and therefore a risk of a 'cliff-edge' in knowledge retention. Whilst we appreciate there are disadvantages as well of staggering, and the training provision and high prospective rep engagement helps mitigate this to some extent, there is still remaining risk.</p> <p>We therefore recommend that the Board considers the appointment of independent members, who could both provide continuity at the end of the employer/employee rep cycles, as well as providing wider experiences and insight from industry.</p>	<p>This issue has previously been considered and the conclusion reached was that the Board functions well with the current mix of employer and scheme member representatives. Notwithstanding this, we understand the "cliff edge" risk that has been flagged and acknowledge this could materialise. We are comfortable with the Board as it is currently constituted, and we believe the Board is functionally well. However, we again acknowledge the changing LGPS landscape and therefore believe this issue should be considered afresh ahead of the next Board term.</p>
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Recommendation

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

Reason for Recommendation

20. 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