



LOCAL PENSION BOARD – 4 MAY 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT AND INTERNAL CONTROLS

Purpose of the Report

1. The purpose of this report is to inform the Board of any changes relating to the risk management and internal controls of the Pension Fund, as stipulated in the Pension Regulator's Code of Practice.

Background

2. The Pension Regulator's (TPR) code of practice on governance and administration of public service pension schemes requires that administrators need to record, and members be kept aware of 'risk management and internal controls. The code states this should be a standing item on each Pension Board and Pension Committee agenda.
3. In order to comply with the code, the risk register and an update on supporting activity is included on each agenda.

Risk Register

4. Following Hymans suggested best practice the Fund's existing risk register has been reviewed and the risks split into six different risk areas. The risk areas are.
 - Investment risk
 - Liability risk
 - Employer risk
 - Governance risk
 - Operational risk
 - Regulatory risk
5. The new risk register was presented to and approved by the Local Pension Committee in March 2022 and is attached as an appendix to this report. In addition to the six risk areas, Officers have made several changes as follows.

- Risk 3 (Investments) – Failure to take account of all risks to future investment returns within the setting of asset allocation policy and/or the appointment of investment managers

The residual risk has increased whilst Officers work on the Fund's Climate Strategy.

- Risk 5 (Employers) - If the Pension Fund Fails to receive accurate and timely data from employers, scheme members pension benefits could be incorrect or late.

Failure in this area is low and controls are already in place and work well. However, to improve this area further the Pensions Manager is investigating greater use of bulk processes to enable improved automation and less requirement from the Fund employers for certain types of leavers, relying on the IConnect monthly submissions. Improved changes will be made working with Internal Audit.

- Risk 9 (Governance) – Sub-funds of the individual employers are not monitored to ensure there is the correct balance between risk to the Fund and fair treatment of the employer

The residual risk score has increased while Officers assess the employers Fund risk as part of the Fund Valuation.

- Risk 13 (Operational) - Human error in the Pension Section in calculating a pension.

Following the overpayment of a pension where the widows short term pension continued in error, the Pensions Manager has expanded the existing risk to include the Fund's new over and underpayment policy that was approved by the Local Pension Committee on the 21 January 2022. Officers are developing a detailed report, using the new Insights product, to identify discrepancies between the administration and payroll sides of the pensions administration system more quickly.

- Risk 14 (Operational) - If transfer out checks are not completed fully there could be future bad advice challenges brought against the Fund.

The Board suggested the current "no win no fee" challenges the Fund is receiving from Claims Management Companies on historic transfers out should be incorporated into the current transfer risk. The Fund is currently mitigating this risk working closely with an external Legal Company that specialise in this pensions area.

- Risk 15 (Operational) - Failure to identify the death of a pensioner causing an overpayment, or potential fraud or other financial irregularity.

Following the recent Internal Audit and National Fraud Initiative (NFI) work, the Pensions Manager has implemented a change to how often overseas

NFI checks are completed. This will now take place twice a year, rather than once every two years.

- Risk 16 (Regulatory) - McCloud Remedy – Increased administration.

As identified at the last meeting the 2016 Cost Cap challenge could result in the Pension Section potentially revising certain scheme member benefits. Because revising member benefits is already within the McCloud resolution, the Board suggested the 2016 Cost Cap is incorporated into the McCloud risk, given the increased administration.

6. To meet Fund Governance best practise, the risk register has been shared with Internal Audit. Internal Audit have considered the register and are satisfied with the current position.

Recommendation

7. It is recommended that the Board notes the revised risk register of the Pension Fund.

Equality and Human Rights Implications

None

Appendix

Appendix - Risk Register

Officers to Contact

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