



# South Tyneside Council

Local Pension Board

Date: 4<sup>th</sup> July 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.

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## **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:
  - 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. This review resulted a number of changes to the risk register and the approach adopted in scoring asset based risks. Further detail on these changes were reported to the Board at its meeting in March 2019.

### Current Risk Register

12. The current version of the risk register was reviewed on 14<sup>th</sup> June 2019.
13. There were two changes to the risk register.

Risk		From	To	Reason
Ref	Title			
A1	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	Marginal/ possible (moderate)	Negligible/ possible (minor)	The current estimate of the funding level is around 105%; this is largely due to improved investment performance. Consideration to be given to moving this category to improbable once the final position is confirmed.

S13	The Fund's electronic web services are not available to either individual members or employers	new risk	marginal/ probable (high)	Recent problems have been encountered with the stability of the platform for providing electronic services. This is now a more significant issue with the Fund moving to self-service provision to individual members. At the current time problems are being encountered on a monthly basis. Until greater stability can be provided this risk will be regarded as a High risk.
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14. 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.

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

- A1 minor risk - 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.

This risk has been selected because it has been downgraded due to the funding level being in excess of 100%.

- S13 high risk – the Fund's electronic web services are not available to either individual members or employers.

This risk has been selected because it is a new risk.

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

17. 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".

18. The Board's view was that the rating is too high, bearing in mind the current control measures and the actions as detailed.

19. 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.
20. 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”.
21. In this case, the risks likelihood 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.
22. Deloitte will be undertaking a due diligence review of pooling arrangements in 2019/20. Following this review, these two risks will be reassessed.
23. 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

24. During the quarter, six audit reports have been received. Details of the assurance levels and any high and medium priority recommendations are shown in the sections below. At the request of the Local Board details of the low priority recommendations are shown in the appendix.
25. The assurance levels adopted by Internal Audit are as follows:

Definition	Description
Full Assurance	There is a sound system of controls in place and those controls are consistently applied and are fully effective. Control objectives are fully met.
Substantial Assurance	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.
Moderate Assurance	There is basically a sound system of controls in place but there are weaknesses and evidence of non-compliance with or ineffective controls. Control objectives are often achieved.
Limited Assurance	The system of control is weak and those controls are consistently applied and there is evidence of non-compliance with the controls which do exist. Control objectives are sometimes achieved.
No Assurance	There is no system of control in place and control objectives are rarely or never achieved.

## Northumberland County Council Pension Fund Administration

This audit was undertaken by the Council's Internal Audit team and was given a rating of "Full Assurance". This is the highest rating.

There were two medium priority recommendations, as shown below.

Recommendation	Management Comment
<p>Management to document "Lessons Learned", recording areas of best practice and areas where improvements could be made in the event of a future arrangement. If a future shared service is established, management should ensure that sufficient lead in time is available to ensure the timely transfer of staff and the potential delays that may occur.</p>	<p>A post live action plan was produced which identified a number of issues including a number of lessons learned. A more formal summary of lessons learned will be compiled. There was no suggestion that the Northumberland shared service did not allow sufficient time. It should be noted however, that control over lead in times may not always be possible and or within the Fund's control. The Fund will endeavour to allow as much time as possible with any project of this nature.</p>
<p>To ensure there is sufficient workspace capacity within the team, alternative methods of working to be considered, e.g. home and off site working, to ensure minimum organisational disruption.</p>	<p>Resources and workspace are regularly monitored to ensure sufficient capacity. Home and offsite working is not always practical due to network working speeds when not at a Council site. Currently there are no alternative solutions to negate this. However, the Fund will embrace new technologies as they are made available within the Council.</p>

## Benefit Awards – Ill Health Retirements

This audit was undertaken by the Council's Internal Audit team and was given a rating of "Full Assurance". This is the highest rating.

There was one low priority recommendation, detail of which is shown in the appendix.

## Property Portfolio

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.

There were two medium priority recommendations, shown below, and one low priority recommendation which is shown in the appendix.

Recommendation	Management Comment
Pension Team Management to ensure property rental income received from the Property Manager is posted promptly to Pension Fund General Ledger cost centre.	<p>Going forward, rental income will be posted to the general ledger each month.</p> <p>Other control measures, such as regular meetings with Aberdeen Standard provide a high degree of assurance in this area. Going forward, the aim will be to post rental income each month, but this is considered to be an improvement in practice rather than addressing a control weakness.</p>
Management, in order to ensure the property portfolio meets building compliance regulations, to request regular updates and reports from the Property Manager. A review of contractual responsibilities with regards to building compliance legislation to be undertaken to ensure consistency.	<p>The contract with the managing agent includes a role on buildings compliance tenant obligations. We are satisfied that any issues identified will be reported on an exception basis. We are therefore comfortable in relying on the existing arrangements and do not believe that the introduction of additional processes is necessary. Following discussions with Aberdeen Standard, this is entirely consistent with what they see in the commercial property ownership sector.</p>

### Fraud Risks

This audit was undertaken by the Council's Internal Audit team and was given a rating of "Full Assurance". This is the highest rating.

There were no areas of concern identified or recommendations made.

### Business Continuity

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.

This is an area identified by the Local Pension Board for review. The Boards views are requested as to whether they want an additional report to the Local Board, including further details on the Business Continuity arrangements, or whether they are satisfied with the outcome of this audit report.

There were three medium priority recommendations, shown below and one low priority recommendation, which is detailed in the appendix.

Recommendation	Management Comment
TWPF update its current Business Continuity Plans in-order to comply with revised corporate BCP template.	Immediately following the audit work the Pensions Business Continuity Plans were moved to the new Corporate Template. Subsequently, however, a further revised template has been produced. We have discussed with this the team who co-ordinate this work within the Council and they are comfortable that there is no urgency to move to the latest version.
TWPF liaise with South Tyneside Councils Payroll Team to ensure appropriate processes are in place to facilitate the re-running of a monthly Pension payroll file should the need arise.	Discussions around this have already commenced, but have not been finalised. The Principal Pensions Manager will liaise with the Council's Payroll Team to ensure a mechanism is in place to facilitate payments based on the previous month.
TWPF develop 'battle boxes' stored in a secure off site location to hold details of communication plans (including contact details of key staff and suppliers) alongside other documentation and other resources which may be needed should an incident occur.	Essential documents, including communication plans contact details etc are retained by key staff, as part of the Business Continuity Plans. In addition, Battle Boxes are being compiled for storage at the Council's Major Incident Room, which is a remote location.

### Data Quality

This audit was undertaken by the Council's Internal Audit team and was given a rating of "Full Assurance". This is the highest rating and is defined as "There is a sound system of controls in place and those controls are consistently applied and are fully effective. Control objectives are fully met".

There was one low priority recommendation, detail of which is shown in the appendix.

### Cash Flow Management

This audit was undertaken by the Council's Internal Audit team and was given a rating of "Full Assurance". This is the highest rating.

There were no areas of concern identified or recommendations made.

26. The low priority recommendations in all of the above reports, and the management responses, are appended to this report.
27. Further audits are planned for the financial year 2019/20, covering the following areas.
- Admitted Bodies
  - Governance
  - Due Diligence Review of Pooling Arrangements
  - Payroll Processing
  - Contributions
  - Benefit Awards – Normal Retirements
  - Investment Managers
  - Performance Management
  - Pension Queries
28. Planning for the 2020/21 financial year has already started, and a programme of activity will be determined in due course. Early indications are that there will be a risk management workshop at the September 2020 training event.
29. The Local Boards views on the audit work set out above is requested.

### **Recommendation**

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

### **Reason for Recommendation**

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

## Appendix

## Risk Assessment Methodology

## Impact

Impact/Area	Negligible	Marginal	Significant	Substantial
<b>Governance</b>	Little or no impact	Minor short term	Moderate short term	Sustained
<b>Assets</b>	Less than 1% of asset	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

## Appendix

## Internal Audit Reports – Low Priority Recommendations

Recommendation	Management Comment
<p>Benefit Awards – Ill-health Retirements:</p> <p>Pensions Team to ensure, where Tier 3 Ill-health has been awarded, the 18 month review request is issued to the member's former employer in a timely manner to allow completion of the re-assessment.</p>	<p>A report of tier three ill-health awards approaching 18 month is already in place and produced as part of the Pensions Office's monthly diary routine. Cases are identified three month prior to the 18 month date. Staff will be reminded to ensure any notifications are acted on in a timely manner.</p>
<p>Property Portfolio:</p> <p>Procurement Procedure Rules to be reviewed to reflect the Pension Fund's current arrangements and values.</p>	<p>The Pension Fund uses the Council's procurement procedure rules. Any changes to the rules are automatically applied.</p>
<p>Business Continuity:</p> <p>The BCP's in place should be regularly reviewed, tested and then updated to account for issues identified as part of the testing process.</p>	<p>Plans are reviewed annually and when a material change occurs.</p> <p>A business continuity workshop was undertaken in early 2019, including test scenario's which identified a number of issues which have been updated in to the Business Continuity Plans.</p> <p>Further workshops and testing will be arranged as appropriate.</p>
<p>Data Quality:</p> <p>To aid reconciliation between reported outcomes and actual results, consideration be given to linking the summary results table directly to supporting documentation.</p>	<p>The data improvement plan will be improved to include version control and date of the most recent data validation exercise.</p>



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## Risk Management and Internal Audit

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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
Internal Audit Reports	n/a	Head of Pensions Office, South Shields Town Hall