

# Pensions Audit Sub Committee

**2.30 p.m., Tuesday, 23 June 2015**

## Risk Management Summary

Item number	5.4
Report number	
Executive/routine	
Wards	All

### Executive summary

In line with the pension funds' ongoing risk management procedures, this paper provides an overview of the risk analysis for Q1 2015 for consideration by the Committee.

### Links

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Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

## Risk Management Summary

### Recommendations

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- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 That the Committee notes the Quarterly Risk Overview and highlights any points that it would like raised at the Pensions Committee on 24 June 2015.

### Background

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- 2.1 The pension funds' risk management procedures require us to:
  - 2.1.1 maintain a detailed operational risk register which sets out all the risks identified and assessed by the officers on an ongoing basis, the degree of risk associated in each case and our action to mitigate these risks (the **"Operational Risk Register"**); and
  - 2.1.2 produce a summary report of the risk register for the Pensions Committee and the Pensions Audit Sub-Committee which highlights the material risks facing the pension funds and identifies any new risks/concerns and the progress being made over time by the officers in mitigating the relevant risks (the **"Quarterly Risk Overview"**).

### Main report

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- 3.1 The Operational Risk Register has been issued to the conveners of the Pensions Committee and the Pensions Audit-Sub Committee.
- 3.2 The Quarterly Risk Overview, as at 14 May 2015, is set out in the appendix to this report for consideration.

### Measures of success

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- 4.1 Improved visibility of the risks facing the pension funds and progress in analysing/mitigating these risks. Regular, focused and relevant risk updates to the Committee should increase general awareness and allow productive analysis/feedback by the Committee members on these fundamental issues.
- 4.2 Ultimately, risk management should lead to less third party exposure, an improved financial position and have a positive impact on the reputation of the pension funds.

## Financial impact

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5.1 There are no direct financial implications as a result of this report.

## Risk, policy, compliance and governance impact

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6.1 Please see the Quarterly Risk Overview appended to this report.

## Equalities impact

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7.1 None.

## Sustainability impact

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8.1 None.

## Consultation and engagement

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9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

## Background reading/external references

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None

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## Links

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### Coalition pledges

**Council outcomes** CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed

### Single Outcome Agreement

**Appendices** Appendix 1 – Quarterly Risk Summary, as at 14 May 2015.







## QUARTERLY RISK OVERVIEW

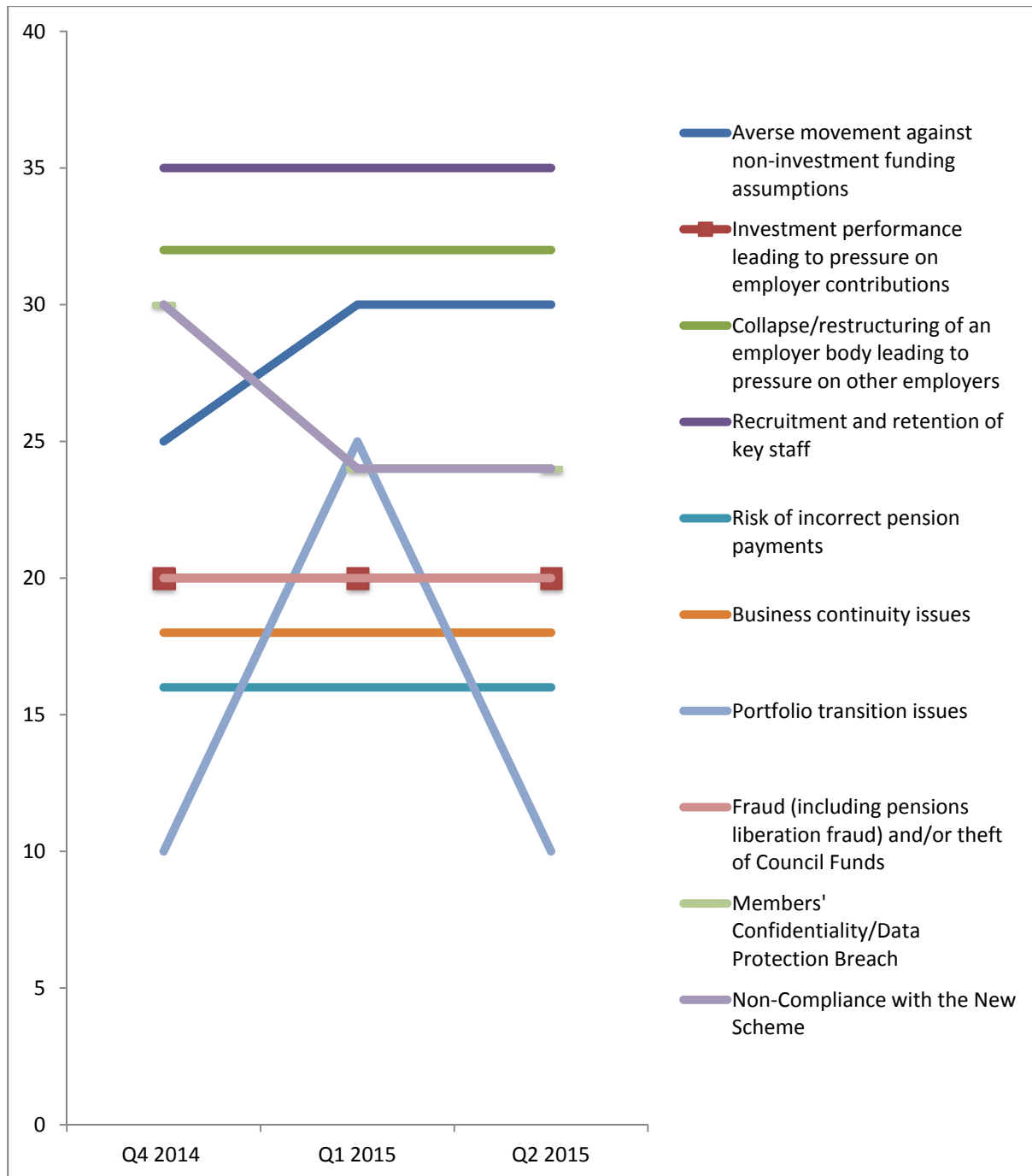
14 May 2015

### UPDATE ON MOST NOTABLE RISKS

Risk & Reference Number	Update	Trend/RAG
<b>Adverse Investment performance leading to pressure on employer contribution (1)</b>	The new lower volatility investment strategy continues to be implemented to mitigate this risk and more detailed reporting on the Investment Strategy is covered elsewhere on the agenda.	Static 
<b>Adverse movement against non-investment funding assumptions leading to pressure on employer contributions (2)</b>	The 2014 actuarial valuation is complete and experience against funding assumptions and employer contributions has been assessed. See also below regarding impact on employers.	Static 
<b>Collapse/restructuring of an employer body leading to pressure on other employers (3)</b>	The revised funding approach for employers close to exiting the Fund reduces the risk to the Fund and the other employers. We continue to engage with a group of smaller employers within the Fund regarding the potentially adverse financial impact of the revised funding strategy arising from the 2014 valuation. This is covered elsewhere on the agenda.	Static 
<b>Recruitment and retention of key staff (4)</b>	The new corporate structure is now in place, with the affected investment staff having TUPE transferred to LPFE Limited on 1 May 2014. This risk remains high due to the continued improvement in UK economic and market conditions in the private sector. External HR consultancy resource for LPFE Limited is being put in place and it is anticipated that this risk will therefore reduce during the course of Q2 2015.	Static 
<b>Members' Confidential Data is lost or made public / breach of Data Protection Act (12)</b>	There have continued to be several minor and unrelated administrative errors in mailing leading to the inadvertent disclosure of members details. The team continue to be made aware of their obligations in this regard and certain additional manual checks have been introduced. We await a response from the provider of the pensions administration software before we are able to finalise the cost/benefit analysis of outsourcing certain printing and mailing functions.  We are continuing to liaise with the Information Compliance team to separately register the two corporate vehicles with the Information Commissioner as data controllers and this process is now near to being finalised. We have also provided input to the Information Commissioner's audit of the City of Edinburgh Council.	Static 

Risk & Reference Number	Update	Trend/RAG
<b>Business continuity issues (11)</b>	<p>The Pensions Audit Sub-Committee, at its meeting on 16 June 2014, requested that the Director of Corporate Governance considers whether a test of the disaster recovery system (of the pension administration system) was necessary to establish sufficient assurance. The software system for pension administration is hosted by the supplier. In February 2015, the supplier tested and verified the recovery of servers from its outsourced provider for both the core administration and the member self-service platforms. The Fund was able to access this test data. The Fund has also requested a comprehensive report on the testing procedures and outcome from the supplier. Receipt of this report is overdue and the matter has been raised with the supplier's senior management.</p> <p>We anticipate that business continuity risk will further reduce following the conclusion of the Council's ICT tender in the summer of 2015.</p>	<p><b>Static</b></p> 
<b>Non-compliance with the new LGPS Scheme in Scotland / Public Service Pensions Act 2013 (26)</b>	<p>Implementing the new scheme from 1 April 2015 continues to place an increased pressure on existing resources, with staff being involved in presentations across the Lothians.</p> <p>Whilst the pension administration software has been updated for LGPS2015, some changes remain outstanding including transfers and late retirements. This is causing delay of processing in some instances. We continue to engage with the software provider.</p> <p>We have scheduled an Internal Audit assessment of our compliance with the new scheme for Q3 2015 and will report back to the Pensions Committee on the findings of that review.</p>	<p><b>Static</b></p> 
<b>Over-reliance on single service provider for core functions (31)</b>	<p>We continue to monitor the position in relation to our core providers and are looking to put in place arrangements to further mitigate this risk where it exists in relation to our Pension Administration systems, as far as this is possible.</p>	<p><b>Static</b></p> 
<b>Portfolio Transition Issues (17)</b>	<p>As anticipated, the risk has reduced following the successful completion of the transition. We would not anticipate any escalation or detailed reporting of this risk until such time as a further transition is required.</p>	<p><b>Down</b></p> 

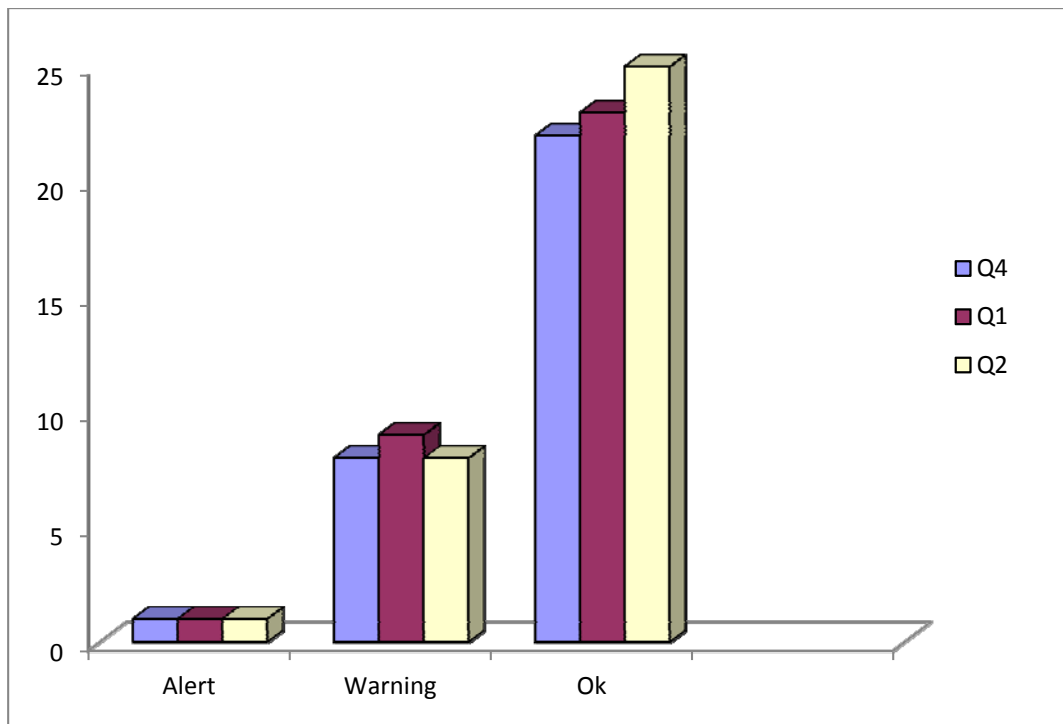
**NOTABLE RISKS: PROGRESSION OF CURRENT RISK (ACCOUNTING FOR CONTROLS) IN LAST THREE QUARTERS**



## OTHER KEY POINTS

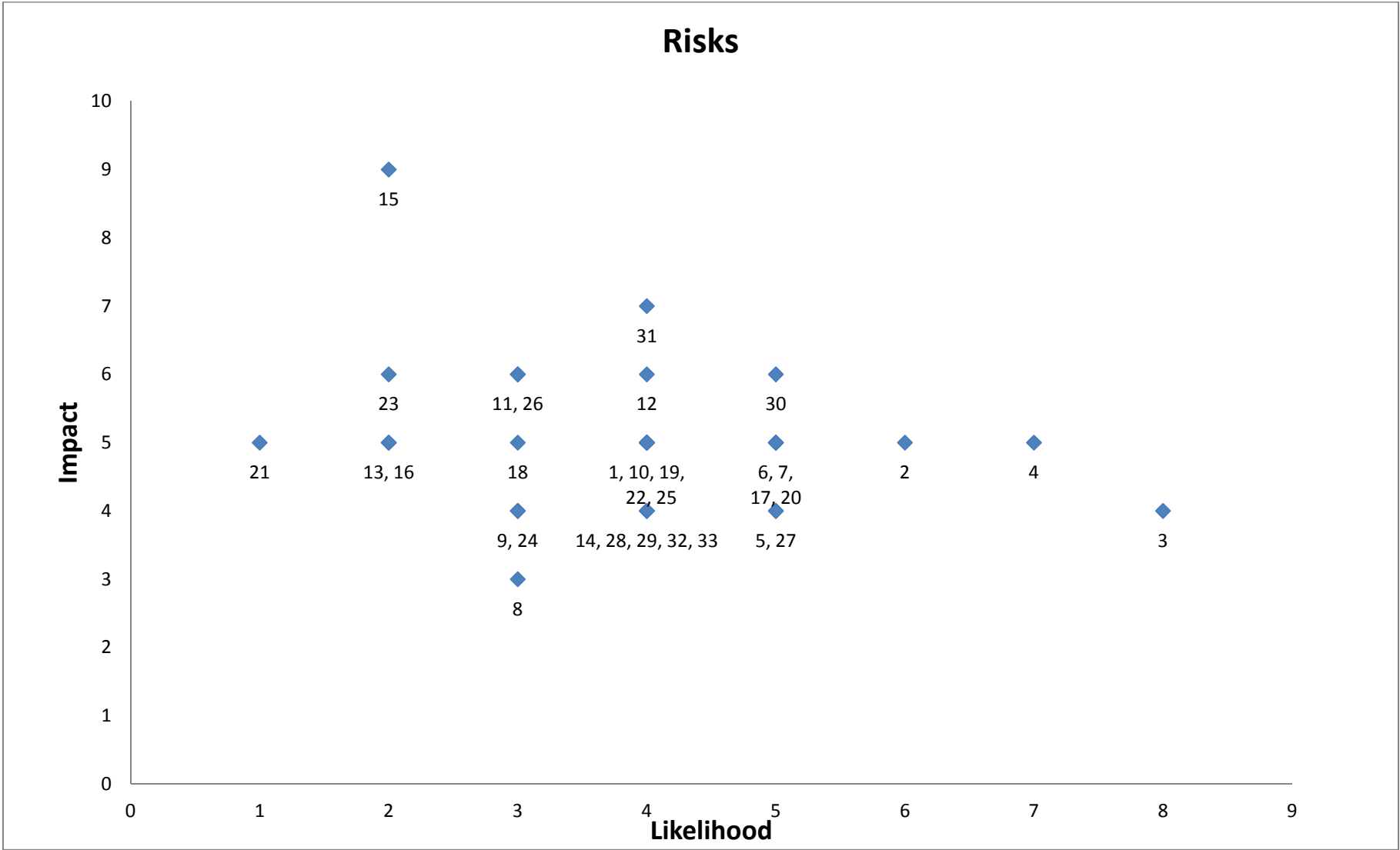
	Comments
<b>New significant risks</b>	None
<b>Other new risks</b>	None
<b>New controls</b>	HR resource, including external advice, in place for FCA/Staffing project. (4)
<b>Eliminated risks</b>	Failure to complete annual accounts on time (a routine business process).
<b>Notable initiatives / actions</b>	<p>Liaising with Falkirk Council to ensure procedures for the secondment arrangement are embedded. (27)</p> <p>Recruitment of Legal &amp; Compliance support in progress, albeit we will not have a legal trainee for the six months from March – August 2015. (32)</p>
<b>Material Litigation</b>	<p>None.</p> <p>Please however note that ongoing discussions with certain employers around the implementation of the funding strategy have require us to put in place appropriate caveats in the relevant courts to ensure we receive early warning of any action to interdict the Fund in implementing its business or otherwise.</p>

## All Risks: Status Overview

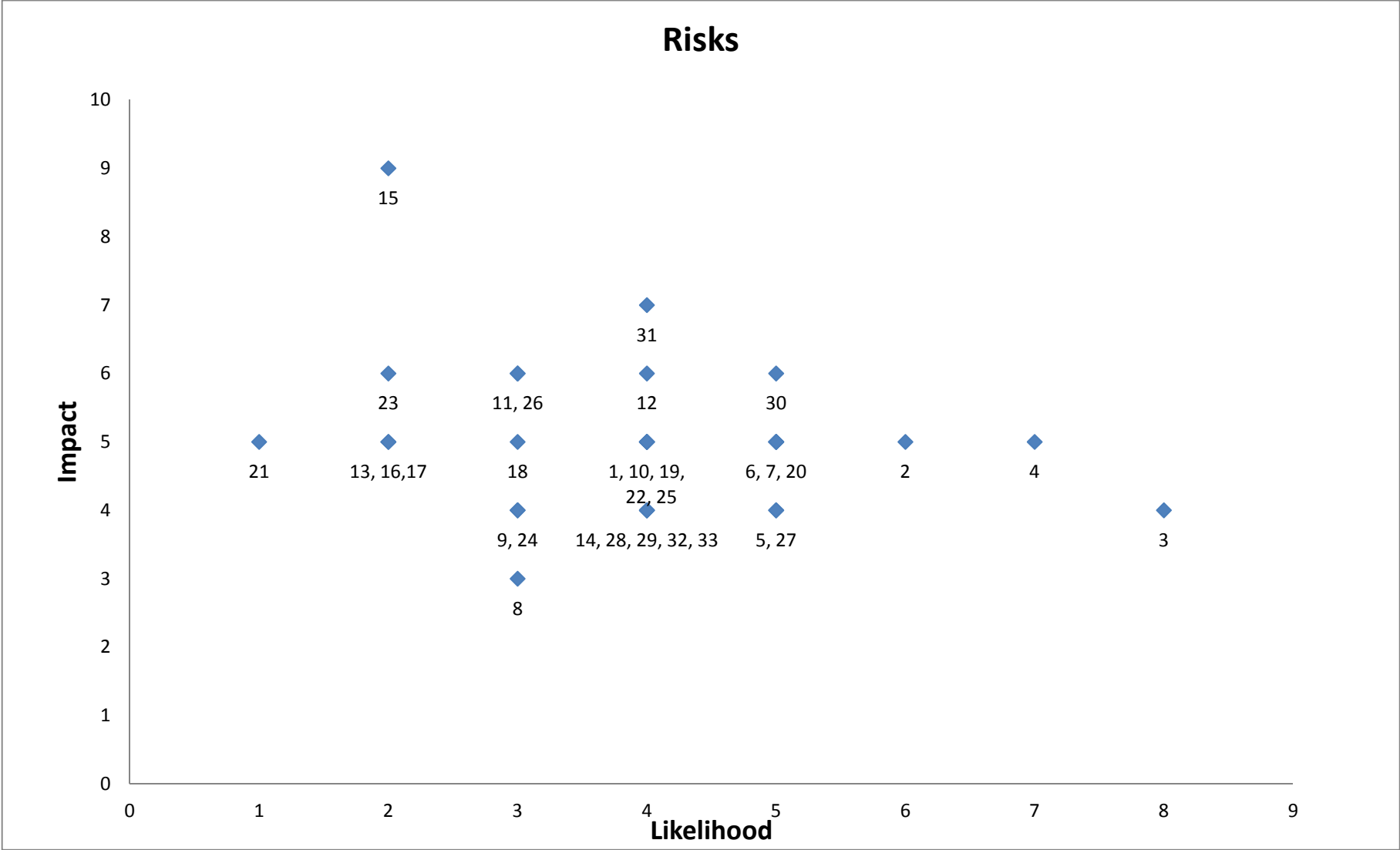




Q1 (2015) All Risks: Impact and Likelihood Overview



Q2 (2015) All Risks: Impact and Likelihood Overview



## Key: Risks by Number

- |  |  |
|--|--|
| Adverse Investment Performance - pressure on employer          |  |
| <b>1</b> contributions   | <b>18</b> Disclosure of confidential information                     |
| Adverse Movement of non-investment funding                     |  |
| <b>2</b> assumptions- pressure on employer contributions       | <b>19</b> Material breach of contract                                |
| <b>3</b> Collapse of an employer                               | <b>20</b> Regulatory breach  |
| <b>4</b> Recruitment and retention of key staff                | <b>21</b> FOI process not in accordance with law                     |
| <b>5</b> Fraud or theft of Council/Pension Fund assets         | <b>22</b> Incorrect communication with members                       |
| <b>6</b> Staff negligence                                      | <b>23</b> Not acting in accordance with proper authority/delegations |
| <b>7</b> Failure of IT systems                                 | <b>24</b> Inappropriate use of pension fund monies                   |
| <b>8</b> Employers HR decisions without consideration of fund  | <b>25</b> Procurement/framework breach                               |
| <b>9</b> Committee members take decisions against sound advice | <b>26</b> Non-compliance with the new LGPS                           |
| <b>10</b> Pension Board not operating effectively              | <b>27</b> Claim or liability arising from shared services            |
| <b>11</b> Business continuity issues                           | <b>28</b> Unauthorised access to PensionsWEB                         |
| <b>12</b> Members' confidential data is breached               | <b>29</b> Incorrect data from Employers leading to fines etc.        |
| <b>13</b> Loss due to stock lending default                    | <b>30</b> Inadequate contractual protection for services             |
| <b>14</b> Risk of incorrect pension payments                   | <b>31</b> Over reliance on single core service provider              |
| <b>15</b> Late payment of pension                              | <b>32</b> HR insufficient to carry out active projects               |
| <b>16</b> Market abuse by investment team or others            | <b>33</b> Breach of Health and safety regulations                    |
| <b>17</b> Portfolio transition issues                          |  |