



Pensions Committee

2.00pm, Wednesday, 9 December 2020

Risk Management Summary

1. Recommendations

The Pensions Audit Sub Committee (Committee) is requested to:

- 1.1 note the Risk Overview and the LPF group's note the Quarterly Risk Overview as at 2 November 2020.

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Risk Management Summary – In Depth Review

2. Executive Summary

- 2.1 In line with the Lothian Pension Fund's (LPF) ongoing risk management procedures, this paper provides an overview of LPF's risk analysis for consideration by the Committee.

3. Background

- 3.1 LPF's risk management procedures require it to:
- 3.1.1 maintain a detailed operational risk register which sets out all the risks identified and assessed by the officers on an ongoing basis against the group's risk appetite, the degree of risk associated in each case and the action taken to mitigate those risks (the Operational Risk Register); and
 - 3.1.2 produce a summary report of the risk register for the Committee and the Pensions Committee which highlights the material risks facing the group 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).

4. Main Report

- 4.1 The Operational Risk Register is issued to the Conveners of the Committee and the Pensions Committee and the Independent Professional Observer on a quarterly basis. It has also been submitted to the Pensions Audit Sub Committee for a detailed annual review this quarter.
- 4.2 The Quarterly Risk Overview, as at 02 November 2020, is set out in Appendix 1 to this report for consideration.
- 4.3 The risk management process for the LPF group is integrated within all of the group's governance and controls. In particular, the Committee should be aware of the following:
- 4.3.1 *Risk appetite*: considered and set by the Senior Leadership Team (SLT) in conjunction with the Risk Management Group.
 - 4.3.2 *Risk management group*: routine meetings held quarterly and otherwise on an as required basis to consider and assess the LPF group's risk register and wider risk environment and track relevant actions. The group comprises representation across all functions and includes the SLT.

- 4.3.3 *Compliance checklist*: listing critical points of compliance for monitoring and as a reference point for breach reporting. Reviewed and signed off on a quarterly basis by the senior management of the LPF group, which includes SLT, with key actions being tracked by the risk function and relevant business units.
- 4.3.4 *Assurance Overview and Mapping*: providing analysis and oversight of the group's overarching risk assurance framework across the 'four lines of defence', and mapping those points of assurance to relevant risks. This is managed by the risk function, with oversight from SLT, and presented to the Committee annually.
- 4.3.5 *LPF group systems and controls assessment*: managed by SLT and the LPFI and LPFE boards and reported to Committee and JISP annually.
- 4.3.6 *Third party supplier management*: a supplier management framework is managed on an ongoing basis by the risk function in conjunction with the wider business and overseen by SLT.
- 4.3.7 *Internal Capital Adequacy Assessment Process (ICAAP)*: which is managed on an ongoing basis by the SLT. The ICAAP itself is reviewed and approved at least annually by the LPFI board, with various aspects considered separately and, in more detail, routinely throughout the year.
- 4.3.8 *ICT oversight and governance procedures*: which are managed by the ICT Oversight Group on an ongoing basis and overseen by the SLT.
- 4.3.9 *People and HR Procedures*: which are managed by the People Group on an ongoing basis and overseen by the SLT and the LPFE board.
- 4.3.10 *Investment Controls and Parameters (LPF Group Controls and Compliance report)*: which are now mostly automated on the CRIMS order management system, managed by the compliance, front and back office functions and overseen by SLT, the LPFI board and JISP (with annual reporting to Committee).
- 4.3.11 *Overall review of governance and the LPF group structure*: managed by SLT and overseen annually by the Committee and Pensions Committee.
- 4.3.12 *COVID-19*: as above, managed by the Recovery Group on an ongoing basis, in conjunction with the Risk Management Group, and overseen by SLT.

5. Financial impact

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

6. Stakeholder/Regulatory Impact

- 6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the fund and they are invited to comment on the relevant matters at Committee meetings.
- 6.2 Except as otherwise stated in the report itself, there are no adverse health and safety, governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

- 7.1 None.

8. Appendices

Appendix 1 – Quarterly Risk Overview, as at 2 November 2020



Quarterly Risk Overview

02 November 2020

EXECUTIVE SUMMARY

This document provides a summary of the assessment of the LPF group's risks by the Risk Management Group on 02 November 2020.

The LPF group continues to go through a period of meaningful business transformation, in seeking to enhance its operating model and extend its service delivery to other LGPS funds. In doing so it has taken on additional operational risk within its appetite in order to achieve benefits for its stakeholders. In particular, over the coming year the group expects to have delivered:

- a new ICT provider with bespoke governance and control arrangements, and associated system enhancements;
- a new portfolio management service/platform for collaborative partner pension funds;
- a refit of its existing office space for the immediate 12-18 months and thereafter progress on moving to an office best aligned to its long-term strategy;
- increased 'key person' resilience within its core investment and pensions administration teams, as well as a central support function with enhanced HR, Comms, Compliance and Governance resource; and
- further governance enhancements arising from the 2019 review.

The quarter's risk reporting also continues to be heavily influenced by the COVID-19 pandemic. The business is now moving towards implementing a more medium-term strategy to accommodate the continuation of remote working, whilst bringing our people together in a controlled manner to reduce the risk of underlying inefficiencies and any adverse impact on our culture and controls.

Potential impacts from the ongoing McCloud consultation remain closely monitored and are a factor in assessments in a number of areas.

Cyber security also remains a key theme in our monitoring as we continue to see increased impact in the wider sector and more specifically on certain of our business partners and suppliers.

Key changes since last quarter include:

- 3 risks **decreased** from Amber to Green due to revised probability scores: Pension Committee decisions (9); Pension Board effectiveness (10); Over reliance on a core provider (32)
- 3 risks **increased** from Green to Amber, due to revised impact and probability scores: Failure of an employer to pay contributions (3); Claim or liability arising from shared services (28); Inadequate, or failure of, supplier / third party systems (35)
- 1 new risk added: Staff culture and engagement (8). Initial risk assessment is Amber.

Further details on each are provided in the overview.

Several notable risks – IT systems; business continuity; data breach, cyber security - remain static, although meaningful progress has been made on the procurement process for new ICT provider. It is anticipated they will only reduce meaningfully once this process is completed, and related enhancements are delivered.

The overall position remains stable and within appetite in the context of the longer-term risk reduction benefits of the ongoing transformation projects and the circumstances of a global pandemic.

DETAILED OVERVIEW

UPDATE ON MOST NOTABLE RISKS

| Risk & Reference Number | Update | Trend / RAG |
|---|---|--|
| <p>Failure of IT systems used in the fund with serious consequences for investment management, benefit administration and oversight activities (7)</p> | <p>The core ICT platform continues to be resilient, with key issues being escalated and prioritised appropriately and many enhancements in LPF’s Digital Strategy already being delivered by the incumbent supplier in response to the pandemic. There are naturally ongoing issues and inefficiencies generated by the significant increase in demand on the platform, but this is currently the same across all businesses and sectors.</p> <p>This risk has remained static due to the continued additional reliance placed on ICT functions, and heightened impact of any outages or failure, whilst all LPF group staff continue to work from home in the prevailing circumstances of the COVID-19 pandemic.</p> <p>Additional ICT continuity oversight is in place during COVID-19 through the creation of the LPF Recovery Group, which monitors implementation of the business continuity plan and supports the ICT Oversight and Governance Manger/Group by providing enhanced management and monitoring of specific operational issues arising from the circumstances of the pandemic.</p> <p>In addition, LPF continues to identify and resolve ‘business as usual’ issues and progress critical ongoing projects through its ICT Oversight Group and function. Those include continuing to progress (i) the Digital Strategy and appointment of the new ICT provider, (ii) systems access, security governance and supplier diligence, and (iii) resolving laptop availability for new staff. The ‘change’ process with the incumbent provider continues to be slow.</p> <p>A project group continues to monitor the operation of the Charles River Investment Management System (CRIMS) following its implementation, as well as providing oversight of its supplier. Refinements are identified/tracked and fixes resolved on an ongoing basis.</p> | <p style="text-align: center;">Static</p>  |

| Risk & Reference Number | Update | Trend / RAG |
|---|--|--|
| <p>Business continuity issues (11)</p> | <p>The business continuity plan is still in place and continues to be successful. It has recently been updated to adapt to the developments and phases of the pandemic, as well as other developments within the LPF group. The business continuity risk score remains the same this quarter simply because the continuity plan is still in operation and therefore the LPF group continues to be in a period of taking special continuity measures.</p> <p>LPF’s Recovery Group continues to implement, oversee and refine continuity arrangements to further mitigate this risk. The Senior Leadership Team (SLT), ICT Oversight, People and Risk Groups also continue to address specific matters alongside, and in liaison with, the Recovery Group.</p> <p>‘Key workers’ have been identified and are supported by guidance ensuring that social distancing is adhered to at all times, as well as health and safety regulation. The ‘Key Workers’ policy is currently being refreshed and will be updated shortly. Critical activities are undertaken in the office by the identified key workers. In addition, to the relevant health and safety procedures, all staff have now completed online ‘Workstation Setup’ training (applicable to office and home setups).</p> <p>As reported last quarter, the planned office move is currently on hold with the more immediate priority being the plan, now underway, for the return of staff to the existing office premises. After reviewing the current office facilities, it has been agreed that a prudent office re-fit is required to enable staff to return safely to the existing office, working a blended home-office working model. The office refit is expected to be complete by January and will allow 40 members of staff to work safely in the office for the interim, until a move to a new office can be planned.</p> | <p>Static</p>  |

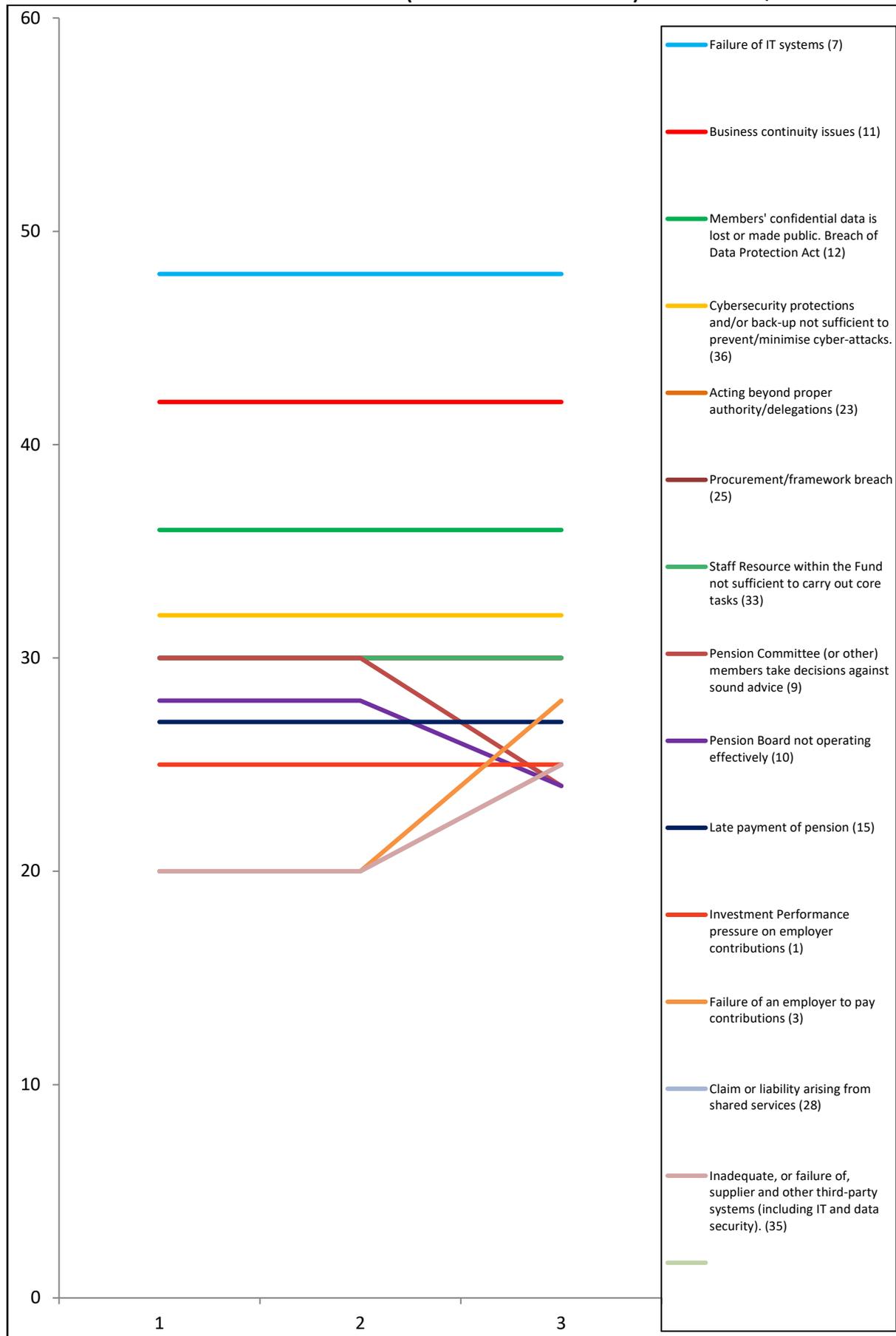
| Risk & Reference Number | Update | Trend / RAG |
|--|---|---|
| <p>Members' confidential data is lost or made public. Breach of Data Protection Act. (12)</p> | <p>There continues to be a potential increased risk of cyber attacks as a result of COVID-19 and LPF, as with the wider business community, has experienced targeted phishing attacks. LPF has also received a number of notifications from its suppliers and other intermediaries that they have had systems compromised and confirming the remedial action being taken.</p> <p>LPF continues to strengthen controls around the security of members' confidential data, with additional checks to folder security, remote working and other key activities. The use of new facilities by LPF, such as for mail processing and scanning, is under detailed review to ensure these processes continue to be secure.</p> <p>This risk remains on red because of the combination of cyber threat and a number of other business continuity matters (office access, challenges around full remote working, cross systems reliance) arising as a result of the pandemic.</p> | <p style="text-align: center;">Static</p> <p style="text-align: center;"></p> |
| <p>Cybersecurity protections and/or back-up not sufficient to prevent cyber-attacks or minimise their impact (36)</p> | <p>As mentioned above, there is a currently a potential increased risk of cyber attacks due to COVID-19 with increasing amounts of phishing and other attempted forms of cyber-fraud on both LPF and its suppliers. There is no question this remains a substantially increasing risk to the sector at large during this period of business continuity upheaval. LPF is communicating key messages to all staff regarding cybersecurity and has reminded employees to be vigilant.</p> <p>All staff have now completed 'Information and Cybersecurity' online training.</p> <p>The ICT Oversight and Governance Manager continues to review the robustness of systems and processes and is progressing the Digital Strategy, which itself will allow enhancements to controls and governance in this area. However this risk remains amber until the perceived potential risk of attack is reduced.</p> | <p style="text-align: center;">Static</p> <p style="text-align: center;"></p> |

| Risk & Reference Number | Update | Trend / RAG |
|---|---|---|
| Acting beyond proper authority/delegations. (23) | <p>LPF has paid close attention to the operation of its delegations under the present circumstances, with all the team remote working and with key person dependencies in mind. The group has only required minimal adaption to current processes so far and has sought to introduce supporting systems (e.g. e-signing) where necessary to mitigate any associated continuity risks.</p> <p>LPF is also looking to update and refresh its delegations by the end of December to take account of: (i) recent appointments and updates arising from its organisational development review, (ii) the operation of the property portfolios, (iii) SM&CR implementation, (iv) the LPF Governance Review, and (v) the implementation of the new Front Office system. In addition, LPF has provided further employee communications to reinforce awareness of scheme of delegation requirements and will update its new website to ensure its group governance structures are clearer.</p> <p>Due to the prevailing circumstances and the outstanding actions the risk remains on amber, although there has been no breach in existing delegations.</p> | <p style="text-align: center;">Static</p> <p style="text-align: center;"></p> |
| Procurement/framework breach (25) | <p>LPF is continuing to work closely and well with CEC's procurment team to best align its procurement processes to the specific needs of the LPF group business and also to satisfy CEC's parent oversight requirements.</p> <p>The risk is static due to the enhanced impact the procurement regime has on LPF's developing business model (sitting unusually within all of the financial services, pensions and public sector regimes) and the fact that it continues to be in the midst of developing new systems, controls and procedures in this area – with progress having been hampered by the prevailing circumstance of the last 6 months.</p> | <p style="text-align: center;">Static</p> <p style="text-align: center;"></p> |
| Staff Resource within the Fund not sufficient to carry out core tasks in conjunction with active or anticipated projects. (33) | <p>This risk remains amber due to the additional resource attributable to significant strategic initiatives such as the implementation of the Digital Strategy, extension of investment management services and Project Forth. However the Organisational Development Review has been sucessfully implemented and so LPF anticipates that the risk will reduce over the next few quarters. SLT are also due to carry out a follow up to the OD review to assess gaps, target resourcing priorities and set boundaries aswell.</p> | <p style="text-align: center;">Static</p> <p style="text-align: center;"></p> |

| Risk & Reference Number | Update | Trend / RAG |
|--|--|--|
| Failure to pay pensions as they fall due including as a result of administration failure. (15) | This risk remains amber to reflect the COVID-19 enforced remote working arrangements. The potential for staff absence on health grounds, IT failure and the increase of a potential cyber attack has also fed into the increase in this risk. Pension payments have been identified as one of the five core critical tasks for the fund and as such the Recovery Group are monitoring and supporting processes carefully to mitigate the risk as far as possible. | <p style="text-align: center;">Static</p> <p style="text-align: center;"></p> |
| Adverse investment performance causes funding levels to fall requiring higher employer contributions. (1) | LPF and the JISP continue to review investment portfolios in order to understand the COVID-19 impact and continue to best position the fund. In addition, LPF is engaging with the actuary regarding assumptions as part of triennial valuation. This risk remains amber until review is complete and actions are clear. | <p style="text-align: center;">Static</p> <p style="text-align: center;"></p> |
| Failure of an employer to pay contributions (3) | Employers continue to be under increasing financial pressure due to the global pandemic and resulting economic implications. The fund continues to monitor this on an ongoing basis and has established structures and processes to engage with its employers around affordability and potential exit. | <p style="text-align: center;">Increased</p> <p style="text-align: center;"></p> |
| Claim or liability arising from shared services (28) | <p>This risk has increased to amber due to a combination of investment management services due to go live, and exposure arising from Project Forth.</p> <p>Periodic consultant review of systems, controls and service delivery will be scheduled once investment services are live.</p> | <p style="text-align: center;">Increased</p> <p style="text-align: center;"></p> |
| Inadequate, or failure of, supplier / third party systems (35) | Increased to amber due to reassessment of impact score. LPF is considering if some supplier ICT security arrangements require detailed review. Some third parties have notified LPF of minor cyber security breaches. | <p style="text-align: center;">Increased</p> <p style="text-align: center;"></p> |
| Pensions Committee (or other) members take decisions against sound advice, on political grounds or due to lack of knowledge (9) | <p>Risk decreased from amber – onboarding process for Interim Convener, including remote training, completed.</p> <p>LPF are currently assessing governance management systems and costs, with the aim of implementing an improved governance system to better support virtual committee meetings and future governance management.</p> <p>LPF is closely monitoring the separate, but very closely related, risk that members take decisions outside the fund’s framework which adversely impact on the fund. For example, the fund is currently looking into (as part of the governance review) the purpose and competency of certain matters being escalated to other Council bodies.</p> | <p style="text-align: center;">Decreased</p> <p style="text-align: center;"></p> |

| Risk & Reference Number | Update | Trend / RAG |
|--|---|---|
| <p>Pension Board does not operate effectively to detriment of the Fund (e.g. due to external factors, lack of attendance/participation or not maintaining sufficient levels of knowledge, skill and/or expertise.) (10)</p> | <p>This risk has now decreased from amber. Pension Board composition was reviewed, and the next composition review will take place in September 2021.</p> <p>Recruitment for the two Pension Board vacancies has commenced with a potential member representative. The vacancy for the employer representative will be rebranded and advertised widely to encourage applicants.</p> | <p>Decreased</p>  |
| <p>Over reliance on single service provider for core functions, potential leading to loss of service on the collapse or withdrawal of that provider (32)</p> | <p>Core supplier resilience remains good despite COVID-19 pressures, based on engagement and due diligence to date. Impact assessment remains high but probability, and therefore overall risk score, has been reduced.</p> | <p>Decreased</p>  |

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



OTHER KEY POINTS

New notable risks New risk introduced on culture and staff engagement:

LPF's culture and strategy is not consistently applied, taken up by staff or reinforced by SLT and senior managers with adverse impact on service delivery, internal controls, recruitment and retention. (8)

The initial assessment of the risk places it in the amber category.

Other new risks None

New controls Introduction of 'Culture' risk controls, being (i) existing onboarding, performance management processes, staff surveys and board/SLT monitoring, (ii) enhanced second line compliance oversight and communications strategies. (8)

Annual review of Governance Overview and enhanced 'Horizon Scanning'. (20)

Eliminated risks None.

Other notable initiatives / actions Investment team and JISP reviewing portfolio in light of COVID-19-related reduction in income to identify opportunities to enhance returns. (1)

Currently in discussions with actuary on assumptions. 2020 approach will change from deterministic to risk-based. (2)

Funding Strategy Statement reviewed as part of 2020 valuation. Further consultation exercise to follow once individual employer valuation results are available from the Actuary with final draft to be presented to Pensions Committee in March 2021 (3)

Recruitment of Investment / Property Administrator. (4)

Talent and succession planning ongoing. (4)

Additional NED being appointed to improve governance. (4)

AML training scheduled for all staff to complete Q4 2020. (5)

Mobile call recording not yet in place but being prioritised. (5)

Ongoing review of ALTAIR role profiles to eliminate any ability for user to create payment and authorise it (5)

New staff performance management process to be implemented 2021 (8)

Action planning to address results from Your Voice employee survey (8)

Structural changes to support training and management of new recruits (8)

Remote Pension Committee meetings will continue until December, LPF liaising with CEC Governance to prepare for 2021 committee meetings. (9)

LPF are currently assessing governance management systems and costs with the aim of implementing an improved governance system to better support virtual committee meetings and future governance management. (9)

Continuing to review actions of Pension Committee members outside of LPF's regulated forums and structure (e.g. main Council) as part of Governance Review. (9)

Next review of Pension Board composition will take place in September 2021.

Recruitment for the two Pension Board vacancies has commenced with a potential member representative. The vacancy for the employer representative will be rebranded and advertised widely to encourage applicants. (10)

Additional meetings with board members to discuss governance clarifications. (10)

LPF liaising with CEC to ensure appropriate intra-group arrangements to manage data breach risk and reporting (12)

Enhanced communications and SLT reinforcement of PAD policy and procedures in response to recent low-level issues identified as part of routine PAD approvals and annual disclosure process (16)

Work on supplier management framework being progressed by Business Transformation Assurance Partner (19)

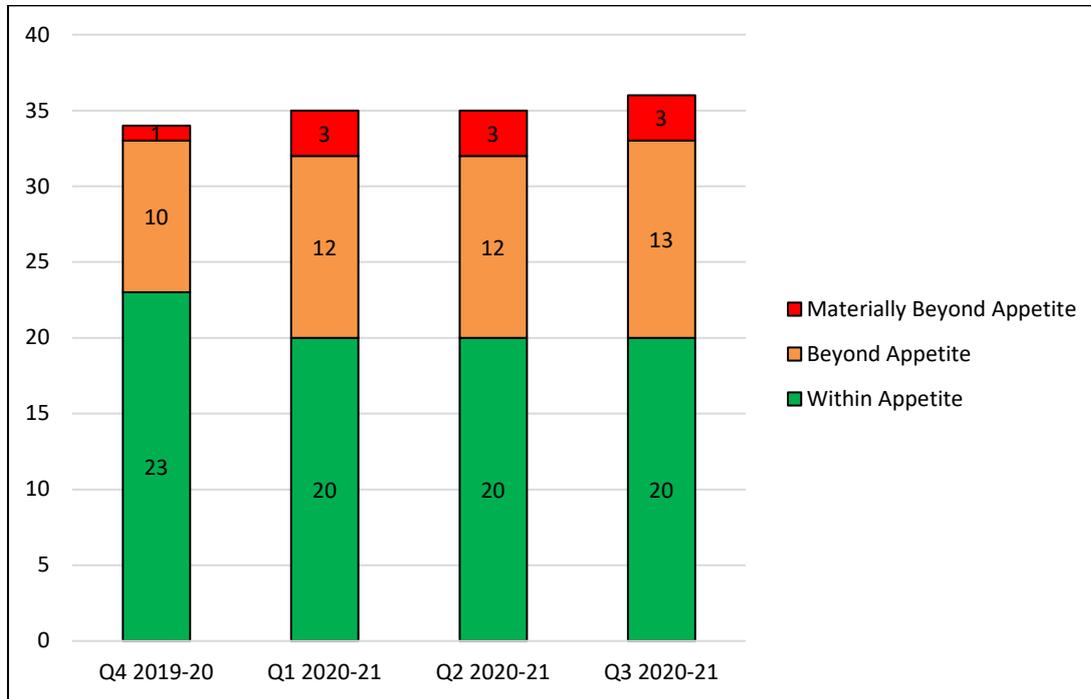
LPFE board to consider need to appoint interim convener to its board. (27)

SLT and advisory action to mitigate any exposure arising from any merger and associated transition. (28)

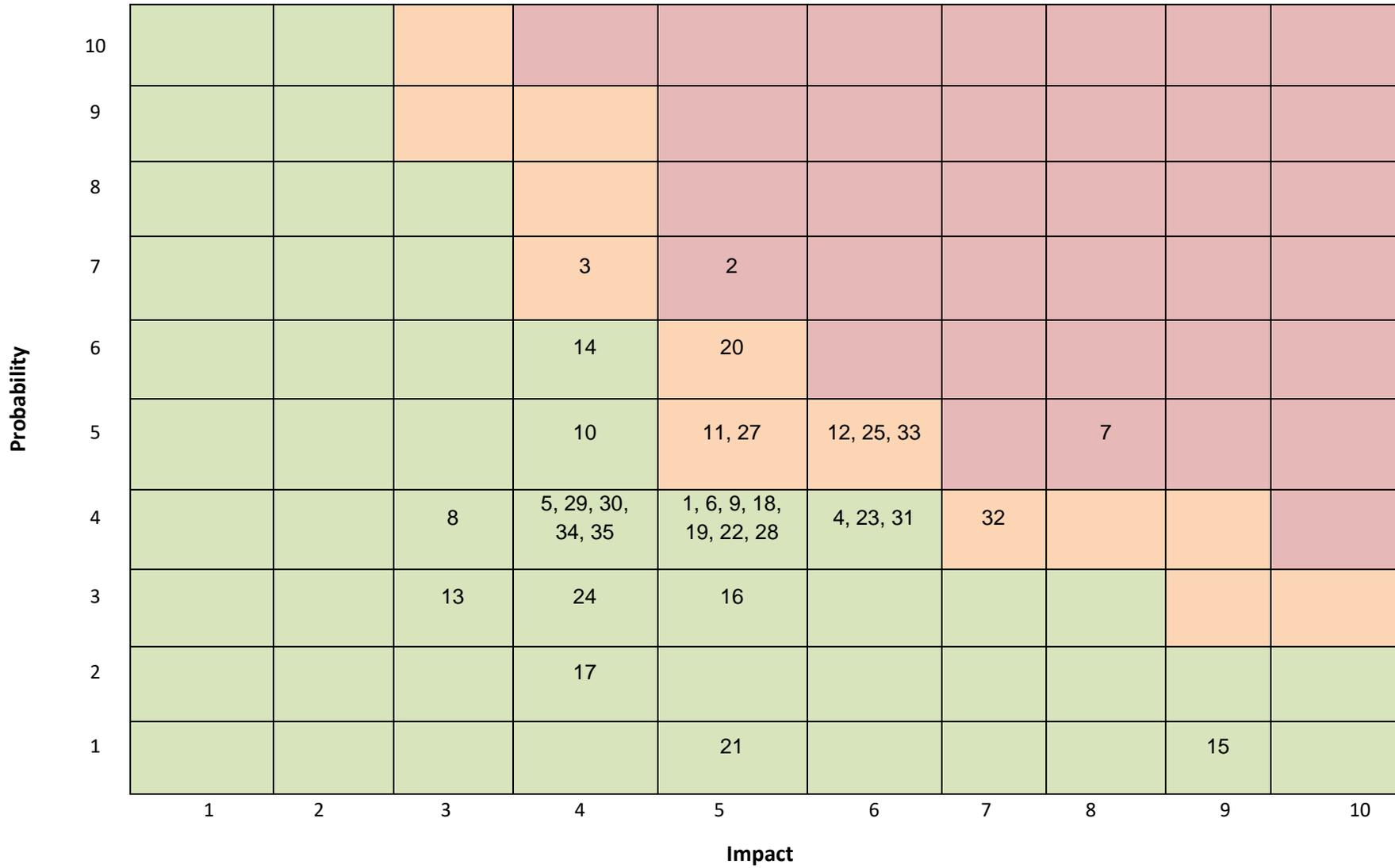
Acting on third party cyber breach notifications. (35)

Material litigation None.

ALL RISKS: STATUS OVERVIEW



QUARTER 3
2020/21 ALL RISKS: IMPACT AND PROBABILITY OVERVIEW



Notable Risks table

| Risk No below | | Q4 2016/17 Total | Q1 2017/18 Total | Q2 2017/18 Total | Q3 2017/18 Total | Q4 2017/18 Total | Q1 2018/19 Total | Q2 2018/19 Total | Q3 2018/19 Total | Q4 2018/19 Total | Q1 2019/20 Total | Q2 2019/20 Total | Q3 2019/20 Total | Q4 2019/20 Total | Q1 2020/21 Total | Q2 2020/21 Total | Q3 2020/21 Total |
|---------------|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| ↓ | Description | | | | | | | | | | | | | | | | |
| 1 | Investment Performance pressure on employer contributions | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 2 | Adverse Movement - pressure on employer contributions (2) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 3 | Failure of an employer to pay contributions (3) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 4 | Retention of key staff (4) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 5 | Fraud by LPF staff or relating to members (including pension Staff negligence, maladministration or lack of specialist knowledge (6) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 6 | Failure of IT systems (7) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 7 | Staff culture and engagements issues (8) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 8 | Pension Committee (or other) members take decisions against Pension Board not operating effectively (10) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 9 | Business continuity issues (11) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 10 | Members' confidential data is lost or made public. Breach of | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| ↓ | Description | | | | | | | | | | | | | | | | |
| 13 | Loss due to stock lending default (13) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 14 | Risk of incorrect pension payments (14) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 15 | Late payment of pension (15) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 16 | Market abuse by investment team (16) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 17 | Portfolio transition issues (17) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 18 | Disclosure of confidential information (18) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 19 | Material breach of contract (19) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 20 | Regulatory breach (20) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 21 | FOI process in accordance with law (21) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 22 | Incorrect communication with members (22) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 23 | Acting beyond proper authority/delegations (23) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 24 | Inappropriate use of pension fund monies (24) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| ↓ | Description | | | | | | | | | | | | | | | | |
| 25 | Procurement/framework breach (25) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 26 | Procurement process compromising ability to secure required resource. (26) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 27 | Group structure and governance fully compliant and up-to-date | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 28 | Claim or liability arising from shared services (28) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 29 | Unauthorise access to PensionsWEB (29) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 30 | Incorrect data from Employers leading to fines (30) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 31 | Inadequate contractual protection for services (31) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 32 | Over reliance on single core service provider (32) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 33 | Staff Resource within the Fund not sufficient to carry out core | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 34 | Breach of Health and safety regulations (34) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 35 | Inadequate, or failure of, supplier and other third-party systems (including IT and data security). (35) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| 36 | Cybersecurity protections and/or back-up not sufficient to prevent/minimise cyber-attacks. (36) | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |

KEY: RISKS BY NUMBER

| | | | |
|----|---|----|--|
| 1 | Adverse Investment performance causes funding levels to fall requiring higher employer contributions. | 20 | Regulatory Breach. |
| 2 | Adverse change in non-investment actuarial assumptions causes funding levels to fall requiring higher employer contributions assumptions- pressure on employer contributions. | 21 | FOI process not in accordance with law. |
| 3 | Failure of an employer to pay contributions causes funding levels to fall, requiring higher contributions from other employers. | 22 | Incorrect communication with members. |
| 4 | Failure to recruit, engage and retain talent leads to workforce capability gaps with implications for oversight, control, administration and achievement of service plan goals. | 23 | Acting beyond proper authority/delegations. |
| 5 | Fraud or theft of Pension fund assets. | 24 | Inappropriate use of pension fund monies. |
| 6 | Staff Negligence. | 25 | Procurement/framework breach. |
| | | 26 | Procurement process compromising ability to secure required resource. |
| 7 | Failure of IT systems used in the fund with serious consequences for investment management, benefit administration and oversight activities. | 27 | Group Structure and Governance not fully compliant and up to date (including integration of subsidiaries) or working effectively resulting in adverse impact on group strategy and business plan delivery. |
| 8 | Staff culture and engagement issues (new Q3 2020) | 28 | Claim or liability arising from shared services. |
| 9 | Committee members take decisions against sound advice. | 29 | Unauthorised access to PensionsWEB. |
| 10 | Pension Board not operating effectively. | 30 | Incorrect data from Employers leading to fines etc. |
| 11 | Business continuity issues. | 31 | Inadequate contractual protection for services. |
| 12 | Members' confidential data is breached. | 32 | Over reliance on single core service provider. |
| 13 | Loss due to stock lending default. | 33 | Human resource insufficient to carry out active projects. |
| 14 | Risk of incorrect pension payments. | 34 | Breach of health and safety regulations. |
| 15 | Failure to pay pensions as they fall due. | 35 | Inadequate, or failure of, supplier and other third-party systems (including IT and data security). |
| 16 | Market abuse by investment team or others. | | |
| 17 | Portfolio transition issues. | 36 | Cybersecurity protections and/or back-up not enough to prevent cyber-attacks or minimise their impact. |
| 18 | Disclosure of confidential information. | | |
| 19 | Material breach of contract. | | |

| Risk Status | |
|---|---|
|  | Materially beyond appetite: resolve urgently where possible (probability and impact total 35 and above) |
|  | Beyond appetite: resolve where possible (probability and impact total 25 to 34) |
|  | Within appetite: monitor (probability and impact total 24 and below) |

Risk Scoring

| | Impact |
|----|--|
| 0 | (None) |
| 1 | No discernible effect |
| 2 | Little discernible effect |
| 3 | Some effect noticeable |
| 4 | Some effect on service provision |
| 5 | Noticeable effect on service provision |
| 6 | Some disruption of service |
| 7 | Significant service disruption |
| 8 | Material disruption to services |
| 9 | Major service disruption |
| 10 | Catastrophic |

| | Probability |
|----|-------------------------------|
| 0 | (None) |
| 1 | Virtually impossible |
| 2 | Extremely unlikely |
| 3 | Remotely possible |
| 4 | May occur |
| 5 | Fairly likely to occur |
| 6 | More likely to occur than not |
| 7 | Likely to happen |
| 8 | Probably will happen |
| 9 | Almost certainly will happen |
| 10 | Already happening |

BACKGROUND PROCESS AND PARAMETERS (EXTRACTED FROM RISK REGISTER)

The Risk Management Group, and risk register, form part of the LPF group's critical assurance framework, covers all entities within the group and should be read in conjunction with the other forms of assurance set out in LPF's assurance overview document.

The register is formally considered by the Risk Management Group quarterly but is also updated on an ad hoc basis where required. The register also takes into account material risks identified by the wider business, including arising from (i) the other oversight groups (e.g. SLT, People, ICT Oversight and/or any relevant project groups), (ii) any prior board, committee and stakeholder feedback, and (iii) compliance monitoring and processes (e.g. breach reporting, whistleblowing).

The Risk Management Group itself comprises senior officers of each function within the LPF group, as well as the Senior Leadership Team (SLT). All members are accountable for escalating material risks, with a particular focus on their respective areas, for consideration. If relevant and deemed sufficiently material, the risk will be included in the register and monitored by the risk function in conjunction with the relevant business unit.

The approved risk register is tabled and considered by SLT following sign-off to ensure additional oversight and ongoing engagement with any resulting actions. Those actions are tracked and followed up by the LR&C team with the business on an ongoing basis. The risk register is also circulated to the conveners of the Pensions Committee and Audit Sub-Committee, Chair of the Pension Board and Independent Professional Observer on a quarterly basis, with summary analysis and reporting provided to those bodies each quarter. In addition, an in-depth risk report is provided to the Audit Sub Committee annually, which includes a review of the full register.

The risk register is a continually evolving document and doesn't purport to be a comprehensive list of every risk or potential exposure to which the LPF group entities are subject or involved in managing. It should therefore continue to be read in the context of the LPF group's overall business strategy, risk appetite and assurance map. The risk register may cross-refer to separate operational project management tools or action trackers which monitor relevant items in more granular detail and for which the business units are accountable.

Importantly, that risk appetite and assurance structure will flex to ensure that it continues to be proportionate to the size and nature of the business of the LPF group and also adhere to the following industry best practice principles:

- ❖ *Ensure that the LPF group's risk appetite **aligns with its strategy** and is **set by its senior management team without undue influence** either externally or otherwise across its assurance stack.*
- ❖ *Integrates risk as **a key component of the group's management and decision-making** processes, and so through the spine of its governance and operations.*

- ❖ *Engenders an **open, 'live' and engaged risk culture** which seeks to pro-actively identify current and future risks for the business, simplifying layers of controls to ensure this is not stifled, and so...*
- ❖ ***Not establish or perpetuate systems, controls or processes** which are out of line with, or **disproportionate to, the group's risk appetite**. That can be counterproductive in distracting key focus and resource away from delivering the group's strategy, core function and assurance over a manageable number of critical risks.*
- ❖ *Remain **aligned to LPF's existing resources** and organisational development.*
- ❖ *Ensure an **effective and independent risk and compliance function** is maintained, as a general principle and in line with the standards of the UK regulated financial services sector.*
- ❖ *Ensure appropriate levels of **separation and independence** of each of the **'four lines of defence'**, as a general principle and in line with the standards of the UK regulated financial services sector.*
- ❖ *Ensure appropriate levels of **co-operation and information sharing** across the **'four lines of defence'**.*