



# **Pensions Committee**

1.30pm, Tuesday, 5 December 2023

## **Risk & Compliance Update**

**Item number 6.6**

### **1. Recommendations**

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The Pensions Committee (Committee) is requested to:

- 1.1 note the LPF group's Risk Register and Quarterly Update

**Kerry Thirkell**

Chief Risk Officer, Lothian Pension Fund

Contact: Kerry Thirkell, Chief Risk Officer, Lothian Pension Fund

E-mail: [lpfgovernancecomms@lpf.org.uk](mailto:lpfgovernancecomms@lpf.org.uk) | Tel: 0333 996 1900

# Risk & Compliance Update

## 2. Executive Summary

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- 2.1 This paper provides an overview of monitoring and assurance undertaken in LPF since the last meeting, noting any material observations or exceptions.
- 2.2 This paper also provides a summary of the work to enhance current risk management arrangements.

## 3. Risk Management

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- 3.1 The LPF Risk Management Group (RMG) met on 31 October 2023 and considered the LPF group risk register and the key and emerging risks to which the LPF group are exposed.
- 3.2 Supplier performance and oversight risk is currently rated high although this risk is trending down as improvements to the supplier management framework are developed and improved oversight of critical suppliers is introduced and reported. Meanwhile improvements to governance and operations regarding the JISP and investment processes through the Investment Governance Improvement Plan project have also contributed to a reduction in the risk of regulatory breach. Client risk regarding Falkirk and Fife following the cessation of Project Forth has not crystallised but LPF are continuing to work hard on the relationships ensuring ongoing effective strategic partnerships and considering other ways we can collaborate. Several other risks, whilst remaining moderate, are trending up, including people and resource risks and risks around governance, and the leadership team have been considering any additional controls or mitigating actions that should be introduced at this time.
- 3.3 A summary of LPF key risks is noted in appendix 1, whilst the updated risk register summary is available in appendix 2 to this report.
- 3.4 Alongside the improved ongoing oversight and maintenance of the LPF risk register is the suite of operational functional risk profiles currently in development for several teams. This exercise is anticipated to complete in Q1 2024. Thereafter, a controls assurance programme will be developed which will compliment other oversight and assurance work.
- 3.5 No new emerging risks have been identified other than what have been previously reported. The internal working group set up to consider implications and issues on the Fund and remaining employers, should some employers choose to crystallise their surplus, continues to work through considerations. Completion of the

valuation exercise may confirm this risk, and LPF continue to monitor this through existing employer relationships.

## **4. Monitoring & Assurance Summary**

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### **Compliance Monitoring Programmes (CMPs)**

- 4.1 All testing for Q3 2023 has been completed.

### **Non-FCA Compliance Monitoring Programme – Findings & Recommendations**

- 4.2 One new issue was recorded, relating to adherence to Subject Access Request timescales. Action has been taken to improve controls, and targeted team briefings will be carried out to ensure awareness.
- 4.3 Additional compliance monitoring tests will be introduced from Q1 2024, to monitor adherence to key information governance related obligations.

### **BDO LPFI Compliance Monitoring Programme - Findings & Recommendations**

- 4.4 Three new issues were recorded following completion of testing by BDO, none of which are considered material.

### **Investment Compliance**

- 4.5 During August 2023, the Risk and Compliance team recruited additional resource with a broad remit to review and improve the existing Investment and Front Office Compliance environment.
- 4.6 Within the order management system (Charles River Investment Management System (CRIMS)), there are a series of Compliance tests in place to ensure that all funds remain in compliance with the investment restrictions outlined in the mandate. Whilst the majority of these Compliance tests have been accurately deployed, a full review of these is scheduled to take place after the CRIMS v23r1 upgrade (Go Live 11 November 2023) to ensure consistency in application and monitoring. In the meantime improvements have already been made to several important tests, and other rules are being reviewed to improve their operational efficiency and resiliency and simplify some existing processes.

### **Internal Audit**

- 4.7 The audit on People processes completed in August with a green *substantial assurance* rating. Minor improvements were identified and resolved at the time and there are no outstanding actions in relation to this review.
- 4.8 The FCA Senior Managers & Certification Regime (SMCR) audit completed with an amber *reasonable assurance* rating in October with observations made regarding documentation of the framework, rather than any material findings around the

operation of the framework and processes. LPFI had already developed a consolidated SMCR document but had not finalised this before the audit. The audit recommendations were already integrated within the draft LPFI SMCR document.

4.9 At the time of writing audits are underway in respect of Business Continuity and Information Security Arrangements.

**Training**

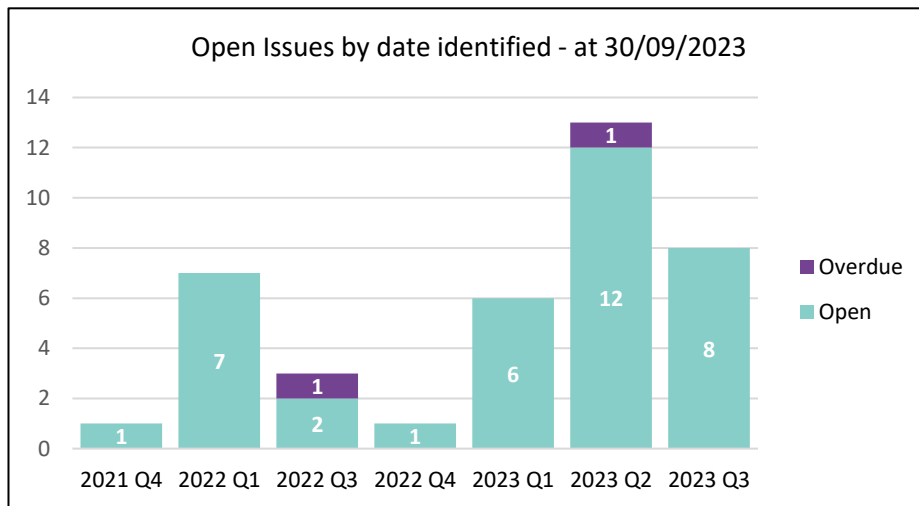
4.10 Incident management training was delivered by the R&C team to all staff in July. We believe that this has contributed to an increase in incident reporting across all areas. Investment team specific training covering best practice on call recording and identifying client complaints was also delivered by R&C in October, to ensure awareness of obligations in areas identified as issues.

4.11 Conflicts of Interest has been identified as a future area of training, to ensure colleagues understand how to identify, manage and report conflicts. This is expected to be delivered during Q4.

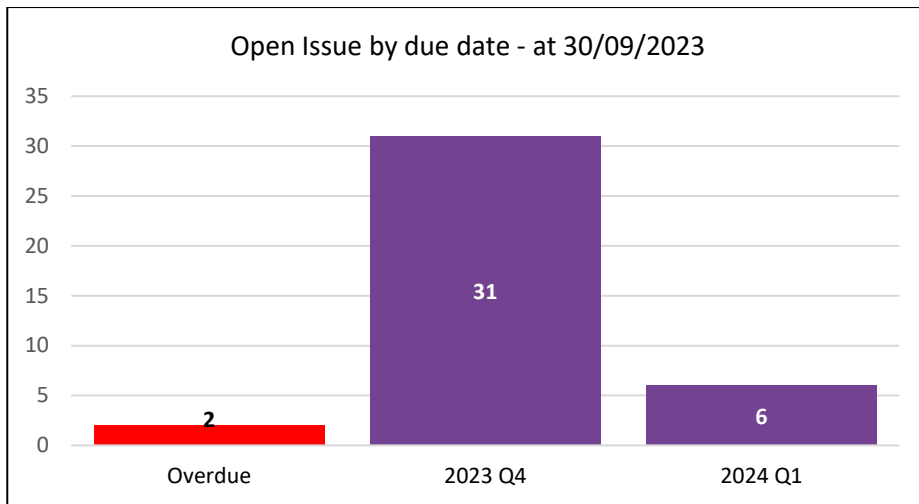
**Issues & Incidents**

4.12 Improvements continue to be made to the processes, governance and reporting regarding LPF Issues and incidents.

**Issues**



4.13



- 4.13.1 During Q3, 14 issues were closed and 9 new issues were raised. These issues comprise 7 findings predominantly from assurance activities.
- 4.13.2 Since end Q3, no further issues have been added, and one has been closed. At the time of writing, there are 38 open issues, 2 of which are overdue and a further 30 have a due date by the end of December. 11 of these are linked to actions arising from the internal audit reviews earlier in 2023 covering third party supplier management framework and information governance.
- 4.13.3 The Risk & Compliance team continue to actively engage with issue stakeholders to ensure agreed actions are being taken by the due date. Current open issues by rating and due date are as follows:

Issue rating	Overdue	2023 Q4	2024 Q1	Total
High		7	1	8
Medium	2	10	2	14
Low		13	3	16
<b>Total</b>	<b>2</b>	<b>30</b>	<b>6</b>	<b>38</b>

### Incidents

- 4.14 Twenty-one incidents were raised during Q3 2023, five of which were classified as non-reportable data breaches, one a non-reportable breach of GDPR Subject Access Request timescales, and two as non-reportable FCA regulatory breach. Required actions to remediate nineteen of these incidents were completed during Q3, and the incidents subsequently closed.



4.15 Following the end of Q3, eight further incidents have been raised within LPF group. Two have incurred operational losses for LPF, of approximately £13k for a trading error, and £7.5k for compensating a single member.

4.16 A total of sixteen incidents and near misses arising in Q3 or afterwards related to human error or process issues within pension or investment operations. As noted above, we believe that the refresher training delivered during the summer has contributed to an increase in incident reporting across all areas. The improved information that has been collated and recorded during the last 15 months helps ensure that we can continue to monitor these themes and trends going forward, and determine if any specific or general actions need taken.

4.17 Further information on issues and incidents is available on request.

#### **FCA Regulatory Compliance – ICARA**

4.18 As previously reported, due to the increase in AuM, with effect from 1 July 2023, LPFI ceased to meet threshold criteria for being a FCA SNI (small non-inter-connected) firm and in line with FCA regulations is required to complete another ICARA as a Non-SNI firm as at 30 September. At the time of writing, this update is in progress and the LPFI Board is expected to approve this at their meeting on 7 December.

## **5. Financial impact**

5.1 Other than the operational losses noted above, there are no other financial impacts to note.

## **6. Stakeholder/Regulatory Impact**

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- 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**

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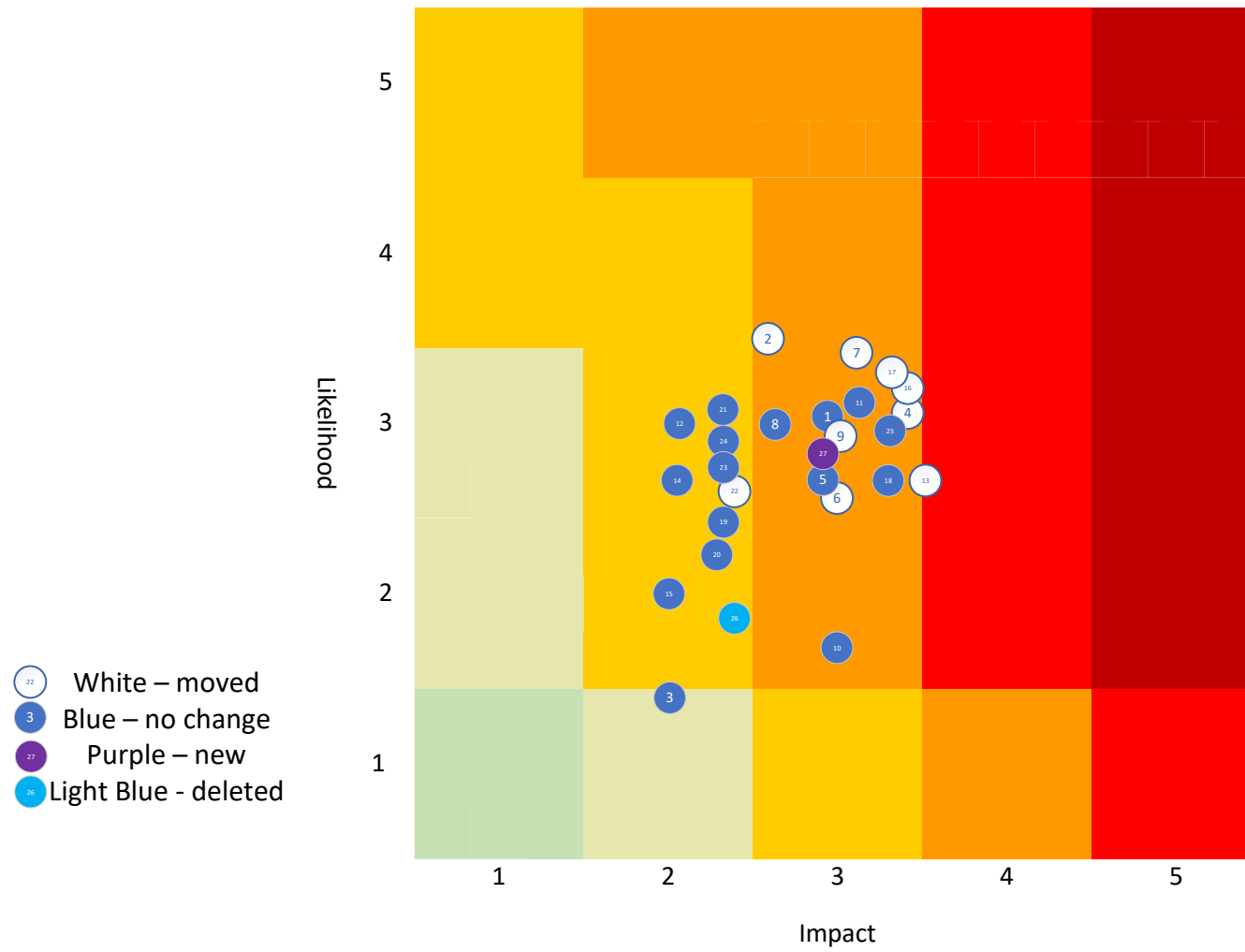
- 7.1 None.

## **8. Appendices**

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Appendix 1a and b – LPF Key Risks

Appendix 2 – Risk Register Summary





## Risk Register Summary

Total Risks	New	Improving	Deteriorating	Unchanged	Deleted
26	1	3	7	16	1

Risk Rating	Count
Very High	-
High	1
Moderate	14
Low	10
Insignificant	1

Ref	Type	Name	Rating
13	Business Operations	Third Party	↓
16	People & Culture	Recruitment & Retention	↑
17	People & Culture	Resources	↑
7	Governance, Legal & Compliance	Discharge of responsibilities and accountabilities	↑
25	Governance, Legal & Compliance	Best practice governance	↑
2	Information Security IT & Data	Data Management	↑
4	Governance, Legal & Compliance	Regulatory Compliance	↓
18	Strategy	Climate change & Responsible Investing	↔
11	Information Security IT & Data	Cybersecurity	↔
9	Business Operations	Business Interruption	↓
1	Investment Management	Investment Performance	↔
6	Business Operations	Investment operations errors	↑
27	Business Operations	Operational errors	↑
8	Business Operations	Investment services delivery	↔
5	Scheme	Employer contributions payment failure	↔
10	Information Security IT & Data	IT systems	↔
21	Strategy	Strategic goals	↔
24	Information Security IT & Data	Data integrity and quality	↔
23	Scheme	Unexpected drop in funding	↔
22	Scheme	Meeting liabilities or capital requirements	↑
19	Investment Management	Investment Strategy	↔
20	Business Operations	Communications	↔
12	Business Operations	Project and change activities	↔
14	Business Operations	Fraud by LPF staff or relating to members	↔
15	Business Operations	Member engagement, servicing and reporting	↔
3	Conduct	Unauthorised activity or poor conduct	↔

Risk Register Summary

Appendix 2

Risk Ref	Level 1 Risk	Level 2 Risk	Risk name	Risk Description	Entity	Current Risk
13	Business Operations	Third Party	Supplier performance and oversight	Sub-optimal service performance/delivery, management and oversight of third party suppliers could lead to lack of resiliency and/or material errors and breaches	All	
16	People & Culture	People & Culture	Recruitment & retention	Ability to attract, recruit, engage and retain talent leading to workforce capability gaps could affect LPF's ability to meet strategic objectives and legal and regulatory requirements and expectations	All	
17	People & Culture	People & Culture	Resources	Key person dependencies (particularly in significant roles or small teams) and resourcing could affect LPF's ability to meet strategic objectives and legal and regulatory requirements and expectations	All	
7	Governance Legal & Compliance	Governance	Discharge of responsibilities and accountabilities	Pension Committee or Board don't effectively discharge their responsibilities and accountabilities to the fund and decisions are taken against sound advice, beyond delegated authorities, on political grounds or due to lack of knowledge or attendance	LPF	
25	Governance Legal & Compliance	Governance	Best practice governance	Failure to operate within corporate governance best practice and principles could impact strategic decision making and may lead to project failure, increased costs, poor morale and/or regulatory censure	All	
2	Information Security IT & Data	Data	Data Management	Mis-management or poor maintenance and protection of data could lead to operational errors, regulatory breaches/fines or reputational damage	All	
4	Governance Legal & Compliance	Regulatory Compliance	Regulatory breach	LPF do not meet regulatory obligations leading to enforcement action or fines and reputational damage	All	
18	Strategy	Climate	Climate change & Responsible Investing	LPF don't adequately address Environmental, Social and Corporate Governance factors within the company, with service providers, and through underlying investments, due to lack of climate or sustainability strategy. This could lead to missed opportunities, regulatory scrutiny, financial loss and reputational or stakeholder damage	All	
11	Information Security IT & Data	Information Security & Cyber	Cybersecurity	Inadequate cyber and data security arrangements to protect LPF from information security threats and cyber-attacks could prevent key operational processes from being undertaken and lead to financial losses and reputational damage	All	
9	Business Operations	Business Continuity	Business Interruption	Significant and/or extended business interruption (including third party suppliers) leading to a failure or inability to complete key LPF processes	All	
1	Investment Management	Investment Management	Investment Performance	Investment returns are less than expected due to fall in fair price of securities including equities, bonds, real assets could impact value of the fund and consequently funding levels and liabilities	All	
6	Business Operations	Processing & Execution	Investment operations errors	Material or systemic investment operational errors, in relation to LPFI clients (such as trading errors) could result in operational losses, regulatory breaches or reputational damage	All	
27	Business Operations	Processing & Execution	Operational errors	Material or systemic operational errors, in relation to members, employees or clients (such as pension payment errors) could result in operational losses, regulatory breaches or reputational damage	LPF	

Risk Ref	Level 1 Risk	Level 2 Risk	Risk name	Risk Description	Entity	Current Risk
8	Business Operations	Processing & Execution	Investment services delivery	Delivery of LPFI's investment services do not meet client expectations or requirements or regulatory obligations		
5	Scheme	Employer Contributions	Employer failure	Failure of an employer with a deficit, or failure to pay required contributions, or failure to fulfil a funding agreement on cessation may lead to the balance to be met by higher contributions from remaining employers	LPF	
10	Information Security IT & Data	Technology	IT systems	LPF's IT does not meet operational requirements due to inadequate IT hardware or software leading to material or extended service delivery issues	All	
21	Strategy	Strategic	Strategic Goals	Strategic goals are unclearly defined and/or inconsistently implemented	All	
24	Information Security IT & Data	Data	Data integrity and quality	Data used to fulfil member, employer, client, regulatory or reporting requirements, and trigger actions or inform decision making, comes from multiple sources and systems and may contain errors	All	
23	Scheme	Funding	Unexpected drop in funding	Unexpected drop in funding levels may require higher employer contributions which may be unaffordable to employers	LPF	
22	Scheme	Funding	Meeting liabilities or capital requirements	Insufficient funds and liquid assets to meet liabilities or capital requirements which may arise through contribution payment failure by employers, unexpected employers exits, shortfall in expected investment income, unexpected investment calls and failure or delays of creditors and receivables	All	
19	Investment Management	Investment Management	Investment Strategy	Investment strategy does not deliver investment objectives due to incorrect implementation, investments falling outside agreed risk parameters or inadequate JISP governance. This could lead to a fall in funding levels and inability to meet liabilities.	LPF and LPFI	
20	Business Operations	Communication & Digitalisation	Communications	Unclear, misleading or out of date member or client communications compromises the quality of their decision-making, leading to member or client complaints and reputational damage as well as regulatory censure	All	
12	Business Operations	Business Change	Project and change activities	Ability to deliver internal or regulatory change in line with strategic or legal/regulatory expectations could overwhelm business areas through pressure on BAU processes, causing delivery delays or failures, and/or change fatigue and impacting organisational culture	All	
14	Business Operations	Internal Fraud	Fraud by LPF staff or relating to members	Challenges due to general cost of living increases could drive both employees and members to attempt to acquire assets or monies not belonging or due to them	All	
15	Business Operations	Communication & Digitalisation	Member engagement, servicing and reporting	Member engagement, servicing and reporting does not meet LPF's expected standards and corporate values contributing to operating inefficiencies, member dissatisfaction or complaints and reputational damage	LPF	
3	Conduct	Conduct	Unauthorised activity or poor conduct	Unauthorised activity or poor conduct behaviours by employees representing themselves or the firm could fall short of legal and regulatory standards and requirements	All	