



Pensions Committee

2.00pm, Wednesday, 26 June 2024

Risk & Compliance Update

Item number 6.1

1. Recommendations

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 | Tel: 0333 996 1900

Risk & Compliance Update

2. Executive Summary

- 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

- 3.1 The LPF Risk Management Group (RMG) met on 8 May 2024 and considered the LPF group risk register and the key and emerging risks to which the LPF group are exposed.
- 3.2 The majority of risks noted in the risk register are considered to be stable at present. Risk in relation to resourcing, recruitment and retention continues to be high due to recruitment and change factors affecting several business areas in addition to the impacts of key person dependencies and elevated strain on business as usual activities. Governance risk has stabilised but also remains high to reflect concerns regarding the effectiveness of pension committee operations and noting changes in membership. Conflicts of interest risk had previously been included within Best Practice Governance risk but has now been carved out as a standalone risk to ensure its significance is clearly reflected within the risk register. One further risk has also been added to the register with regard to unplanned expenditure should there be a long delay sub-letting LPF's previous office premises at Atria One.
- 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 Development of the suite of LPF operational functional risk profiles continues to make progress with profiles completed for all Pension Administration teams. This exercise is anticipated to complete during Q3 which will help drive a controls assurance programme to compliment other existing oversight and assurance work.
- 3.5 To support and help facilitate the risk management framework and to improve risk management information and reporting, a project has commenced to procure a Governance Risk & Compliance ('GRC') system having concluded that existing software could not fulfil this need. A third-party solution is considered necessary to deliver enhanced visualisation for risk reporting, integration of risks, controls, issues and incidents as well as to introduce resource efficiencies.

4. Monitoring & Assurance Summary

Compliance Monitoring Programmes (CMPs)

Non-FCA Compliance Monitoring Programme – Findings & Recommendations

- 4.1 All testing scheduled for Q1 2024 has been completed with no matters requiring to be brought to the attention of the Committee.
- 4.2 The 2024 LPF CMP, which focuses on monitoring compliance with The Pensions Regulator (TPR) obligations, is currently undergoing a scheduled annual review. This review will consider any changes arising from the new TPR Code of Practice. Additional monitoring of compliance with information governance and information security policies has been introduced to the Q2 programme.

BDO LPFI Compliance Monitoring Programme - Findings & Recommendations

- 4.3 All testing scheduled for Q1 2024 has been completed. Two new issues were recorded following completion of testing by BDO, neither of which are considered material. Both were acted on and closed during Q4.

Investment Compliance

- 4.4 Throughout Q1, enhancements have continued to be delivered to the existing suite of compliance tests within the Investment Management System (“CRIMS”), improving accuracy, process efficiency and resiliency. These tests exist in order to ensure that funds remain in compliance with mandate restrictions, and other operational and regulatory restrictions. .
- 4.5 Following the successful upgrade to CRIMS in November, a full review of the completeness and accuracy of these compliance tests has been completed during Q1 2024.

Internal Audit

- 4.6 Audit reports for Business Continuity and Information Security were finalised in the period.
- 4.7 Business Continuity was rated Red (limited assurance) with six findings raised. A phased approach to addressing these has been agreed with Internal Audit to enable sufficient time for design and implementation of revised processes. An action plan will be developed and agreed with Internal Audit by 15 October 24.
- 4.8 Information Security was rated Green (substantial assurance), with two minor issues recorded.
- 4.9 The 2024/25 Internal Audit plan for LPF (including LPFI and LPFE coverage) was approved by the Pension Committee in March and the audit on Pension Committee effectiveness is due to commence in June.

Policy Updates

- 4.10 A formalised Policy Management Framework (PMF) for the LPF Group has been developed. The framework establishes a structure to facilitate how policies are appropriately developed, implemented, monitored and reviewed regularly across the LPF Group, with appropriate approval processes in place.
- 4.11 Meanwhile Privacy policies were reviewed and updated in February 2024. No material changes were made to the member privacy policy, which is publicly available on the LPF website to all new and existing members. Two new standalone documents were introduced, Staff Privacy Policy and Recruitment Privacy, to ensure individuals are clearly informed how the Fund collects and uses personal data.
- 4.12 The Order Execution Policy, covering LPF and LPFI activities, has been reviewed and updated. The previous policy contained extraneous details on internal procedures, which were not required within the policy document. These procedural elements have been removed from the policy, enhanced, and embedded within a new internal framework document covering multiple aspects of the execution process.

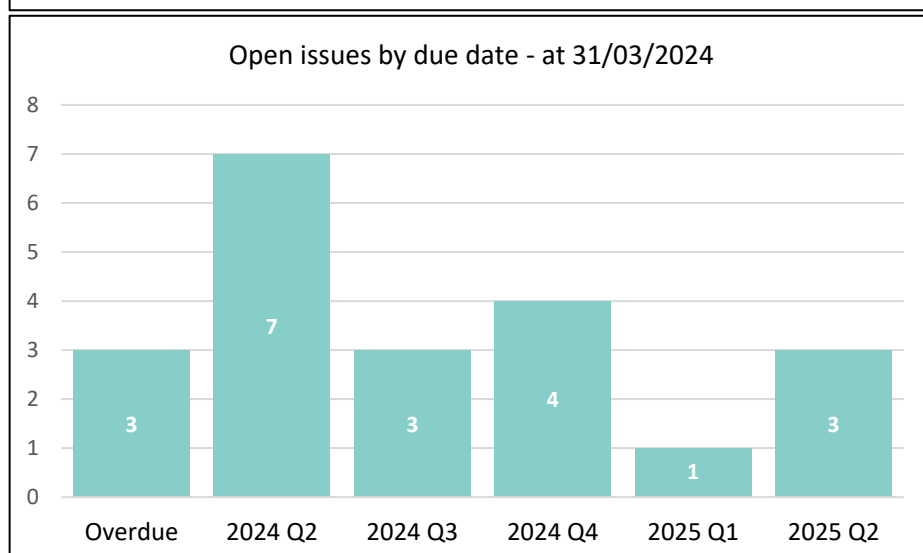
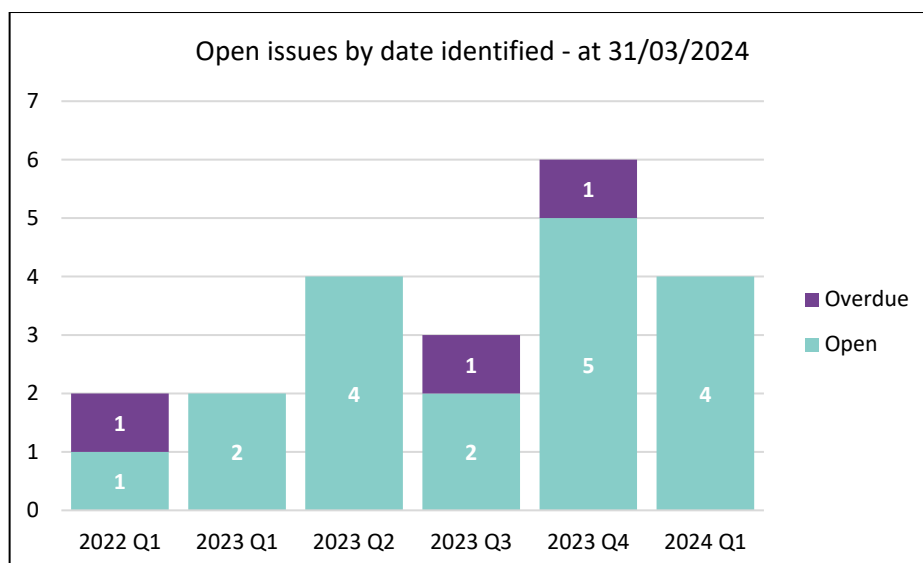
Training

- 4.13 A Conflicts of Interest training session was held following changes to the policy and processes in the previous quarter. Materials have been made available to those unable to attend.
- 4.14 Incident reporting training was provided to pension operations managers on defined reporting criteria, which will ensure accurate and timely reporting and remediation of incidents.

Issues & Incidents

- 4.15 During Q1, 13 issues were closed and 4 new issues were raised. The following charts show the breakdown of 21 open issues at the end of Q1:

Issues



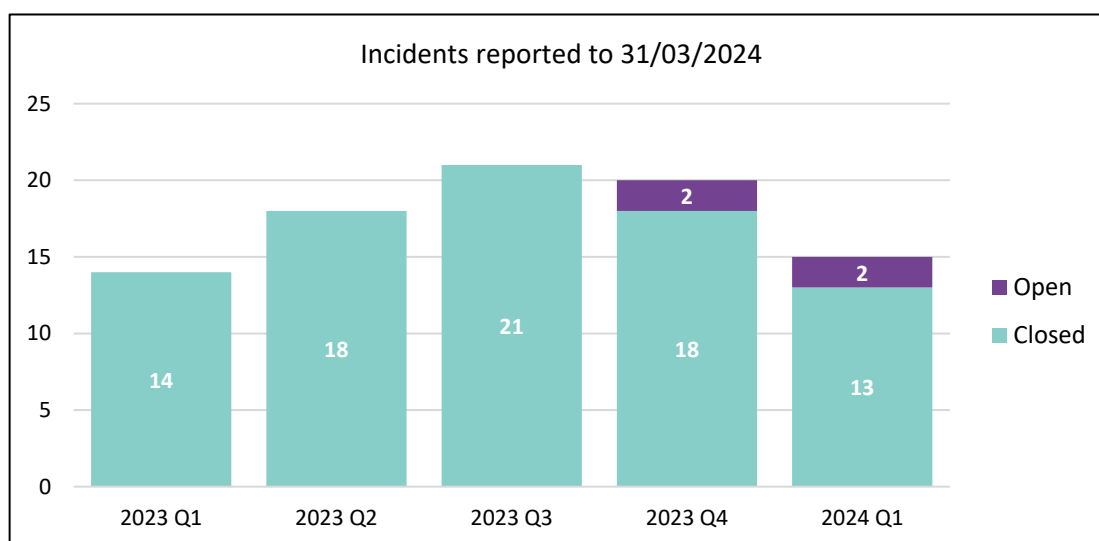
4.16 Since end Q1, 1 further issue has been added and 6 closed. At the time of writing, there are 16 open issues, 2 of which are overdue and a further 3 have a due date by the end of June. The Risk & Compliance team actively engage with issue stakeholders to ensure agreed actions are being taken forward.

4.17 Current open issues by rating and due date are as follows:

Issue Rating	Overdue	2024 Q2	2024 Q3	2024 Q4	2025 Q2	Total
High	1	1		1	1	4
Medium		2	2	1	1	6
Low	1		1	3	1	6
Total	2	3	3	5	3	16

Incidents

- 4.18 During Q1 fifteen incidents were raised, one of which was classified as a non-reportable data breach, and one as a regulatory breach requiring a notification to the FCA, due to transaction reporting errors at a third party. Required actions to remediate thirteen of these incidents were completed during Q1, and the incidents subsequently closed.
- 4.19 The transaction reporting incident has been remediated, and controls improved within both the third party and LPF to ensure such omissions are less likely to occur, and can be promptly identified if they do.



- 4.20 Further information on issues and incidents is available on request.

The Pension Regulator – Code of Practice

- 4.21 The Pensions Regulator (TPR) new general code of practice (the “Code”) came into effect at the end of March 2024. This consolidates and enhances existing TPR codes into a single code of practice, aiming to provide one set of clear, consistent expectations on scheme governance and administration, with the new format designed to make it easier for schemes to identify TPR’s expectations and consider whether they are meeting them.
- 4.22 LPF have purchased a TPR compliance checker tool for LGPS funds which will be used to assess existing practices and processes against the Code. The output of this assessment will inform any changes to the compliance monitoring plan.

5. Financial impact

- 5.1 Other than the GRC system noted in 3.5 which has already been budgeted for, there are no financial impacts to note at this time.

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 1a and b – LPF Key Risks

Appendix 2 – Risk Register Summary