



## **Pensions Committee**

2.00pm, Thursday, 5 December 2024

### **Risk & Compliance Update**

#### **Item number 7.2**

#### **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**

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## 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.
- 2.3 The overall risk profile of LPF remains stable, with activity broadly on plan.

### 3. Risk Management

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- 3.1 The LPF Risk Management Committee (RMC) met on 29 October 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 remain stable, with governance and people risks continuing to dominate the top positions for reasons set out in previous reports. Supplier Management risk however has seen a notable increase primarily reflecting challenges regarding procurement for new and renewal services.
- 3.3 In addition to the indicative appetite from the new UK government regarding further consolidation in the LGPS market in England & Wales, and pursuit of asset allocation directives, their first Budget has also introduced additional costs to employers through increases in employer national insurance payments and minimum wage thresholds which will contribute to financial pressures already being felt by some employers. Fund cessations may increase and/or accelerate as a result.
- 3.4 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.
- 3.5 Planning the programme for the Risk Control Self Assessment (RCSA) and the controls assurance processes to be implemented from 2025 has been undertaken and a quarterly schedule will commence from January.
- 3.6 Further to the previous two quarterly updates, at the time of writing no progress has been made with the GRC system project due to resourcing constraints within CEC Procurement.
- 3.7 Finally, a proposed updated Risk Appetite Statement has been drafted, and is considered under separate cover.

## 4. Monitoring & Assurance Summary

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### Compliance Monitoring Programmes (CMPs)

#### The Pensions Regulator – Monitoring Programme

- 4.1 Following a review of The Pensions Regulator (TPR) Combined Code of Practice, a risk-based approach to monitoring has been developed with a focus on key areas of greater impact that relate to pension member operations. This will commence from Q1 2025 and will be complimented by completion of an annual self-assessment.

#### FCA LPFI Compliance Monitoring Programme - Findings & Recommendations

- 4.2 Testing scheduled for Q3 has been completed. One new issue was recorded, which is not considered material.
- 4.3 Testing scheduled for Q4 2024 is underway and is scheduled to be completed by end of November.

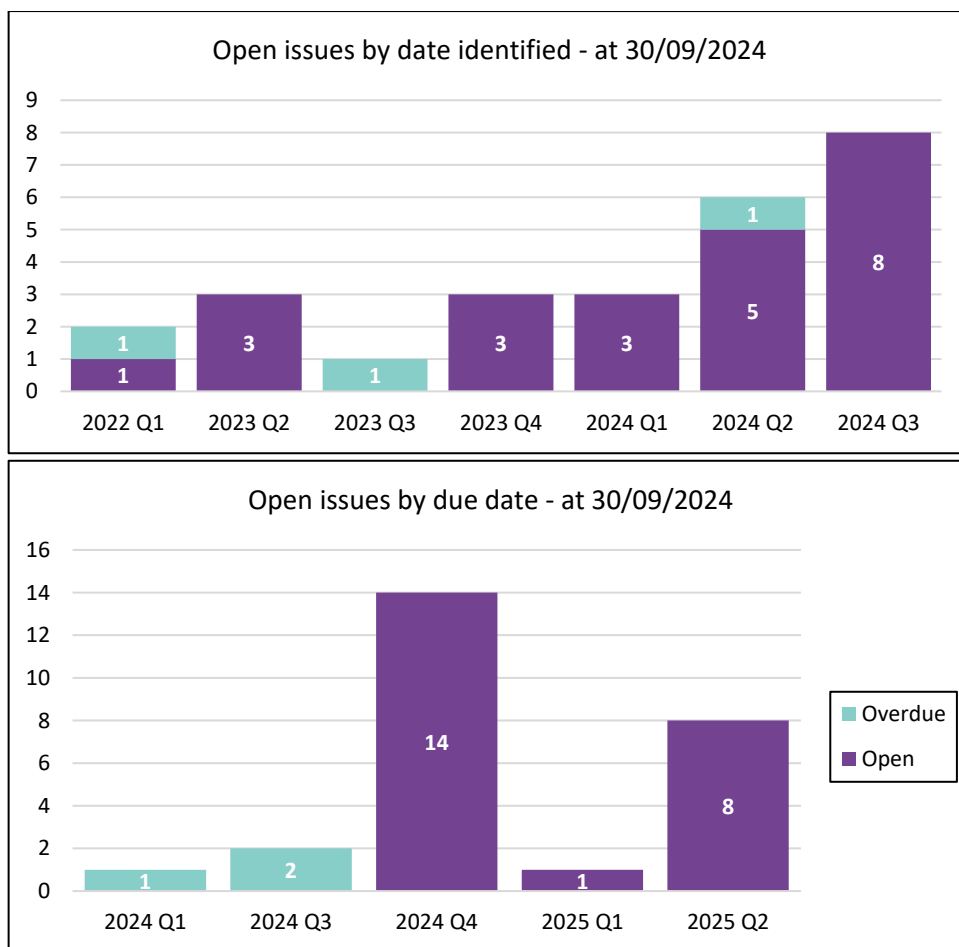
#### Internal Audit

- 4.4 The report on Pension Committee Governance & Operational Effectiveness was finalised in September with an amber reasonable assurance rating, and included in the Internal Audit report to the Committee at the September meeting. All issues and actions have been agreed and are being tracked in line with the standard issue management process.
- 4.5 Meanwhile, terms of reference have been agreed for the review of Member Payments, and at the time of writing the audit fieldwork is underway.
- 4.6 The phased approach for the Business Continuity audit completed at the start of the year has enabled an action plan to design and implement new or improved processes for business continuity arrangements to be developed. Corresponding actions and due dates have been agreed and progress against these will also be tracked.

#### Issues & Incidents

##### Issues

- 4.7 During Q3, 2 issues were closed and 8 new issues were raised. 5 of these new issues arose from the Pension Committee audit, 1 from compliance monitoring, and 2 were escalated from incidents. The following charts show the breakdown of 26 open issues at the end of Q3:



- 4.8 Since end Q3, one overdue issue has been closed. The issue relating to Business Continuity has also been completed as a programme to address the audit findings has been approved, and is expected to be replaced by 6 issues to track implementation against specific audit findings.
- 4.9 At the time of writing, there are 25 open issues, 2 of which are overdue and a further 14 have a due date by the end of December. The overdue issues relate to an outstanding review of ongoing operational due diligence arrangements of external fund managers, which is now currently underway, and the other is regarding the review of cyber insurance coverage, with the proposal currently being considered by CEC.
- 4.10 Current open issues by rating and due date are as follows:

Issue rating	Overdue	2024 Q4	2025 Q1	2025 Q2	Total
High		2		2	4
Low	1	8	1	1	11
Medium	1	4		5	10
<b>Total</b>	<b>2</b>	<b>14</b>	<b>1</b>	<b>8</b>	<b>25</b>

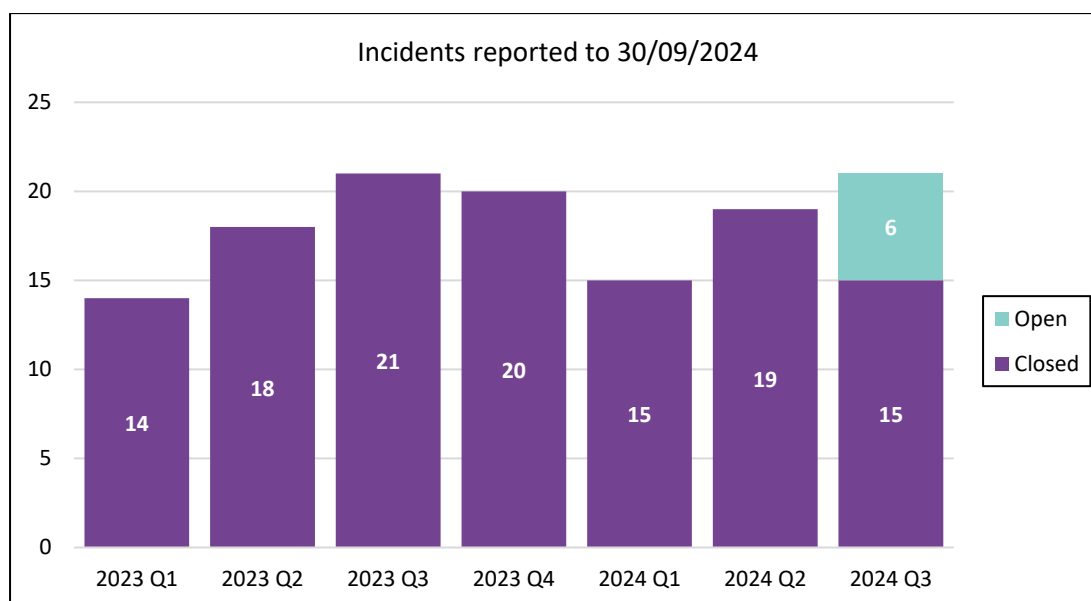
### Incidents

4.11 During Q3 21 incidents were raised. 4 were recorded as minor data breaches, and 1 assessed as a reportable TPR breach - members statements issued without McCloud remedy information, as reported to the Committee in September. Required actions to remediate 15 of these incidents were completed during Q3, and the incidents subsequently closed.

#### Call recording incident – accidental destruction of electronic records

4.12 Since end Q3, an incident has been identified where LPF’s electronic call recording records were mistakenly deleted by the subcontracted provider, as part of a process to move to a new supplier.

4.13 LPFI have reported a breach of call recording rules to the FCA . It does not require reporting to the TPR, as it does not meet the General Code criteria for material significance or a legal duty breach. CEC have assessed the incident as an unauthorised destruction data breach and confirmed that it is not reportable to the ICO. A detailed root cause analysis is underway to determine whether any new controls or further action is required.



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

## 5. Financial impact

5.1 There are no financial impacts to note at this time.

## **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