

The background of the slide features a large, light blue coat of arms of the City of Edinburgh. The coat of arms consists of a shield divided into four quarters. The top-left quarter shows a castle tower, the top-right shows a stag's head, the bottom-left shows a sailing ship, and the bottom-right shows a lion passant guardant. Above the shield is a crown with four fleurs-de-lis. A ribbon at the bottom of the shield contains the motto 'ANE FOR A'.

Agenda Item 4

Pension Fund Risk Register and Assurance Map

Falkirk Council

Subject: Pension Fund Risk Register and Assurance Map

Meeting: Joint Meeting of Pensions Committee and Pension Board

Date: 13 January 2020

Submitted by: Director of Corporate and Housing Services

1. Purpose of Report

1.1 This report brings to the attention of Committee and Board:

- an updated version of the Fund Risk Register; and
- an Assurance Map (i.e. a framework to enable Committee and Board to gain assurance regarding risk controls)

2. Recommendations

2.1 The Pensions Committee and Pension Board are invited to consider and comment upon the updated Risk Register and the Assurance Map.

2.2 The Pensions Committee is asked to approve the updated Risk Register and Assurance Map.

3. Risk Management Objectives

3.1 The objectives of the Fund's risk management arrangements are:

- to ensure there is a culture of risk awareness amongst Fund officers and those charged with Fund governance; and
- to identify, evaluate, monitor, and report on risks that may undermine delivery of the Fund's strategic or operational activities.

4. Reviewing the Risk Register

4.1 A key element of the risk framework is the maintenance of a risk register. This accords with advice from the Pensions Regulator that Funds should maintain a register and regularly review it.

4.2 Under the Falkirk Fund's arrangements, senior officers meet twice a year to formally review the register. The Chair (and Chair Designate) of the Pension Board are invited to those meetings. The revised risk register is then reported to the Committee and Board. Heightened areas of risk that arise between formal

reviews are reported to the Committee and Board as part of the normal quarterly reporting cycle.

- 4.3 The Risk Register was formally reviewed on 19th November and the updated version is attached at Appendix 1 of the report. Items highlighted in yellow are new. Items highlighted in blue are existing items that have been updated since the last review.

5. Risk Register

- 5.1 The Risk Register lists the significant risks faced by the Fund and scores them in terms of their likely occurrence and impact. Any mitigations to dampen the effect of a particular risk are recorded and a post-mitigation score calculated.
- 5.2 The net risk – the risk remaining after mitigations have been applied - is categorised as being either Low, Medium, High or Very High.
- 5.3 An upward or downward trend arrow indicates any risks that have moved since the last review.

6. Risk Register – Current Areas of Greatest Risk

- 6.1 Of the risks identified, those with the highest rating (i.e. most risky) are as follows:
- Succession planning and loss of staff
 - Staff error or backlogs in service delivery
 - Failure to adhere to regulatory standards (including issuing benefit statements)
 - Poor systems data
 - Lack of skills and knowledge
 - Impact of Climate Change
- 6.2 The first four bullet points are inter-related to a degree and reflect the rising age profile of the Pensions team and operational and regulatory pressures. A Pensions Support Assistant and several Pensions Assistants are in the process of being recruited in the coming weeks to improve resilience in these areas.
- 6.3 The ongoing Pension Board vacancies and moderate attendance at training by Committee members has seen an increase in the risks from a lack of knowledge of those responsible for Fund governance.
- 6.4 The final bullet recognises the risks from climate change and the steps taken thus far - principally through engagement activities - to reduce these risks.

7. Assurance Map

- 7.1 An Assurance Map (as endorsed by the Chartered Institute of Internal Auditors) is a recognised way in which management can seek to provide those charged with Governance with independent assurance around the key risks of an organisation. It also provides assurance that internal controls are being audited in a systematic and cyclical manner.

7.2 An Assurance Map has been developed for the Fund focusing on the main areas of risk (medium and above) highlighted by the risk register.

7.3 The Assurance Map looks at the overall risk controls in the context of three lines of defence:

Level 1 – First line of Defence

These are the operational controls put in place by management to control and mitigate risk and are essentially the mitigations listed in the risk register.

Level 2 – Second line of Defence

This relates to the internal governance arrangements that frame the operational controls and includes policies, performance metrics and control reports.

Level 3 – Third line of Defence

This is designed to provide independent verification of the adequacy of the first and second lines of defence.

7.4 The main sources of “Level 3” independent verification come through the work of Internal and External Audit, the Fund Actuary and the Joint Investment Strategy Panel. Where the review of controls is undertaken through an audit process, all audit reports are made available to Committee and Board on completion.

7.5 The Assurance Map for the Fund has been drafted with the assistance of the Council’s Internal Audit team and will be used to shape future internal audit review programmes.

8. Implications

Financial

8.1 There are no immediate financial implications associated with this report. Many of the risks identified have financial consequences should they not be adequately managed.

Resources

8.2 No additional resources are required at this time.

Legal

8.3 No legal issues are raised by this report.

Risk

8.4 The risk register and assurance map are important control mechanisms within the Fund’s governance framework. Failure to properly identify and manage risks could result in serious financial and reputational damage for the Fund and its stakeholders.

Equalities

8.5 No equalities issues are raised by this report.

Sustainability/Environmental Impact

8.6 No sustainability/environmental issues are raised by this report.

9. Conclusion

8.1 The scope of the Fund's operations mean that it is right and proper for risks to be formally recorded and controls audited. The risk register has been brought up to date and arrangements are in place for both it and the assurance map to be formally reported to the Committee and Board.

Director of Corporate & Housing Services

Author: Alastair McGirr, Pensions Manager
01324 506333 alastair.mcgirr@falkirk.gov.uk

Date: 12 December 2019

Appendices

Appendix 1 – Pension Fund Risk Register – November 2019

Appendix 2 – Assurance Map – November 2019

List of Background Papers:

None



Falkirk Council

Corporate & Housing Services

Falkirk Council Pension Fund

**Local Government Pension Scheme
Risk Register**

Version Control

Version	Date of Change	Last Committee/Board Approval Date	Comment
1.0	1 November, 2018	6 December, 2018	Risk Register revised and updated in accordance with External Audit recommendation following 2017/18 Annual Audit
1.1	1 March, 2019	21 March, 2019	Risk Register revised and updated following six monthly review in February, 2019
1.2	19 November, 2019	(13 January, 2020)	Risk Register revised and updated following six monthly review in November, 2019

1. Risk Scoring

Likelihood		
Unlikely	1	Rare (1% - 20% chance)
Possible	2	May well occur (21% - 50%)
Probable	3	More likely than not to occur (51% - 80%)
Almost Certain	4	Expected to occur frequently (80% - 100%)

Impact		
Minor	1	Insignificant / easily contained
Moderate	2	Significant but containable
Major	3	Serious impact
Critical	4	Severe / catastrophic

2. Risk Matrix


		Impact			
		Minor 1	Moderate 2	Major 3	Critical 4
Likelihood	Unlikely 1	Low (1)	Low (2)	Low (3)	Medium (4)
	Possible 2	Low (2)	Medium (4)	Medium (6)	High (8)
	Probable 3	Low (3)	Medium (6)	High (9)	Very High (12)
	Almost Certain 4	Medium (4)	High (8)	Very High (12)	Very High (16)

3. Risk Appetite


Level of Net Risk	Consequences
Low 1 - 3	Fund considers this level of risk tolerable
Medium 4 - 6	Fund expects to manage this level of risk to be contained with minimal intervention
High 7 - 9	Fund is concerned about this type of risk and looks to manage it mainly through mitigation and action plans
Very High 10 - 16	Fund is very concerned with this type of risk and looks to eliminate or contain it through a combination of contingencies, mitigations and short term action plans

Falkirk Council Pension Fund - Risk Register

1st November 2018 (updated 21 March 2019 and 13 November 2019)

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls	L	I	Current Risk	Review	Change
Financial Management Risks												
1	Financial Management	Under funding leading to pressure on employer contributions	2	3	6	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> Regular actuarial valuations Regular actuarial attendance at Committee and Board and other Fund events Inter valuation funding updates provided to Committee and Board Stabilisation strategy in place for some employers New Regulations give flexibility for individual deals with employers subject to covenant Exits facilitated for most vulnerable employers 	1	3	3	March 2020	
2	Financial Management	Failure of an fund employer resulting in upward pressure on other employers' contributions/including impact of Brexit	2	3	6	Pensions Manager	<ul style="list-style-type: none"> Robust Admissions Policy including use of guarantees and indemnities Engagement with employers after Valuation Exits facilitated for most vulnerable employers Regular contact with existing employers to review on-going covenants Inter valuation funding updates undertaken and results provided to employers Some Guarantees/Bonds in place 	1	3	3	Ongoing	
3	Financial Management	Fraud/theft of Council/Pension Fund assets by scheme members / pensioners or staff	3	3	9	Pensions Manager and Pensions Officer	<ul style="list-style-type: none"> Segregation of duties e.g. BACS file transmission Admin system access control policy No input/authorising by same person Participation in National Fraud initiative Use of external custodian Internal and external audit testing List of authorised signatories maintained 	1	3	3	March 2020	
4	Financial Management	Employers take action without understanding impact on pension fund liabilities (e.g. excessive pay awards)	2	2	4	Pensions Manager	<ul style="list-style-type: none"> Monitoring via actuarial valuation at least every three years & early warning reports Employer training events Individual employer cont. rates Funding Strategy Statement Employers represented on Committee/Board 	1	2	2	Ongoing	

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls	L	I	Current Risk	Review	Change
5	Financial Management	Contributions to the Fund are not received, processed or recorded completely and accurately	2	2	4	Fund Accountant	<ul style="list-style-type: none"> Monthly monitoring and reconciliation of contributions Annual check of contributions v employer file Internal/External audit testing Escalation process to Manager and Board Ongoing roll out of monthly contribution upload 	1	2	2	Monthly	
6	Financial Management	Failure to implement material changes to scheme rules	2	3	6	Pensions Manager	<ul style="list-style-type: none"> Administration Strategy being developed SPPA Circulars and subscription to LGA technical service Staff attend national technical group meetings and have email / phone contact with other LA counterparts Employer training undertaken 	2	2	4	Ongoing	
7	Financial management	Funding position affected by falling asset values or fall in bonds yields impacting on liabilities (including effect of Brexit)	4	4	16	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> Diverse range of assets held Strategy overseen by Joint Investment Strategy Panel (JISP) Allocation to infrastructure which has low correlation with other assets Allocations to Private Debt and Diversified Growth Fund has long term time horizon Periodic reviews of investment strategy 	2	3	6	Ongoing	
8	Financial management	Funding position affected by legal cases outwith Fund control (McCloud/GMP/Cost Cap)	4	2	8	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> National circulars/bulletins Engagement with Fund actuary re the likely impact 	4	1	4	Ongoing	New
9	Financial management	Fund has insufficient cash to meet immediate commitments	2	4	8	Pension Fund Accountant	<ul style="list-style-type: none"> Cash regularly monitored to ensure sufficiency Cash management policy in operation Extra cash recallable on a same day basis 	1	3	3	Ongoing	
Investment Risks												
10	Investment	Managers under-perform or performance monitoring is ineffective	3	4	12	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> Reviews performed by Lothian's investment team which includes FCA accredited professionals Spread of different managers used Performance assessed by JISP Quarterly calls held with managers Manager reports provided to and updates given to Board/Committee Robust manager selection process Option to terminate managers contract for poor performance 	2	3	6	Quarterly	

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls	L	I	Current Risk	Review	Change
11	Investment	Custody arrangements may not be sufficient to safeguard Pension Fund's assets	1	4	4	Pension Fund Accountant	<ul style="list-style-type: none"> Custodian's internal controls and compliance report Quarterly reconciliation of custodian/manager records Annual due diligence on Custodian's controls Regular contact/meeting with Custodian External and internal audit review 	1	3	3	March 2020	
12	Investment	Pension Fund investments not accurately valued	2	4	8	Pension Fund Accountant	<ul style="list-style-type: none"> Reported valuations of the manager are compared to the custodian, where material differences occur values are checked against independent source. Portfolio valuations are reconciled quarterly Valuation monitoring by specialists in Lothian team Alternatives valued in accordance with Venture capital code 	1	3	3	Monthly	
13	Investment	Investment Managers may not have appropriate control framework in place	1	4	4	Pensions Manager	<ul style="list-style-type: none"> Annual managers' internal control and compliance reports (assessed by external body) Annual face to face with managers on site Quarterly manager calls Input from Lothian investment specialists and JISP Quarterly reconciliation of manager records Manager reports required under MIFID II 	1	3	3	Ongoing	
14	Investment	Manager invests in company with persistently poor ESG credentials	3	3	9	Pensions Manager	<ul style="list-style-type: none"> Regular engagement with manager (some produce ESG reports quarterly) Manager engagement with company Potential to raise matter with LAPFF and/or PIRC SIP contains Fund's investment beliefs Communication on website to explain Fund policy Consider tender for engagement services 	3	2	6	Ongoing	
15	Investment	Impact of Brexit	4	2	8	Pensions Manager	<ul style="list-style-type: none"> Global investment of assets Diverse range of assets 	3	2	6	Ongoing	
16	Investment	Impact of Climate Change	4	3	12	Pensions Manager	<ul style="list-style-type: none"> Engagement with investee companies by Fund managers Lobbying by LAPFF / PIRC Exploring an ESG orientated mandate Consider further carbon footprinting exercise Members of IIGCC and Climate Action 100+ 	3	3	9	Quarterly	

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls	L	I	Current Risk	Review	Change
Governance Risks												
17	Governance	Committee takes decisions against professional advice or on political grounds or through being conflicted	2	4	8	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> "Whistleblowing" by Officers Delegation to CFO with advice from JISP Training Policy in place Attendance at conferences Access to wide variety of advice Oversight of Pension Board Internal and external audit review Conflicts Policy and Declarations of interest in place 	1	3	3	Ongoing	
18	Governance	Lack of knowledge, skills and leadership amongst Committee, Board and Officers	3	4	12	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> Training Policy in place Attendance at conferences Access to wide variety of advice 	3	3	9	March 2020	↑
19	Governance	Succession planning inadequate	4	4	16	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> Staff training and development policies Reduce key man risk through rotation of duties Staff access to group and web based forums Collaborations with Lothian and Fife Recruitment process in progress 	4	3	12	March 2020	
20	Governance	Failure to complete Annual Report and Accounts and obtain clean audit certificate (including sign off re uncertainties such as McCloud, GMP and Cost Cap)	2	3	6	Pensions Manager & Pension Fund Accountant	<ul style="list-style-type: none"> Agree Audit programme timeously Attend CIPFA briefings/seminars Plan Timetable annually Use of qualified staff Engagement with Hymans and external audit re the impact of McCloud, GMP and Cost Cap 	2	2	4	May 2020	↑
21	Governance	Members' confidential data lost or made public.	2	4	8	Pensions Manager and Pensions Officers	<ul style="list-style-type: none"> Annual Data Protection training for all Fund staff Privacy Notice on website MoU's on GDPR with all fund employers Use of Sharefile, secure Email and FTP facilities Reminders given at regular team meetings Shredding facilities available IT systems password secure 	1	3	3	Ongoing	
22	Governance	Change in LGPS Structure	2	3	6	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> Responded to Consultation (awaiting next steps) Collaboration with Lothian Fund already established 	2	3	6	March 2020	↓

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls	L	I	Current Risk	Review	Change
23	Governance	Failure to issue all Benefit Statements by due date	4	3	12	Pensions Manager and Pensions Officers	<ul style="list-style-type: none"> Fund has regular contact with employers Employer training sessions held as required Employer reminders sent before and after year end I-Connect project ongoing to move to monthly data collection (number of smaller/medium employers onboarded) Admin Strategy in development 	3	3	9	March 2020	
24	Governance	Failure to adhere to regulatory standards (TPR) for administration and governance	4	3	12	Pensions Manager and Pensions Officers	<ul style="list-style-type: none"> Receipt and review of industry publications Review of results of TPR "deep dives" – focus on policies, processes and people Admin strategy in development 	3	3	9	Ongoing	
No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls	L	I	Current Risk	Review	Change
Operational Risks												
25	Operational	Failure of IT systems including Altair (key admin/payroll system) including Altair move to Cloud hosting	3	4	12	Pensions Manager and Pensions Officers	<ul style="list-style-type: none"> Altair is a hosted, industry standard system Altair contingency arrangements tested annually Data backed-up daily Council is reviewing Business Continuity arrangements and testing them by the end of the financial year. This will include plans for the Municipal Buildings and ICT Inventory of PCs to be replaced Senior pensions staff equipped with laptops 	2	4	8	March 2020	
26	Operational	Cyber security attack	3	4	12	Chief Finance Officer & Pensions Manager	<ul style="list-style-type: none"> Heywood have provided certificates for compliance with – <ul style="list-style-type: none"> Cyber Essentials Scheme (expire 2/8/20) ISO 27001:2013 (expires 19/12/20) ISO 9001:2015 (expires 19/12/20) Heywood provided summary of their penetration test report (Feb 19) where no critical issues were identified Heywood moved to Cloud hosting to further enhance security Falkirk Council has attained Cyber Essentials certification as well as having ongoing Public Service Network (PSN) Certification 	1	4	4	March 2020	
27	Operational	Loss of Staff (e.g. pandemic, adverse weather)	3	4	12	Pensions Manager	<ul style="list-style-type: none"> Hosted Admin and Payroll System Fund/Council Business Continuity Plan Council's adverse weather policy Remote working possible for key staff 	2	4	8	Ongoing	

No.	Category	Risk	L	I	Risk Score	Assigned to	Mitigating Controls	L	I	Current Risk	Review	Change
28	Operational	Damage to premises through fire or water and potential loss of paper records	1	4	4	Pensions Manager	<ul style="list-style-type: none"> Hosted Admin and Payroll System Fund/Council Business Continuity Plan Remote working possible for key staff Paper records scanned for I-Connect new starters, leavers and pensioners. Plan to scan active member records Archives offsite 	1	3	3	March 2020	
29	Operational	Inaccurate member data on Altair or incomplete member data due to employer omissions (affecting member benefits and liability calculations)	4	3	12	Pensions Manager	<ul style="list-style-type: none"> Roll out of monthly online data submission (includes monthly review of submissions) Employer training sessions Data cleansing tools available and used Data quality audit undertaken Employer forms revised to improve clarity Trained staff review of records Improvement plan in development Address tracing initiative 	3	3	9	March 2020	
30	Operational	Staff error or backlogs in Service delivery	4	4	16	Pensions Manager and Pensions Officers	<ul style="list-style-type: none"> Experienced core workforce Recruitment in progress Processes involve checking mechanism Robust staff selection procedures Online procedures manual Annual online training mandatory Outstanding cases monitored and where necessary staff dedicated to work on particular backlog 	4	3	12	Monthly	
31	Operational	Failure or delay in paying pensioners	2	4	8	Pensions Manager	<ul style="list-style-type: none"> Pay run scheduled with built in recovery time Process overseen by at least 2 or 3 officers Hosted system so robust support mechanism Business continuity arrangements in place 	1	4	4	Monthly	
32	Operational	Contractual negotiations / disputes with service providers / failure of service provider	2	4	8	Pensions Manager	<ul style="list-style-type: none"> Regular dialogue with providers Renewal of contracts in place Use of framework agreements Support from Council Legal, Procurement and Governance teams Strong LGPS network helps to flag issues and allow back up plans to be put in place 	2	3	6	Ongoing	
33	Operational	Adverse impact of Brexit – may impact paying of overseas pensions and queries from overseas pensioners	3	2	6	Pensions Manager	<ul style="list-style-type: none"> Ongoing dialogue with provider of overseas payment service 	3	1	3	Ongoing	

Falkirk Council Pension Fund – Assurance Map¹ (last updated 19 November 2019)

No	Category / Risk (from Risk Register)	1 st Line of Defence ² Operational Management Controls and Internal Control Measures (from Risk Register)	2 nd Line of Defence ³ Monitoring / Reporting / Policies	3 rd Line of Defence ⁴ Functions that provide independent assurance
6	Financial Management Failure to implement material changes to scheme rules. (Medium)	<ul style="list-style-type: none"> Employer training undertaken. Administration Strategy being developed. SPPA Circulars and subscription to LGA technical service. Staff attend national technical group meetings and have email / phone contact with other LA counterparts. 	<ul style="list-style-type: none"> Annual Governance Statement. Scheme rules changes reported to Committee and Board. General Governance report provided to Committee and Board by Chief Finance Officer at each meeting. 	<u>External Audit</u> <ul style="list-style-type: none"> Opinion on Statement of Accounts / Independent Auditor's Report. Annual Audit Report. <u>Fund Actuary</u> <ul style="list-style-type: none"> Whistleblowing <u>Pensions Regulator</u> <ul style="list-style-type: none"> Data Quality Score
7	Financial Management Funding position affected by falling asset values or fall in bonds yields impacting on liabilities (including effect of Brexit). (Medium)	<ul style="list-style-type: none"> Allocation to infrastructure which has low correlation with other assets. Allocations to Private Debt and Diversified Growth. Diverse range of assets held. Fund has long term time horizon. Periodic reviews of investment strategy. Strategy overseen by Joint Investment Strategy Panel (JISP). 	<ul style="list-style-type: none"> Update of Investment performance given at each Committee and Board in report from Chief Finance Officer Funding Strategy Statement. Inter valuation funding updates 	<u>External Audit</u> <ul style="list-style-type: none"> Opinion on Statement of Accounts / Independent Auditor's Report. Annual Audit Report. <u>Joint Investment Strategy Panel</u> <ul style="list-style-type: none"> Overall Strategy and Manager performance reviewed each quarter <u>Fund Actuary</u> <ul style="list-style-type: none"> Triennial valuations
8	Financial Management Funding position affected by legal cases outwith Fund control (McCloud / GMP / Cost Cap) (Medium)	<ul style="list-style-type: none"> Engage with Fund actuary to estimate impact 	<ul style="list-style-type: none"> Review of national circulars/bulletins 	<u>External Audit</u> <ul style="list-style-type: none"> Opinion on Statement of Accounts / Independent Auditor's Report. Annual Audit Report. <u>Fund Actuary</u> <ul style="list-style-type: none"> Guidance / estimate of impact

¹ Based on Falkirk Council Pension Fund Risk Register at 19 November 2019.

² Under the first line of defence, Pensions management has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks.

³ The second line of defence focusses on the different components of internal governance, and includes monitoring, reporting, and corporate plans and policies.

⁴ The third lines of defence are those functions which provide independent assurance to the Committee and Board. This assurance includes how effectively the risks are assessed and managed and the effectiveness of the first and second lines of defence.

No	Category / Risk (from Risk Register)	1 st Line of Defence ² Operational Management Controls and Internal Control Measures (from Risk Register)	2 nd Line of Defence ³ Monitoring / Reporting / Policies	3 rd Line of Defence ⁴ Functions that provide independent assurance
10	Investment Managers under-perform or performance monitoring is ineffective. (Medium)	<ul style="list-style-type: none"> • Manager reports provided to and updates given to Board / Committee. • Option to terminate managers contract for poor performance. • Performance assessed by JISP. • Quarterly calls held with managers. • Reviews performed by Lothian's investment team which includes FCA accredited professionals. • Robust manager selection process. • Spread of different managers used. 	<ul style="list-style-type: none"> • Update of Investment performance versus benchmark given at each Committee and Board in report from Chief Finance Officer. • Quarterly reports provided by managers and reconciled to custodian records • Main items from Joint Investment Strategy Panel reported to Committee and Board by Chief Finance Officer • Statement of Investment Principles 	<u>External Audit</u> <ul style="list-style-type: none"> • Opinion on Statement of Accounts / Independent Auditor's Report. • Annual Audit Report. <u>Joint Investment Strategy Panel</u> <ul style="list-style-type: none"> • Overall Strategy and Manager performance reviewed each quarter <u>CIPFA Directors of Finance Group</u> <ul style="list-style-type: none"> • Performance reported annually <u>Internal Audit</u> <ul style="list-style-type: none"> • Audit review – Pension Fund Investment Management Arrangements (2018/2019).
14	Investment Manager invests in company with persistently poor ESG credentials. (Medium)	<ul style="list-style-type: none"> • Fund policy explained on website • Manager engagement with company. • Potential to raise matter with LAPFF and / or PIRC. • Regular engagement with manager (some produce ESG reports quarterly). • SIP contains Fund's investment beliefs. • Consider engagement services tender 	<ul style="list-style-type: none"> • Environmental, Social, and Corporate Governance Responsibilities are reported in Pension Fund Annual Report and Accounts. • ESG considerations reported to Committee / Board on quarterly basis • Statement of Investment Principles. • Alignment with UK Stewardship Code 	<u>External Audit</u> <ul style="list-style-type: none"> • Opinion on Statement of Accounts / Independent Auditor's Report. • Annual Audit Report. <u>PIRC / LAPFF</u> <ul style="list-style-type: none"> • PIRC voting record • LAPFF engagement activities
15	Investment Impact of Brexit. (Medium)	<ul style="list-style-type: none"> • Global investment of assets. • Diverse range of assets 	<ul style="list-style-type: none"> • Fund Risk Management Policy. • Statement of Investment Principles. 	<u>External Audit</u> <ul style="list-style-type: none"> • Opinion on Statement of Accounts / Independent Auditor's Report. • Annual Audit Report. <u>Joint Investment Strategy Panel</u> <ul style="list-style-type: none"> • Overall Strategy and Manager performance reviewed each quarter <u>Internal Audit</u> <ul style="list-style-type: none"> • Audit review – Pension Fund Investment Management Arrangements (2018/2019)

No	Category / Risk (from Risk Register)	1 st Line of Defence ² Operational Management Controls and Internal Control Measures (from Risk Register)	2 nd Line of Defence ³ Monitoring / Reporting / Policies	3 rd Line of Defence ⁴ Functions that provide independent assurance
16	Investment Impact of Climate Change. (High)	<ul style="list-style-type: none"> Engagement with investee companies by Fund managers. Lobbying by LAPFF / PIRC. Exploring ESG orientated mandate. Consider further carbon footprinting exercise. Members of IIGCC and Climate Action 100+. 	<ul style="list-style-type: none"> Fund Risk Management Policy. Statement of Investment Principles. Alignment with UK Stewardship Code Manager sustainability reports Fund membership of pressure groups 	<u>External Audit</u> <ul style="list-style-type: none"> Opinion on Statement of Accounts / Independent Auditor's Report. Annual Audit Report. <u>Joint Investment Strategy Panel</u> <ul style="list-style-type: none"> Overall Strategy and Manager performance reviewed each quarter Carbon Footprinting <u>Internal Audit</u> <ul style="list-style-type: none"> Audit review – Pension Fund Investment Management Arrangements (2018/2019).
18	Governance Lack of knowledge, skills and leadership amongst Committee, Board and Officers. (High)	<ul style="list-style-type: none"> Access to wide variety of advice. Attendance at conferences. Training Policy in place. 	<ul style="list-style-type: none"> Committee Terms of Reference Board Constitution Training Policy Annual Governance Statement Committee and Board provided with update report on General Governance Matters, by the Chief Finance Officer, at each meeting. Attendance at meetings reported in Fund Annual Report and Accounts. 	<u>External Audit</u> <ul style="list-style-type: none"> Opinion on Statement of Accounts / Independent Auditor's Report. Annual Audit Report. <u>Internal Audit</u> <ul style="list-style-type: none"> Audit review – Pension Fund Governance (2017/2018).
19	Governance Succession planning inadequate. (Very High)	<ul style="list-style-type: none"> Recruitment process in progress. Collaborations with Lothian and Fife. Reduce key man risk through rotation of duties. Staff access to group and web based forums. 	<ul style="list-style-type: none"> Council's Recruitment and Selection Policy. Council's Workforce Strategy. Details of number of Pension Section staff and their experience and qualifications are reported in Pension Fund Annual Report and Accounts. Workforce Plans being developed across all Services. 	<u>External Audit</u> <ul style="list-style-type: none"> Opinion on Statement of Accounts / Independent Auditor's Report. Annual Audit Report. <u>Internal Audit</u> <ul style="list-style-type: none"> Audit review – Workforce Planning (Council wide) (2019/2020).

No	Category / Risk (from Risk Register)	1 st Line of Defence ² Operational Management Controls and Internal Control Measures (from Risk Register)	2 nd Line of Defence ³ Monitoring / Reporting / Policies	3 rd Line of Defence ⁴ Functions that provide independent assurance
20	Governance Failure to complete the Annual Report and Accounts and obtain a clean audit certificate (including sign off re uncertainties such as McCloud , GMP and Cost Cap). (Medium)	<ul style="list-style-type: none"> • Agree Audit programme timeously • Attend CIPFA briefings/seminars • Plan Timetable annually • Use of qualified staff 	<ul style="list-style-type: none"> • Engagement with Hymans and external audit re the impact of McCloud, GMP and Cost Cap 	<u>External Audit</u> <ul style="list-style-type: none"> • Opinion on Statement of Accounts / Independent Auditor's Report. • Annual Audit Report. <u>Fund Actuary</u> <ul style="list-style-type: none"> • Guidance / estimate of impact <u>Internal Audit</u> <ul style="list-style-type: none"> • Audit review - Pension Fund Governance (2017/2018).
22	Governance Change in LGPS Structure. (Medium)	<ul style="list-style-type: none"> • Collaboration with Lothian Fund already established. • Responded to Consultation (awaiting next steps). 	<ul style="list-style-type: none"> • Committee and Board provided with updates at each meeting on potential LGPS re-structuring via General Governance Matters report by the Chief Finance Officer,. • Governance Compliance Statement • Chief Finance Officer attends Scheme Advisory Board. 	<u>External Audit</u> <ul style="list-style-type: none"> • Opinion on Statement of Accounts / Independent Auditor's Report. • Annual Audit Report. <u>Internal Audit</u> <ul style="list-style-type: none"> • Audit review - Pension Fund Governance (2017/2018).
23	Governance Failure to issue all Benefit Statements by due date. (High)	<ul style="list-style-type: none"> • Admin Strategy in development. • Employer reminders sent before and after year end. • Fund has regular contact with employers. • Employer training session held as required. • I-Connect project ongoing to move to monthly data collection (number of smaller / medium employers on board). 	<ul style="list-style-type: none"> • Performance Standards reported in Pension Fund Annual Report and Accounts. • Material breaches to be reported to Pensions Regulator 	<u>External Audit</u> <ul style="list-style-type: none"> • Opinion on Statement of Accounts / Independent Auditor's Report. • Annual Audit Report. <u>Pensions Regulator</u> <ul style="list-style-type: none"> • Can impose sanctions in response to reported breaches.
24	Governance Failure to adhere to regulatory standards (TPR) for administration and governance. (High)	<ul style="list-style-type: none"> • Receipt and review of industry publications. • Review of results of TPR "deep dives" – focus on policies, processes and people. • Admin strategy in development. 	<ul style="list-style-type: none"> • Performance Standards reported in Pension Fund Annual Report and Accounts. • Material breaches to be reported to Pensions Regulator. 	<u>External Audit</u> <ul style="list-style-type: none"> • Opinion on Statement of Accounts / Independent Auditor's Report. • Annual Audit Report. <u>Pensions Regulator</u> Can impose sanctions.

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				<u>Internal Audit</u> <ul style="list-style-type: none"> Audit review - Pension Fund Governance (2017/2018).
25	Operational Failure of IT systems including Altair (key admin / payroll system) including Altair move to Cloud hosting. (Medium)	<ul style="list-style-type: none"> Altair is a hosted, industry standard system. Altair contingency arrangements tested annually. Data backed-up daily. Senior pensions staff equipped with laptops. 	<ul style="list-style-type: none"> Fund Business Continuity Plan Council Business Continuity Plan Heywood contingency plans Contractual penalties for extended Admin System downtime 	<u>External Audit</u> <ul style="list-style-type: none"> Opinion on Statement of Accounts / Independent Auditor's Report. Annual Audit Report. <u>Internal Audit</u> <ul style="list-style-type: none"> Audit review – Pension Data Security and Management (2017/2018). Audit review – System Administration (Council wide) (2019/2020). Audit review – Business Continuity Planning (Council wide) (2019/2020).
26	Operational Cyber security attack. (Medium)	<ul style="list-style-type: none"> Council has attained Cyber Essentials certification as well as having ongoing Public Service Network (PSN) Certification. Heywood moved to Cloud hosting to further enhance security. Network security, including firewalls, network segregation, and penetration testing. 	<ul style="list-style-type: none"> Council's Acceptable Use Policy. Council's Digital Strategy. Council's Information Security Policy. Council's Risk Management Policy and Framework. Scottish Government Public Sector Cyber Resilience Action Plan Fund Admin System Access Policy. Review of Heywood certificates and testing. 	<u>External Audit</u> <ul style="list-style-type: none"> Opinion on Statement of Accounts / Independent Auditor's Report. Annual Audit Report. <u>Internal Audit</u> <ul style="list-style-type: none"> Audit review – Pension Data Security and Management (2017/2018). Audit review – Business Continuity Planning (Council wide) (2019/2020).
27	Operational Loss of Staff (e.g. pandemic, adverse weather). (High)	<ul style="list-style-type: none"> Hosted Admin and Payroll System. Remote working possible for key staff. 	<ul style="list-style-type: none"> Council's Adverse Weather Policy. Council's Risk Management Policy and Framework. Fund / Council Business Continuity Plan. 	<u>External Audit</u> <ul style="list-style-type: none"> Opinion on Statement of Accounts / Independent Auditor's Report. Annual Audit Report. <u>Internal Audit</u> <ul style="list-style-type: none"> Audit review – Business Continuity Planning (Council wide) (2019/2020).

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29	Operational Inaccurate member data on Altair or incomplete member data due to employer omissions (affecting member benefits and liability calculations). (High)	<ul style="list-style-type: none"> • Data cleansing tools available and used. • Data quality audit undertaken. • Employer forms revised to improve clarity. • Employer training sessions. • Improvement plan in development. • Roll out of monthly online data submission (includes monthly review of submissions). • Trained staff review of records. 	<ul style="list-style-type: none"> • Annual Governance Statement. • Council's Data Protection Policy. • Performance Standards reported in Pension Fund Annual Report and Accounts. • Address tracing initiative. • Data improvement plan in development. 	<u>External Audit</u> <ul style="list-style-type: none"> • Opinion on Statement of Accounts / Independent Auditor's Report. • Annual Audit Report. <u>Fund Actuary</u> <ul style="list-style-type: none"> • Data Cleansing for Valuation <u>Internal Audit</u> <ul style="list-style-type: none"> • Annual review – Pension Fund Transactional Testing (2019/2020). • Audit review – Business Continuity Planning (Council wide) (2019/2020).
30	Operational Staff error or backlogs in Service delivery. (Very High)	<ul style="list-style-type: none"> • Recruitment in progress. • Online procedures manual. • Outstanding cases monitored and where necessary staff dedicated to work on particular backlog. • Processes involve checking mechanism. • Robust staff selection procedures. • Experienced core workforce. • Annual online training mandatory. 	<ul style="list-style-type: none"> • Council's Sickness Absence Policy. • Performance Standards reported in Pension Fund Annual Report and Accounts. 	<u>External Audit</u> <ul style="list-style-type: none"> • Opinion on Statement of Accounts / Independent Auditor's Report. • Annual Audit Report. <u>Internal Audit</u> <ul style="list-style-type: none"> • Annual review – Pension Fund Transactional Testing (2019/2020). • Audit review - Business Continuity Planning (Council wide) (2019/2020). • Biennial National Fraud Initiative
31	Operational Failure or delay in paying pensioners. (Medium)	<ul style="list-style-type: none"> • Hosted system so robust support mechanism. • Pay run scheduled with built in recovery time. • Process overseen by at least two / three officers. 	<ul style="list-style-type: none"> • Annual Governance Statement. • Fund / Council Business Continuity Plan • Heywood business contingency arrangements • Checklist and Timetable for Payroll Processing. 	<u>External Audit</u> <ul style="list-style-type: none"> • Opinion on Statement of Accounts / Independent Auditor's Report. • Annual Audit Report. <u>Internal Audit</u> <ul style="list-style-type: none"> • Annual review – Pension Fund Transactional Testing (2019/2020). • Audit review – Pension Data Security and Management (2017/2018).

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32	Operational Contractual negotiations / disputes with service providers / failure of service provider. (Medium)	<ul style="list-style-type: none"> • Regular dialogue with providers. • Renewal of contracts in place. • Strong LGPS network helps to flag issues and allow back up plans to be put in place. • Support from Council Legal, Procurement and Governance teams. • Use of framework agreements. 	<ul style="list-style-type: none"> • Council's Contract Standing Orders. • Council's Corporate Procurement Procedures. • Council's Financial Regulations. • Council's Procurement Strategy. 	<u>External Audit</u> <ul style="list-style-type: none"> • Opinion on Statement of Accounts / Independent Auditor's Report. • Annual Audit Report. Various Auditors / Regulators <ul style="list-style-type: none"> • Audit and Assurance Reports on Fund Managers and Custodian • Managers are FCA Regulated <u>Internal Audit</u> <ul style="list-style-type: none"> • Audit review – Pension Fund Investment Management Arrangements (2018/2019). • Audit review – Procurement / Procurement Governance (Council wide) (2017/2018).