



Pensions Committee

24 June 2015

Report title	Risk and compliance monitoring 1 January – 31 March 2015	
Originating service	Pension Services	
Accountable employee(s)	Emma Bland Tel Email	Compliance and Risk Manager 01902 554387 emma.bland@wolverhampton.gov.uk
Report has been considered by	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 geik.drever@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to:

1. Note the risk register for West Midlands Pension Fund.
2. Note the changed approach to risk and compliance monitoring.
3. Note that no significant compliance issues have arisen during the quarter.

1.0 Purpose

- 1.1 To provide the Pensions Committee with the revised risk register, feedback on the quarterly compliance monitoring programme and to explain the changed approach to risk and compliance monitoring.

2.0 Background

- 2.1 At the 18th March 2015 Pensions Committee, the Compliance and Risk Team presented the top ten risks identified within the Fund and stated that the full risk register would be presented to this 24th June Committee. Since then the team has undertaken a review of the risks and associated compliance tests as it was felt that the current system for monitoring was no longer suitable to the Fund's more proactive way of working.

3.0 Risk register

- 3.1 To ensure all risks were captured, the team involved all staff from across the Fund and attended individual sections' management meetings. In addition a staff briefing was given to raise awareness of the register and staff were given the opportunity to comment on the register.
- 3.2 In addition to this, the team referred to CIPFA guidance and spoke to four of the Fund's investment managers to find out how they monitor risk including engaging with staff and carrying out compliance testing.
- 3.3 Following these discussions with staff and external bodies, the team has decided to focus on a top 20 list of risks, shown in Appendix 1. These risks are assessed using a 5 x 5 scoring matrix to decide how likely they are to occur and how much of an impact they would have; the matrix is shown in Appendix 2.
- 3.4 The top 20 risks are split between the Fund's four sections (finance, governance, investments and pensions administration) and may change from time to time depending on any circumstances that arise. This makes the risk register a live document which will be monitored through quarterly engagement with each section of the Fund.
- 3.5 Additionally a risk workshop will be held as part of the induction training for trustees on 22nd July which all Trustees are asked to attend.

4.0 Compliance monitoring programme

- 4.1 The Fund has in place a programme, which aims to ensure its internal and external operations meet acceptable standards and where possible best practice. External operations include those of the custodian, investment managers and other third parties such as Civica. Internal operations cover areas such as in-house investment management, finance, governance and administration of members' benefits.

4.2 The programme has been reviewed and amended where necessary to ensure it is now directly linked to the top 20 risks; testing the effectiveness of the controls in place to manage and mitigate these risks.

4.3 Some tests which were linked to “low risks” have been deleted and replaced with new tests to monitor the top 20. The new tests which have been introduced are summarised below:-

4.3.1 Investments

- More in-depth testing around monitoring of the custodian, for example ensuring that the custodian’s reconciliation to investment manager valuations is within tolerable limits and where this isn’t the case, that the custodian has followed up and rectified discrepancies where appropriate.
- Whilst the Compliance and Risk Team previously tested personal dealing and front-running, following the recent introduction of in-house active equities management, the Team, in liaison with the Investments Team, has introduced more robust monitoring in these areas.

4.3.2 Pensions Administration

- More in-depth testing around covenant strength has been introduced, ensuring that all employers’ covenant strengths have been assessed and risk rated and that where there are concerns, employers have been contacted as appropriate.
- Regarding data quality, that common and conditional data reports (which identify issues) are run regularly, that an action plan is put in place to address these issues and progress against this.

4.3.3 Governance

- More in-depth testing of the business continuity plan to ensure third parties are able to meet the Fund’s requirements in an incident.
- More in-depth testing to ensure that staff access levels across all Fund systems are appropriate in relation to their seniority and duties.

4.3.4 This programme is shown in Appendix 3 (as an exempt item), again split by section.

5.0 Reporting

5.1 In the past the risk register has been presented to Pensions Committee annually and compliance monitoring presented quarterly.

5.2 To align the compliance monitoring with the risk register, both will be brought together to Committee each quarter.

6.0 Monitoring programme – January to March 2015

6.1 The tests carried out by the Compliance and Risk Team for the January to March 2015 quarter, along with any findings, are outlined below:-

6.2 Under Pensions Administration, testing to ensure;

- Contributions were received from employers by the deadline.
- Any new employers in the quarter have a suitable guarantee in place.
- Notification of death benefits were sent out timely and accurately and that payments made were in accordance with the scheme rules.
- That where the Fund was notified of changes to members' details, the changes were acknowledged by the Fund and carried out in accordance with the notification.
- The common data report (which identifies data quality issues) was run monthly.

There are no issues to report. Some minor issues regarding death benefits had already been rectified with no impact on the member's record.

6.3 Under Governance, testing to ensure that;

- The correct staff have access to Rota (the Fund's working hours recording system) and that those staff have the appropriate level of access for their seniority and duties.
- All known breaches were recorded in the breaches register and reported to the Council's Information Governance Team.
- The four freedom of information requests received during the quarter were recorded and responded to within statutory timescales.
- The business continuity plan was tested.
- The contracts register was updated for any new contracts.
- The Fund published information required under the Local Government Transparency Code 2015.
- Gifts and hospitality were recorded and dealt with in accordance with the Fund's Gifts and hospitality policy
- The recommended 22 hours of training was undertaken by each trustee and that training was provided to address any training needs identified.

Rota access was fully revised and amended during the quarter. This forms part of a wider information governance programme to review staff access levels across all Fund systems.

There was one breach during the quarter where personal data was sent to the wrong address. The affected member was contacted and the team reminded to take care when entering data into the pensions system.

64% of trustees undertook 22 hours or more of training during 2014/15. At the end of each training session, trustees are given the opportunity to suggest other training which they feel would be beneficial. To improve training going forward, the Trustee Management Officer is investigating the use of a training needs analysis.

- 6.4 Under Finance, testing to ensure that;
- Payments were processed within the Fund's stipulated timescales.
 - That minimum and maximum levels of cash were not exceeded without valid reason.

Transfer out payments within ten days were below target, due to the majority of transfer outs still having to be processed manually outside the pensions system, as calculations are implemented on the system. There are no other issues to report.

- 6.5 Under Investments, testing to ensure that;
- Corporate actions were processed appropriately.
 - Investment manager invoices were accurate.
 - Holdings were accurately recorded on the Fund's accounting system.
 - The actual asset allocation complies with investment regulations and the strategic asset allocation.
 - Best execution was achieved for a sample of purchase and sale transactions.

There are no issues to report.

7.0 Financial implications

- 7.1 The compliance monitoring Programme ensures has not identified any areas of high concern.
- 7.2 The only area to note is regarding delays in transfer out payments (aforementioned in 6.4). However in comparison to the size of the Fund, this is not significant in financial terms and therefore there are no financial implications arising from this report.

8.0 Legal implications

- 8.1 The need for effective risk management is reflected throughout guidance and regulation in the LGPS, notably in Regulation 12(2) of the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009*.
- 8.2 The Pensions Committee, as the body charged with governance of the administering authority's pensions operations, takes the responsibility for ensuring that there is effective risk management over those operations.

9.0 Equalities implications

- 9.1 This report contains no direct equal opportunities implications.

10.0 Environmental implications

- 10.1 This report contains no direct environmental implications.

11.0 Human resources implications

11.1 The report contains no direct human resource implications.

12.0 Corporate Landlord

12.1 There are no corporate landlord implications.

13.0 Schedule of background papers

13.1 Agenda item no. 12 at the 18th March 2015 Pensions Committee: *Pension Services – risk register review, which can be found at:-*
<http://wolverhampton.moderngov.co.uk/ieListDocuments.aspx?CId=186&MId=4115&Ver=4>

14.0 Schedule of Appendices

14.1 Appendix 1 – West Midlands Pension Fund Risk Register

Appendix 2 – Impact and likelihood key

Appendix 3 – West Midlands Pension Fund Compliance Monitoring - **EXEMPT**