

TEESSIDE PENSION BOARD REPORT

31 MARCH 2025

DIRECTOR OF FINANCE AND TRANSFORMATION– ANDREW HUMBLE

Update on Work Plan Items

1. PURPOSE OF THE REPORT

- 1.1 To present Members of the Teesside Pension Board (the Board) with information on items scheduled in the work plan for consideration at the current meeting.

2. RECOMMENDATION

- 2.1 That Board Members note this report and discuss any issues arising from it.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no specific financial implications arising from this report.

4. BACKGROUND

- 4.1 At its meeting on 19 July 2021 the Board agreed an updated work plan for the coming months and years which set out areas for the Board to discuss or consider at subsequent meetings. These were typically areas that the Pensions Regulator and/or the Scheme Advisory Board (SAB) had identified as important for Local Pension Boards to consider. This work plan has been reviewed and updated periodically by the Board, with the last updated approved at its 25 November 2024 meeting.
- 4.2 The items scheduled for consideration in the work plan for this meeting are managing risk and internal controls, a review of the risk register and a review of internal and external audit reports – detail on these is set out below. The current work plan is contained at Appendix A.

5 MANAGING RISKS AND INTERNAL CONTROLS

5.1 The Pensions Regulator's recently General Code of Practice gives the following very broad definition of Internal Controls:

"Internal controls refer to all the following:

- the arrangements and procedures to be followed in the administration and management of the scheme
- the systems and arrangements for monitoring that administration and management, and
- arrangements and procedures to be followed for the safe custody and security of the assets of the scheme."

This paper will focus on the Pension Fund's internal controls in relation to managing risks.

5.2 The Fund's Risk Management Policy (attached at Appendix B) details the risk management strategy for the Fund, including:

- The risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk.
- How risk management is implemented.
- Risk management responsibilities.
- The procedures that are adopted in the Fund's risk management process.
- The key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

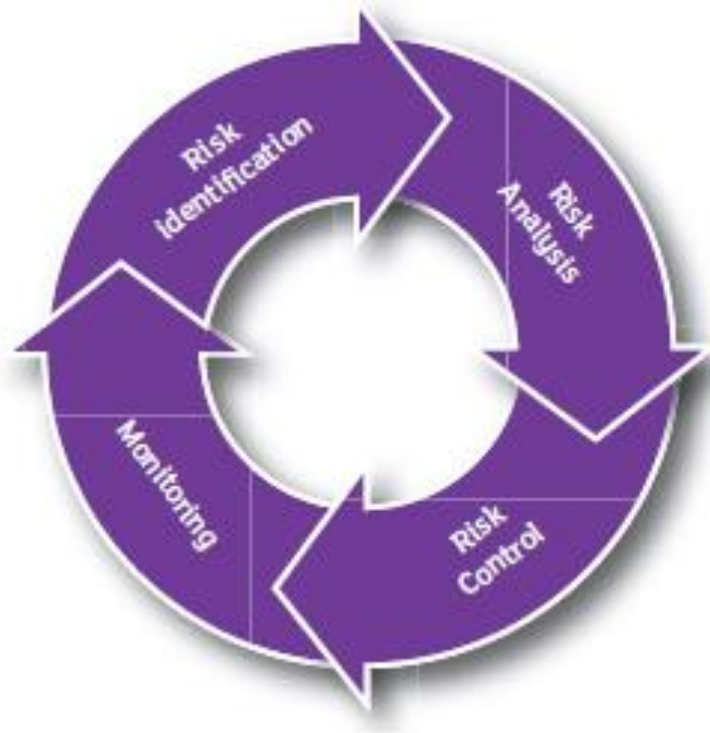
5.3 Effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Fund can:

- Demonstrate best practice in governance.
- Improve financial management.
- Minimise the risk and effect of adverse conditions.
- Identify and maximise opportunities that might arise.
- Minimise threats.

5.4 In relation to understanding and monitoring risk, the Administering Authority aims to:

- Integrate risk management into the culture and day-to-day activities of the Fund.
- Raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners).
- Anticipate and respond positively to change.
- Minimise the probability of negative outcomes for the Fund and its stakeholders.

- Establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice.
 - Ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.
- 5.5 To assist in achieving these objectives in the management of the Fund, the Administering Authority will aim to comply with:
- The CIPFA Managing Risk publication.
 - The Pensions Act 2004 and the Pensions Regulator's Code of Practice as they relate to managing risk for public service pension schemes.
- 5.6 The Fund's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections:



Risk Identification

The risk identification process is both a proactive and reactive one: looking forward i.e. horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the organisation.

Risk Analysis

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating.

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised on the risk register.

Risk Control

Risk control specifies actions taken to reduce the likelihood of a risk event happening, the frequency it could happen and reducing the impact if it does occur. Possible courses of action against risk:

- **Tolerate** – the exposure of a risk may be tolerable without any further action being taken; this is partially driven by the Administering Authority's risk 'appetite' in relation to the Pension Fund;
- **Treat** – action is taken to constrain the risk to an acceptable level;
- **Terminate** – some risks will only be treatable, or containable to acceptable levels, by terminating the activity;
- **Transfer** - for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action.

Risk Monitoring

Risk monitoring is the final part of the risk management cycle and is the responsibility of the Pension Fund Committee. In monitoring risk management activity, the Administering Authority / Committee considers whether:

- The risk controls taken achieved the desired outcomes
- The procedures adopted and information gathered for undertaking the risk assessment were appropriate
- Greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- There are any lessons to be learned for the future assessment and management of risks.

Risk Reporting

Progress in managing risks will be monitored and recorded on the risk register. The risk register (appended to the Pension Fund Business Plan – a separate item on the agenda), including any changes to the internal controls, will be provided at least annually to the Pension Fund Committee. The Pension Fund Committee will be provided with updates on a quarterly basis in relation to any changes to risks and any newly identified risks and a formal review will be carried out at least twice a year.

As a matter of course, the Teesside Pension Board will be provided with the same information as is provided to the Pension Fund Committee and they will be able to provide comment and input to the management of risks.

In order to identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this Policy on an annual basis taking into consideration any feedback from the Teesside Pension Board.

The risks identified are of significant importance to the Pension Fund. Where a risk is identified that could be of significance to the Council it will be included in the Risk Register.

Risk Matrix

The risk matrix is adapted from the one used by the Council and the External Auditor’s assessment of materiality (typically 1% of the overall Fund value i.e. over £50 million) is used as the high value for the purposes of scoring the identified risks.

Likelihood	5	Almost Certain >80%	Low (5)	Medium (10)	Medium (15)	High (25)	High (35)
	4	Likely 51% - 80%	Low (4)	Low (8)	Medium (12)	High (20)	High (28)
	3	Possible 21% - 50%	Low (3)	Low (6)	Medium (9)	Medium (15)	High (21)
	2	Unlikely 6- 20%	Low (2)	Low (4)	Low (6)	Medium (10)	Medium (14)
	1	Rare <6%	Low (1)	Low (2)	Low (3)	Low (5)	Low (7)
			1	2	3	5	7
			Insignificant	Minor	Moderate	Major	Extreme

6. RISK REGISTER REVIEW

6.1 The Pension Fund’s risk register is included as an appendix to the Pension Fund Business Plan for 2025/28, which is on this meeting agenda as a separate agenda item.

7. REVIEW OF INTERNAL AND EXTERNAL AUDIT REPORTS

7.1 The Council’s internal audit function is carried out by Veritau. Typically, Veritau carries out separate audits each year on the Pension Fund’s administration and investment functions. The most recent reports in relation to these audits (both carried out during the 2024/25 financial year) are enclosed as Appendix B. Both audit reports have a “Substantial Assurance” rating.

7.2 The Council's external auditor is Forvis Mazars. Forvis Mazars initially reports its findings in relation to the Pension Fund's accounts (which are a subset of the Council's accounts) to the Council's Audit Committee. For the 2023/24 accounts Forvis Mazars was not able to complete its audit before the statutory backstop date this year of 28 February 2025. Consequently, it issued a disclaimer of opinion in relation to the Pension Fund's accounts, Forvis Mazars explain "This means we are expressing no opinion on the financial statements." Nevertheless, Forvis Mazars has issued an audit completion report (enclosed as Appendix C) which has been presented to the Council's Audit Committee and subsequently circulated to the Pension Fund Committee. The report contains observations in internal control and a summary of misstatements to the financial statements that were identified and corrected during the audit.

7. NEXT STEPS

7.1 The workplan will continue to be provided to future Board meetings.

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